Allina Health

Annual Financial Disclosure Statement
Year Ended December 31, 2014

For additional information please visit www.AllinaHealth.org.
For past quarterly and annual disclosures please visit www.dacbond.com *or EMMA* www.emma.msrb.org.
Direct questions regarding disclosure information to treasury@Allina.com.

Allina Health System
Annual Financial Disclosure Statement
December 31, 2014

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OVERVIEW OF THE SYSTEM

Introduction

Allina Health System, doing business as Allina Health, is a Minnesota nonprofit corporation which, together with its subsidiaries, delivers health care services to patients in Minnesota and western Wisconsin. As a mission-driven organization, Allina Health is committed to improving the health of the communities it serves. With almost 24,600 full and part-time employees, Allina Health is one of the largest employers in Minnesota. As an integrated health system that includes hospitals; 1,310 employed physicians; emergency, ambulatory, homecare and hospice services; and an automated electronic medical record system, Allina Health is uniquely positioned as a leader in healthcare in the Minneapolis/St. Paul area and is well-positioned for health care reform.

In 2014, Allina Health controlled and operated eleven hospitals and jointly owned and operated one other hospital.[1] These include urban tertiary care, suburban community and rural hospitals. Allina Health hospitals provided nearly 102,750 inpatient admissions and almost 1,231,450 outpatient visits during the year ended December 31, 2014. As of December 31, 2014, Allina Health hospitals had licensed bed capacity of 2,436 acute care beds, 1,692 of which were staffed for inpatient services.

Allina Health provides clinical services through its Clinic Division[2] and hospital-based physicians. The Clinic Division controls and operates 59 Allina Health clinics (previously operated as Allina Medical Clinic (“AMC”), Aspen Medical Group (“Aspen”) and Quello Clinic (“Quello”)) and employs approximately 750 physicians. Allina Health also operates three hospitalist programs on the Abbott Northwestern, United, and Unity hospital campuses, and employs approximately 160 hospitalists. Allina Specialty Associates, Inc. (“ASA”), operating under the name Minneapolis Heart Institute®, employs approximately 75 physicians, consisting of cardiologists, cardiothoracic and vascular surgeons. In addition, Allina Health hospitals directly employ approximately 325 specialty physicians including intensivists, perinatologists, and psychiatrists. Allina Health physicians and allied professionals generated approximately 6,662,870 work RVUs[3] during the year ended December 31, 2014. The Allina Integrated Medical (“AIM”) Network aligns Allina Health physicians, 1,600 independent medical physicians, and over 20 hospitals to deliver market-leading quality and efficiency in patient care. Allina Health is a comprehensive health care system and has one of the largest physician networks in Minnesota.

The Minneapolis/Saint Paul metropolitan market has experienced stable population growth for the past several years. Overall hospital inpatient volume in the metropolitan market has declined around 7.8% from 2008 to 2013. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 31.6% inpatient market share as of September 30, 2014. Allina Health consolidated net revenue for year ended December 31, 2014 was $3.6 billion.

1 As of January 1, 2015, Allina Health acquired the assets of Rice County District One Hospital in Faribault, Minnesota, and began operating that hospital as “District One Hospital.”
2 As of January 1, 2015, the Allina Health clinics have been combined with the Allina Health clinical service lines and are now referred to as the “Allina Health Group.”
3 Relative Value Unit (“RVU”) is a measure of relative resource utilization.

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Members Allina Health

Obligated Group Members

The Allina Health Obligated Group ("Obligated Group") was created under the Master Trust Indenture dated October 1, 1998, between Allina Health System and Wells Fargo Bank Minnesota, National Association (the "Master Indenture"). The Master Indenture provides for a Credit Group, including the Obligated Group, members of which are jointly and severally liable for any debts and/or other obligations of each Obligated Group member and the Obligated Group as a whole. Several other forms of Credit Group membership are available to affiliated entities whose funds are available to satisfy any obligation of the Obligated Group under the Master Indenture. None of these forms of Credit Group Membership are currently in use.

Subsidiaries and Affiliates Outside the Obligated Group

Allina Health owns and operates a number of wholly owned direct and indirect subsidiaries outside of the Obligated Group, including Allina Integrated Medical ("AIM") Network, ASA, and WestHealth, Inc. ("WestHealth"). Allina Health became the sole member of Regina Medical Center ("Regina") on September 1, 2013. Regina, Aspen and Quello merged into Allina Health effective December 31, 2013, and thus became part of the Obligated Group at that time. In aggregate, the Non-Obligated Group subsidiaries represented approximately $48 million or 1.3% of Allina Health consolidated net revenue for the year ended December 31, 2014. Allina Health funds operating losses, if any, of AIM Network, ASA, and WestHealth.

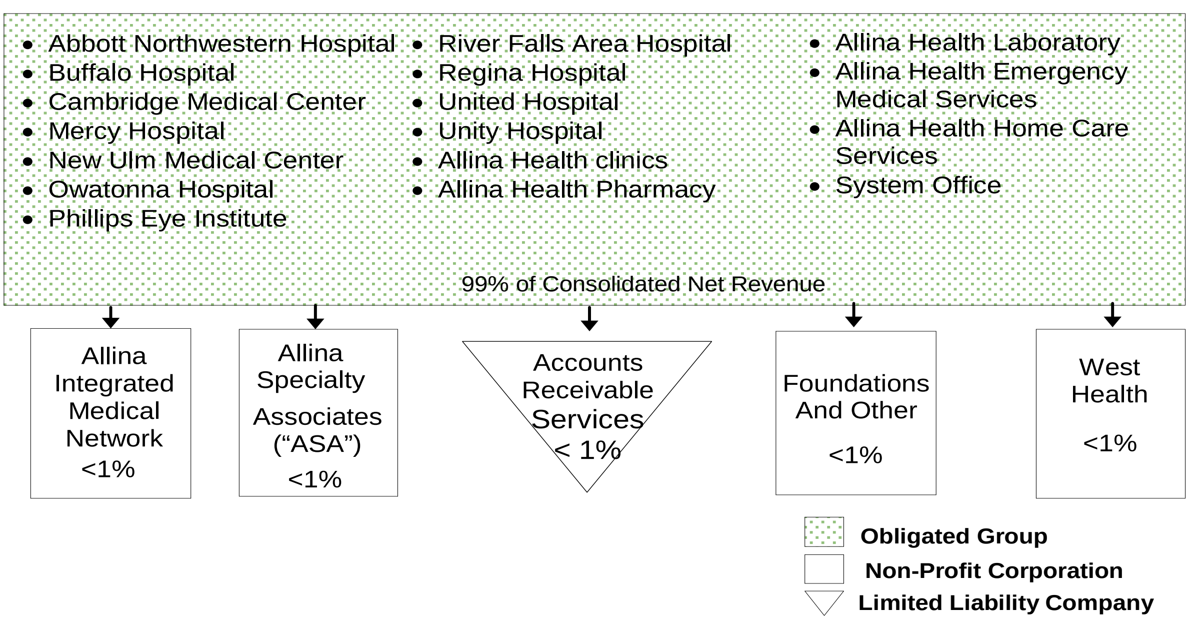
WestHealth is a Minnesota nonprofit corporation exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. AIM Network is a nonprofit corporation that has filed a Section 501(c)(3) application. ASA is a Minnesota nonprofit taxable corporation.

Additional subsidiaries of Allina Health include Accounts Receivables Services, LLC, a limited liability company providing debt collection and other financial services, and seven foundations.

Organization Chart

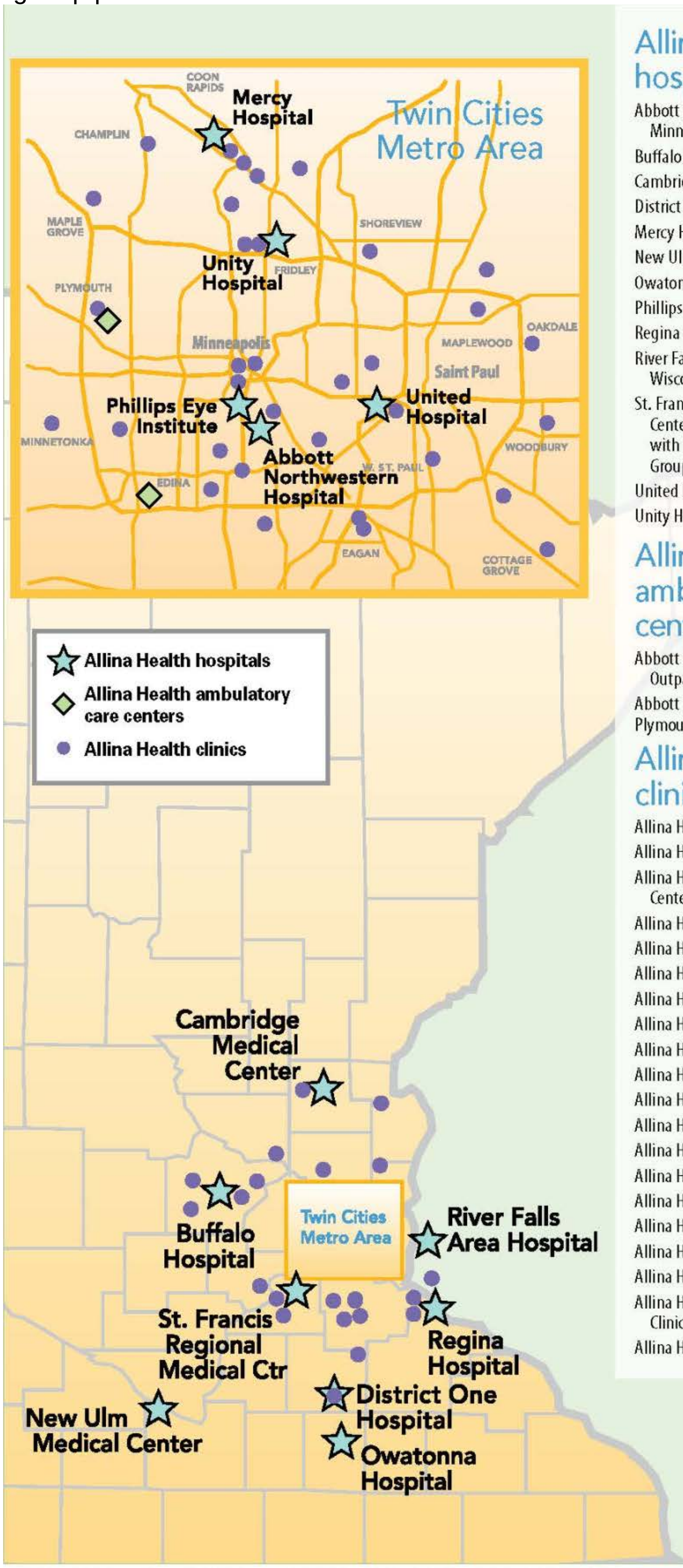
The organizational structure of Allina Health and its principal subsidiaries is provided below. In addition, Allina Health holds interests in several smaller subsidiary corporations, limited liability companies, partnerships and other joint ventures that have been excluded from the chart below because they are deemed to be immaterial.

Organization Chart with Percentage of December 31, 2014 Allina Health Net Revenue



Location of Care Delivery Sites

The following map provides the locations of Allina Health controlled and operated hospitals and clinics.



Allina Health hospitals

Abbott Northwestern Hospital, Minneapolis
Buffalo Hospital
Cambridge Medical Center
District One Hospital, Faribault
Mercy Hospital, Coon Rapids
New Ulm Medical Center
Owatonna Hospital
Phillips Eye Institute, Minneapolis
Regina Hospital
River Falls Area Hospital, Wisconsin
St. Francis Regional Medical Center, Shakopee (jointly owned with Essentia Health Critical Access Group and HealthPartners)
United Hospital, St. Paul
Unity Hospital, Fridley

Allina Health ambulatory care centers

Abbott Northwestern's Center for Outpatient Care, Edina
Abbott Northwestern – WestHealth, Plymouth

Allina Health clinics

Allina Health Annandale Clinic
Allina Health Bandana Square Clinic
Allina Health Bandana Square Sleep Center
Allina Health Blaine Clinic
Allina Health Bloomington Clinic
Allina Health Brooklyn Park Clinic
Allina Health Clinic - Buffalo
Allina Health Burnsville Clinic
Allina Health Cambridge Clinic
Allina Health Centennial Lakes Clinic
Allina Health Champlin Clinic
Allina Health Chanhassen Clinic
Allina Health Chaska Clinic
Allina Health Cokato Clinic
Allina Health Coon Rapids Clinic
Allina Health Cottage Grove Clinic
Allina Health Dean Lakes Clinic
Allina Health Eagan Clinic
Allina Health Eagan Women's Health Clinic
Allina Health East Lake Street Clinic
Allina Health Edina Clinic
Allina Health Elk River Clinic
Allina Health Faribault Clinic
Allina Health Farmington Clinic
Allina Health Forest Lake Clinic
Allina Health Fridley Clinic
Allina Health Hastings First Street Clinic
Allina Health Hastings Nininger Road Clinic
Allina Health Highland Park Clinic
Allina Health Hopkins Clinic
Allina Health Inver Grove Heights Clinic
Allina Health Isles Clinic
Allina Health Lakeville Clinic
Allina Health Maple Grove Clinic
Allina Health Maplewood Clinic
Allina Health MDCARE Clinic
Allina Health Mercy General Surgery Clinic
Allina Health Mercy Orthopedics Clinic
Allina Health Mercy Women's Health Clinic
Allina Health Nicollet Mall Clinic
Allina Health North Branch Clinic
Allina Health Northfield Clinic
Allina Health Oakdale Clinic
Allina Health Plymouth Clinic
Allina Health Prescott Clinic
Allina Health Ramsey Clinic
Allina Health Richfield Clinic
Allina Health Savage Clinic
Allina Health Shakopee Clinic
Allina Health Shoreview Clinic
Allina Health St. Michael Clinic
Allina Health United Medical Specialties Clinic
Allina Health United Women's Health Clinic
Allina Health Unity Bariatric and Weight Loss Clinic
Allina Health Uptown Clinic
Allina Health Vadnais Heights Clinic
Allina Health West St. Paul Clinic
Allina Health Woodbury Clinic

Additional clinics

Edina Family Physicians
St. Francis Health Services in Jordan
Sharpe Dillon Cockson
Sports & Orthopaedic Specialists
United Lung & Sleep Clinic
Women's Health Consultants

AllinaHealth

System Governance

Allina Health is a Minnesota nonprofit corporation exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. It is also exempt from state income taxation. Certain of Allina Health's real estate is also exempt from taxation under Minnesota law.

Allina Health's governance is consolidated into a single Board of Directors ("Board") that meets on a quarterly basis over a two day period, including Committee meetings. This strategic governance structure is designed to consolidate all governance across the system into one Board responsible for overseeing the integrated operations of the entire Allina Health system. Allina Health's regional hospitals have advisory boards in place to provide delegated quality oversight at their respective community facilities and otherwise to function in an advisory capacity. The Allina Health Board possesses broad responsibility for the administrative, fiduciary, and clinical operations of the integrated health system, including the designated Pioneer Accountable Care Organization program. The AIM Network, ASA, and WestHealth have separate boards which are subject to the reserved powers of the Allina Health Board.

In addition to the directors elected by the Allina Health Board, the Chief Executive Officer of Allina Health serves ex officio, with the right to vote. The bylaws prescribe three-year terms for elected members and limit elected members to two successive terms. Upon a recommendation by the Governance & Nominating Committee that an elected director has qualifications that enhance the Allina Health Board's effectiveness, that director may be elected to serve for up to three additional, consecutive, one-year terms. A former Allina Health Board member who has served the maximum term may return to Allina Health Board membership after a one year hiatus.

The Allina Health Board has seven standing committees: Audit and Compliance; Compensation; Finance; Investment; Governance and Nominating; Physician Governance; and Quality and Population Health.

Allina Health's bylaws refer to all hospitals and other health related businesses owned or controlled by Allina Health (whether established as separately incorporated wholly controlled subsidiaries or unincorporated operating divisions) as "operating units."

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Board of Directors

The following are Allina Health Board members (as of December 31, 2014):

Name	Profession / Association	Board Relationship Since:
Mark Jordahl (Chairperson)	President, Wealth Management Group US Bancorp	2006
John Allen, MD	Clinical Chief of Digestive Diseases Yale University	2012
William Beer	Retired President and CEO Wenger Corporation	2007
John Church	SVP Supply Chain General Mills, Inc.	2013
Nate Garvis	President Naked Civics, LLC	2009
Joseph Goswitz, MD	Pathologist Hospital Pathology Associates	2010
Greg Heinemann	Marketer, Executive, Entrepreneur	2014
Hugh Nierengarten	Attorney (retired) Nierengarten & Hippert, Ltd. Attorneys at Law	2009
Gloria Perez	President and CEO Jeremiah Program	2008
Brian Rosenburg, PhD	President Macalester College	2013
Debbra Schoneman	CFO Piper Jaffray Companies	2013
Thomas S. Schreier, Jr.	Vice Chairman Nuveen Investments	2014
Abir Sen	Co-founder and CEO Gravie	2014
Mark Sheffert	Chairman and CEO Manchester Companies, Inc.	2009
Sally Smith	President and CEO Buffalo Wild Wings, Inc.	2012
Michael Tattersfield	President and CEO Caribou Coffee Company, Inc.	2010
Darrell Tukua	Partner (retired) KPMG LLP	2014
Penny Wheeler, MD (Ex-Officio)	President and CEO Allina Health	2015
Rodney Young	President and CEO Delta Dental of Minnesota	2006

Conflict of Interest

As required by Allina Health's Bylaws, the Allina Health Board has adopted a Conflict of Interest Policy that requires Board members, officers and key employees to promptly and fully disclose interests that can give rise to real, potential, or apparent conflicts of interest so that such interests can be assessed by the Audit & Compliance Committee of the Allina Health Board to determine whether they give rise to any such conflicts; and if so, whether the interest must be eliminated or the conflict can be adequately managed. Allina Health officers, directors, and key employees complete an annual conflict of interest disclosure statement. They also have an obligation to disclose interests on an ongoing basis between submissions of the annual disclosure statements.

The Allina Health Board also adopted a Disqualified Persons Policy. That policy requires a review of all proposed transactions and relationships involving Disqualified Persons by individuals who meet the independence requirements of the Rebuttable Presumption of Reasonableness under Internal Revenue Code Section 4958 and its accompanying regulations. The transaction is reviewed to ensure that it meets all criteria for qualifying for the Rebuttable Presumption.

Allina Health may transact business from time to time with firms and organizations with which Allina Health officers, directors, or key employees are affiliated. However, any involvement of such officers, directors, or key employees in decision-making with regard to each such arrangement is subject to the requirements of the Conflict of Interest Policy, the Disqualified Persons Policy, and other applicable Allina Health governing policies.

Organizational Design

Allina Health strategy is system-based, with strategic and capital planning conducted at the system level. The operating units develop business plans consistent with the system strategic plan. Management teams are in place to oversee the strategic direction and daily operations of the organization.

The Executive Leadership Team makes system-level decisions. This team includes the President and Chief Executive Officer; Executive Vice President, Administration and Chief Financial Officer; General Counsel; Executive Vice President, Hospital and Specialty Services; Executive Vice President, Network/Integration Division; Executive Vice President, Allina Health Group; and Presidents of Abbott Northwestern, Mercy, and United hospitals. The Executive Leadership Team provides an appropriate blend of clinical, operational, and functional staff expertise to ensure its ability to set strategy and oversee the execution of the organization's strategic plan.

The Performance Improvement Leadership Team is a subset of the Executive Leadership Team that tracks Allina Health's progress towards clinical and operational goals. The team includes the Executive Vice President, Administration and Chief Financial Officer; Chief Information Officer; General Counsel; Executive Vice President, Network/Integration Division; Executive Vice President, Hospital and Specialty Services; Executive Vice-President, Allina Health Group; Chief Compliance Officer; Senior Vice President of Human Resources; Chief Medical Officer; Senior Vice President, Primary Care Clinical Service Line; Senior Vice-President, Public Policy and Community Engagement; and Presidents of Abbott Northwestern, Mercy, and United hospitals.

The Clinical Leadership Team, comprised of the Chief Medical Officer; the Vice Presidents of Medical Affairs for each of Allina Health's metropolitan area hospitals, along with other key members of clinical leadership, is responsible for executing Allina Health's quality and safety agenda.

Centralized Functions

Several departments within Allina Health are managed centrally to ensure access to capital, a common approach to liability and risk issues, and direction of capital to achieve suitable returns. Allina Health provides certain management functions to its hospitals and subsidiaries through a corporate shared-service structure, which is generally focused on risk management and strategic direction of the organization as well as providing financial economies of scale. These functions include strategy and business development, marketing and communications, legal, risk management, insurance, information systems, community benefits and engagement, philanthropy, compliance, treasury, public policy and government relations, and certain components of finance, public relations, human resources, purchasing, real estate, clinical knowledge management, clinical integration, clinical service lines and quality resources, and care management.

Allina Health negotiates third-party payer contracts through a centralized payer relations and contracting department. This approach permits Allina Health to concentrate its expertise in market conditions and payer methodology in a single group and to maintain a unified, coherent approach to dealing with third party payers.

Allina Health has a centralized revenue management function to manage the complex process of registering patients, billing for services performed, and collecting payment for services.

Executive Leadership Team

On November 11, 2014, Allina Health announced that Kenneth H. Paulus would retire as Chief Executive Officer (CEO) of Allina Health on December 31, 2014. President and Chief Clinical Officer Penny Wheeler, M.D., succeeded Mr. Paulus as CEO on January 1, 2015.

Following are the Executive Leadership Team members and their biographies:

Penny Wheeler, M.D. (56) –*President and Chief Executive Officer*
Dr. Wheeler is the President and Chief Executive Officer. Prior to appointment as CEO, she served as the Chief Clinical Officer, a position she has held since March 2006. As a board-certified obstetrician/gynecologist, Dr. Wheeler has served patients at Women's Health Consultants in Minneapolis and taught as an associate professor of obstetrics and gynecology at the University of Minnesota. She has served as President of Abbott Northwestern Hospital's medical staff, as Chair and Vice-Chair of the hospital’s obstetrics and gynecology department and on numerous committees. Dr. Wheeler served on the Allina Health Board of Directors from 2002 until 2006, where she was Chair of the Quality Committee. Her educational background includes an undergraduate degree with honors from the University of Minnesota, and Doctor of Medicine from the University of Minnesota Medical School.

Chris Bent (44) – *Executive Vice President, Allina Health Group*
Ms. Bent leads the Allina Health Group, responsible for integrating primary care, specialty care and clinical service line capabilities to better serve the patients of Allina Health. Earlier in her career, Ms. Bent was the chief operating officer of the Minneapolis Heart Institute® where, in conjunction with the physician president, she provided professional management to the 125-bed Heart Hospital within Abbott Northwestern Hospital and Minneapolis Heart Institute®’s extensive outreach program. Her background is in physician practice management in both independent practices and integrated health care delivery systems. Ms. Bent graduated from Carleton College in Northfield, Minnesota with a Bachelor’s Degree in Psychology and obtained her Master of Health Services Administration from the University of Minnesota.

Duncan Gallagher (55) – *Executive Vice President, Chief Administrative Officer and Chief Financial Officer*
Mr. Gallagher was appointed Chief Financial Officer in August 2009. Prior to joining Allina Health, Mr. Gallagher was the Executive Vice President and Chief Operating/Financial Officer of Iowa Health System based in Des Moines, Iowa. He was also a partner in the healthcare consulting practice of KPMG LLP in Dallas, Texas with twelve years of experience at KPMG. Mr. Gallagher previously held various finance positions with HealthEast Care System in St. Paul, Minnesota. Mr. Gallagher received his Bachelor’s Degree in Accounting from the University of South Dakota, and a Master of Business Administration from the University of Minnesota. In addition to Finance, Mr. Gallagher also has operational responsibility for Information Systems, Payer Relations and Contracting, Lab, Supply Chain Management and Revenue Cycle Management.

Daniel McGinty (52) – *Executive Vice President, Hospital and Specialty Services*
Mr. McGinty joined Allina Health from Duluth-based Essentia Health in September 2013. He worked in various capacities at Essentia the previous 11 years. Most recently, he served as the chief administrative officer of Essentia’s east region, responsible for seven hospitals, 18 clinics and a 475-physician multi-specialty clinic. Prior to his time at Essentia, Mr. McGinty was the president and CEO of Holy Family Memorial Health Network in Manitowoc, Wisconsin. Mr. McGinty has a Degree in Economics from Gustavus Adolphus College and a Master of Health Services Administration from the University of Minnesota. Mr. McGinty has operational responsibility for all Hospitals and Specialty Services.

Robert Wieland, M.D. (51) - *Executive Vice President, Network/Integration Division*
Dr. Wieland assumed the role of Executive Vice President, Network/Integration Division in November 2014. Dr. Wieland has been employed by Allina Health in various roles since 1994, and served as the Vice President of Medical Affairs at Abbott Northwestern Hospital. Earlier in his career he was District Medical Director within the Allina Medical Clinic and is co-founder of the Hospitalist Service at Abbott Northwestern Hospital. Dr. Wieland earned his Bachelor's Degree in Mechanical Engineering at the University of Minnesota, medical degree at the University of Minnesota Medical School and Internal Medicine training at Abbott Northwestern Hospital. Dr. Wieland has accountability for the Allina Integrated Medical Network, Strategy and Business Development, Care Management, Allina Home Oxygen and Medical Equipment, and Allina Home Care, Hospice and Palliative Care and Marketing and Communication.

Elizabeth Truesdell Smith (51) – *Senior Vice President, General Counsel, and Interim Chief Compliance Officer*
Ms. Smith assumed the role of General Counsel in February 2009. She joined the Allina Health Legal and Risk Management department in 2000. In 2007, Ms. Smith began leading Allina Health's medical-legal team as its Vice President. Before coming to Allina Health, Ms. Smith practiced as a trial lawyer for eight years with a focus on hospital and health law, medical professional liability and medical products liability litigation. She has worked in biomedical laboratory research at Harvard Medical School and in biomedical ethics at Boston University and the University of Minnesota. Ms. Smith earned a Master's of Public Health with a health law and bioethics concentration from Boston University School of Public Health and a Juris Doctor from the University of Minnesota Law School. Ms. Smith also has operational responsibility for Risk Services.

Ben Bache-Wiig, M.D. (57) – *System Vice President and President, Abbott Northwestern Hospital*
Dr. Bache-Wiig was appointed President of Abbott Northwestern Hospital in October 2011. He served as Vice President of Medical Affairs for Abbott Northwestern Hospital since 2009. Dr. Bache-Wiig was previously Medical Director and Physician President of the North Clinic for 20 years. Dr. Bache-Wiig completed his undergraduate studies at Michigan State University and Doctor of Medicine at the University of Wisconsin. He is board certified in internal medicine. Dr. Bache-Wiig also has operational responsibility for WestHealth Ambulatory Center.

Sara J. Criger (53) **–** *System Vice President and President, Mercy Hospital*
Ms. Criger was appointed President of Mercy Hospital in July 2012. Prior to joining Allina Health, Ms. Criger was Vice President, HealthEast Care System and Chief Executive Officer, St. Joseph's Hospital, both based in St. Paul, Minnesota, for five years. Ms. Criger has more than 28 years of experience in managing large hospitals and clinics. Ms. Criger holds a Bachelor's Degree in Business Administration from Western Connecticut State University and a Master of Health Services Administration from the University of St. Francis. Ms. Criger also has operational responsibility for Buffalo and Unity Hospitals and Allina Health Pharmacy.

Tom O'Connor (48) – *System Vice President and President, United Hospital*
Mr. O'Connor was appointed President of United Hospital in January 2012. Previously, he served as President of Mercy Hospital for five years and President of St. Francis Regional Medical Center for five years. Before St. Francis, he served for a year as the Divisional Vice President of Operations of Allina Healthcare Improvement Resources and for four years as the Vice President of Operations of Allina Regional Health Services. He also spent three years as Chief Operating Officer of HCA Capital Medical Center in Tallahassee Florida and two years as an Assistant Administrator and Quality Coach at the HCA Gulf Coast Hospital in Panama City, Florida. Mr. O'Connor holds a Bachelor of Arts Degree from St. Olaf College, a Master of Health Services Administration and a Master of Business Administration from the University of Minnesota. Mr. O'Connor also has operational responsibility for River Falls Hospital, and Allina Health Emergency Medical Services.

Recent Initiatives and Developments

District One Hospital

Allina Health and Rice County District One Hospital entered into an Affiliation Agreement that included the transfer of substantially all assets and liabilities of Rice County District One Hospital to Allina Health on January 1, 2015. Legislative approval for the transaction was obtained from the Minnesota State Legislature on April 30, 2014. District One Hospital is a 49 bed community health care facility located in Faribault, Minnesota.

Mergers of Subsidiaries into Allina Health System

Aspen, Quello, and Regina Hospital ("Regina") merged with and into Allina Health System effective December 31, 2013. At that time, they also became members of the Obligated Group. The Aspen, Quello, and Regina assets, liabilities and net assets were consolidated into the Obligated Group on December 31, 2013.

Northwest Metro Obstetrics ("OB") Project

In March 2013, the Allina Health Board of Directors approved a $30.2 million investment in a Northwest Metro OB Strategy which includes construction of a new tertiary care Mother Baby Center at Mercy Hospital, including a higher acuity Special Care Nursery leased and operated by Children's Hospitals and Clinics ("Children's"); and renovation of the current Mercy Hospital maternity unit to a 23-bed general nursing unit. The new facility is anticipated to open in the summer of 2015.

Nasseff Specialty Center Building Purchase

In September 2013, the Allina Health Board of Directors approved the purchase of the Nasseff Specialty Center ("NSC"), which was effective in October 2013. The NSC is a 119,000 square foot medical office building attached to United Hospital. Allina Health relocated functions currently located in other United campus leased space to the NSC. In November 2014, Allina Health closed on the planned sale-leaseback of the NSC building.

Medicare and Medicaid Electronic Health Records Incentive Programs (Meaningful Use)

The American Recovery and Reinvestment Act of 2009 established the Health Information Technology for Economic and Clinical Health (HITECH) Act. The HITECH Act authorized the Centers for Medicare & Medicaid Services (CMS) to establish the Meaningful Use Program to achieve national healthcare goals through the use of electronic health records. Through the Meaningful Use Program, organizations and eligible providers will receive incentives for meeting steadily more challenging electronic health record use criteria from 2011 through 2015.

The hospitals of Allina Health attested with the federal government that they met 19 objective measures and 15 quality measures in Stage Two, Year One of Meaningful Use. The physicians of Allina Health also continue to meet Stage One measures along with the new Stage Two requirements of the Meaningful Use physician attestation process. As a result, Allina Health recorded $14.8 million of other operating revenue for the year ended December 31, 2014.

ICD-10

The U.S. Department of Health & Human Services has adopted the International Classification of Diseases (ICD)-10 code sets as the HIPAA standards to replace the ICD-9 codes sets for diagnosis and procedure codes. The compliance date for ICD-10 has changed to an implementation date no earlier than October 1, 2015. Allina Health had been preparing for an October 1, 2014 implementation date and has already upgraded the primary practice management system, Excellian, to a version that supports ICD-10. Many other system updates for ICD-10 have been completed. Certain components of the system-wide ICD-10 preparedness work (e.g., training) were delayed until 2015. Allina Health will continue to participate in the Minnesota ICD-10 Collaborative with 24 other providers and payers.

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Credit Ratings

In November 2014, Fitch Ratings affirmed Allina Health's bond rating of AA-. The outlook is stable.

In November 2014, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In September 2014, Moody's Investor Services affirmed Allina Health's bond rating of Aa3. The outlook is stable.

The complete rating agency reports are available at www.dacbond.com; www.moodys.com; www.fitchratings.com; or www.standardandpoors.com.

Awards and Recognition

Allina Health was named one of the nation's top five large health systems by Truven Health Analytics, a leading provider of data-driven analytic solutions and services. Truven Health Analytics ranked the top five large U.S. health systems (greater than $1.5 billion in annual revenue) based on balanced, superior system-wide performance in care quality, patient satisfaction, coordination of care, cost of care and operational efficiency.

Allina Health has five hospitals that have been recognized as a 2013 *Top Performer on Key Quality Measures*® by The Joint Commission. Cambridge Medical Center, New Ulm Medical Center, Owatonna Hospital, River Falls Area Hospital, and Unity Hospital were recognized as part of The Joint Commission's 2014 annual report "America's Hospitals: Improving Quality and Safety," for attaining and sustaining excellence in accountability measure performances.

Allina Health has two hospitals with specialty rankings among the nation's top 50 and three top ranking hospitals in the metro area, according to the 2014 edition of U.S. News and World Report's Best Hospitals. Abbott Northwestern Hospital and Mercy Hospital are among the nation's top 50 for specific areas of expertise. Unity Hospital joins them in the top metro area rankings.

Truven Health has found Mercy Hospital to be one of the nation's 100 Top Hospitals for large community hospitals and among the top 50 cardiovascular hospitals for community hospitals. Mercy Hospital is the only Minnesota hospital listed in these categories.

Becker's Hospital review has included River Falls Area Hospital in its 2014 list of "100 Great Community Hospitals."

The Heart of New Ulm Project, a project of New Ulm Medical Center to eliminate heart attacks, received a 2014 Nova Award from the America Hospital Association.

ALLINA HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2014, 2013, and 2012

(With Independent Auditors' Report Thereon)

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Allina Health System:

We have audited the accompanying consolidated financial statements of Allina Health System (the System), which comprise the consolidated balance sheets as of December 31, 2014, 2013, and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allina Health System as of December 31, 2014, 2013, and 2012, and the results of their operations and their cash flows for each of the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Minneapolis, Minnesota
March 10, 2015

ALLINA HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2014, 2013, and 2012

(Dollars in thousands)

Assets		**2014**	**2013**	**2012**
Current assets:				
Cash and cash equivalents	$	180,985	132,704	147,405
Short-term investments		357,511	315,058	341,033
Patient accounts receivable, less allowances for uncollectible accounts of $70,285 in 2014, $84,088 in 2013, and $59,398 in 2012		419,522	405,095	385,761
Inventories		55,311	53,146	53,088
Other current assets		109,389	75,126	60,469
		1,122,718	981,129	987,756
Investments		1,180,534	1,123,312	955,921
Investments with limited uses		150,162	152,555	131,539
Land, buildings, and equipment, net		1,041,950	1,050,770	956,776
Other assets		246,553	225,597	176,732
Total assets	$	3,741,917	3,533,363	3,208,724
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$	428,185	420,116	391,905
Other current liabilities		101,760	117,138	118,766
		529,945	537,254	510,671
Long-term debt		613,294	614,806	634,722
Other liabilities		420,545	369,909	426,093
Total liabilities		1,563,784	1,521,969	1,571,486
Net assets:				
Unrestricted		2,008,030	1,857,436	1,501,921
Temporarily restricted		115,155	98,925	89,536
Permanently restricted		54,948	55,033	45,781
Total net assets		2,178,133	2,011,394	1,637,238
Total liabilities and net assets	$	3,741,917	3,533,363	3,208,724

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014, 2013, and 2012

(Dollars in thousands)

	2014	2013	2012
Revenues:			
Patient service revenue net of contractual adjustments	$ 3,465,733	3,291,537	3,173,116
Provision for bad debts	(93,547)	(90,581)	(76,201)
Net patient service revenue	3,372,186	3,200,956	3,096,915
Other operating revenue	231,495	219,609	181,458
Total revenues	3,603,681	3,420,565	3,278,373
Expenses:			
Salaries and benefits	2,240,474	2,096,786	2,038,575
Supplies and services	787,580	758,210	721,793
Depreciation and amortization	147,844	138,145	132,564
Financing costs	24,392	24,591	25,989
State assessments and taxes	79,481	75,787	70,852
Utilities and maintenance	74,317	71,179	63,323
Other operating expenses	103,649	122,428	97,243
Total expenses	3,457,737	3,287,126	3,150,339
Operating income	145,944	133,439	128,034
Nonoperating gains (losses):			
Investment return	46,990	92,983	88,713
Gains (losses) on interest rate swap agreements	(42,800)	25,634	(13,029)
Contributions received in acquisitions	—	76,611	—
Other	(3,243)	(2,210)	(3,237)
Excess of revenues over expenses	146,891	326,457	200,481

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014, 2013, and 2012

(Dollars in thousands)

		2014	2013	2012
Unrestricted net assets:				
Excess of revenues over expenses	$	146,891	326,457	200,481
Net assets released from restrictions for capital purposes		7,080	18,469	7,260
Amortization of unrealized loss on interest rate swap agreement		874	874	874
Other		(4,251)	9,715	565
Increase in unrestricted net assets		150,594	355,515	209,180
Temporarily restricted net assets:				
Contributions		31,884	18,982	27,312
Contributions received in acquisitions		—	12,188	—
Investment return		4,360	9,280	7,621
Net assets released from restrictions		(21,151)	(30,255)	(15,856)
Other		1,137	(806)	95
Increase in temporarily restricted net assets		16,230	9,389	19,172
Permanently restricted net assets:				
Contributions for endowment funds		396	209	760
Contributions for endowment funds received in acquisitions		—	9,537	—
Investment return		34	106	80
Other		(515)	(600)	(1,215)
Increase (decrease) in permanently restricted net assets		(85)	9,252	(375)
Increase in net assets		166,739	374,156	227,977
Net assets at beginning of year		2,011,394	1,637,238	1,409,261
Net assets at end of year	$	2,178,133	2,011,394	1,637,238

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended December 31, 2014, 2013, and 2012

(Dollars in thousands)

	2014	2013	2012
Operating activities:			
Increase in net assets	$ 166,739	374,156	227,977
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	147,844	138,145	132,564
Provision for bad debts	93,547	90,581	76,201
Goodwill impairment	1,454	1,341	1,848
Loss (gain) on sales of land, buildings, and equipment	(2,236)	778	(595)
Unrealized loss (gain) on interest rate swaps	29,273	(39,260)	(738)
Realized and unrealized gains on investments, net	(27,775)	(83,668)	(79,070)
Restricted contributions	(32,280)	(19,191)	(28,072)
Contributions of cash for long-lived assets	(3,288)	(1,393)	(2,327)
Contributions received in acquisitions	—	(98,336)	—
Earnings on joint ventures	(12,988)	(15,342)	(11,840)
Pension plan expenses	8,666	10,819	69,294
Pension plan contributions	(1,347)	(52,916)	(46,000)
Changes in assets and liabilities net of acquisition:			
Change in accounts receivable and other current assets	(142,734)	(111,684)	(87,853)
Change in accounts payable and other current liabilities	8,103	8,378	(9,066)
Change in other assets and liabilities	(6,281)	(37,816)	(9,425)
Net cash and cash equivalents provided by operating activities	226,697	164,592	232,898
Investing activities:			
Proceeds from sales of land, buildings, and equipment	39,458	57,839	2,122
Purchases of land, buildings, and equipment	(169,747)	(213,603)	(210,312)
Contributions of cash for long-lived assets	3,288	1,393	2,327
Cash received in acquisitions	—	2,399	—
(Purchases) sales of investments classified as trading	(64,910)	(13,239)	(43,425)
Sales (purchases) of investments with limited uses	(4,597)	16,629	9,497
Draws on construction funds	—	—	3,917
Distributions received from joint ventures	11,767	11,776	12,820
Contributions to joint ventures	(1,187)	(4,160)	(4,935)
Net cash and cash equivalents used in investing activities	(185,928)	(140,966)	(227,989)
Financing activities:			
Restricted contributions, net	32,280	19,191	28,072
Change in pledges receivable	(8,373)	1,128	(22)
Change in outstanding checks payable	3,609	(8,065)	18,785
Draw on line of credit	—	19,965	—
Principal payment on line of credit	(19,965)	—	—
Proceeds from issuance of note payable	20,165	—	—
Principal payments of long-term debt	(20,204)	(70,546)	(28,587)
Net cash and cash equivalents provided by (used in) financing activities	7,512	(38,327)	18,248
Increase (decrease) in cash and cash equivalents	48,281	(14,701)	23,157
Cash and cash equivalents at beginning of year	132,704	147,405	124,248
Cash and cash equivalents at end of year	$ 180,985	132,704	147,405
Schedule of noncash financing activity:			
Capitalized lease	$ —	—	336

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

Allina Health System (the System) is a not-for-profit corporation whose consolidated financial statements include the accounts of its owned subsidiaries and controlled affiliates.

The System consists of five hospitals located in the Minneapolis and Saint Paul metropolitan area, six hospitals located outside the metropolitan area, physician clinics employing approximately 1,310 providers, various other health care-related entities, and seven foundations supporting health-related services.

In June 2013, the System acquired Courage Center, and became the sole owner (note 19).

In September 2013, the System acquired the remaining 75% interest of its joint venture in Regina Medical Center, and became the sole owner (note 19).

All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and short-term investments with an original maturity of three months or less from the date of purchase that have not otherwise been classified as long-term assets due to a designation for long-term purposes.

(c) Pledges Receivable

Pledges are recorded in the period that the pledges are made and represent unconditional promises to give. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. A discount on each pledge is computed using the risk-free interest rate available at the time the pledge was made for the duration of the pledge. An allowance for uncollectible pledges receivable is determined based on a review of estimated collectibility and historical experience.

(d) Derivative Financial Instruments

The System uses interest rate swaps as part of its risk-management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to hedge identified and approved exposures. Interest rate swaps are recognized as either assets or liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value.

The System accounts for its interest rate swaps in accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values.

For interest rate swaps that are not designated as cash flow hedges, gains or losses resulting from changes in the fair values of the interest rate swaps are reported as nonoperating gains or losses. Any differences between interest received and paid under nonhedged swap agreements are reported with the change in fair value of the swaps as nonoperating gains or losses.

For interest rate swaps that are designated and qualify as cash flow hedges, the effective portion of the gains or losses resulting from changes in the fair value is reported as a component of unrestricted net assets. The ineffective portion, if any, is reported in excess of revenues over expenses in the current period. If hedging relationships cease to be highly effective, gains or losses on the interest rate swaps would be reported in excess of revenues over expenses and accumulated losses would be amortized into excess of revenues over expenses over the remaining life of the debt. Any differences between interest received and paid under the interest rate swap designated as a cash flow hedge is recorded as a component of interest expense. As of December 31, 2014, 2013, and 2012, the System does not have any swaps designated as cash flow hedges.

(e) Inventories

Inventories include drugs and supplies and are recorded at the lower of cost or market on a first-in, first-out (FIFO) basis.

(f) Bond Issue Costs

Costs of bond issuance are deferred and amortized on a straight-line basis over the shorter of the term of the related indebtedness or related liquidity facility.

(g) Investments in Unconsolidated Entities

Investments in entities in which the System has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting and included in other assets in the consolidated balance sheets. The System's share of net earnings or losses of the entities is included in other operating revenue (note 8).

(h) Investments with Limited Uses

Investments with limited uses are reported at fair value and include assets held by trustees for repayment of long-term debt, assets in escrow for capital projects, assets held for self-insured professional and general liability claims, and donor-restricted funds.

(Continued)

(Dollars in thousands)

(i) Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost and depreciated using the straight-line method over their estimated useful lives. Interest cost, net of related interest income, incurred during the period for construction of capital assets is capitalized as a component of the cost of acquiring those assets and totaled $243, $744, and $925 for 2014, 2013, and 2012, respectively.

The following useful lives are used in computing depreciation:

Land improvements	5–25 years
Buildings	25–40 years
Building additions and improvements	10–20 years
Equipment	2–15 years

(j) Deferred Income Taxes

The System's taxable subsidiaries record deferred income taxes due to temporary differences between financial reporting and tax reporting for certain assets and liabilities. The System accounts for income taxes under the asset-and-liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The System follows FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance is now included within Accounting Standards Codification (ASC) topic 740, *Income Taxes* (ASC 740). ASC 740 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. As of December 31, 2014, 2013, and 2012, the System does not have any significant assets or liabilities recorded for uncertain tax benefits. The System has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions.

(k) Professional and General Liability Claims

The System is insured for professional and general liability claims in excess of self-insured retention limits with an external insurance carrier.

(l) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors and are required to be maintained in perpetuity.

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the consolidated statements of operations and changes in net assets. In the absence of a donor specification that restricts income and gains on temporarily restricted gifts, such income and gains are reported as income of unrestricted net assets. In order to protect permanently restricted gifts from a loss of purchasing power, the System uses a spending-rate policy to determine the portion of investment return that can be used to support operations of the current period.

The System reports gifts of equipment or other long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(n) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services provided, including estimated retroactive adjustments due to audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as such revenue is no longer subject to such audits, reviews, and investigations.

The provisions for bad debts and charity care are based upon management’s assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. After satisfaction of amounts due from insurance, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System.

(o) Other Revenue

Other revenue includes income from investments in unconsolidated entities, rental income, pharmacy and ancillary sales, and grant revenue. Grant revenue includes Meaningful Use-Health Information

Technology for Economic and Clinical Health Act Stimulus Grants of $14,848, $23,515, and $20,443 for 2014, 2013, and 2012, respectively.

(p) Excess of Revenues over Expenses

Excess of revenues over expenses includes operating income and nonoperating gains and losses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments not classified as trading securities and interest rate swaps designated as cash flow hedges, and changes in liability relating to defined–benefit plans not marked to market.

(q) Investment Securities

The System classifies its investments as trading or available-for-sale. The available-for-sale investments include those held whose uses are limited. All other investments are classified as trading. Trading and available-for-sale investments, including bond funds and construction funds, are recorded at fair value. Investments in alternative investments are recorded at net asset value as a practical expedient to fair value. Unrealized gains and losses on trading securities are included in excess of revenues over expenses. Unrealized gains and losses on available-for-sale investments are excluded from excess of revenues over expenses and are reported as a separate component of other changes in unrestricted net assets.

(r) Fair Value Measurements

The System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The System determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the System follows the fair value hierarchy, as outlined in the fair value measurements and disclosures accounting guidance, which distinguishes between observable and unobservable inputs.

(3) Net Patient Service Revenue

The System has agreements with third-party payers who provide payments for health care services at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. Other payments are received in the form of pay for performance, shared savings, care management, or medical home management per patient fees.

The System utilizes a process to identify and appeal certain settlements by Medicare and other third-party payers. Additional reimbursement is recorded in the year the appeal is successful. During 2014, 2013, and 2012, successful appeals, cost report settlements, and other adjustments to prior year estimates, including the rural floor budget neutrality adjustment and settlements related to revised Supplemental Security Income ratios for 2006 through 2011, resulted in an increase in net patient service revenue of $39,679, $16,648, and $50,003, respectively. The System recognizes significant amounts of patient service revenue at the time services are rendered even though it does not assess the patient’s ability to pay. For uninsured patients who do not qualify for charity care, the System recognizes revenue on the basis of discounted rates. On the basis of historical experience, a significant portion of the System's patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients and self-pay balances of insured patients who are unable or unwilling to pay for the services provided. The System also records a provision for bad debts related to self-pay balances of insured patients. Patient service revenue net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period by major payer is as follows:

(Dollars in thousands)

	2014	2013	2012
Medicare and Medicaid	39%	38%	38%
Managed care	55	57	57
Commercial and other	3	2	3
Self-pay	3	3	2
	100%	100%	100%

The System grants credit without collateral to its patients, most of whom are residents in the communities that it serves and are insured under third-party payer agreements. The System reduces its patient accounts receivable by an allowance for doubtful accounts. Deductibles and coinsurance are classified as either third-party or self-pay receivables on the basis of which party has the primary remaining financial responsibility, while the total gross revenue remains classified based on the primary payer at the time of service. In evaluating the collectibility of accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The System used a consistent methodology to estimate the allowance and provision for bad debts in the years 2014, 2013, and 2012. For receivables associated with self-pay patients after satisfaction of amounts due from insurance, the System follows established guidelines for charging off certain past-due patient balances against the allowance for doubtful accounts. The System has not changed its charity care or uninsured discount policies during the years 2014, 2013, or 2012. The System does not maintain an allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers. The mix of net patient accounts receivable by major payer as of December 31 consists of the following:

	2014	2013	2012
Medicare and Medicaid	34%	35%	34%
Managed care	42	42	40
Self-pay	16	12	14
Commercial and other	8	11	12
	100%	100%	100%

Two managed care payers accounted for approximately 36%, 36%, and 35% of net patient service revenue in 2014, 2013, and 2012, respectively. Amounts due from these two managed care payers accounted for approximately 25% of net patient accounts receivable at December 31, 2014, 2013, and 2012.

(4) Community Benefits

The System follows IRS reporting guidelines for categories of community benefit provided in the service areas of the System. The major components are defined below.

(a) Cost of Providing Charity Care (also referred to as Financial Assistance)

The System provides medical care without charge or at reduced cost to residents of the communities that it serves through the provision of charity care. Policies have been established to identify charity care cases that meet certain guidelines for a patient's ability to pay for services. The cost of providing charity care is measured by applying a cost-to-charge ratio to the charges identified as charity care.

(b) Costs in Excess of Medicaid Payments

The System provides services to public program enrollees (Medicaid). Such public programs typically reimburse at amounts less than cost.

(c) Medicaid Surcharge

The System is a participant in the Medicaid Surcharge program. The current program includes a 1.56% surcharge on a hospital's net patient service revenue (excluding Medicare revenue). Reported amounts are net of any disproportionate share adjustments.

(d) Costs of Other Means-tested Government Programs (MinnesotaCare Tax)

The System also participates in the funding of medical care for the uninsured through a MinnesotaCare tax of 2% on certain net patient service revenue. Patients who are unable to get insurance through their employer are eligible to participate in MinnesotaCare.

(e) Community Health Improvement Services

In the furtherance of its charitable purpose, the System provides a wide variety of community health improvement programs and activities to the various communities that it serves in response to specific needs within those communities. Examples are programs and activities designed to improve the quality of life and build healthier communities. Community services activities include social service programs, health screenings, in-home caregiver services, support counseling for patients and families, crisis intervention, health enhancement and wellness programs, classes on specific conditions, and telephone information services. The System provides these services through programs such as the Backyard Initiative; Free Bikes 4 Kidz; New Shoes, Healthy Kids; Neighborhood Health Connection; Health Powered Kids; and Change to Chill.

(f) Subsidized Health Services

The System provides necessary health care services, which include 24-hour emergency services to the community and behavioral health services. These clinical services are provided despite financial losses so significant that negative margins remain after removing the effects of charity care, Medicaid shortfalls, and bad debt. These services are provided because they meet an identified community need and, if no longer offered, would either be unavailable in the area or fall to the responsibility of government or another not-for-profit organization to provide.

(g) Health Profession Education

The System provides education and training programs and financial assistance for providers, health care students, and other health professionals.

(h) Research

The System participates in clinical and community health research that is shared with the health care community, including clinical research related to integrative medicine and cancer interventions as well as community health research related to care model innovations and population health. Beginning January 1, 2014, research costs are reported net of restricted grants designated and released for research purposes.

(i) Cash and In-Kind Contributions

The System donates funds and in-kind services to individuals and or the community at large and other not-for-profit organizations. Examples are the donation of space for use by community groups, event sponsorships, donation of food, equipment and supplies, and grants.

(j) Other Community Benefit Cost

The System allocates staff time to manage community benefit reporting, assess community benefit programs and needs, and develop and implement programs and activities in response to those needs.

The System contributes additional resources to the communities in which it provides services. The major components are defined below:

Costs in Excess of Medicare Payments – The System provides services to public program enrollees (Medicare). Such public programs typically reimburse at amounts less than cost.

Other Care Provided without Compensation (Bad Debt) – The System provides medical care in which charges are uncollected beyond what is provided under the definition of charity care.

Discounts Offered to Uninsured Patients – The hospitals in the System provide a discount on billed charges for medically necessary care delivered to patients who are uninsured and ineligible for government programs or otherwise medically indigent. The unbilled portion of uninsured care is excluded from net patient service revenue.

Taxes and Fees – The System pays property taxes to local and state government used in funding civil and education services to the community.

Community Building – The System engages in community activities that address root causes of health problems such as poverty, homelessness, and environmental issues by participating in activities including economic development work, workforce development, public safety efforts, and community health improvement work.

(Dollars in thousands)

The following is an estimate of the community benefits provided by the System:

		2014	2013	2012
Cost of providing charity care (charges forgone of $50,623, $74,083, and $80,384, respectively)	$	21,400	29,500	30,400
Costs in excess of Medicaid payments		57,300	53,900	53,400
Medicaid surcharge		25,500	23,100	21,600
MinnesotaCare tax		45,500	42,800	41,100
Community health improvement services		9,100	8,600	9,000
Subsidized health services		3,800	2,600	2,500
Health professions education		25,300	23,800	23,100
Research		4,800	15,800	10,500
Cash and in-kind contributions		2,600	3,000	3,500
Other community benefit cost		4,900	5,100	4,400
Total cost of community benefit		200,200	208,200	199,500
Costs in excess of Medicare payments		168,500	189,500	156,900
Other care provided without compensation (bad debt)		93,500	90,500	76,200
Discounts offered to uninsured patients		32,600	46,500	39,200
Taxes and fees		4,600	6,300	5,600
Community building		800	400	700
Total value of community contributions	$	500,200	541,400	478,100

(5) Cash and Cash Equivalents and Investments

As of December 31, cash and cash equivalents and investments, including those with limited uses, consist of the following:

		2014	2013	2012
Cash and cash equivalents	$	180,985	132,704	147,405
Money market collective fund and short-term fixed income		114,118	165,233	66,414
Fixed income		864,850	665,229	564,324
Equity securities		290,046	369,187	205,080
Investments accounted for at net asset value		419,193	391,276	592,675
	$	1,869,192	1,723,629	1,575,898

(Dollars in thousands)

Certain investments are held for the following limited uses as of December 31:

	2014	2013	2012
By trustee for repayment of long-term debt	$ 52	2,193	2,765
By trustee for swap collateralization	6,750	—	13,640
In escrow for capital projects	13	26	25
Donor-restricted funds	139,792	139,525	105,004
Self-insured professional and general liability claims	3,555	10,811	10,105
	$ 150,162	152,555	131,539

Total investment return consists of the following:

	2014	2013	2012
Investment earnings in unrestricted net assets:			
Interest and dividend income (net of expense of $1,397, $1,125, and $932 for 2014, 2013, and 2012, respectively)	$ 21,925	17,512	16,181
Realized gains on investments	14,278	88,915	2,731
Unrealized gains (losses) on investments	10,787	(13,444)	69,801
	46,990	92,983	88,713
Investment earnings in restricted net assets:			
Interest and dividend income	1,684	1,189	1,163
Realized gains on investments	2,470	7,866	422
Unrealized gains on investments	240	331	6,116
	4,394	9,386	7,701
	$ 51,384	102,369	96,414

Total investment return is reported in the consolidated statements of operations and changes in net assets as follows:

	2014	2013	2012
Nonoperating gains	$ 46,990	92,983	88,713
Changes in restricted net assets	4,394	9,386	7,701
	$ 51,384	102,369	96,414

(Dollars in thousands)

(6) Other Current Assets

Other current assets as of December 31 consist of the following:

		2014	2013	2012
Pledges and notes receivable	$	7,266	5,598	8,732
Prepaid expenses		20,184	10,475	9,194
Other miscellaneous receivables		81,939	59,053	42,543
	$	109,389	75,126	60,469

(7) Land, Buildings, and Equipment

Land, buildings, and equipment as of December 31 consist of the following:

		2014	2013	2012
Land and land improvements	$	95,488	94,497	79,475
Buildings		1,316,725	1,264,600	1,146,387
Equipment		1,410,022	1,366,368	1,292,383
		2,822,235	2,725,465	2,518,245
Less accumulated depreciation and amortization		1,820,356	1,727,334	1,639,216
		1,001,879	998,131	879,029
Construction in progress		40,071	52,639	77,747
	$	1,041,950	1,050,770	956,776

(8) Other Assets

Other assets as of December 31 consist of the following:

		2014	2013	2012
Cash surrender value of insurance policies	$	4,422	4,461	4,116
Pledges and notes receivable, less current portion		23,753	18,853	16,065
Investment in unconsolidated entities		54,788	52,380	46,717
Deferred bond issuance costs, net		3,923	4,133	4,542
Deferred compensation		136,308	120,426	98,690
Other		23,359	25,344	6,602
	$	246,553	225,597	176,732

(Dollars in thousands)

The following table represents the System's investment in and share of net earnings of unconsolidated entities recorded under the equity method of accounting as of and for the years ended December 31:

	Percentage ownership	Equity investment 2014	Equity investment 2013	Equity investment 2012	Share of net earnings 2014	Share of net earnings 2013	Share of net earnings 2012
St. Francis Regional Medical Center	37.40%	$ 34,156	30,283	25,930	3,873	4,353	4,275
Other entities	16% – 50%	20,632	22,097	20,787	9,115	10,989	7,565
		$ 54,788	52,380	46,717	12,988	15,342	11,840

The following table reflects summarized financial information for St. Francis Regional Medical Center as of and for the years ended December 31:

	2014	2013	2012
Total assets	$ 156,742	165,590	162,854
Total liabilities	70,354	74,296	75,428
Total net assets	86,388	91,294	87,426
Total revenue	125,894	120,928	120,719
Total operating expenses	116,086	112,365	111,113
Total investment return and other nonoperating	268	3,753	3,169
Excess of revenues over expenses	10,076	12,316	12,775

(9) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of December 31 consist of the following:

	2014	2013	2012
Outstanding checks	$ 57,746	54,137	62,202
Trade accounts payable	44,361	57,492	43,063
Accrued payroll, taxes, and vacation	186,183	171,431	161,526
Other	139,895	137,056	125,114
	$ 428,185	420,116	391,905

(Dollars in thousands)

(10) Other Current Liabilities

Other current liabilities as of December 31 consist of the following:

		2014	2013	2012
Current portion of estimated reserves for professional and general liability claims	$	12,354	12,762	12,981
Current portion of estimated reserves for workers' compensation claims		13,911	13,138	13,217
Employee health plan claims incurred but not reported		16,498	14,094	17,218
Defined–contribution retirement plan		38,650	35,800	34,519
Due to third-party payers		—	1,976	1,762
Current portion of long-term debt		20,347	39,368	39,069
	$	101,760	117,138	118,766

(Dollars in thousands)

(11) Long-Term Debt

Long-term debt as of December 31 consists of the following:

		2014	2013	2012
Fixed Rate Revenue Bonds, Series 2009A-1 (Allina Health System), annual interest rate from 4.50% to 5.25%	$	106,415	108,015	109,515
Fixed Rate Revenue Bonds, Series 2009A-2 (Allina Health System), annual interest rate from 3.25% to 5.5%		68,860	71,145	71,430
Variable Rate Revenue Bonds, Series 2009B&C (Allina Health System), Variable Rate Demand Notes, average annual interest rate of 0.04% during 2014; 0.02% at December 31, 2014		164,525	164,525	164,525
Fixed Rate Revenue Bonds, Series 2007A (Allina Health System), annual interest rate from 4.50% to 5.50%		105,415	111,565	117,550
Variable Rate Revenue Bonds, Series 2007C (Allina Health System), Variable Rate Demand Notes, average annual interest rate of 0.05% during 2014; 0.03% at December 31, 2014		121,250	121,950	122,625
Variable Rate Revenue Bonds, Series 1998A (Allina Health System) Periodic Auction Reset, average annual interest rate of 0.10% during 2014; 0.10% at December 31, 2014		14,575	18,875	24,925
Variable Rate Health Care System Revenue Bonds, Series 1993B (HealthSpan) Periodic Auction Reset, average annual interest rate of 0.08% during 2014; 0.06% at December 31, 2014		24,900	26,100	27,400
Variable Rate Demand Hospital Revenue Bonds, Series 1985 (Health Central), average annual interest rate of 0.06% during 2014		—	3,400	5,700

(Dollars in thousands)

		2014	2013	2012
Fixed-Rate Health Facilities Revenue Bonds, Series 1994A	$	—	—	9,990
Variable Rate Taxable Bonds, Series 1994B (WestHealth)		—	—	10,400
Fixed Rate Health Care Facilities Revenue Note, Series 2014 (Allina Health System), annual interest rate of 2.55%		20,165	—	—
Line of Credit		—	19,965	—
Capitalized leases		4,053	4,622	5,208
Other		163	201	221
		630,321	650,363	669,489
Unamortized portion of original issue premium		3,320	3,811	4,302
Current portion		(20,347)	(39,368)	(39,069)
	$	613,294	614,806	634,722

Certain divisions of the System are members of the Allina Obligated Group (Obligated Group), which is subject to the terms and conditions of the Master Trust Indenture dated October 1, 1998, as amended, between the System and Wells Fargo Bank Minnesota, National Association, and is jointly and severally liable for any debts and/or other obligations of each Obligated Group member and the Obligated Group as a whole. The Obligated Group members include the hospitals, nonhospital specialty care services, and certain physician clinics. The System also operates several wholly owned direct and indirect subsidiaries outside of the Obligated Group, including clinics and foundations.

In December 2014, the City of Minneapolis, on behalf of the System, issued a fixed-rate Revenue Note, Series 2014, in the aggregate principal amount of $20,165. The 2014 Revenue Note is secured by the Obligated Group's pledged revenue and was used to pay off the portion of the System's line of credit relating to the refinancing of the Regina Medical Center 2010 Series Bond.

In June 2011, through an acquisition, the System assumed a fixed-rate mortgage payable, the fixed-rate Revenue Bonds, Series 1994A, issued by the City of Plymouth, on behalf of WestHealth and the variable rate WestHealth Taxable Bonds, Series 1994B, issued pursuant to an Indenture of Trust. The mortgage payable had a balloon payment due in August 2012, and was fully repaid in May 2012. The 1994A and 1994B Bonds were paid in full on January 15, 2013, and are classified as current portion of long-term debt at December 31, 2012. The 1994B Bonds were secured through a bank under a Standby Bond Purchase Agreement (the Agreement), which terminated on January 15, 2013 with payment of the bonds. Under the Agreement, the bank had committed to purchase bonds if put and not remarketed. There were no draws over the life of the agreement.

In November 2009, the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of the System, issued fixed-rate Revenue Bonds, Series 2009A-1 and 2009A-2, in the aggregate principal amount of $113,415 and $71,830, respectively. In addition, Variable Rate Revenue

Bonds, Series 2009B&C, were issued in the aggregate amount of $164,525. The 2009A-1 Bonds are secured by the Obligated Group's pledged revenue and were used to acquire, construct, and renovate certain of the System's facilities and refinance and legally defease, in part, the 2007B Bonds. The 2009A-2 Bonds are secured by the Obligated Group's pledged revenue and were used to redeem, in part, the Series 1998A Variable Rate Revenue Bonds at a redemption price of 93%. The 2009B&C Bonds are secured by the Obligated Group's pledged revenue and were used to refinance and legally defease the remaining portion of the Series 2007B Variable Rate Revenue Bonds not refinanced through the issuance of the 2009A-1 Bonds.

The Series 2009B&C Bonds are secured by letters of credit issued by two banks. Repayment of draws against the letters is secured by term credit agreements with the banks in the amount of $114,525, which expires on January 5, 2017, and $50,000, which expires on January 4, 2017. If the bonds were put and not remarketed, the banks would be required to purchase the bonds. Draws under the term credit agreements to repay the banks for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years in equal quarterly installments, beginning 367 days after the draw, based on the bank's base rate plus 2.00%.

Payment of principal and interest on the Series 2007A, Series 1998A, and Series 1993B Bonds is insured. Interest rates on the variable rate Series 1998A and Series 1993B Bonds are determined by auction. If an auction fails, interest rates payable to the existing bondholders are determined by a formula incorporated in the bond documents for these two series of bonds.

The Series 1985 Bonds were paid in full on December 1, 2014. The 1985 Bonds were secured by a letter of credit issued by a bank, which terminated on December 1, 2014 with the payment of the bonds. Under the agreement, the bank had committed to purchase the bonds if put and not remarketed. There were no draws over the life of the agreement.

On June 18, 2008, the System completed a conversion of the Series 2007C Bonds from auction rate securities to variable rate demand bonds. This conversion included the insurer's consent to remove the insurance and for a bank to support the bonds with a direct pay letter of credit. Repayment of draws against the letter is secured by a term credit agreement with the bank in the aggregate amount of $121,950, which expires on January 4, 2017. If the bonds were put and not remarketed, the bank would be required to purchase the bonds. Draws under the term credit agreement to repay the bank for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years, beginning 367 days after the draw, based on the bank's base rate plus 2.00%.

In September 2013, through an acquisition, the System assumed the fixed rate Revenue Bonds, Series 2010, issued by the City of Hastings, on behalf of Regina Medical Center. In December 2013, the System utilized its line of credit with a bank in the amount of $19,965, respectively, to pay off the Series 2010 Bond, which was classified in current portion of long-term debt at December 31, 2013. The draw was paid in full in December 2014 with the issuance of the Series 2014 Revenue Note.

(Dollars in thousands)

Aggregate annual maturities of long-term debt and mandatory sinking fund requirements, as stated under the actual debt terms, for each of the five years following December 31, 2014, are as follows:

2015	$	20,347
2016		22,024
2017		22,674
2018		23,523
2019		24,761
Thereafter		516,992

Aggregate principal payments of long-term debt based on the variable rate demand notes being put back to the System and a corresponding draw being made on underlying liquidity facilities, for each of the five years following December 31, 2014, are as follows:

2015	$	20,347
2016		78,379
2017		79,254
2018		79,853
2019		81,066
Thereafter		291,422

The System uses interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Four of the five interest rate swaps are used to hedge identified debt, or interest rate exposures, and are not used for speculative purposes. One of the interest rate swaps was established for speculative purposes and is not tied directly to outstanding debt. Interest rate swaps are recognized as either other long-term assets or other long-term liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value.

(Dollars in thousands)

As of December 31, 2014, the System posted collateral of $6,750, related to one of the System's swaps due to changes in interest rates. As of December 31, 2013, the System had no collateral posted. As of December 31, 2012, the System posted collateral of $13,640, related to two of the System's swaps due to changes in interest rates. The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2014, none of which are designated as cash flow hedging instruments:

Fixed payer interest rate swaps

Swap	Balance sheet location	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2014	Counterparty
2009BC	Other liabilities	$ 11,139	41,131	3.74%	% of LIBOR	0.45%	Wells Fargo
2009BC	Other liabilities	33,331	123,394	3.73	% of LIBOR	0.45	JP Morgan
2007C	Other liabilities	26,400	121,250	3.58	% of LIBOR	0.35	US Bank
2001	Other liabilities	17,445	50,000	5.17	SIFMA	0.05	Goldman Sachs
1998A	Other liabilities	2,534	15,075	4.44	SIFMA	0.05	Goldman Sachs
Total		$ 90,849	350,850				

The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2013, none of which are designated as cash flow hedging instruments:

Fixed payer interest rate swaps

Swap	Balance sheet location	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2013	Counterparty
2009BC	Other liabilities	$ 7,195	41,131	3.74%	% of LIBOR	0.47%	Wells Fargo
2009BC	Other liabilities	21,407	123,394	3.73	% of LIBOR	0.47	JP Morgan
2007C	Other liabilities	17,924	121,950	3.58	% of LIBOR	0.37	UBS
2001	Other liabilities	12,461	50,000	5.17	SIFMA	0.09	Goldman Sachs
1998A	Other liabilities	2,589	19,375	4.44	SIFMA	0.09	Goldman Sachs
Total		$ 61,576	355,850				

The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2012, none of which are designated as cash flow hedging instruments:

Fixed payer interest rate swaps

Swap	Balance sheet location	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2012	Counterparty
2009BC	Other liabilities	$ 11,848	41,131	3.74%	% of LIBOR	0.50%	Wells Fargo
2009BC	Other liabilities	35,455	123,394	3.73	% of LIBOR	0.50	JP Morgan
2007C	Other liabilities	29,846	122,625	3.58	% of LIBOR	0.40	UBS
2001	Other liabilities	19,721	50,000	5.17	SIFMA	0.16	Goldman Sachs
1998A	Other liabilities	3,966	23,475	4.44	SIFMA	0.16	Goldman Sachs
Total		$ 100,836	360,625				

(Dollars in thousands)

The following table provides details regarding the gains (losses) from the System derivative instruments in the consolidated statements of operations and changes in net assets, none of which are currently designated as hedging instruments. The 1998A swap was designated as a hedging instrument until December 31, 2008.

	Amount of gain (loss) on change in fair value recognized as nonoperating: gains (losses) on interest rate swap agreements			Amount of loss reclassified from unrestricted net assets into revenues over expenses as nonoperating: gains (losses) on interest rate swap agreements			Amount of interest paid to counterparty recognized as nonoperating: gains (losses) on interest rate swap agreements			Total		
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
2009BC	$ (15,868)	18,701	1,310	—	—	—	(5,409)	(5,363)	(5,352)	(21,277)	13,338	(4,042)
2007C	(8,476)	11,922	290	—	—	—	(3,921)	(3,917)	(3,923)	(12,397)	8,005	(3,633)
2001	(4,984)	7,260	(949)	—	—	—	(2,551)	(2,526)	(2,518)	(7,535)	4,734	(3,467)
1998A	55	1,377	87	(874)	(874)	(874)	(772)	(946)	(1,100)	(1,591)	(443)	(1,887)
	$ (29,273)	39,260	738	(874)	(874)	(874)	(12,653)	(12,752)	(12,893)	(42,800)	25,634	(13,029)

The System records the swaps’ liability at fair value, which requires nonperformance risk (i.e., credit risk), to be included in the valuation. Nonperformance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This nonperformance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date. The addition of the credit spread to the discounting rate reduces the reported liability. Because of market volatility, the fair value reported liability of the swaps is approximately $6,724, $1,916, and $8,665 less as of December 31, 2014, 2013, and 2012, respectively, than the mark-to-market valuations (note 14).

The estimated fair value of long-term debt was $666,198, $676,238, and $708,909 as of December 31, 2014, 2013, and 2012, respectively. Interest rates that are currently available to the System for issuance of debt with similar terms and remaining maturities are used to estimate the fair value of fixed-rate debt through the use of discounted cash flow analyses. The fair value measurement was done using Level 2 criteria (note 14). The carrying amount of variable rate bonds and other notes payable approximates fair value.

Interest paid, net of amounts capitalized, was $16,330, $16,467, and $16,947 during 2014, 2013, and 2012, respectively.

The System has a Revolving Credit Agreement with Wells Fargo Bank through June 17, 2019, which consists of a line of credit of $26,000. The interest rate on the line of credit is the Reserve Adjusted London Interbank Offered Rate (LIBOR) plus 0.5%, and is secured by a note under the 1998 Master Trust Indenture. The unused line fee for the revolving line of credit is 0.15% per annum. In December 2013, the System had a draw of $19,965, respectively, on the line of credit to pay off the Regina Medical Center 2010 Series Bond, which was classified in current portion long-term debt at December 31, 2013. The draw was paid in December 2014 with the Series 2014 Revenue Note. The System also had insurance-related letters of credit applied against the line of credit in the amount of $2,536, $4,036, and $3,150 at December 31, 2014, 2013, and 2012, respectively.

(Dollars in thousands)

(12) Other Liabilities

Other liabilities as of December 31 consist of the following:

		2014	2013	2012
Estimated reserves for professional and general liability claims, less current portion	$	42,498	57,462	59,937
Estimated reserves for workers' compensation claims, less current portion		30,005	27,660	30,115
Net pension and postretirement liability		20,591	12,500	59,257
Interest rate swaps payable		90,849	61,576	100,836
Deferred compensation		165,052	147,212	125,212
Leasehold incentive allowance		22,455	20,910	16,750
Financing obligation		25,624	25,624	25,624
Other		23,471	16,965	8,362
	$	420,545	369,909	426,093

(13) Restricted Net Assets

Temporarily restricted net assets have been restricted by donors for the following purposes as of December 31:

		2014	2013	2012
Capital	$	17,147	11,032	18,300
Charity and indigent care		4,712	4,454	4,132
Education and research		22,061	19,761	16,572
Patient care		20,232	18,405	17,997
Other		51,003	45,273	32,535
	$	115,155	98,925	89,536

Income on the following permanently restricted net assets is restricted for the following purposes as of December 31:

		2014	2013	2012
Capital	$	128	128	77
Charity and indigent care		1,806	1,806	1,806
Education and research		18,644	18,371	18,020
Patient care		12,710	12,710	11,772
Other		21,660	22,018	14,106
	$	54,948	55,033	45,781

(Continued)

(14) Fair Value Measurements

The System's investments include money market, fixed income, and equity securities, which are carried at fair value based on quoted market prices and are classified as trading securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, the System invests in limited partnerships that hold interests in hedge funds, private equity, emerging markets, debt, and commodities, which are accounted for at net asset value as a practical expedient to fair value, and the System recognizes the increase or decrease in the partnerships' net asset value in nonoperating gains (losses). The System generally has liquidity ranging from 30 to 90 days in these funds. Certain of the underlying partnerships may hold some securities without readily determinable fair values.

For all financial instruments other than investments, derivatives, and long-term debt (note 11), the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments.

Realized gains and losses on investments, interest, dividends, and declines in investment value determined to be other than temporary are recorded as nonoperating gains (losses) unless the investment return is restricted by donor or law. Changes in unrealized gains and losses that are considered temporary are recorded as nonoperating gains (losses) for investments classified as trading and as other changes in unrestricted net assets for investments classified as other-than-trading. Investment return restricted by donor or law is recorded as changes in restricted net assets.

The System determines the fair value of its financial instruments based on the fair value hierarchy established in ASC Topic 820, *Fair Value Measurement*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

> Level 1 Inputs: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
>
> Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.
>
> Level 3 Inputs: Unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability (including risk assumptions) developed based on the best information available in the circumstances.

Inputs and valuation techniques for significant other observable and significant unobservable inputs are as follows:

For Level 2 and Level 3 cash equivalents and fixed income assets that rely on significant other observable inputs and significant unobservable inputs, the System employs multiple third-party information providers to help determine the fair value of the assets. Level 2 and Level 3 securities in separately managed accounts are held at Bank of New York Mellon (BNYMellon), who acts as Trustee and Custodian for the assets. As Custodian, BNYMellon uses multiple pricing services to value the assets. The investment managers utilize their own pricing services and valuation processes. Any significant discrepancies between

(Dollars in thousands)

Custodian and investment manager values are reconciled on a monthly basis by the managers and BNYMellon. The System also employs an investment consultant who researches significant pricing differences between the manager and custodian on a security-by-security basis. The consultant will notify the Custodian of any significant pricing issues.

For Level 2 and Level 3 funds of hedge funds, limited partnership assets, and commingled monthly valued funds, the System utilizes net asset value per share or its equivalent to determine the fair value of the assets. For Level 2, the System has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date.

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2014 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Cash	$ 17,971	17,971	—	—
Money market funds	163,014	163,014	—	—
Total cash and cash equivalents	180,985	180,985	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	56,498	54,040	2,458	—
Money market fund	28,866	28,866	—	—
Total short-term fixed income and money market	85,364	82,906	2,458	—
Equity:				
Financials	16,354	16,354	—	—
Consumer	8,269	8,269	—	—
Industrials	9,466	9,466	—	—
Technology	2,556	2,556	—	—
Healthcare	2,481	2,481	—	—
International equity mutual funds	217,622	217,622	—	—
Other equity	11,013	7,841	3,172	—
Total equity	267,761	264,589	3,172	—
Fixed income:				
U.S. Treasury securities	173,208	173,208	—	—
U.S. Agency securities	99,722	—	99,722	—
Corporate bonds	136,122	—	136,122	—

(Dollars in thousands)

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Mortgage, commercial, and asset-backed securities	$ 100,963	—	100,963	—
Sovereigns	5,456	—	5,456	—
Term loan/private placement	44,841	—	43,783	1,058
All asset mutual fund	94,719	94,719	—	—
Other	142,904	123,915	18,989	—
Total fixed income	797,935	391,842	405,035	1,058
Investments accounted for at net asset value:				
Global bonds fund	58,388	—	58,388	—
Global equity fund	71,614	—	71,614	—
Emerging markets equity fund	30,828	—	30,828	—
Equity long/short hedge funds	63,449	—	63,449	—
Opportunistic fixed income hedge funds	82,452	—	82,452	—
Fund of hedge funds	1,609	—	13	1,596
Private equity funds	24,929	—	—	24,929
Emerging market debt fund	53,716	—	53,716	—
Total investments accounted for at net asset value	386,985	—	360,460	26,525
Total investments – trading securities	1,538,045	739,337	771,125	27,583
Investments with limited uses – trading securities:				
Short-term fixed income	13,967	13,847	120	—
Money market collective fund	14,776	14,776	—	—
Equity	22,285	22,021	264	—
Fixed income	56,509	29,194	27,227	88
Investments accounted for at net asset value	32,208	—	30,000	2,208
Restricted foundation trusts (fixed income)	10,406	—	10,406	—
Total investments with limited uses – trading securities	150,151	79,838	68,017	2,296

(Dollars in thousands)

	Total	Fair value measurements using Level 1	Level 2	Level 3
Investments with limited uses – available-for-sale securities:	$			
Money market fund	11	11	—	—
Total investments with limited uses	150,162	79,849	68,017	2,296
Total	$ 1,869,192	1,000,171	839,142	29,879
Liabilities:				
Interest rate swaps	$ 90,849	—	90,849	—

	Total	Fair value measurements, Level 3 Term loan	Hedge funds	Private equity
Balance, December 31, 2013	$ 12,029	218	2,448	9,363
Total realized and unrealized losses included in excess of revenues over expenses	2,700	(34)	98	2,636
Purchases	18,887	1,299	—	17,588
Sales	(3,737)	(337)	(817)	(2,583)
Balance, December 31, 2014	$ 29,879	1,146	1,729	27,004

There were no significant transfers in or out of Level 1, Level 2, or Level 3 securities during the years ended December 31, 2012, 2013, and 2014.

(Dollars in thousands)

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2013 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Cash	$ 28,797	28,797	—	—
Money market funds	103,907	103,907	—	—
Total cash and cash equivalents	132,704	132,704	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	121,404	121,218	186	—
Money market fund	3,365	3,365	—	—
Total short-term fixed income and money market	124,769	124,583	186	—
Equity:				
Financials	14,006	14,006	—	—
Consumer	6,007	6,007	—	—
Industrials	10,084	10,084	—	—
Technology	7,100	7,100	—	—
Healthcare	2,505	2,505	—	—
International equity mutual funds	222,882	222,882	—	—
Other equity	78,030	78,030	—	—
Total equity	340,614	340,614	—	—

(Dollars in thousands)

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Fixed income:				
U.S. Treasury securities	$ 158,206	158,206	—	—
U.S. Agency securities	128,227	—	128,227	—
Corporate bonds	116,217	—	116,217	—
Mortgage, commercial, and asset-backed securities	91,826	—	91,826	—
Sovereigns	3,781	—	3,781	—
Term loan/private placement	35,891	—	35,690	201
Other	77,845	63,306	14,539	—
Total fixed income	611,993	221,512	390,280	201
Investments accounted for at net asset value:				
Global bonds fund	55,536	—	55,536	—
Global equity fund	65,869	—	65,869	—
Emerging markets equity fund	29,834	—	29,834	—
Equity long/short hedge funds	48,975	—	48,975	—
Opportunistic fixed income hedge funds	74,456	—	74,456	—
Fund of hedge funds	4,328	—	2,069	2,259
Private equity funds	8,638	—	—	8,638
Emerging market debt fund	53,367	—	53,367	—
Commodities	19,991	—	19,991	—
Total investments accounted for at net asset value	360,994	—	350,097	10,897
Total investments – trading securities	1,438,370	686,709	740,563	11,098
Investments with limited uses – trading securities:				
Short-term fixed income	15,657	15,647	10	—
Money market collective fund	21,186	—	21,186	—
Equity	28,573	28,573	—	—
Fixed income	43,485	15,974	27,494	17
Investments accounted for at net asset value	30,282	—	29,368	914
Restricted foundation trusts (fixed income)	9,751	—	9,751	—
Total investments with limited uses – trading securities	148,934	60,194	87,809	931

(Dollars in thousands)

		Total	Fair value measurements using Level 1	Level 2	Level 3
Investments with limited uses – available-for-sale securities:					
Money market fund	$	2,163	2,163	—	—
U.S. agency securities		1,458	—	1,458	—
Total investments with limited uses – available-for-sale securities		3,621	2,163	1,458	—
Total investments with limited uses		152,555	62,357	89,267	931
Total	$	1,723,629	881,770	829,830	12,029
Liabilities:					
Interest rate swaps	$	61,576	—	61,576	—

		Fair value measurements, Level 3			
		Total	Term loan	Hedge funds	Private equity
Balance, December 31, 2012	$	3,867	—	3,867	—
Total realized and unrealized losses included in excess of revenues over expenses		1,730	2	240	1,488
Purchases		10,029	217	—	9,812
Sales		(3,597)	(1)	(1,659)	(1,937)
Balance, December 31, 2013	$	12,029	218	2,448	9,363

(Dollars in thousands)

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2012 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Cash	$ 38,403	38,403	—	—
Money market funds	109,002	109,002	—	—
Total cash and cash equivalents	147,405	147,405	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	37,491	37,491	—	—
Money market collective fund	2,137	—	2,137	—
Total short-term fixed income and money market	39,628	37,491	2,137	—
Equity:				
Financials	10,556	10,556	—	—
Consumer	4,381	4,381	—	—
Industrials	8,672	8,672	—	—
Technology	2,796	2,796	—	—
Healthcare	751	751	—	—
International equity mutual funds	156,705	156,705	—	—
Other equity	5,639	5,639	—	—
Total equity	189,500	189,500	—	—
Fixed income:				
U.S. Treasury securities	114,219	114,219	—	—
U.S. Agency securities	96,399	—	96,399	—
Corporate bonds	126,707	—	126,707	—
Mortgage, commercial, and				—
asset-backed securities	99,581	—	99,581	—
Sovereigns	5,831	—	5,831	—
Term loan/private placements	26,274	—	26,274	—
Other	51,165	43,839	7,326	—
Total fixed income	520,176	158,058	362,118	—
Investments accounted for at net asset value:				
TIPS fund	30,956	—	30,956	—
Global bonds fund	42,665	—	42,665	—
Global equity fund	51,660	—	51,660	—

(Continued)

(Dollars in thousands)

	Total	Fair value measurements using Level 1	Level 2	Level 3
Emerging markets equity fund	$ 23,556	—	23,556	—
Equity long/short fund of hedge funds	180,638	—	180,638	—
Multistrategy fund of hedge funds	183,230	—	179,657	3,573
Commodities	34,945	—	34,945	—
Total investments accounted for at net asset value	547,650	—	544,077	3,573
Total investments – trading securities	1,296,954	385,049	908,332	3,573
Investments with limited uses – trading securities:				
Short-term fixed income	22,970	22,970	—	—
Money market collective fund	1,654	—	1,654	—
Equity	15,580	15,580	—	—
Fixed income	39,720	12,134	27,586	—
Investments accounted for at net asset value	45,025	—	44,731	294
Restricted foundation trusts	4,428	—	4,428	—
Total investments with limited uses – trading securities	129,377	50,684	78,399	294
Investments with limited uses – available-for-sale securities:				
Money market fund	2,162	2,162	—	—
Total investments with limited uses – available-for-sale securities	2,162	2,162	—	—
Total investments with limited uses	131,539	52,846	78,399	294
Total	$ 1,575,898	585,300	986,731	3,867
Liabilities:				
Interest rate swaps	$ 100,836	—	100,836	—

(Continued)

(Dollars in thousands)

	Fair value measurements, Level 3		
	Total	Term loan	Hedge funds
Balance, December 31, 2011	$ 6,546	191	6,355
Total realized and unrealized losses included in excess of revenues over expenses	(274)	(5)	(269)
Purchases	—	—	—
Sales	(2,405)	(186)	(2,219)
Balance, December 31, 2012	$ 3,867	—	3,867

Level 3 pricing is based on net asset value or ownership values provided by hedge fund managers who obtain the net asset value or ownership values from the underlying managers in which they invest.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent), including restricted and unrestricted assets, as of December 31, 2014 are as follows:

	Net asset value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Global bonds fund	$ 63,248	—	Monthly	15 days
Global equity fund	77,575	—	45 days	15 days
Emerging markets equity fund	33,393	—	Daily	5 days
Equity long/short hedge funds	68,729	—	Monthly/ quarterly	30-90 days
Opportunistic fixed income hedge funds	89,314	—	Quarterly	45-90 days
Fund of hedge funds	1,743	—	Quarterly	90 days
Private equity funds	27,004	31,935	10 years	NA
Emerging market debt fund	58,187	—	Daily	Same day
Total	$ 419,193	31,935		

Global bond fund includes fixed- and floating-rate debt securities of governments and government-related entities, as well as derivatives. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Global equity fund is an investment in a fund that invests in global equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Emerging markets equity fund is an investment in a fund that invests in emerging market equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Emerging market debt fund is an investment in a fund that invests in emerging market debt. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

Equity long/short-hedge funds include investments in hedge funds that invest both long and short in United States and global common stocks through a hedge funds structure. The value of the investments in this category has been estimated using the net asset value per share of the investments.

Fund of hedge funds include investments in fund of hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The value of the investments in this category has been estimated using the net asset value per share of the investments. The fund of hedge funds were liquidated over the course of 2013 with the exception of one fund of hedge funds investment, which as of December 31, 2014 has a value of $1,729, and one of the hedge fund of funds audit holdback is also included in this category. The fund is currently in liquidation and is making quarterly redemptions to shareholders. Since June 30, 2009, over 99% of the funds have been distributed.

Opportunistic fixed income hedge funds include investments in strategic fixed income and distressed debt hedge fund managers. These managers have the ability to invest across the capital structure and around the globe. The value of the investments in this category has been estimated using the net asset value per share of the investment.

Private equity funds include a limited partnership investment that focuses on health care services and information technology companies as well as a limited partnership that invests in distressed and opportunistic real estate investments. The fair value of the portfolio companies is determined using valuation techniques and procedures in accordance with recommendations by the American Institute of Certified Public Accountants (AICPA) for valuing private companies.

(Dollars in thousands)

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2014 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Mutual funds:				
Large cap domestic equity	$ 43,443	43,443	—	—
Mid cap domestic equity	8,020	8,020	—	—
Small cap domestic equity	7,374	7,374	—	—
International equity	19,020	19,020	—	—
Fixed income	26,985	26,985	—	—
Balanced	8,978	8,978	—	—
Life cycle	2,692	2,692	—	—
Money market	3,213	3,213	—	—
Other	3,501	3,501	—	—
Total mutual funds	123,226	123,226	—	—
Guaranteed investment contracts	13,082	—	—	13,082
Total assets	$ 136,308	123,226	—	13,082

(Dollars in thousands)

		Fair value measurements, Level 3
Balance, December 31, 2013	$	11,411
Total interest income		236
Purchases		(4,742)
Sales		6,177
Balance, December 31, 2014	$	13,082

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2013 as follows:

			Fair value measurements using		
		Total	Level 1	Level 2	Level 3
Assets:					
Mutual funds:					
Large cap domestic equity	$	35,981	35,981	—	—
Mid cap domestic equity		8,034	8,034	—	—
Small cap domestic equity		7,326	7,326	—	—
International equity		17,640	17,640	—	—
Fixed income		25,473	25,473	—	—
Balanced		7,826	7,826	—	—
Life cycle		1,313	1,313	—	—
Money market		2,653	2,653	—	—
Other		2,769	2,769	—	—
Total mutual funds		109,015	109,015	—	—
Guaranteed investment contracts		11,411	—	—	11,411
Total assets	$	120,426	109,015	—	11,411

		Fair value measurements, Level 3
Balance, December 31, 2012	$	10,248
Total interest income		232
Purchases		3,619
Sales		(2,688)
Balance, December 31, 2013	$	11,411

(Dollars in thousands)

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2012 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Mutual funds:				
Large cap domestic equity	$ 29,010	29,010	—	—
Mid cap domestic equity	6,342	6,342	—	—
Small cap domestic equity	5,716	5,716	—	—
International equity	13,751	13,751	—	—
Fixed income	22,145	22,145	—	—
Balanced	6,094	6,094	—	—
Life cycle	976	976	—	—
Money market	2,603	2,603	—	—
Other	1,805	1,805	—	—
Total mutual funds	88,442	88,442	—	—
Guaranteed investment contracts	10,248	—	—	10,248
Total assets	$ 98,690	88,442	—	10,248

	Fair value measurements, Level 3
Balance, December 31, 2011	$ 10,026
Total realized and unrealized losses	219
Purchases	3,424
Sales	(3,421)
Balance, December 31, 2012	$ 10,248

(15) Benefit Plans

Defined–Benefit Cash Balance Plan

On December 31, 2008, the System froze a defined–benefit cash-balance pension plan (the Plan), covering a large number of noncontract employees. In 2013, the System received approval from the Internal Revenue Service to fully terminate the Plan effective as of December 31, 2012. In November 2013, the System fully distributed the plan assets to participants.

(Dollars in thousands)

The actual asset allocation as of December 31, 2012 was as follows:

	2012
Global equity	2%
Fixed income (debt securities)	82
Diversified funds of hedge funds	—
Real assets	2
Cash	14
	100%

The following table summarizes certain information for the Plan:

	2013	2012
Projected benefit obligation at beginning of year	$ 498,821	444,834
Service cost – benefits earned during the year	—	442
Interest cost on the accumulated benefit obligation	11,826	20,078
Actuarial loss	3,043	58,844
Benefits paid from plan assets	(513,690)	(25,377)
Projected benefit obligation at end of year	—	498,821
Change in plan assets:		
Fair value of plan assets at beginning of year	460,925	430,233
Actual return on plan assets	765	10,070
Contributions from the System	52,000	46,000
Benefits paid from plan assets	(513,690)	(25,378)
Fair value of plan assets at end of year	—	460,925
Deficit	—	(37,896)
Net amount recognized	$ —	(37,896)
Accumulated benefit obligation at end of year	$ —	498,200

The projected benefit obligation (PBO) at December 31, 2012 was the present value of the future benefit payments accrued to date and included expected future salary increases. The PBO present value was determined by using a discount rate that was developed using a yield curve composed of hypothetical zero-coupon bond rates.

As of December 31, 2012, the net amount recognized of $37,896 is reported in the consolidated balance sheets as a noncurrent other liability.

(Continued)

(Dollars in thousands)

The Plan assets measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2012 as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Investments:				
Money market collective fund	$ 65,842	65,842	—	—
Equity:				
International equity mutual funds	9,600	9,600	—	—
Total equity	9,600	9,600	—	—
Fixed income:				
U.S. agency securities	213,429	103,313	110,116	—
Corporate bonds	41,524	—	41,524	—
Mortgage, commercial, and asset-backed securities	22,872	—	22,872	—
Term loan/private placements	8,174	—	8,174	—
Sovereigns	23,140	22,124	1,016	—
Other	3,058	—	2,448	610
Total fixed income	312,197	125,437	186,150	610
Investments accounted for at net asset value:				
TIPS fund	4,950	—	4,950	—
Corporate bonds	61,621	—	61,621	—
Funds of hedge funds	1,682	—	—	1,682
Commodities	5,033	—	5,033	—
Total investments accounted for at net asset value	73,286	—	71,604	1,682
Total investments	$ 460,925	200,879	257,754	2,292

	Fair value measurements, Level 3		
	Total	**Other-GIC**	**Hedge funds**
Balance, December 31, 2011	$ 3,410	589	2,821
Total realized and unrealized losses included in excess of revenues over expenses	(16)	21	(37)
Purchases	—	—	—
Sales	(1,102)	—	(1,102)
Balance, December 31, 2012	$ 2,292	610	1,682

(Dollars in thousands)

The above information was determined using a measurement date of December 31 and the following assumptions:

	2012
Weighted average discount rate	3.00%
Rate of increase in future compensation levels	4.50

Net periodic pension cost consists of the following components:

		2013	2012
Service cost – benefits earned during the year	$	—	442
Interest cost on the accumulated benefit obligation		11,826	20,078
Expected return on plan assets		(11,090)	(13,018)
Net periodic pension cost		736	7,502
Mark-to-market adjustment		14,133	61,792
Total pension expense	$	14,869	69,294

The net periodic pension cost was determined using the following assumptions:

	2012
Weighted average discount rate	4.70%
Weighted average expected return on plan assets	3.00
Rate of increase in future compensation levels	4.50

The System is making contributions pursuant to provisions of a collective bargaining agreement. The assets for these active participants were spun out of the Plan on January 2, 2013 and into a newly created stand-alone defined-benefit pension plan, known as the Allina Health Pension Plan for Collectively Bargained Employees (the new plan). This plan holds assets of $9,272 and $8,927; and has a projected benefit obligation of $9,754 and $8,806 using a discount rate of 3.54% and 4.29% as of December 31, 2014 and 2013, respectively. The System made contributions of $615 and $416 and recorded a total pension (expense) gain of ($1,218) and $449 in 2014 and 2013, respectively. The (unfunded) funded balance of ($482) and $121, respectively, as of December 31, 2014 and 2013 is reported in the consolidated balance sheet as a noncurrent other asset.

The defined-benefit pension plan of Courage Center was assumed in June 2013 with the acquisition of Courage Center. This plan, which was frozen in 2009, holds assets of $24,973 and $23,621 and has a projected benefit obligation of $34,282 and $26,585 using a discount rate of 4.0% and 5.0% as of

(Continued)

(Dollars in thousands)

December 31, 2014 and 2013, respectively. The System made contributions of $732 and $500 in 2014 and 2013, respectively, and recorded a total pension (expense) gain of ($7,077) and $3,601 in 2014 and 2013, respectively. The unfunded balance of $9,309 and $2,964 as of December 31, 2014 and 2013, respectively, is reported in the consolidated balance sheet as a noncurrent other liability.

Multi-employer Plans

Contributions to the union-sponsored multi-employer plans are made in accordance with collective bargaining agreements. The risks of participation in these multi-employer plans are different from single-employer plans in the following aspects: a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and c) if the System chooses to stop participating in some of its multi-employer plans and if the plan is underfunded, the System may be required to pay those plans an amount based on the underfunded status of the plan, referred to as the withdrawal liability. The System's participation in these plans for the year ended December 31, 2014 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2014, 2013, and 2012 is for the plan's year-end at December 31, 2013, 2012, and 2011, respectively. The zone status is based on information that the System received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject:

Pension fund	EIN/Pension plan number	Pension protection act zone status			FIP/RP Status pending/ implemented	Contributions of the System in plan year		
		2013	2012	2011		2013	2012	2011
Twin City Hospitals Minnesota Nurses Association Pension Plan	41-6184922-001	Yellow	Yellow	Yellow	Implemented	$ 35,433	31,651	24,331
Other funds						4,247	3,945	3,655
Total contributions						$ 39,680	35,596	27,986

Total amounts expensed under the union-sponsored multi-employer plans were $41,827, $40,591, and $36,029 for 2014, 2013, and 2012, respectively.

The System contributes more than 5% of the total contributions to all of the plans in which it participated for the plan years 2013, 2012, and 2011. The System is required to make minimum contributions each year and will make contributions of $34,864 in 2015.

The funding improvement plan for the Twin City Hospitals Minnesota Nurses Association Pension Plan requires no contribution or benefit changes from the currently bargained amounts to achieve the funding improvement plan goals.

At the date the System's consolidated financial statements were issued, Forms 5500 were not available for the plan year ended in 2014.

Defined–Contribution Plans

Certain employees of the System are eligible to participate in defined–contribution plans, whereby 50% of the employees' initial 4% of salary contributions is matched. The defined–contribution plans were enhanced effective January 1, 2009 to provide an additional annual nonelective employer contribution for eligible employees as a replacement to the contribution made to the frozen pension plan. The additional contribution is given as a percent of pay, ranging from 3.0% to 4.5%, based on years of vesting service. Contributions are made during the year following the calendar year-end. The contribution payable to employees is recorded in other current liabilities. Total amounts expensed under defined–contribution plans were $59,467, $54,508, and $52,594 for 2014, 2013, and 2012, respectively.

Postretirement Welfare Benefits

The System provides postretirement welfare benefits to certain employees. Postretirement welfare cost was $481, $2,313, and $2,234 for 2014, 2013, and 2012, respectively. As of December 31, 2014, 2013, and 2012, accumulated postretirement benefit obligation was $11,094, $9,632, and $21,631, respectively, and accrued postretirement benefit cost was $10,800, $9,362, and $21,361, respectively. A discount rate of 3.65%, a rate of return on plan assets of 5.0%, and a medical plan trend rate of 7.0% in 2014, decreasing to 5.0% in 2020 and thereafter, have been assumed.

(16) Self-Insurance Reserves

The System insures its general and professional liability exposures under claims-made policies. Under these policies, the System has self-insured deductible amounts. Claim payments required in excess of certain occurrence and annual aggregate amounts are covered under umbrella policies. An insurance trust has been established, which covers specific claims periods. Actuarially determined amounts are contributed to pay for the estimated cost of claims. The System also self-insures workers' compensation exposures. If claims-made policies presently in force are not renewed or replaced with equivalent insurance, claims asserted after the end of the policy term will be uninsured.

The System has a fixed-rate surety bond in the amount of $49,943 at December 31, 2014 and $45,314 at December 31, 2013 and 2012. The surety bond was obtained in connection with the System's self-insured workers' compensation program at a rate of 0.31% per annum.

The System also has unused letters of credit totaling $2,536 through June 30, 2015. The letters of credit were obtained in connection with the System's self-insured automobile and construction programs at a fee of 0.45% per annum.

The System has made provisions for estimated professional and general liability and workers' compensation claims that have been retained by the System because of deductible provisions of various policies or because of unasserted claims and other uninsured exposures. Reserves of $98,768, $111,022, and $116,250 as of December 31, 2014, 2013, and 2012, respectively, have been recorded based on undiscounted historical data for professional and general liability and on a present-value basis using an annual discount rate of 2% for workers' compensation claims.

Under the comprehensive welfare benefit plan, the System has made provisions for claims reported but not paid and claims incurred but not reported of $16,498, $14,094, and $17,218 as of December 31, 2014, 2013, and 2012, respectively. Management of the plan believes the provisions are adequate to cover claims incurred.

(17) Taxes

The System has been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The System has also been determined to be exempt from federal and state income tax on related income under Section 501(a) of the Internal Revenue Code and Minnesota Statute Section 290.05, Subdivision 2. Certain of the System's subsidiaries and affiliates qualify as tax-exempt organizations, while others are taxable. The System and its subsidiaries paid taxes of $1,717, $1,944, and $942 in 2014, 2013, and 2012, respectively.

As of December 31, 2014, 2013, and 2012, the taxable subsidiaries of the System's continuing operations had a gross deferred tax asset of $68,851, $79,644, and $78,049, respectively, resulting from net operating loss carryforwards, employee compensation and benefits accruals, provision for bad debts, and limitation of charitable contributions, offset by valuation allowances of $68,569, $78,946, and $77,137, respectively, and a gross deferred tax liability of $282, $697, and $912, respectively, primarily attributable to depreciation and a change in accounting method of a taxable subsidiary. The valuation allowance decreased by $10,377 and increased by $1,809 and $1,391 during 2014, 2013, and 2012, respectively.

As of December 31, 2014, the continuing operations of the System and its subsidiaries had net operating loss carryforwards of $119,453, for income tax purposes, which expire in various years through 2034.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement and tax return methods of accounting. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The System has analyzed income tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The System believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the System's consolidated financial statements. As of December 31, 2014, 2013, and 2012, the System does not have any significant liabilities for uncertain tax benefits.

(Continued)

(Dollars in thousands)

(18) Commitments and Contingencies

The System has various noncancelable operating occupancy lease agreements and other operating lease agreements for computer, medical, communication, and other equipment. The terms of certain of the lease agreements contain lease escalation clauses, allow for renewal of the leases, and require the System to pay operating costs in addition to minimum base rent. Base rent expense for operating leases totaled $27,581, $27,584, and $23,011 for the years ended December 31, 2014, 2013, and 2012, respectively.

Aggregate future minimum lease payments required under operating lease agreements in effect on December 31, 2014 are as follows:

2015	$	27,833
2016		26,681
2017		24,382
2018		22,614
2019		19,332
Thereafter		84,328
	$	205,170

The System has incurred financing obligations relating to space lease agreements in a medical office building and a clinic. Under the guidance in ASC Topic 840, *Leases*, the System is considered the owner of the buildings. As of December 31, 2014, 2013, and 2012, the cost of the buildings and the related financing obligation are included in the accompanying consolidated balance sheets in property and equipment, net, and in other liabilities, respectively.

Future payments related to the financing transactions, which will be recorded as interest expense, are as follows:

2015	$	1,188
2016		1,202
2017		745
2018		716
2019		668

Approximately 41% of employees are represented by various collective bargaining arrangements, of whom approximately 36% are represented by arrangements that are pending or expire within one year.

Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program.

(Continued)

(Dollars in thousands)

The System is subject to various legal proceedings and claims that are incidental to its normal business activities. With respect to these actions, established reserves are fairly stated, though actual results could vary from the estimates and assumptions that were used.

(19) Acquisitions

On June 1, 2013, the System acquired and became the sole owner of Courage Center and the Courage Foundation to create a unique model of care that will make a difference in the communities the System serves. Courage Center provides rehabilitation services and was integrated with an existing service line of the System. The Courage Foundation also was integrated into an existing foundation of the System. The results of Courage Center's operations, including total revenues of $16,809, have been included in the consolidated financial statements since the acquisition date.

On September 1, 2013, the System acquired and became the sole owner of Regina Medical Center and the Regina Foundation. Through the acquisition, the System will increase the healthcare services provided in the Regina Medical Center service area. Prior to becoming the sole owner of Regina Medical Center, the System had been a 25% member. Regina Medical Center is a hospital located outside the metropolitan area. The results of Regina Medical Center's operations, including total revenues of $18,186, have been included in the consolidated financial statements since the acquisition date.

There was no consideration transferred for the acquisitions, resulting in the System recording an inherent contribution received for the net assets acquired. The following table summarizes the recognized amounts of estimated fair value of the assets acquired and liabilities assumed at the respective acquisition dates.

		Total	Courage Center and Courage Foundation	Regina Medical Center and Regina Foundation
Current and other long-term assets	$	103,677	68,367	35,310
Property and equipment		67,334	28,411	38,923
Liabilities		(34,675)	(28,148)	(6,527)
Long-term debt		(31,475)	—	(31,475)
Previously held equity interest		(6,525)	—	(6,525)
Total identifiable net assets acquired	$	98,336	68,630	29,706
Unrestricted nonoperating contribution received in acquisition	$	76,611	49,503	27,108
Restricted contribution received in acquisition		21,725	19,127	2,598
Total contribution received in acquisition	$	98,336	68,630	29,706

(Dollars in thousands)

(20) Functional Expenses

The System provides health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets are as follows:

		2014	2013	2012
Healthcare services	$	2,906,919	2,781,237	2,652,270
General and administrative		550,818	505,889	498,069
	$	3,457,737	3,287,126	3,150,339

(21) Subsequent Events

On January 1, 2015, Rice County District One Hospital transferred substantially all assets and liabilities of the Rice County District One Hospital to the System. The transfer resulted in the System recognizing an unrestricted nonoperating contribution received in acquisition of $36,718.

The System has evaluated subsequent events from the consolidated balance sheet date through March 10, 2015, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Allina Health System:

We have audited the consolidated financial statements of Allina Health System as of and for the years ended December 31, 2014, 2013, and 2012, and have issued our report thereon dated March 10, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
March 10, 2015

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2014

(Dollars in thousands)

Assets		**Obligated Group**	**Other Nonobligated**	**Eliminations**	**Allina Health System**
Current assets:					
Cash and cash equivalents	$	175,655	5,330	—	180,985
Short-term investments		357,511	—	—	357,511
Patient accounts receivable, less allowance for uncollectible accounts and charity care of $70,285		396,991	22,531	—	419,522
Inventories		55,168	143	—	55,311
Other current assets		111,073	(1,684)	—	109,389
		1,096,398	26,320	—	1,122,718
Investments		1,117,520	63,014	—	1,180,534
Investments with limited uses		17,559	132,603	—	150,162
Beneficial interests in net assets of Allina Foundations		214,128	—	(214,128)	—
Land, buildings, and equipment, net		1,025,697	16,253	—	1,041,950
Other assets		182,728	63,825	—	246,553
Total assets	$	3,654,030	302,015	(214,128)	3,741,917
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$	416,423	11,762	—	428,185
Other current liabilities		101,760	—	—	101,760
		518,183	11,762	—	529,945
Long-term debt		613,294	—	—	613,294
Other liabilities		362,217	58,328	—	420,545
Total liabilities		1,493,694	70,090	—	1,563,784
Net assets:					
Unrestricted		1,938,119	69,911	—	2,008,030
Temporarily restricted		167,269	109,161	(161,275)	115,155
Permanently restricted		54,948	52,853	(52,853)	54,948
Total net assets		2,160,336	231,925	(214,128)	2,178,133
Total liabilities and net assets	$	3,654,030	302,015	(214,128)	3,741,917

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2014

(Dollars in thousands)

	Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Revenues:				
Patient service revenue net of contractual adjustments	$ 3,438,104	27,629	—	3,465,733
Provision for bad debts	(92,777)	(770)	—	(93,547)
Net patient service revenue	3,345,327	26,859	—	3,372,186
Other operating revenue	210,078	34,468	(13,051)	231,495
Total revenues	3,555,405	61,327	(13,051)	3,603,681
Expenses:				
Salaries and benefits	2,221,767	18,707	—	2,240,474
Supplies and services	747,885	39,695	—	787,580
Depreciation and amortization	146,711	1,133	—	147,844
Financing costs	23,748	644	—	24,392
Services provided by (to) related divisions	14,182	(1,131)	(13,051)	—
State assessments and taxes	78,728	753	—	79,481
Utilities and maintenance	73,691	626	—	74,317
Other operating expenses	98,478	5,171	—	103,649
Total expenses	3,405,190	65,598	(13,051)	3,457,737
Operating income (loss)	150,215	(4,271)	—	145,944
Nonoperating gains (losses):				
Investment return	44,943	2,047	—	46,990
Gains on interest rate swap agreements	(42,800)	—	—	(42,800)
Other	(2,490)	(753)	—	(3,243)
Excess of revenues over expenses	149,868	(2,977)	—	146,891

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2014

(Dollars in thousands)

	Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Unrestricted net assets:				
Excess of revenues over expenses	$ 149,868	(2,977)	—	146,891
Net assets released from restrictions for capital purposes	3,288	3,792	—	7,080
Transfer net assets released to Obligated Group	5,745	(5,745)	—	—
Amortization of unrealized loss on interest rate swap agreement	874	—	—	874
Capital contributions to nonobligated group affiliates, net	819	(819)	—	—
Other	(651)	(3,600)	—	(4,251)
Increase (decrease) in unrestricted net assets	159,943	(9,349)	—	150,594
Temporarily restricted net assets:				
Contributions	3,288	28,596	—	31,884
Investment gain	140	4,220	—	4,360
Net assets released from restrictions	(3,304)	(17,847)	—	(21,151)
Change in beneficial interests in net assets of Allina Foundations	13,479	—	(13,479)	—
Other	785	352	—	1,137
Increase in temporarily restricted net assets	14,388	15,321	(13,479)	16,230
Permanently restricted net assets:				
Contributions for endowment funds	30	366	—	396
Investment gain	32	2	—	34
Change in beneficial interests in net assets of Allina Foundations	376	—	(376)	—
Other	(523)	8	—	(515)
Increase in permanently restricted net assets	(85)	376	(376)	(85)
Increase (decrease) in net assets	174,246	6,348	(13,855)	166,739
Net assets at beginning of year	1,986,090	225,577	(200,273)	2,011,394
Net assets at end of year	$ 2,160,336	231,925	(214,128)	2,178,133

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2013

(Dollars in thousands)

Assets		Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Current assets:					
Cash and cash equivalents	$	120,135	12,569	—	132,704
Short-term investments		314,560	498	—	315,058
Patient accounts receivable, less allowance for uncollectible accounts and charity care of $84,088		382,578	22,517	—	405,095
Inventories		52,893	253	—	53,146
Other current assets		81,027	(5,901)	—	75,126
		951,193	29,936	—	981,129
Investments		1,061,438	61,874	—	1,123,312
Investments with limited uses		20,076	132,479	—	152,555
Beneficial interests in net assets of Allina Foundations		200,273	—	(200,273)	—
Land, buildings, and equipment, net		1,034,283	16,487	—	1,050,770
Other assets		169,610	55,987	—	225,597
Total assets	$	3,436,873	296,763	(200,273)	3,533,363
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$	407,418	12,698	—	420,116
Other current liabilities		117,138	—	—	117,138
		524,556	12,698	—	537,254
Long-term debt		614,806	—	—	614,806
Other liabilities		311,421	58,488	—	369,909
Total liabilities		1,450,783	71,186	—	1,521,969
Net assets:					
Unrestricted		1,778,176	79,260	—	1,857,436
Temporarily restricted		152,881	93,840	(147,796)	98,925
Permanently restricted		55,033	52,477	(52,477)	55,033
Total net assets		1,986,090	225,577	(200,273)	2,011,394
Total liabilities and net assets	$	3,436,873	296,763	(200,273)	3,533,363

See accompanying independent auditors’ report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2013

(Dollars in thousands)

	Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Revenues:				
Patient service revenue net of contractual adjustments	$ 3,131,065	160,472	—	3,291,537
Provision for bad debts	(85,520)	(5,061)	—	(90,581)
Net patient service revenue	3,045,545	155,411	—	3,200,956
Other operating revenue	198,594	33,467	(12,452)	219,609
Total revenues	3,244,139	188,878	(12,452)	3,420,565
Expenses:				
Salaries and benefits	1,996,164	100,622	—	2,096,786
Supplies and services	702,668	55,542	—	758,210
Depreciation and amortization	130,000	8,145	—	138,145
Financing costs	22,475	2,116	—	24,591
Services provided (to) by related divisions	(9,571)	22,023	(12,452)	—
State assessments and taxes	71,752	4,035	—	75,787
Utilities and maintenance	68,032	3,147	—	71,179
Other operating expenses	108,361	14,067	—	122,428
Total expenses	3,089,881	209,697	(12,452)	3,287,126
Operating income (loss)	154,258	(20,819)	—	133,439
Nonoperating gains (losses):				
Investment return	87,460	5,523	—	92,983
Gains on interest rate swap agreements	25,634	—	—	25,634
Contributions received in acquisitions	10,958	65,653	—	76,611
Other	(1,525)	(685)	—	(2,210)
Excess of revenues over expenses	276,785	49,672	—	326,457

(Continued)

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2013

(Dollars in thousands)

	Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Unrestricted net assets:				
Excess of revenues over expenses	$ 276,785	49,672	—	326,457
Net assets released from restrictions for capital purposes	1,355	17,114	—	18,469
Transfer net assets released to Obligated Group	35,783	(35,783)	—	—
Amortization of unrealized loss on interest rate swap agreement	874	—	—	874
Net asset transfer to Obligated Group, net	70,605	(70,605)	—	—
Capital contributions to nonobligated group affiliates, net	(14,681)	14,681	—	—
Other	13,661	(3,946)	—	9,715
Increase (decrease) in unrestricted net assets	384,382	(28,867)	—	355,515
Temporarily restricted net assets:				
Contributions	1,355	17,627	—	18,982
Contributions received in acquisitions	404	11,784	—	12,188
Investment gain	255	9,025	—	9,280
Net assets released from restrictions	(1,355)	(28,900)	—	(30,255)
Change in beneficial interests in net assets of Allina Foundations	35,035	—	(35,035)	—
Other	703	(1,509)	—	(806)
Increase in temporarily restricted net assets	36,397	8,027	(35,035)	9,389
Permanently restricted net assets:				
Contributions for endowment funds	28	181	—	209
Contributions for endowment funds received in acquisitions	—	9,537	—	9,537
Investment gain	72	34	—	106
Change in beneficial interests in net assets of Allina Foundations	8,552	—	(8,552)	—
Other	600	(1,200)	—	(600)
Increase in permanently restricted net assets	9,252	8,552	(8,552)	9,252
Increase (decrease) in net assets	430,031	(12,288)	(43,587)	374,156
Net assets at beginning of year	1,556,059	237,865	(156,686)	1,637,238
Net assets at end of year	$ 1,986,090	225,577	(200,273)	2,011,394

See accompanying independent auditors’ report.

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2012

(Dollars in thousands)

Assets		Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Current assets:					
Cash and cash equivalents	$	143,384	4,021	—	147,405
Short-term investments		339,989	1,044	—	341,033
Patient accounts receivable, less allowance for uncollectible accounts and charity care of $59,398		359,831	25,930	—	385,761
Inventories		52,945	143	—	53,088
Other current assets		49,851	10,618	—	60,469
		946,000	41,756	—	987,756
Investments		925,837	30,084	—	955,921
Investments with limited uses		30,953	100,586	—	131,539
Beneficial interests in net assets of Allina Foundations		156,686	—	(156,686)	—
Land, buildings, and equipment, net		859,443	97,333	—	956,776
Other assets		132,177	44,555	—	176,732
Total assets	$	3,051,096	314,314	(156,686)	3,208,724
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$	376,910	14,995	—	391,905
Other current liabilities		98,376	20,390	—	118,766
		475,286	35,385	—	510,671
Long-term debt		634,722	—	—	634,722
Other liabilities		385,029	41,064	—	426,093
Total liabilities		1,495,037	76,449	—	1,571,486
Net assets:					
Unrestricted		1,393,794	108,127	—	1,501,921
Temporarily restricted		116,484	85,813	(112,761)	89,536
Permanently restricted		45,781	43,925	(43,925)	45,781
Total net assets		1,556,059	237,865	(156,686)	1,637,238
Total liabilities and net assets	$	3,051,096	314,314	(156,686)	3,208,724

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2012

(Dollars in thousands)

	Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Revenues:				
Patient service revenue net of contractual adjustments	$ 3,027,363	145,753	—	3,173,116
Provision for bad debts	(72,339)	(3,862)	—	(76,201)
Net patient service revenue	2,955,024	141,891	—	3,096,915
Other operating revenue	164,189	28,883	(11,614)	181,458
Total revenues	3,119,213	170,774	(11,614)	3,278,373
Expenses:				
Salaries and benefits	1,947,419	91,156	—	2,038,575
Supplies and services	672,456	49,337	—	721,793
Depreciation and amortization	124,988	7,576	—	132,564
Financing costs	22,946	3,043	—	25,989
Services provided (to) by related divisions	(7,169)	18,783	(11,614)	—
State assessments and taxes	66,594	4,258	—	70,852
Utilities and maintenance	59,130	4,193	—	63,323
Other operating expenses	86,479	10,764	—	97,243
Total expenses	2,972,843	189,110	(11,614)	3,150,339
Operating income (loss)	146,370	(18,336)	—	128,034
Nonoperating gains (losses):				
Investment return	86,079	2,634	—	88,713
Losses on interest rate swap agreements	(13,029)	—	—	(13,029)
Other	(2,118)	(1,119)	—	(3,237)
Excess (deficiency) of revenues over expenses	217,302	(16,821)	—	200,481

(Continued)

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2012

(Dollars in thousands)

		Obligated Group	Other Nonobligated	Eliminations	Allina Health System
Unrestricted net assets:					
Excess (deficiency) of revenues over expenses	$	217,302	(16,821)	—	200,481
Net assets released from restrictions for capital purposes		2,327	4,933	—	7,260
Transfer net assets released to Obligated Group		5,105	(5,105)	—	—
Amortization of unrealized loss on interest rate swap agreement		874	—	—	874
Capital contributions to nonobligated group affiliates, net		(35,175)	35,175	—	—
Other		(190)	755	—	565
Increase in unrestricted net assets		190,243	18,937	—	209,180
Temporarily restricted net assets:					
Contributions		2,327	24,985	—	27,312
Investment gain		268	7,353	—	7,621
Net assets released from restrictions		(2,339)	(13,517)	—	(15,856)
Change in beneficial interests in net assets of Allina Foundations		22,830	—	(22,830)	—
Other		(548)	643	—	95
Increase in temporarily restricted net assets		22,538	19,464	(22,830)	19,172
Permanently restricted net assets:					
Contributions for endowment funds		39	721	—	760
Investment gain		65	15	—	80
Change in beneficial interests in net assets of Allina Foundations		(479)	—	479	—
Other		—	(1,215)	—	(1,215)
Decrease in permanently restricted net assets		(375)	(479)	479	(375)
Increase in net assets		212,406	37,922	(22,351)	227,977
Net assets at beginning of year		1,343,653	199,943	(134,335)	1,409,261
Net assets at end of year	$	1,556,059	237,865	(156,686)	1,637,238

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Operating Information
For the years ended December 31, 2014 and 2013

	Abbott Northwestern Hospital		United Hospital		Mercy Hospital		Unity Hospital		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
I. Hospital Volume												
Inpatient Admissions	36,851	38,168	22,158	22,978	19,037	20,134	11,410	12,397	13,292	12,832	102,748	106,509
Patient Days	164,332	166,825	92,882	93,178	71,360	71,848	43,916	48,470	46,077	42,082	418,567	422,403
Outpatient Admissions	406,195	401,955	169,233	167,500	143,247	137,969	91,231	92,022	421,543	363,907	1,231,449	1,163,353
Adjusted Admissions	55,493	56,399	34,555	35,231	30,689	31,363	17,091	18,291	32,788	30,323	170,616	171,607
Surgeries	24,941	25,572	14,484	14,674	14,285	14,909	5,940	6,426	32,149	30,881	91,799	92,462
Emergency Room Visits	59,166	55,401	50,030	50,068	58,826	56,652	48,808	49,297	81,713	71,442	298,543	282,860
Staffed Beds	631	641	392	398	254	254	175	220	240	240	1,692	1,753
II. Other Volume												
Ambulance transports	-	-	-	-	-	-	-	-	68,228	63,111	68,228	63,111
Clinic Work RVUs	880,631	941,383	102,267	110,636	172,355	158,033	33,694	29,956	5,473,922	5,130,471	6,662,869	6,370,479
III. Payer Mix (Net Revenue)												
Medicare	32.2%	32.0%	33.9%	32.8%	33.5%	31.8%	36.2%	32.8%	23.1%	22.7%	29.3%	28.6%
Medicaid	8.4%	7.8%	11.5%	11.6%	10.8%	9.8%	14.2%	14.6%	8.6%	7.8%	9.5%	9.0%
Managed Care	53.5%	54.9%	53.0%	53.5%	54.0%	56.1%	45.5%	48.6%	59.3%	61.1%	55.3%	56.9%
Self Pay	1.6%	1.4%	1.2%	1.1%	0.9%	1.3%	2.7%	2.9%	5.5%	6.0%	3.0%	3.6%
Other	4.3%	3.9%	0.4%	1.0%	0.8%	1.0%	1.4%	1.1%	3.5%	2.4%	2.9%	1.9%

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Year Ended December 31, 2014
(Dollars in millions)

Operating Results

Allina Health's operating margin was 4.0% for the year ended December 31, 2014 compared to 3.9% for the same period in 2013. Operating income increased by $12.5 million when compared to the same period in 2013. Expense growth is driven primarily by acquisitions and investments in strategies to position the organization for health care reform. Work is underway to implement $100 million in cost savings to free up resources to further invest in strategies and position Allina Health to better serve our patients for the long term. Revenue is being constrained by decreased inpatient volumes and government payment reductions initiated in 2013 including the Centers for Medicare and Medicaid Service (CMS) "Two Midnight Rule". The delay in MNSure enrollment related to technology issues and the 2014 Medicaid Expansion, which Minnesota adopted as of January 1, 2014, has also impacted volumes and revenue.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 8.8% for the year ended December 31, 2014 compared to 8.6% for the same period in 2013. Non operating investment return and swap unrealized losses were consistent with market conditions for the year.

The Obligated Group includes Regina and the former Aspen and Quello clinics effective January 1, 2014.

EARNINGS SUMMARY	ALLINA HEALTH Year Ended December 31		OBLIGATED GROUP Year Ended December 31	
	2014	2013	2014	2013
EBIDA	$ 316.4	$ 294.6	$ 320.0	305.9
Interest income	1.7	1.5	0.6	0.9
Financing costs	(24.4)	(24.6)	(23.7)	(22.5)
Depreciation and amortization	(147.8)	(138.1)	(146.7)	(130.0)
Operating Income	145.9	133.4	150.2	154.3
Investment return	47.0	93.0	45.0	87.4
Interest rate swap agreements	(42.8)	25.6	(42.8)	25.6
Contributions received in acquisitions	-	76.6	-	11.0
Non-operating other	(3.2)	(2.2)	(2.5)	(1.5)
Excess of revenues over expenses	$ 146.9	$ 326.4	$ 149.9	$ 276.8

Revenues

Allina Health's revenue increased $183.1 million, or 5.4% for the year ended December 31, 2014 as compared to 2013. Hospital net patient revenue growth was 5.5%. 2014 net patient revenue is 42.3% of net inpatient revenue, down from 43.2% in 2013. The clinics (excluding hospital based) experienced an overall 5.6% increase in net patient revenue, due to clinical volumes that grew 4.6% year over year. Outpatient and clinic revenue grew 7.0% over the prior year, from 56.3% of net patient revenue in 2013 to 57.2% in 2014. Other revenue increased 5.4% over prior year due to grants and specialty service growth.

REVENUE	ALLINA HEALTH Year Ended December 31 2014	ALLINA HEALTH Year Ended December 31 2013	OBLIGATED GROUP Year Ended December 31 2014	OBLIGATED GROUP Year Ended December 31 2013
Hospital Net Patient Revenue	$ 2,544.0	$ 2,412.1	$ 2,544.0	$ 2,393.0
Change	5.5%		6.3%	
Clinic Net Patient Revenue	681.3	645.3	664.6	521.9
Change	5.6%		27.3%	
Other Net Patient Revenue	240.4	234.2	229.5	216.3
Change	2.6%		6.1%	
Bad Debt	(93.5)	(90.6)	(92.8)	(85.5)
Change	3.2%		8.5%	
Other Revenue	231.5	219.6	210.1	198.4
Change	5.4%		5.9%	
Total Revenue	$ 3,603.7	$ 3,420.6	$ 3,555.4	$ 3,244.1
Change	5.4%		9.6%	

Payer Mix

Allina Health net patient revenue reflects a consistent significant concentration of revenue from managed care (negotiated payer) sources. The payer mix schedule below combines Medicare managed care products with Medicare and managed care state public program products with Medicaid. The single largest payer within contracted payers was Blue Cross Blue Shield at 24.6% of total net patient revenue and 17.4% of total gross patient revenue for the year ended December 31, 2014.

ALLINA HEALTH PAYER MIX PERCENTAGE	Net Patient Revenue December 31 2014	Net Patient Revenue December 31 2013	Gross Patient Revenue December 31 2014	Gross Patient Revenue December 31 2013
Medicare	29.3%	28.6%	40.6%	40.4%
Medicaid	9.5	9.0	14.4	13.4
Contracted Payers	55.3	56.9	39.2	40.1
Self Pay	3.0	3.6	2.4	3.0
Other	2.9	1.9	3.4	3.1
Total	100.0%	100.0%	100.0%	100.0%

Uncompensated Care

Allina Health provides medical care without charge or at reduced cost to patients who live in the communities that it serves through the provision of charity care. Allina Health identifies patients that qualify for charity care based upon certain guidelines related to a patient's ability to pay for services. The Allina Health hospitals provide a discount on billed charges for medically necessary care delivered to patients who are uninsured, underinsured, and ineligible for government programs or otherwise medically indigent. Allina Health has also created a billing and collection policy in connection with a state-wide agreement with the Minnesota Attorney General's Office.

Uncompensated care (the combination of uninsured, charity care, and bad debt expense) decreased $34.4 million in gross charges, or 16.3% in 2014 compared to prior year. Decreases in charity care and uninsured discounts are attributable to increases in Medicaid and Prepaid Medical Assistance Program (PMAP) enrollment under MNsure, the State of Minnesota's solution under the federally mandated Accountable Care Act (ACA).

The schedule below reflects uncompensated care at gross charges forgone. The estimated cost of providing charity care, by applying a cost to charge ratio to charges identified as charity care, was $21.4 million and $29.5 million for the year ended December 31, 2014 and 2013, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH Year Ended December 31 2014	ALLINA HEALTH Year Ended December 31 2013
Uninsured Discount	$ 32.6	$ 46.5
Charity Care Discount	50.6	74.0
Bad Debt Expense	93.5	90.6
Total Uncompensated Care	$ 176.7	$ 211.1
Change	-16.3%	
Total Uncompensated Care as a % of Gross Patient Charges	2.2%	2.7%

Volume

Allina Health has continued to experience shifts in volumes consistent with the Minnesota and national market in the year ended December 31, 2014. Inpatient admissions, and inpatient surgeries decreased by 3.5%, and 4.0%, respectively for the year ended December 31, 2014 from 2013, while outpatient hospital admissions, outpatient surgeries and clinic work RVUs increased 5.9%, 0.6% and 4.6%, respectively. The movement to outpatient from inpatient is expected as Allina Health becomes more successful in quality and care goals for patients with chronic conditions and is consistent with the longer term goals of health care reform. The CMS "Two Midnight Rule" is also resulting in a shift to observation days from inpatient admissions.

VOLUME STATISTICS	ALLINA HEALTH Year Ended December 31 2014	2013
Inpatient Hospital Admissions	102,748	106,509
Inpatient change from prior period	-3.5%	
Observation days	19,192	15,105
Observation days change from prior period	27.1%	
Outpatient Hospital Admissions	1,231,449	1,163,353
Outpatient change from prior period	5.9%	
Average Length of Stay (days)	4.1	4.0
Hospital Patient Days	418,567	422,403
Patient days change from prior period	-0.9%	
Hospital Occupancy (based on staffed beds)	70.9%	67.6%
Inpatient Surgeries	29,861	31,059
Outpatient Surgeries	61,938	61,403
Total Surgeries	91,799	92,462
Total surgeries change from prior period	-0.7%	
Clinic Work RVUs	6,662,869	6,370,479
Work RVUs change from prior period	4.6%	
Total Case Mix	1.42	1.36
Medicare Case Mix	1.74	1.68

Market Share

Allina Health continues to hold its market leading position. The following market share data from the Minnesota Hospital Association (MHA) statistical database for the eleven county metropolitan hospital inpatient market is updated as of September 30, 2014. Allina Health Metro Market Share includes 0.6% market share of Regina Medical Center, which was acquired on September 1, 2013.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	September 30 2014	December 31 2013
Allina Metro Hospital Inpatient Market Share *	31.6%	32.7%
Change in Total Metro Market Volume**	-1.9%	-2.7%

* Hospitals Include: Abbott Northwestern, United, Mercy, Unity, Phillips Eye Institute, Regina and St. Francis

** year over year change of the eleven county metro hospital inpatient market volume for the twelve months ending September 2014 and December 2013

Non-Operating Gains & Losses

Allina Health investments include a diversified portfolio of money market, fixed income, equity, hedge funds, private equity, and real asset investments. The total return on unrestricted long term investments was 3.4% for the year ended December 31, 2014, consistent with the market conditions for the period. To mitigate changes in interest rates on debt, Allina Health has entered into fixed-payer swaps, which are marked to market.

NON-OPERATING GAINS	ALLINA HEALTH Year Ended December 31		OBLIGATED GROUP Year Ended December 31	
	2014	2013	2014	2013
Interest and dividends	$ 21.9	$ 17.5	$ 22.0	$ 17.3
Realized gains on sales of investments	14.3	88.9	13.1	84.9
Unrealized gains on investments	10.8	(13.4)	9.9	(14.8)
Interest rate swap agreements - fair value	(29.3)	39.3	(29.3)	39.3
Interest rate swap agreements - counterparty interest	(13.5)	(13.7)	(13.5)	(13.7)
Contributions received in acquisitions	-	76.6	-	11.0
Other	(3.2)	(2.2)	(2.5)	(1.5)
Total non-operating gains	$ 1.0	$ 193.0	$ (0.3)	$ 122.5

Balance Sheet and Cash Flow

Allina Health had 190 days cash on hand (DCOH) as of December 31, 2014, compared with 182 days at December 31, 2013.

Leverage decreased to 24.0% at December 31, 2014 down from 26.0% in December 31, 2013. Cash to debt is 271.3% as of December 31, 2014 compared to 228.3% at December 31, 2013.

System level capital spending was $169.7 million for the year ended December 31, 2014 compared to capital spending of $213.6 million for the same time period in 2013. Allina Health restrained the capital approval process in 2014. The original $237 million capital budget was reduced.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	December 31 2014	December 31 2013	December 31 2014	December 31 2013
Unrestricted cash & investments	$ 1,719.0	$ 1,571.1	$ 1,650.7	$ 1,496.1
Days cash on hand	190	182	185	185
Total Debt	$ 633.6	$ 654.2	$ 633.6	$ 654.2
Unrestricted net assets	$ 2,008.0	$ 1,857.4	$ 1,938.1	$ 1,778.2
Debt to capitalization *	24.0%	26.0%	26.1%	28.3%
Patient receivables	$ 419.5	$ 405.1	$ 397.0	$ 382.6
Days revenue in receivables, net	46	46	43	46
Cash to debt	271%	240%	260%	229%
Historical annual debt service coverage	6.6	5.6	6.6	8.0

***** Obligated Group includes Letters of Credit and Surety indebtedness

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	**Days**
December 31, 2013	$1,571.1	182.1
Operations	251.1	27.7
Growth in daily expenditures		(8.8)
Investment gains	47.0	5.2
Proceeds from sales of properties	39.5	4.4
Capital expenditures	(169.7)	(18.7)
Debt payments	(20.0)	(2.3)
December 31, 2014	$1,719.0	189.6

DEBT TO CAPITALIZATON ROLL-FORWARD	ALLINA HEALTH		
	Debt	**Equity**	**Cap %**
December 31, 2013	$ 654.2	$ 1,857.4	26.0%
Operating income		145.9	
Investment gains		47.0	
Loss on interest rate swap agreements		(42.8)	
Other non-operating losses		(3.2)	
Other changes in net assets		3.7	
Debt payments and amortization of bond premium, net	(20.6)		
December 31, 2014	$633.6	$2,008.0	24.0%

Summary

Allina Health continued to experience improved financial results in the fourth quarter of 2014, reflecting strong expense management. Work is underway to implement an additional $100 million in cost savings. Allina Health will also invest in the strategies that will position us to best serve our patients for the long term. Allina Health remains committed to maintaining a strong balance sheet.

(Dollars in thousands)

Estimated Annual Debt Service Requirements

The following table sets forth, for each calendar year, estimated amounts for payments of principal and interest on indebtedness secured by an Obligation under the Master Trust Indenture.

Consolidated Debt Schedule
Allina Health System

Calendar Year Ending December 31	Principal	Interest	Total Debt Service
2015	19,850	29,166	49,016
2016	21,350	28,317	49,667
2017	22,125	27,479	49,604
2018	22,935	26,491	49,426
2019	24,130	25,290	49,420
2020	25,295	24,120	49,415
2021	26,490	22,939	49,429
2022	27,750	21,691	49,441
2023	29,090	20,432	49,522
2024	30,475	18,962	49,437
2025	29,655	17,519	47,174
2026	30,995	16,190	47,185
2027	32,400	14,795	47,195
2028	33,875	13,378	47,253
2029	31,715	11,798	43,513
2030	33,130	10,338	43,468
2031	34,350	9,147	43,497
2032	35,610	7,913	43,523
2033	36,925	4,050	40,975
2034	38,280	2,743	41,023
2035	39,680	1,366	41,046
	$ 626,105	$ 354,124	$ 980,229

This table assumes a long term average annual interest rate of 3.25% on $24.9 million in principal amount of outstanding obligations which were issued at a variable interest rate and not hedged. This table also includes an assumed differential on $300.8 million of fixed payer interest rate swaps and an additional $50 million unhedged swap. The indebtedness not secured by an obligation issued under the Master Trust Indenture totaling $4.2 million has been excluded from the table.

Allina Health System

Additional Annual Financial Disclosure

Year Ended December 31, 2014

(Dollars in thousands)

Coverage of Estimated Annual Debt Service Requirements

The following tables set forth, for fiscal years ended December 31, 2014 and 2013 (i) the amounts reflected in the consolidated financial statements of Allina Health available to pay debt service and the extent to which such amounts covered debt service requirements on the actual long-term indebtedness of Allina Health outstanding during these periods and (ii) the amounts reflected in the consolidated financial statements of the Obligated Group, available to pay debt service and the extent to which such amounts covered debt service requirements on actual long-term indebtedness of the Obligated Group entities outstanding during these periods. Under generally accepted accounting principles, Allina Health's consolidated financial statements, from which the data set forth in the first of the following tables are derived, are required to include the amounts of certain affiliates and subsidiaries that are not members of the Obligated Group.

Allina Health Debt Service Coverage Ratios ($ thousands)	December 31, 2014	 2013
Excess of Revenues Over Expenses	$ 146,891	$ 326,457
Unrealized (Gain) Loss on Investments	(10,787)	13,444
Unrealized Loss (Gain) on Interest Rate Swap Agreements	42,800	(25,634)
Financing Costs (1)	18,991	19,440
Depreciation and Amortization	147,844	138,145
Income Available to Pay Debt Service	$ 345,739	$ 471,852
Actual Long-term Debt Service	$ 52,204	$ 83,706
Historical Coverage Ratio	6.6 X	5.6 X
Pro-forma Maximum Annual Debt Service (2)	$ 50,341	$ 50,225
Coverage Ratio of Pro-forma Maximum Annual Debt Service	6.9 X	9.4 X

Obligated Group Debt Service Coverage Ratios ($ thousands)	December 31, 2014	 2013
Excess of Revenues Over Expenses	$ 149,868	$ 276,785
Unrealized (Gain) Loss on Investments	(9,907)	14,824
Unrealized Loss (Gain) on Interest Rate Swap Agreements	42,800	(25,634)
Financing Costs (1)	18,347	17,324
Depreciation and Amortization	146,711	130,000
Income Available to Pay Debt Service	$ 347,819	$ 413,299
Actual Long-term Debt Service	$ 51,560	$ 51,288
Historical Coverage Ratio	6.6 X	8.0 X
Pro-forma Maximum Annual Debt Service (2) (3)	$ 50,341	$ 50,225
Coverage Ratio of Pro-forma Maximum Annual Debt Service	6.9 X	8.2 X

(1) Excludes financing costs related to bank charges $5,401 in 2014 and $5,151 in 2013.

(2) Maximum annual principal and interest payments on long-term debt for any succeeding fiscal year assuming an interest rate of 3.25%, as appropriate, on all variable rate debt. This analysis also factors in the anticipated effect of fixed payer interest rate swaps with notional amounts of $164.5 million (2009B&C), $121.2 million (2007C), $15.1 million (1998A), and $50 million (2001). Other funded debt included in the pro-forma maximum annual debt service but not secured by an Obligation issued under the Master Trust Indenture has an outstanding balance of $4.2 million as of December 31, 2014.

(3) The pro-forma maximum annual debt service for the Obligated Group under the Master Trust Indenture debt is $49.7 million for the period ended December 31, 2014. The pro-forma coverage ratio on only the Master Trust Indenture Debt is 7.0x for the Obligated Group at December 31, 2014.

Allina Health System
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Year Ended December 31, 2014
(Dollars in thousands)

Capitalization Table

Capitalization	December 31, 2014	December 31, 2013
Series 2009A Bonds	$ 175,275	$ 179,160
Series 2009BC Bonds	164,525	164,525
Series 2007A Bonds	105,415	111,565
Series 2007C Bonds	121,250	121,950
Series 1998A Bonds	14,575	18,875
Series 1993B Bonds	24,900	26,100
Series 1985 Bonds	-	3,400
Series 1994A Bonds	-	-
Series 1994B Bonds	-	-
Line of Credit (former Regina debt)	-	19,965
Series 2014 Note	20,165	-
All Other	4,216	4,823
Unamortized Portion of Original Issue Premium (Discount)	3,320	3,811
Total Allina Health Long-term Debt	633,641	654,174
Less: Non-Obligated Group Debt	-	-
Total Obligated Group Debt	$ 633,641	$ 654,174
Allina Health		
Unrestricted Net Assets	$ 2,008,030	$ 1,857,436
Total Consolidated Long-term Debt & Unrestricted Net Assets	$ 2,641,671	$ 2,511,610
Debt to Capitalization Ratio	24.0%	26.0%
Obligated Group		
Unrestricted Net Assets of the Obligated Group	$ 1,938,119	$ 1,778,176
Total Long-term Debt* & Unrestricted Net Assets	$ 2,624,239	$ 2,432,350
Debt to Capitalization Ratio*	26.1%	28.3%

*Includes Letters of Credit and Surety indebtedness.

(Dollars in thousands)

Debt Structure

Allina Health's current debt structure as of December 31, 2014

Series	$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*
2014	20,165	Fixed Rate	2028	None	2.55%
2009A	175,275	Fixed Rate	2029	None	5.24%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	0.04%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	0.04%
2007A	105,415	Fixed Rate	2022	MBIA Insured	5.00%
2007C	121,250	Weekly VRDB	2034	Wells Fargo LOC	0.05%
1998A	14,575	Auction Rate	2022	MBIA Insured	0.10%
1993B	24,900	Auction Rate	2017	Ambac Insured	0.08%
	626,105	Total Bonds			
Other ***	7,536				
	633,641	**Total Debt**			

Fixed Rate	$ 300,855	47.5%	
Hedged Variable Rate**	300,350	47.4%	(2009B, 2009C, 2007C & 1998A)
Unhedged Variable Rate	24,900	3.9%	
Other	7,536	1.2%	
Total	**$ 633,641**		

* Interest rates are interest cost only, and do not include premium/discount, administrative, credit facility, broker or other costs related to the issuance of the bonds.

** There is a $50,000 swap that does not have any underlying associated debt and the 1998A swap has $500 in additional notional value relative to the outstanding debt. If the $50,000 swap and additional $500 1998A notional were applied to current unhedged variable rate bonds, all bonds would be fixed or hedged, with hedged variable rate debt making up 51.3% of total debt, totaling $325,250.

*** Other debt includes any premiums or discounts associated with fixed rate debt, capital leases, and other small notes and loans that are included in debt on the balance sheet.

Allina Health provides liquidity support for its Variable Rate Demand Bonds through the use of bank issued letters of credit. The chart below outlines the termination triggers for ratings downgrades and the term out provisions related to the holding of bank bonds. Allina Health does not currently have any bank bonds, nor has Allina Health ever had bank bonds.

Liquidity Support

Debt	Liquidity Support	Amount	Expiration	Termination Trigger - Rating	Term-Out Provisions	Counterparty
2009B	Letter of Credit	$ 114,525	January 2017	Allina Rating Less Than BBB	5 Year	JP Morgan
2009C	Letter of Credit	50,000	January 2017	Allina Rating Less Than BBB	5 Year	Wells Fargo
2007C	Letter of Credit	121,250	January 2017	Allina Rating Less Than BBB	5 Year	Wells Fargo
		$ 285,775				

Allina Health System
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Year Ended December 31, 2014
(Dollars in thousands)

Health Care Delivery Facilities and Operations

Allina Health is a direct provider of health care through its hospitals and physician clinics. A description of Allina Health's facilities and services in each of these areas follows.

Hospital Acute Care Beds

The hospitals controlled and operated by Allina Health and the locations thereof are described in the following table. The information provided in the following table is as of December 31, 2014. All of the facilities are located in Minnesota, except for River Falls Area Hospital, which is located in Wisconsin.

Acute Care Hospitals

Hospital Name	Location	December 31, 2014 Licensed	Staffed Beds
Metropolitan Hospitals			
Abbott Northwestern Hospital	Minneapolis, MN	952	631
United Hospital	Saint Paul, MN	546	392
Mercy Hospital	Coon Rapids, MN	271	254
Unity Hospital	Fridley, MN	275	175
Phillips Eye Institute	Minneapolis, MN	20	8
Total Metropolitan Hospitals		2,064	1,460
Regional Hospitals			
New Ulm Medical Center	New Ulm, MN	62	35
Cambridge Memorial Hospital	Cambridge, MN	86	75
Owatonna Hospital	Owatonna, MN	77	43
Buffalo Hospital	Buffalo, MN	65	32
Regina Hospital	Hastings, MN	57	40
River Falls Area Hospital	River Falls, WI	25	7
Total Regional Hospitals		372	232
Total - Allina Health controlled and operated		2,436	1,692
St. Francis Regional (1)	Shakopee, MN	93	53
Total - All Hospitals		2,529	1,745

(1) St. Francis Regional Medical Center (SFRMC) is operated in partnership with HealthPartners, Inc. and Critical Access Group (formally ECHC, also known as Essentia Community Hospitals and Clinics) pursuant to a joint membership agreement whereby Allina Health, HealthPartners Health Services, and Critical Access Group are the joint members of SFRMC. Allina Health has certain reserved powers over the hospital to ensure the financial integrity of the hospital and has authority and responsibility for the day-to-day operations.

(Dollars in thousands)

Allina Health Clinic Division

The Allina Health Clinic Division consists of clinics throughout the metropolitan area. As a division, the goal is to build on the complementary strengths of each clinic by combining administrative functions and integrating the vast array of clinic locations and mix of primary and specialty providers and services. Using the same electronic medical record system enables the division to share best practices for improving care and safety for all of its patients.

The following table indicates the size distribution of the medical staff FTEs of the various Allina Health Clinic sites.

	Number of Clinics Employing:				
Clinic Group	1-5 Physician FTEs	6-10 Physician FTEs	11-15 Physician FTEs	16+ Physician FTEs	Total
Allina Health Clinics	16	16	12	15	59

The Allina Health Clinic Division is a multi-specialty medical group that offers primary and specialty care services in and near the Minneapolis – St. Paul metro area. Primary care providers deliver routine care through Family Medicine, Internal Medicine, Pediatric Medicine, and Obstetrics & Gynecology practices. Specialists provide care for more specific health needs such as mental health, eye services, diabetes and chiropractic care.

The Allina Health Clinic Division includes 59 clinics and three hospitalist programs, employing approximately 750 physicians. Allina Health Clinic locations vary significantly in terms of the number of physicians at each site. The variation in size and geographic distribution of the clinics is due in part to the history of the division's development. The group continues to increase in size through internal growth and the addition of physician specialists.

Allina Health System
Additional Annual Financial Disclosure
Year Ended December 31, 2014
(Dollars in thousands)

Consolidated Utilization Table

The following table consolidates Allina Health's utilization information for the years ended December 31, 2014 and 2013.

UTILIZATION STATISTICS	Year Ended December 31 2014	December 31 2013
Hospitals		
Admissions *	102,748	106,509
Patient Days *	418,567	422,403
Average length of stay	4.1	4.0
Observation days	19,192	15,105
Licensed beds	2,436	2,436
Staffed beds	1,692	1,753
Outpatient admissions	1,231,449	1,163,353
Emergency room visits	298,543	282,860
Inpatient surgical procedures	29,861	31,059
Outpatient surgical procedures	61,938	61,403
Physicians and allied professionals		
Work RVUs	6,662,869	6,370,479
Ambulance transports	68,228	63,111

* Results exclude newborns.

Market Share by Specialty

The following table provides Allina Health's metropolitan inpatient market share by specialty and inpatient gross revenue for Allina Health's metropolitan hospitals by specialty for the nine months ended September 30, 2014.

Inpatient Specialty Data	Allina Health Metropolitan Market Share (1)	Minnesota Metro Hosp. Discharges by Specialty (1)	Percent of Inpatient Gross Revenues (2)
Cardiology	41.8%	11.5%	24.8%
Chemical Dependency	31.6%	2.3%	1.2%
General Medicine	28.3%	26.4%	17.2%
General Surgery	33.5%	7.4%	12.7%
Gynecology	38.3%	1.1%	0.9%
Neurology	29.6%	6.8%	7.6%
Obstetrics	32.1%	14.9%	8.4%
Oncology	28.0%	2.6%	2.7%
Ophthalmology	22.1%	0.1%	0.1%
Orthopedics	29.6%	12.7%	14.0%
Otorhinolaryngology	20.7%	1.0%	0.5%
Psychiatry	31.3%	7.9%	5.5%
Rehabilitation	34.9%	0.8%	1.4%
Urology	31.3%	4.5%	3.0%
Total	31.6%	100.0%	100.0%

(1) Minnesota Hospital Association

(2) Internal Data for year ended December 31, 2014

Allina Health System

Additional Annual Financial Disclosure

Year Ended December 31, 2014

(Dollars in thousands)

Market Share by Hospital

Discharges by Metropolitan Hospitals
(Excluding Newborns/Neonatal)

Hospital Name	Discharges 2009	2010	2011	2012	2013	2014 3Q	Market Share Percentage 2009	2014 3Q	Change
Allina Health									
Abbott Northwestern	38,866	37,628	37,286	37,012	37,817	27,309	12.1%	12.1%	0.0%
United Hospital	25,672	24,683	24,198	23,685	22,475	16,097	8.0%	7.2%	-0.8%
Mercy Hospital	20,227	19,708	20,800	20,160	19,631	14,124	6.3%	6.3%	0.0%
Unity Hospital	12,656	12,783	12,865	12,180	12,117	8,283	3.9%	3.7%	-0.2%
PEI*	312	319	191	135	124	5	0.1%	0.0%	-0.1%
St. Francis Regional	5,815	5,876	5,597	5,501	5,266	3,811	1.8%	1.7%	-0.1%
Regina - Hastings**	2,214	1,864	1,751	2,075	1,934	1,341	0.7%	0.6%	-0.1%
	105,762	102,861	102,688	100,748	99,364	70,970	32.9%	31.6%	-1.3%
Fairview									
Fairview Ridges	11,281	10,785	10,977	10,831	10,337	7,816	3.5%	3.5%	0.0%
Fairview Univ Med Ctr	32,595	31,907	31,071	32,649	32,751	24,839	10.2%	11.1%	0.9%
Fairview Southdale	19,023	18,368	18,200	17,983	17,054	13,073	5.9%	5.8%	-0.1%
	62,899	61,060	60,248	61,463	60,142	45,728	19.6%	20.4%	0.8%
HealthEast									
St. Johns	13,843	13,965	14,111	13,950	12,696	8,903	4.3%	4.0%	-0.3%
St. Josephs	13,710	13,661	13,252	12,217	11,419	8,104	4.3%	3.6%	-0.7%
Woodwinds	6,924	7,190	7,103	7,514	7,370	5,302	2.2%	2.3%	0.1%
	34,477	34,816	34,466	33,681	31,485	22,309	10.8%	9.9%	-0.9%
North Memorial	24,793	23,496	22,552	21,407	18,726	12,744	7.7%	5.6%	-2.1%
Maple Grove Hospital	2	3,644	5,872	7,061	7,652	6,103	0.0%	2.7%	2.7%
Methodist Hospital	23,134	21,677	21,653	21,141	20,067	15,036	7.2%	6.7%	-0.5%
Regions (St. Paul Ramsey)	23,758	23,851	24,729	23,987	23,448	18,574	7.4%	8.3%	0.9%
Hennepin County Med Ctr	21,481	20,201	19,928	20,388	20,776	15,500	6.7%	6.9%	0.2%
Ridgeview - Waconia	5,887	5,666	5,668	5,945	5,875	4,490	1.8%	2.0%	0.2%
Children's									
Children's - Mpls	7,023	6,381	6,368	6,492	6,282	5,068	2.2%	2.3%	0.1%
Children's - St. Paul	5,042	4,387	4,213	4,042	4,296	3,656	1.6%	1.6%	0.0%
	12,065	10,768	10,581	10,534	10,578	8,724	3.8%	3.9%	0.1%
Lakeview - Stillwater	4,484	4,104	3,635	3,540	3,546	2,653	1.4%	1.2%	-0.2%
Gillette Children's	2,127	2,229	2,183	2,329	2,322	1,847	0.7%	0.8%	0.1%
Totals	320,869	314,373	314,203	312,224	303,981	224,678	100.0%	100.0%	0.0%

Source: Minnesota Hospital Association

*PEI experienced a significant shift from inpatient to observation under the Centers for Medicare and Medicaid Service (CMS) "Two Midnight Rule."

** As of September 1, 2013, Regina is wholly owned by Allina Health

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Market Share by Program

Allina Health Market Share by Program (based on number of discharges)

Service	2009	2010	2011	2012	2013	2014 Q3	Change '14 Q3 v. 2009
	Percent of Market						
Cardiology	40.2%	39.8%	40.6%	41.9%	42.6%	41.8%	1.6%
Chemical Dependency	27.6%	30.5%	33.2%	31.6%	32.0%	31.6%	4.0%
General Medicine	29.6%	28.4%	29.9%	29.1%	29.4%	28.3%	-1.3%
General Surgery	31.1%	31.4%	32.3%	31.9%	34.0%	33.5%	2.4%
Gynecology	37.4%	40.0%	41.3%	38.8%	37.5%	38.3%	0.9%
Neurology	32.5%	31.5%	32.3%	31.5%	31.2%	29.6%	-2.9%
Obstetrics	32.2%	31.3%	31.1%	30.8%	32.4%	32.1%	-0.1%
Oncology	29.6%	29.6%	29.3%	28.8%	30.9%	28.0%	-1.6%
Ophthalmology	52.4%	54.5%	42.3%	39.0%	38.2%	22.1%	-30.3%
Orthopedics	32.7%	32.4%	33.1%	32.8%	31.8%	29.6%	-3.1%
Otorhinolaryngology	21.3%	19.6%	21.8%	21.0%	23.5%	20.7%	-0.6%
Psychiatry	29.6%	29.0%	32.2%	31.7%	32.0%	31.3%	1.7%
Rehabilitation	42.4%	40.2%	38.8%	37.7%	39.1%	34.9%	-7.5%
Urology	30.7%	30.7%	32.0%	30.8%	31.7%	31.3%	0.6%
Total	32.9%	32.7%	32.7%	32.3%	32.7%	31.6%	-1.3%

Source: Minnesota Hospital Association

Allina Discharges by Specialty

Allina Health Discharges by Specialty

Service	2009	2010	2011	2012	2013	2014 Q3	Change '14 3Q v. 2009
	Percent of Total Discharges						
Cardiology	16.1%	15.9%	15.3%	16.0%	15.5%	15.4%	-0.7%
Chemical Dependency	1.6%	1.9%	2.1%	2.1%	2.2%	2.3%	0.7%
General Medicine	22.6%	21.9%	23.1%	22.7%	23.1%	23.6%	1.0%
General Surgery	8.1%	8.1%	7.9%	7.8%	7.8%	7.8%	-0.3%
Gynecology	2.5%	2.6%	2.6%	2.1%	1.4%	1.3%	-1.2%
Neurology	6.4%	6.5%	6.5%	6.5%	6.3%	6.4%	0.0%
Obstetrics	13.9%	13.7%	13.1%	13.5%	14.4%	15.1%	1.2%
Oncology	2.5%	2.6%	2.4%	2.4%	2.5%	2.3%	-0.2%
Ophthalmology	0.4%	0.4%	0.3%	0.2%	0.2%	0.1%	-0.3%
Orthopedics	13.1%	13.6%	13.3%	13.3%	12.8%	11.9%	-1.2%
Otorhinolaryngology	1.0%	0.8%	0.8%	0.8%	0.8%	0.7%	-0.3%
Psychiatry	6.2%	6.4%	6.9%	7.2%	7.6%	7.8%	1.6%
Rehabilitation	1.2%	1.1%	1.0%	1.0%	1.0%	0.9%	-0.3%
Urology	4.4%	4.5%	4.7%	4.4%	4.4%	4.4%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%

Source: Minnesota Hospital Association

(Dollars in thousands)

Investment Management

The Investment Committee, a committee of Allina Health's Board of Directors, is responsible for overseeing asset allocation; evaluating and selecting an independent investment consultant; developing investment objectives, guidelines, and performance measurement standards; evaluating and selecting investment managers; and reviewing and evaluating the results of each investment component and the overall performance of invested funds.

Allina Health maintains its unrestricted investments in cash, money market funds and short term fixed income ("liquidity assets"), which are utilized for liquidity and preservation of capital, and diversified long term investments ("long-term assets"), which are utilized for capital growth. The allocation between liquidity and long-term assets depends on the liquidity and strategic needs of the organization. The following table allocates assets based on investment strategy, and will vary from the fair value footnote, which looks through the investment strategies to the underlying holdings.

Allina Health periodically reviews asset allocation to ensure that the organization is maintaining the appropriate portfolio allocation, consider other asset classes and to address shifts in market expectations. The Investment Committee of the Allina Health Board approved a new asset allocation target in the first quarter of 2013, which is reflected in the following table. The move toward the new asset allocation targets was completed in the first quarter 2014.

Unrestriced Cash and Investments - Asset Allocation

Unrestricted Balances	Target	12/31/2014		12/31/2013	
Cash and Money Market		10.5%	180,985	8.4%	132,704
Short-Term Fixed Income		20.8%	357,511	20.1%	315,058
Total Liquidity Assets	**25.0%**	**31.3%**	538,496	**28.5%**	447,762
Long-Term Assets	**75.0%**	**68.7%**	1,180,534	**71.5%**	1,123,312
Total Unrestricted Assets		**100.0%**	1,719,030	**100.0%**	1,571,074

Asset Allocation - Asset Class

Investment	Current Target Allocation	12/31/2014 % of Long Term Assets	12/31/2014 % Total Unrestricted Investments	12/31/2013 % of Long Term Assets	12/31/2013 % Total Unrestricted Investments
Global Equity	32.0%	31.7%	21.8%	33.1%	23.6%
Long/Short Equity Hedge Funds	5.0%	5.4%	3.7%	4.4%	3.1%
Global Fixed Income	35.0%	35.5%	24.4%	34.5%	24.7%
Fund of Hedge Funds	0.0%	0.1%	0.1%	7.3%	5.2%
Opportunistic and Other	20.0%	19.2%	13.2%	12.6%	9.0%
Real Assets	8.0%	8.1%	5.6%	8.1%	5.9%
Total Long-Term	100.0%	100.0%	**68.7%**	100.0%	**71.5%**
Cash and Money Market			10.5%		8.4%
Short-Term Fixed Income			20.8%		20.1%
Total Liquidity			**31.3%**		**28.5%**

In 2013 Allina Health liquidated its fund of hedge funds managers, reduced overall hedge fund exposure and invested in eight direct hedge funds. Three of these direct hedge funds are invested in distressed debt and strategic fixed income and are included in the opportunistic and other allocation. Five additional long/short equity direct hedge funds are considered a part of the overall global equity component. There is one remaining fund of hedge funds manager that is in liquidation. Allina Health also added three direct investments in private capital with funding commitments that will be drawn down over the next several years. As of December 31, 2014 these holdings represented approximately 1.5% of unrestricted assets.

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Summary of Key Financial Ratios

Indicators	Year Ended December 31, 2014	2013	2012	2011
Liquidity Ratios:				
Monthly DCOH*	163	156	123	121
Annual DCOH**	187	181	175	167
Traditional DCOH	190	182	175	167
Days Cash on Hand (Obligated Group)	185	185	181	207
Cash to Debt	271%	240%	214%	185%
Days Revenue in Receivables, net				
Hospitals	49	50	48	46
Clinics	25	25	27	33
VRDB Debt (in millions)	$286	$290	$303	$306
Monthly liquidity to VRDB debt	516%	465%	334%	307%
Capital Structure Ratios:				
Historical Coverage Ratio (x) (Obligated Group)	6.6	8.0	6.1	7.7
Cushion Ratio (x) (Obligated Group)	33.2	29.2	28.2	25.5
Leverage (Obligated Group)	26.1%	28.3%	33.4%	37.3%
Leverage	24.0%	26.0%	31.0%	35.2%
Profitability Ratios:				
EBIDA Margin	9.1%	8.6%	8.7%	10.3%
Operating Margin	4.3%	3.9%	3.9%	5.2%
Net Income Margin	4.3%	9.5%	6.1%	3.2%
Revenue Growth	5.3%	4.3%	3.7%	4.9%

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted.
All prior period ratios have been revised to reflect retrospective change in bad debt expense and adjust for the mark-to-market pension accounting change.
Obligated Group includes Aspen, Quello, and Regina as of December 31, 2013 and AMC as of December 31, 2011.

* Days cash on hand available within 0 – 30 days
** Days cash on hand available within 0 – 365 days