



Allina Health

**Quarterly Financial Disclosure Statement
Six Months Ended
June 30, 2017**

*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
Quarterly Financial Disclosure Statement
June 30, 2017

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ALLINA HEALTH SYSTEM
Quarterly Financial Disclosure Statement
Six Months Ended June 30, 2017

OVERVIEW OF THE SYSTEM

Introduction

Allina Health System, doing business as Allina Health, is a Minnesota nonprofit corporation that 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 more than 26,700 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for the six months ended June 30, 2017 was \$2 billion. As an integrated health system that includes hospitals; employed physicians; emergency, ambulatory, homecare and hospice services; and an automated electronic medical record system, Allina Health is positioned as a leader in healthcare in the Minneapolis/St. Paul area and is well-positioned for health care reform.

Allina Health owns and operates eleven hospitals and jointly owns and operates one other hospital. These include urban tertiary care, suburban community and rural hospitals. Allina Health hospitals provided nearly 51,500 inpatient admissions and nearly 717,000 outpatient visits during the six months ended June 30, 2017. As of June 30, 2017, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,681 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,400 physicians. These physicians include approximately 770 in the Allina Health Group, which controls and operates 61 clinics and operates the clinical services lines. They include approximately 180 hospitalists in three hospitalist programs operated by Allina Health on the Abbott Northwestern, United, and Mercy hospital campuses. They include approximately 80 physicians consisting of cardiologists, cardiothoracic and vascular surgeons within Allina Specialty Associates, Inc. ("ASA"), operating under the name Minneapolis Heart Institute®. In addition, these physicians include approximately 370 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals generated nearly 3,896,700 work RVUs¹ during the six months ended June 30, 2017. The Allina Integrated Medical ("AIM") Network aligns Allina Health physicians, 1,875 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 5.1% from 2009 to 2016. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 31.2% inpatient market share as of December 31, 2016.

¹ Relative Value Unit ("RVU") is a measure of relative resource utilization.

Board Member Updates

The Allina Health Board added two new members in the second quarter of 2017.

The new members are:

<u>Name</u>	<u>Profession/Association</u>	<u>Term Expiration</u>
Louis King, II	President & Chief Executive Officer Summit Academy OIC	2020
Steve LaCroix	Executive Vice-President & Chief Marketing Officer Minnesota Vikings Football, LLC	2020

Executive Leadership Team

Following are the Executive Leadership Team members and their biographies:

Penny Wheeler, M.D. (59) – *President and Chief Executive Officer*

Dr. Wheeler is the President and Chief Executive Officer. Prior to her appointment as CEO, effective January 1, 2015, she served as the Chief Clinical Officer, a position she 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 (47) – *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.

Richard Magnuson (54) – *Executive Vice President, Chief Financial Officer*

Succeeding Mr. Duncan Gallagher, Mr. Magnuson was appointed Chief Financial Officer in January, 2017. Prior to joining Allina Health, Mr. Magnuson was the Chief Financial Officer of City of Hope based in California. Mr. Magnuson previously held various finance and executive positions with Group Health in Seattle, Washington, and Fletcher Allen Health Care in Arlington, Vermont. Mr. Magnuson also served Allina Health from 1987 to 2004 in a variety of financial leadership roles. Mr. Magnuson received his Bachelor's Degree in Accounting and Finance from Augsburg College in Minneapolis, and a master's degree from the University of St. Thomas in Minneapolis. In addition to Finance, Mr. Magnuson also has operational responsibility for Payer Relations and Contracting, Supply Chain Management and Revenue Cycle Management.

Lisa Shannon (52) – *Executive Vice President, Chief Operating Officer*

Ms. Shannon joined Allina health as Chief Operating Officer in July, 2017. Prior to joining Allina Health, Ms. Shannon was the President, Health System Delivery of KentuckyOne Health. Prior to joining KentuckyOne, Ms. Shannon held various executive positions with Spectrum Health in Grand Rapids, Michigan, including three years as Chief Operating Officer. Ms. Shannon also served as Vice President, Ambulatory Services at OhioHealth in Columbus, Ohio. Ms. Shannon received her Bachelor's Degree from Bowling Green State University in Ohio, and a Master of Business Administration from Franklin University in Columbus, Ohio. The Chief Operating Officer is a new position and has oversight responsibility for Allina Health's hospitals, primary and specialty care divisions, and information systems.

Robert Wieland, M.D. (54) - Senior Vice President, Chief Strategy Officer

Dr. Wieland assumed the role of Chief Strategy Officer in December 2016 and is responsible for coordinating and accelerating efforts to create a differentiated member experience. He has also been responsible for the Network/Integration Division since November 2014. Dr. Wieland has been employed by Allina Health in various roles since 1994, and served as the Executive Vice President, Clinic and Community Division from November 2008 until November 2014, and prior to that he was Vice President of Medical Affairs at ANW. Earlier in his career he was District Medical Director within the Allina Medical Clinic and is co-founder of the Hospitalist Service at ANW. 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 also has accountability for the Allina Integrated Medical Network, Strategy and Business Development, and Marketing and Communication.

Elizabeth Truesdell Smith (54) – Senior Vice President, General Counsel

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. (59) – Executive Vice President, Allina Health Group and Chief Clinical Officer

Dr. Bache-Wiig assumed the role of Chief Clinical Officer in December 2016. Dr. Bache-Wiig served as President of ANW since October 2011. He served as Vice President of Medical Affairs for ANW 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 has accountability for Population Health, Payer Integration and the development of complex, chronic care capabilities.

Sara J. Criger (56) – Senior Vice President, north region 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 Cambridge Hospitals and patient experience.

Tom O'Connor (51) – Senior Vice President, east region and President, United Hospital and Interim President, Abbott Northwestern Hospital and Interim Senior Vice President, west region

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 Regina and River Falls Area Hospitals; St. Francis Regional Medical Center; Allina Health Emergency Medical Services; and staffing management.

Christine Moore (47) – Senior Vice President, Chief Human Resource Officer

Ms. Moore joined Allina Health as Senior Vice President, Chief Human Resource Officer in August 2015. Prior to joining Allina Health, Ms. Moore was Vice President of Talent and Organization Development of Ecolab. Ms. Moore holds a Bachelor Degree in Economics from Scripps College and a doctorate in organizational psychology from Claremont Graduate University.

Timothy Sielaff, M.D. (54) – *Chief Medical Officer and Senior Vice President, Specialty Care and Research*

Dr. Sielaff was appointed Chief Medical Officer and Senior Vice President, Specialty Care and Research in February 2015. Dr. Sielaff has been a hepatopancreatobiliary surgeon for 15 years. Dr. Sielaff's educational background includes a Bachelor of Science Degree from the University of Wisconsin-Madison, a Doctor of Medicine from the Medical College of Virginia, a Doctor of Philosophy from the University of Minnesota-Department of Surgery, and a Master of Health Care Administration from the University of St. Thomas.

Recent Initiatives and Developments

Self-Insurance

Allina Health insures its general and professional liability exposures under claims-made policies. Under these policies, Allina Health has self-insured deductible amounts. In June 2017, Allina Health established a wholly owned captive insurance subsidiary for a portion of the self-insured deductible. Premiums paid to the captive insurance subsidiary are based on claims in the reimbursement layer and are eliminated in consolidation.

2017 Debt Issuance

In April 2017, Allina Health issued \$150 million in fixed rate taxable bonds for the purpose of funding new projects and strategic initiatives.

In April 2017, Allina Health also issued \$78.5 million in fixed rate tax-exempt bonds for the purpose of refunding \$82.3 million of the outstanding principal amount of the 2009A fixed rate bonds.

Allina Health and Aetna Health Plan

In January 2017, Allina Health and Aetna created a jointly owned health plan company, Allina Health and Aetna Insurance Company, which will provide an innovative health care option for employers and consumers in the greater Minneapolis-St. Paul area. This jointly owned health plan will fully align the incentives and capabilities of a national insurer and major local health system in ways that will lead to improved health outcomes and cost management. Ownership structure for the new partnership is designed to streamline the patient experience by combining the power of insurer and provider data, coordinating integrated care teams and providing health insurance benefits and administrative services.

North Metro Hospital Care

In January 2017, Mercy Hospital in Coon Rapids and Unity Hospital in Fridley became one hospital with two campuses, both locations sharing the name Mercy Hospital. Allina Health is making significant capital and program investments in both campuses to strengthen the services Mercy Hospital provides to patients. The One Hospital, Two Campuses strategy will integrate specialty services across two campuses over several years.

Abbott Northwestern Hospital Emergency Department Renovation and Expansion

In June 2015, the Allina Health Board of Directors approved a capital investment to renovate and expand the Abbott Northwestern Hospital Emergency Department. Total capital cost of this project is \$24.8 million, of which Allina Health will fund \$17.3 million and the remaining \$7.5 million will be funded through philanthropic funds. The project is expected to be complete in the summer of 2018.

Credit Ratings

In March 2017, Fitch Ratings affirmed Allina Health's bond rating of AA-. The outlook is stable.

In March 2017, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In March 2017, 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

In August 2017, U.S. News & World Report named Abbott Northwestern, Mercy, and United hospitals among the best hospitals in Minnesota in the 2017-2018 Best Hospital rankings. Abbott Northwestern retained the first place ranking for Best Hospital in the Twin Cities, second in Minnesota, received national ranking in six specialty areas. Mercy ranked third in the metro, fifth in the state, and was selected as a Best Regional Hospital. United ranked fifth in the metro, eighth in the state and also earned Best Regional hospital distinction.

In April 2017, two Allina Health hospitals were recognized by the National Rural Health Association (NRHA): New Ulm Medical Center was named a Top 20 Critical Access Hospital (CAH) and River Falls Area Hospital was awarded a Best Practice Designation for Quality. The rankings were determined by iVantage Health Analytics and were based on key performance and outcomes measures.

In April 2017, Allina Health was chosen by the Federal Centers for Medicare and Medicaid Services to participate in a five year Accountable Health Communities (AHC) model to see if bridging the gap between clinical and community services providers for Medicare and Medicaid patients with health-related social needs can improve the health of patients and reduce the cost of care. Health-related social needs include housing instability, food insecurity, utility needs, interpersonal violence and transportation. Allina Health is one of just 32 organizations nationwide selected to participate in the project.

In January 2017, Clinician & Group Consumer Assessment of Healthcare Providers announced that Cambridge Clinics B and F are in the top 10 percent of clinics nationwide for patient willingness to recommend them to friends and family members.

In January 2017, Press Ganey announced River Falls Area Hospital reached the top 11 percent for patient experience nationwide in 2016. The rating is based on patients' scores of their overall hospital experience on a scale from one to 10. The River Falls Area Hospital birth center scored in the top one percent for patient experience at birth centers across the United States.

ALLINA HEALTH SYSTEM
Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands)

	June 30 2017	December 31 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 147,633	\$ 172,710
Short-term investments	461,176	451,327
Patient accounts receivable, net	491,742	470,216
Inventories	66,442	64,225
Other current assets	122,433	94,546
	<u>1,289,426</u>	<u>1,253,024</u>
Long-term investments	1,459,731	1,330,283
Investments with limited uses	157,625	151,537
Land, buildings, and equipment, net	1,192,955	1,166,397
Other assets	298,176	290,036
Total assets	<u>\$ 4,397,913</u>	<u>\$ 4,191,277</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 411,744	\$ 463,851
Current portion - long-term debt	24,295	24,341
Other current liabilities	81,447	87,036
	<u>517,486</u>	<u>575,228</u>
Long-term debt	975,955	818,192
Other liabilities	403,549	409,721
Total liabilities	<u>1,896,990</u>	<u>1,803,141</u>
Net assets:		
Unrestricted	2,330,415	2,222,241
Temporarily restricted	114,542	109,078
Permanently restricted	55,966	56,817
Total net assets	<u>2,500,923</u>	<u>2,388,136</u>
Total liabilities and net assets	<u>\$ 4,397,913</u>	<u>\$ 4,191,277</u>

ALLINA HEALTH SYSTEM
Consolidated Statements of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

	Six Months Ended		Three Months Ended	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016
Revenue:				
Patient service revenue net of contractual adjustments	\$ 1,943,389	\$ 1,869,192	\$ 980,427	\$ 947,671
Provision for bad debts	(58,586)	(38,593)	(29,914)	(15,149)
Net patient service revenue	1,884,803	1,830,599	950,513	932,522
Other operating revenue	125,207	120,568	63,807	61,127
Total revenues	2,010,010	1,951,167	1,014,320	993,649
Expenses:				
Salaries and benefits	1,291,837	1,230,972	642,966	616,150
Supplies and services	441,454	404,939	220,911	189,762
Depreciation and amortization	84,390	81,949	42,599	41,158
Financing costs	19,477	18,687	10,396	9,658
State assessments and taxes	46,483	44,406	23,302	21,900
Utilities and maintenance	34,885	34,441	18,303	17,428
Other operating expenses	59,245	61,483	31,932	29,864
Total expenses	1,977,771	1,876,877	990,409	925,920
Operating income before strike expenses	32,239	74,290	23,911	67,729
Strike expenses	-	(20,204)	-	(20,204)
Operating income	32,239	54,086	23,911	47,525
Nonoperating:				
Investment return	84,833	37,106	33,843	23,702
Interest rate swap agreements	(5,309)	(30,207)	(5,350)	(12,358)
Loss on debt refinancing	(8,536)	-	(8,536)	-
Other	(1,517)	(1,493)	(934)	(1,079)
Excess of revenues over expenses	\$ 101,710	\$ 59,492	\$ 42,934	\$ 57,790

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ALLINA HEALTH SYSTEM
Consolidated Statements of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

	Six Months Ended		Three Months Ended	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016
Unrestricted net assets				
Excess of revenue over expenses	\$ 101,710	\$ 59,492	\$ 42,934	\$ 57,790
Net assets released from restrictions for capital purposes	8,008	2,424	2,008	(451)
Amortization of unrealized loss on interest rate swap agreement	437	437	218	218
Other	(1,981)	(1,132)	(466)	(695)
Increase in unrestricted net assets	<u>108,174</u>	<u>61,221</u>	<u>44,694</u>	<u>56,862</u>
Temporarily restricted net assets				
Contributions	10,163	12,061	3,428	3,557
Investment return	6,730	2,704	2,732	1,701
Net assets released from restrictions	(11,903)	(6,361)	(3,780)	(1,839)
Other	474	(2,512)	(254)	(1,587)
Increase in temporarily restricted net assets	<u>5,464</u>	<u>5,892</u>	<u>2,126</u>	<u>1,832</u>
Permanently restricted net assets				
Contributions for endowment funds	163	30	105	16
Investment return	(1,014)	44	(1,161)	32
(Decrease) increase in permanently restricted net assets	<u>(851)</u>	<u>74</u>	<u>(1,056)</u>	<u>48</u>
Increase in net assets	112,787	67,187	45,764	58,742
Net assets at beginning of period	2,388,136	2,313,283	2,455,159	2,321,728
Net assets at end of period	<u>\$ 2,500,923</u>	<u>\$ 2,380,470</u>	<u>\$ 2,500,923</u>	<u>\$ 2,380,470</u>

See accompanying notes.

ALLINA HEALTH SYSTEM
Consolidated Statement of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended	
	June 30 2017	June 30 2016
Operating activities		
Increase in net assets	\$ 112,787	\$ 67,187
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	84,390	81,949
Provision for bad debts	58,586	38,593
Gain on sale of properties	(4,957)	(584)
Loss on Refinancing of Debt	8,536	-
Unrealized (gain) loss on interest rate swaps, net	(568)	23,790
Realized and unrealized gain on investments, net	(76,277)	(28,051)
Restricted contributions	(7,982)	(12,091)
Restricted contributions of cash for long-lived assets	(2,344)	(2,197)
Earnings on equity investments	(10,404)	(8,570)
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(80,112)	(58,836)
Other current assets	(30,104)	(19,497)
Accounts payable and other current liabilities	(55,507)	(49,538)
Other assets and liabilities	2,908	8,970
Net cash and cash equivalents (used in) provided by operating activities	(1,048)	41,125
Investing activities		
Proceeds from sales of properties	4,697	5,955
Purchases of land, buildings, and equipment	(119,288)	(93,934)
Contributions of cash for long-lived assets	2,344	2,197
Purchases and sales of investments classified as trading, net	(63,471)	(108,511)
Purchases and sales of investments with limited uses, net	(5,637)	(15,374)
Distributions received from equity investments	4,807	6,607
Contributions to joint ventures	(2,726)	(33)
Net cash and cash equivalents used in investing activities	(179,274)	(203,093)
Financing activities		
Restricted contributions	7,982	12,091
Principal payments of long-term debt	(1,100)	(4,129)
Refinancing of long term debt	(82,295)	-
Proceeds from issuance of long-term debt	233,132	-
Deferred debt acquisition costs	(2,474)	-
Net cash and cash equivalents provided by financing activities	155,245	7,962
Decrease in cash and cash equivalents	(25,077)	(154,006)
Cash and cash equivalents at beginning of year	172,710	349,115
Cash and cash equivalents at end of period	<u>\$ 147,633</u>	<u>\$ 195,109</u>

See accompanying notes.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 2017 and 2016
(Unaudited)
(Dollars in thousands)

1. Net Patient Revenue and Accounts Receivable

Allina Health 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.

Allina Health 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, Allina Health recognizes revenue on the basis of discounted rates. On the basis of historical experience, a significant portion of Allina Health's patients will be unable or unwilling to pay for the services provided. Thus, Allina Health 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.

Allina Health 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. Allina Health 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 collectability of accounts receivable, Allina Health 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. Allina Health used a consistent methodology to estimate the allowance and provision for bad debts in the periods presented in the consolidated financial statements. For receivables associated with self-pay patients after satisfaction of amounts due from insurance, Allina Health follows established guidelines for charging off certain past-due patient balances against the allowance for doubtful accounts. Allina Health has not changed its charity care or uninsured discount policies during the periods presented in the consolidated financial statements. Allina Health does not maintain an allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 2017 and 2016
(Unaudited)
(Dollars in thousands)

2. Fair Value Disclosures

Allina Health determines the fair value of its financial instruments based on the fair value hierarchy established in the Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, 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:

For level 2 and level 3 cash equivalents and fixed income assets that rely on significant other observable inputs and significant unobservable inputs, Allina Health 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 Custodian and investment manager values are reconciled on a monthly basis by the managers and BNYMellon. Allina Health 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. Level 2 available-for-sale securities are held at Wells Fargo Bank, who acts as Trustee for the assets. Wells Fargo Bank also uses multiple pricing services to value the assets.

For funds of hedge funds, limited partnership assets and commingled monthly valued funds, Allina Health utilizes net asset value per share or its equivalent to determine the fair value of the assets. Further detail is given in the table labeled "Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share or its Equivalent".

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 2017 and 2016
(Unaudited)
(Dollars in thousands)

2. Fair Value Disclosures (continued)

Allina Health's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2017 as follows:

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents				
Cash	\$ 34,446	34,446	-	-
Money Market Funds	113,187	113,187	-	-
Total Cash and Cash Equivalents	\$ 147,633	147,633	-	-
Investments - Trading Securities				
Short-Term Fixed Income	7,401	5,526	1,875	-
Money Market Fund	51,651	51,651	-	-
Total Short-Term Fixed and Money Market	59,052	57,177	1,875	-
Equity				
Financials	21,646	21,646	-	-
Consumer	14,745	14,745	-	-
Industrials	12,540	12,540	-	-
Technology	2,556	2,556	-	-
Healthcare	2,247	2,247	-	-
Global Equity Mutual Funds	87,418	87,418	-	-
Other Equity	14,226	11,692	2,534	-
Total Equity	155,378	152,844	2,534	-
Fixed Income				
U.S. Treasury Securities	179,994	179,994	-	-
U.S. Agency Securities	158,996	-	158,996	-
Corporate Bonds	191,361	-	191,361	-
Mortgage, Commercial, & Asset Backed Securities	85,380	-	85,380	-
Sovereigns	4,789	-	4,789	-
Term Loan/Private Placements	70,847	-	70,583	264
Unconstrained Fixed Income Mutual Funds	190,305	190,305	-	-
Other Fixed Income	25,386	25	25,361	-
Total Fixed Income	907,058	370,324	536,470	264
Other Investments				
Real Return Mutual Funds	105,157	105,157	-	-
Total Other Investments	105,157	105,157	-	-
Investments Accounted for at Net Asset Value	694,262			
Total Investments - Trading Securities	\$ 1,920,907	685,502	540,879	264
Total Unrestricted Cash and Investments	\$ 2,068,540	833,135	540,879	264

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 2017 and 2016
(Unaudited)
(Dollars in thousands)

2. Fair Value Disclosures (continued)

	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Investments with Limited Uses - Trading Securities				
Short-Term Fixed Income	\$ 9,272	9,183	89	-
Money Market Fund	12,015	12,015	-	-
Equity	11,322	11,137	185	-
Fixed Income	54,438	23,067	31,352	19
Real Return Mutual Funds	7,662	7,662	-	-
Investments Accounted for at Net Asset Value	50,590			
Restricted Foundation Trusts	7,924	-	7,924	-
Total Investments with Limited Uses - Trading Securities	<u>153,223</u>	<u>63,064</u>	<u>39,550</u>	<u>19</u>
Investments with Limited Uses - Available-for-Sale Securities				
Money Market Fund	<u>4,402</u>	<u>4,402</u>	<u>-</u>	<u>-</u>
Total Investments with Limited Uses - Available-for-Sale Securities	<u>4,402</u>	<u>4,402</u>	<u>-</u>	<u>-</u>
Total Investments with Limited Uses	<u>\$ 157,625</u>	<u>67,466</u>	<u>39,550</u>	<u>19</u>
Total Cash and Investments	<u>\$ 2,226,165</u>	<u>900,601</u>	<u>580,429</u>	<u>283</u>
Liabilities:				
Interest Rate Swaps	\$ 85,071	-	85,071	-

Fair Value Measurements, Level 3

	<u>Term Loan</u>
Balance December 31, 2016	\$ 529
Total Realized and Unrealized Gains (Losses)	(1)
Purchases	289
Sales	(534)
Balance June 30, 2017	<u>\$ 283</u>

ALLINA HEALTH SYSTEM
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Six months ended June 30, 2017 and 2016
(Unaudited)
(Dollars in thousands)

2. Fair Value Disclosures (continued)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2017, is as follows:

	Net Asset Value*	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Bond Fund	\$ 90,955	-	Monthly	15 Days
Emerging Markets Equity Fund	78,432	-	Daily/Weekly	5/10 Days
Global Equity Fund	276,401	-	Daily/Bi-Monthly	1-10 Days
Private Equity Funds	67,395	\$ 46,294	10 Years	NA
Equity Long/Short Hedge Funds	84,144	-	Monthly/Quarterly	30-90 Days
Emerging Market Debt Fund	32,007	-	Daily	Same Day
Opportunistic Fixed Income Hedge Funds	115,518	-	Quarterly	45-90 Days
	<u>\$ 744,852</u>	<u>\$ 46,294</u>		

* Includes restricted and unrestricted assets

The 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.

The Emerging Markets Equity Fund includes two funds that invest in emerging market equities. The net asset value of the fund has been estimated using the net asset value per share of the investments. The funds provide full disclosure of the underlying holdings.

The Global Equity Fund includes two funds that invest in global equities. The net asset value of the fund has been estimated using the net asset value per share of the investments. The funds provide full disclosure of the underlying holdings.

The Private Equity Funds include two limited partnership investments that focus on healthcare services and information technology companies, a limited partnership that makes direct real estate investments through senior secured and floating rate direct lending to middle market U.S. companies, a limited partnership that co-invests in intermediate-term opportunities sourced by absolute return, private capital, and real asset managers, as well as two limited partnerships that invest 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 AICPA for valuing private companies.

Equity Long/Short Hedge Funds include investments in hedge funds that invest both long and short in primarily U.S. 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.

The 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.

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.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
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(Unaudited)
(Dollars in thousands)

4. Derivative Instruments

Allina Health 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 and interest rate exposures and are not used for speculative purposes. One of the interest rate swaps was issued in advance of an expected debt issuance and is not tied directly to any 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.

Allina Health accounts for its interest rate swaps as required by accounting guidance for derivatives and hedging. Allina Health's interest rate swaps are not designated as effective hedges for accounting purposes. Gains or losses resulting from changes in the fair values of the interest rate swaps are reported as non-operating gains or losses. Any differences between interest received and paid under non-hedged swap agreements are reported with the change in fair value of the swaps as non-operating gains or losses.

The following tables provide details regarding Allina Health's fair value of the derivative instruments:

Fixed Payer Interest Rate Swaps						
Swap	Balance Sheet Location	Fair Value Liability	Notional Outstanding	Rate Paid	Rate Received	Counterparty
2009B & C	Other liabilities	32,399	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	10,827	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	24,156	119,700	3.58%	% of Libor	US Bank
2001	Other liabilities	16,152	50,000	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	1,537	15,075	4.44%	SIFMA	Goldman Sachs
Total		\$ 85,071	\$ 349,300			

As of June 30, 2017 Allina Health had \$5,320 of collateral posted related to the swaps.

Fair value swap valuations require non-performance risk (i.e. credit risk) to be included in the valuation. Non-performance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This non-performance 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. The fair value reported liability of the swaps is approximately \$2,376 less than the mark-to-market valuations.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 2017 and 2016
(Unaudited)
(Dollars in thousands)

4. Derivative Instruments (continued)

The following table provides details regarding the gains and (losses) from Allina Health's derivative instruments in the consolidated statements of operations, 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 non- operating: interest rate swap agreements		Amount of loss reclassified from unrestricted net assets into revenues over expenses as non- operating: interest rate swap agreements		Amount of interest paid to counterparty recognized as non- operating: interest rate swap agreements		Totals	
	Six months ended Jun. 30		Six months ended Jun. 30		Six months ended Jun. 30		Six months ended Jun. 30	
	2017	2016	2017	2016	2017	2016	2017	2016
2009 B&C	\$ 95	\$ (13,103)	\$ -	\$ -	\$ (2,368)	\$ (2,575)	\$ (2,273)	\$ (15,678)
2007C	369	(7,124)	-	-	(1,683)	(1,839)	(1,314)	(8,963)
2001	(64)	(3,519)	-	-	(1,111)	(1,253)	(1,175)	(4,772)
1998A	168	(44)	(437)	(437)	(278)	(313)	(547)	(794)
	\$ 568	\$ (23,790)	\$ (437)	\$ (437)	\$ (5,440)	\$ (5,980)	\$ (5,309)	\$ (30,207)
	Three months ended Jun. 30		Three months ended Jun. 30		Three months ended Jun. 30		Totals	
	2017	2016	2017	2016	2017	2016	2017	2016
2009 B&C	\$ (1,285)	\$ (5,214)	\$ -	\$ -	\$ (1,154)	\$ (1,281)	\$ (2,439)	\$ (6,495)
2007C	(542)	(2,659)	-	-	(810)	(910)	(1,352)	(3,569)
2001	(681)	(1,338)	-	-	(545)	(608)	(1,226)	(1,946)
1998A	22	22	(218)	(218)	(137)	(152)	(333)	(348)
	\$ (2,486)	\$ (9,189)	\$ (218)	\$ (218)	\$ (2,646)	\$ (2,951)	\$ (5,350)	\$ (12,358)

5. Contingencies and Litigation

Allina Health is, from time to time, a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, Allina Health believes the ultimate disposition of such lawsuits will not have a material adverse effect on Allina Health's financial condition.

Allina Health operates a Medicare and Medicaid billing compliance program designed to foster a culture that promotes prevention, detection and resolution of billing errors. It is a comprehensive program of policies, documentation, education, monitoring, reporting and enforcement designed to ensure to the maximum extent possible that claims submitted on behalf of the organization are accurate and supported by reliable documentation. The goal of Allina Health's compliance programs is to minimize the level of error and facilitate correction of errors as soon as they are detected. Detection of such errors may result in disclosures to various regulatory agencies from time to time, the outcomes of which cannot be predicted with certainty. It is possible that such disclosures could result in allegations of noncompliance with certain health care laws, which could ultimately involve material payments, fines, and penalties. Nonetheless, management believes that these programs are functioning well and that they continuously improve Allina Health's compliance with billing requirements.

6. Subsequent Events

Allina Health has evaluated subsequent events from the consolidated balance sheet date through August 14, 2017, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.

ALLINA OBLIGATED GROUP
Combined Balance Sheets
(Unaudited)
(Dollars in thousands)

	June 30 2017	December 31 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 142,839	\$ 166,469
Short-term investments	461,176	451,327
Patient accounts receivable, net	470,719	449,845
Inventories	66,276	64,059
Other current assets	120,863	93,734
	<u>1,261,873</u>	<u>1,225,434</u>
Long-term investments	1,409,417	1,279,528
Investments with limited uses	20,254	14,688
Beneficial interest in net assets of Allina		
Foundations	203,718	200,945
Land, buildings, and equipment, net	1,183,423	1,156,000
Other assets	227,604	219,320
Total assets	<u><u>\$ 4,306,289</u></u>	<u><u>\$ 4,095,915</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 399,044	\$ 445,235
Current portion long-term debt	23,641	23,687
Other current liabilities	81,447	87,036
	<u>504,132</u>	<u>555,958</u>
Long-term debt	972,347	814,220
Other liabilities	347,608	353,336
Total liabilities	<u>1,824,087</u>	<u>1,723,514</u>
Net assets:		
Unrestricted	2,269,398	2,162,291
Temporarily restricted	156,838	153,293
Permanently restricted	55,966	56,817
Total net assets	<u>2,482,202</u>	<u>2,372,401</u>
Total liabilities and net assets	<u><u>\$ 4,306,289</u></u>	<u><u>\$ 4,095,915</u></u>

ALLINA OBLIGATED GROUP
Combined Statements of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

	Six Months Ended		Three Months Ended	
	June 30	June 30	June 30	June 30
	2017	2016	2017	2016
Revenue:				
Patient service revenue net of contractual adjustments	\$ 1,934,579	\$ 1,860,070	\$ 975,980	\$ 943,097
Provision for bad debts	(58,886)	(38,907)	(30,107)	(15,454)
Net patient service revenue	1,875,693	1,821,163	945,873	927,643
Other operating revenue	119,495	112,750	61,170	57,351
Total revenues	1,995,188	1,933,913	1,007,043	984,994
Expenses:				
Salaries and benefits	1,285,201	1,224,345	639,769	612,868
Supplies and services	420,211	384,452	210,528	179,174
Depreciation and amortization	83,487	80,489	42,148	40,715
Financing costs	19,270	18,505	10,287	9,568
State assessments and taxes	46,193	44,067	23,138	21,722
Utilities and maintenance	34,537	34,116	18,120	17,196
Other	70,095	73,281	37,477	36,732
Total expenses	1,958,994	1,859,255	981,467	917,975
Operating income before strike expenses	36,194	74,658	25,576	67,019
Strike expenses	-	(20,204)	-	(20,204)
Operating income	36,194	54,454	25,576	46,815
Nonoperating:				
Investment return	82,904	36,680	33,262	23,150
Interest rate swap agreements	(5,309)	(30,207)	(5,350)	(12,358)
Loss on debt refinancing	(8,536)		(8,536)	-
Other	(944)	(725)	(580)	(409)
Excess of revenues over expenses	\$ 104,309	\$ 60,202	\$ 44,372	\$ 57,198

Continued on next page.

ALLINA OBLIGATED GROUP
Combined Statements of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

	Six Months Ended		Three Months Ended	
	June 30	June 30	June 30	June 30
	2017	2016	2017	2016
Unrestricted net assets				
Excess of revenues over expenses	\$ 104,309	\$ 60,202	\$ 44,372	\$ 57,198
Net assets released from restrictions for capital purposes	8,410	2,462	2,411	(451)
Amortization of unrealized loss on interest rate swap agreement	437	437	218	218
Capital contributions to nonobligated group affiliates, net	(4,807)	(5,293)	3,355	2,697
Other	(1,242)	(271)	67	22
Increase in unrestricted net assets	<u>107,107</u>	<u>57,537</u>	<u>50,423</u>	<u>59,684</u>
Temporarily restricted net assets				
Contributions	2,344	2,197	161	(503)
Investment return	195	87	77	52
Net assets released from restrictions	(2,344)	(2,197)	(161)	503
Change in beneficial interest in net assets of Allina Foundations	2,630	5,890	568	2,272
Other	720	(223)	(1)	376
Increase in temporarily restricted net assets	<u>3,545</u>	<u>5,754</u>	<u>644</u>	<u>2,700</u>
Permanently restricted net assets				
Contributions for endowment funds	-	11	-	2
Investment return	(994)	24	(1,143)	15
Change in beneficial interest in net assets of Allina Foundations	143	39	87	30
(Decrease) increase in permanently restricted net assets	<u>(851)</u>	<u>74</u>	<u>(1,056)</u>	<u>47</u>
Increase in net assets	109,801	63,365	50,011	62,431
Net assets at beginning of period	<u>2,372,401</u>	<u>2,297,221</u>	<u>2,432,191</u>	<u>2,298,155</u>
Net assets at end of period	<u>\$ 2,482,202</u>	<u>\$ 2,360,586</u>	<u>\$ 2,482,202</u>	<u>\$ 2,360,586</u>

ALLINA OBLIGATED GROUP
Combined Statement of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended	
	June 30 2017	June 30 2016
Operating activities		
Increase in net assets	\$ 109,801	\$ 63,365
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Increase in additional liability related to benefit plan		
Depreciation and amortization	83,487	80,489
Provision for bad debts	58,886	38,907
Gain on sale of properties and equity investments	(4,957)	(488)
Loss on Refinancing of Debt	8,536	-
Unrealized (gain) loss on interest rate swaps, net	(568)	23,790
Realized and unrealized gain on investments, net	(67,832)	(24,987)
Restricted contributions	-	(2,208)
Restricted contributions of cash for long-lived assets	(2,344)	(2,197)
Beneficial interest in net assets of Allina Foundations	(2,773)	(5,928)
Capital contributions to non-obligated group affiliates, net	4,807	5,293
Earnings on equity investments	(10,404)	(8,570)
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(79,760)	(61,662)
Other current assets	(29,346)	(17,208)
Accounts payable and other current liabilities	(49,591)	(47,278)
Other assets and liabilities	3,208	15,884
Net cash and cash equivalents provided by operating activities	<u>21,150</u>	<u>57,202</u>
Investing activities		
Proceeds from sales of properties	4,697	114
Purchases of land, buildings, and equipment	(119,250)	(92,170)
Contributions of cash for long-lived assets	2,344	2,197
Purchases and sales of investments classified as trading, net	(77,472)	(122,428)
Distributions received from equity investments	4,807	6,607
Contributions to joint ventures	(2,726)	(33)
Capital contributions to non-obligated group affiliates, net	(4,807)	(5,293)
Net cash and cash equivalents used in investing activities	<u>(192,407)</u>	<u>(211,006)</u>
Financing activities		
Restricted contributions	-	2,208
Principal payments of long-term debt	(736)	(3,536)
Refinancing of long term debt	(82,295)	-
Proceeds from issuance of long-term debt	233,132	-
Deferred debt acquisition costs	(2,474)	-
Net cash and cash equivalents provided by (used in) financing activities	<u>147,627</u>	<u>(1,328)</u>
Decrease in cash and cash equivalents	(23,630)	(155,132)
Cash and cash equivalents at beginning of year	166,469	342,556
Cash and cash equivalents at end of period	<u><u>\$ 142,839</u></u>	<u><u>\$ 187,424</u></u>

ALLINA HEALTH SYSTEM
Consolidating Balance Sheet
(Unaudited)
(Dollars in thousands)

June 30, 2017

	Obligated Group	Other Allina Health Entities*	Allina Health System
Assets			
Current assets:			
Cash and cash equivalents	\$ 142,839	\$ 4,794	\$ 147,633
Short-term investments	461,176	-	461,176
Patient accounts receivable, net	470,719	21,023	491,742
Inventories	66,276	166	66,442
Other current assets	120,863	1,570	122,433
	<u>1,261,873</u>	<u>27,553</u>	<u>1,289,426</u>
Long-term investments	1,409,417	50,314	1,459,731
Investments with limited uses	20,254	137,371	157,625
Beneficial interest in net assets of Allina Foundations	203,718	(203,718)	-
Land, buildings, and equipment, net	1,183,423	9,532	1,192,955
Other assets	227,604	70,572	298,176
Total assets	<u>\$ 4,306,289</u>	<u>\$ 91,624</u>	<u>\$ 4,397,913</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 399,044	\$ 12,700	\$ 411,744
Current portion long-term debt	23,641	654	24,295
Other current liabilities	81,447	-	81,447
	<u>504,132</u>	<u>13,354</u>	<u>517,486</u>
Long-term debt	972,347	3,608	975,955
Other liabilities	347,608	55,941	403,549
Total liabilities	<u>1,824,087</u>	<u>72,903</u>	<u>1,896,990</u>
Net assets:			
Unrestricted	2,269,398	61,017	2,330,415
Temporarily restricted	156,838	(42,296)	114,542
Permanently restricted	55,966	-	55,966
Total net assets	<u>2,482,202</u>	<u>18,721</u>	<u>2,500,923</u>
Total liabilities and net assets	<u>\$ 4,306,289</u>	<u>\$ 91,624</u>	<u>\$ 4,397,913</u>

*Including eliminations.

ALLINA HEALTH SYSTEM
Consolidating Statement of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

Six Months Ended June 30, 2017

	Obligated Group	Other Allina Health Entities*	Allina Health System
Revenue:			
Patient service revenue net of contractual adjustments	\$ 1,934,579	\$ 8,810	\$ 1,943,389
Provision for bad debts	(58,886)	300	(58,586)
Net patient service revenue	1,875,693	9,110	1,884,803
Other operating revenue	119,495	5,712	125,207
Total revenues	1,995,188	14,822	2,010,010
Expenses:			
Salaries and benefits	1,285,201	6,636	1,291,837
Supplies and services	420,211	21,243	441,454
Depreciation and amortization	83,487	903	84,390
Financing costs	19,270	207	19,477
State assessments and taxes	46,193	290	46,483
Utilities and maintenance	34,537	348	34,885
Other	70,095	(10,850)	59,245
Total expenses	1,958,994	18,777	1,977,771
Operating (loss) income	36,194	(3,955)	32,239
Nonoperating:			
Investment return	82,904	1,929	84,833
Interest rate swap agreements	(5,309)	-	(5,309)
Loss on debt refinancing	(8,536)	-	(8,536)
Other	(944)	(573)	(1,517)
Excess of revenues over expenses	\$ 104,309	\$ (2,599)	\$ 101,710

*Including eliminations.

ALLINA HEALTH SYSTEM
Consolidating Statement of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

Six Months Ended June 30, 2017

	Obligated Group	Other Allina Health Entities*	Allina Health System
Unrestricted net assets			
Excess of revenue over expenses	\$ 104,309	\$ (2,599)	\$ 101,710
Net assets released from restrictions for capital purposes	8,410	(402)	8,008
Amortization of unrealized loss on interest rate swap agreement	437	-	437
Capital contributions from nonobligated group affiliates, net	(4,807)	4,807	-
Other	(1,242)	(739)	(1,981)
Increase in unrestricted net assets	<u>107,107</u>	<u>1,067</u>	<u>108,174</u>
Temporarily restricted net assets			
Contributions	2,344	7,819	10,163
Investment return	195	6,535	6,730
Net assets released from restrictions	(2,344)	(9,559)	(11,903)
Change in beneficial interest in net assets of Allina Foundations	2,630	(2,630)	-
Other	720	(246)	474
Increase in temporarily restricted net assets	<u>3,545</u>	<u>1,919</u>	<u>5,464</u>
Permanently restricted net assets			
Contributions for endowment funds	-	163	163
Investment return	(994)	(20)	(1,014)
Change in beneficial interest in net assets of Allina Foundations	143	(143)	-
Decrease in permanently restricted net assets	<u>(851)</u>	<u>-</u>	<u>(851)</u>
Increase in net assets	109,801	2,986	112,787
Net assets at beginning of period	2,372,401	15,735	2,388,136
Net assets at end of period	<u>\$ 2,482,202</u>	<u>\$ 18,721</u>	<u>\$ 2,500,923</u>

*Including eliminations.

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2017
(Dollars in millions)

Operating Results

Allina Health's operating margin was 1.6% for the six months ended June 30, 2017 compared to 2.8% for the same period in 2016. Operating income decreased by \$21.9 million when compared to the same period in 2016 due to increases in operating expenses, primarily salaries, benefits, supplies and services.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 6.7% for the six months ended June 30, 2017 compared to 7.9% for the same period in 2016. Non operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Six Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
EBIDA	\$ 135.6	\$ 154.0	\$ 138.9	153.1
Interest income	0.5	0.7	0.1	0.3
Financing costs	(19.5)	(18.7)	(19.3)	(18.5)
Depreciation and amortization	(84.4)	(81.9)	(83.5)	(80.5)
Operating Income	32.2	54.1	36.2	54.4
Investment return	84.8	37.1	82.9	36.7
Interest rate swap agreements	(5.3)	(30.2)	(5.3)	(30.2)
Loss on debt refinancing	(8.5)	-	(8.5)	-
Non-operating other	(1.5)	(1.5)	(1.0)	(0.7)
Excess of revenues over expenses	<u>\$ 101.7</u>	<u>\$ 59.5</u>	<u>\$ 104.3</u>	<u>\$ 60.2</u>

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2017

Revenues

Allina Health's revenue increased \$58.8 million, or 3.0% for the six months ended June 30, 2017 as compared to 2016. Hospital net patient revenue growth was 3.5%. Through June 2017, 40.1% of net patient revenue is net inpatient revenue, down from 41.0% in 2016. The clinics (excluding hospital based) experienced an overall 6.3% increase in net patient revenue, due to clinical volumes that grew 5.8% year over year. Outpatient and clinic revenue increased 5.7% over the prior year, and increased to 59.9% as a percent of net patient revenue in 2017 when compared to 59.0% in 2016.

REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Six Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Hospital Net Patient Revenue	\$ 1,421.3	\$ 1,373.9	\$ 1,421.3	\$ 1,373.9
Change	3.5%		3.5%	
Clinic Net Patient Revenue	378.6	356.2	369.8	346.9
Change	6.3%		6.6%	
Other Net Patient Revenue	143.5	139.1	143.5	139.3
Change	3.2%		3.0%	
Bad Debt	(58.6)	(38.6)	(58.9)	(38.9)
Change	51.8%		51.4%	
Other Revenue	125.2	120.6	119.5	112.7
Change	3.8%		6.0%	
Total Revenue	<u>\$ 2,010.0</u>	<u>\$ 1,951.2</u>	<u>\$ 1,995.2</u>	<u>\$ 1,933.9</u>
Change	3.0%		3.2%	

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 23.5% of total net patient revenue and 16.2% of total gross patient revenue for the six months ended June 30, 2017.

ALLINA HEALTH	Net Patient Revenue		Gross Patient Revenue	
	June 30		June 30	
PAYER MIX PERCENTAGE	2017	2016	2017	2016
Medicare	30.2%	29.7%	43.4%	42.1%
Medicaid	10.6	10.1	15.0	15.2
Contracted Payers	54.0	56.8	36.8	38.0
Self Pay	2.8	2.2	2.2	1.9
Other	2.4	1.2	2.6	2.8
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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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) increased \$26.7 million in gross charges, or 34.4% in 2017 compared to prior year.

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 \$11.8 million and \$10.7 million for the six months ended June 30, 2017 and 2016, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH	
	Six Months Ended	
	June 30	
	2017	2016
Uninsured Discount	\$ 17.8	\$ 14.6
Charity Care Discount	28.4	24.9
Bad Debt Expense	58.6	38.6
Total Uncompensated Care	<u>\$ 104.8</u>	<u>\$ 78.1</u>
Change	34.2%	
Total Uncompensated Care as a % of Gross Patient Charges	2.3%	1.8%

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Volume

Allina Health experienced stable inpatient volumes and strong outpatient volumes in the six months ended June 30, 2017. Inpatient admissions decreased by 0.6%, while inpatient surgeries increased 2.3% for the six months ended June 30, 2017 from 2016. Outpatient hospital admissions and clinic work RVUs increased 2.6%, and 5.8%, respectively while outpatient surgeries increased by 0.9%. The growth of outpatient compared to 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.

VOLUME STATISTICS	ALLINA HEALTH	
	Six Months Ended June 30	
	2017	2016
Inpatient Hospital Admissions	51,479	51,793
Inpatient change from prior period	-0.6%	
Observation days	10,599	11,383
Observation days change from prior period	-6.9%	
Outpatient Hospital Admissions	716,964	699,088
Outpatient change from prior period	2.6%	
Average Length of Stay (days)	4.1	4.1
Hospital Patient Days	210,938	211,843
Patient days change from prior period	-0.4%	
Hospital Occupancy (based on staffed beds)	69.3%	67.6%
Inpatient Surgeries	15,339	15,001
Outpatient Surgeries	28,280	28,031
Total Surgeries	43,619	43,187
Total surgeries change from prior period	1.0%	
Clinic Work RVUs	3,896,677	3,683,388
Work RVUs change from prior period	5.8%	
Total Case Mix	1.51	1.49
Medicare Case Mix	1.85	1.83

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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 December 31, 2016.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	December 31 2016	December 31 2015
Allina Metro Hospital Inpatient Market Share *	31.2%	31.5%
Change in Total Metro Market Volume**	0.9%	0.1%
* 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 December 2016 and December 2015		

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 4.3% for the six months ended June 30, 2017, 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		OBLIGATED GROUP	
	Six Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Interest and dividends	\$ 14.2	\$ 11.8	\$ 14.1	\$ 11.8
Realized gains (losses) on sales of investments	1.5	(1.6)	1.3	(1.8)
Unrealized gains (losses) on investments	69.1	26.9	67.5	26.6
Interest rate swap agreements - fair value	0.6	(23.8)	0.6	(23.8)
Interest rate swap agreements - counterparty interest	(5.9)	(6.4)	(5.9)	(6.4)
Loss on debt refinancing	(8.5)	-	(8.5)	-
Other	(1.5)	(1.5)	(1.0)	(0.7)
Total non-operating gains	<u>\$ 69.5</u>	<u>\$ 5.4</u>	<u>\$ 68.1</u>	<u>\$ 5.7</u>

ALLINA HEALTH SYSTEM
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Six Months Ended June 30, 2017

Balance Sheet and Cash Flow

Allina Health had 201 days cash on hand (DCOH) as of June 30, 2017, compared with 195 days at December 31, 2016. The increase is due to issuance of new bonds in the second quarter of 2017.

Leverage increased to 30.0% at June 30, 2016 up from 27.5% in December 31, 2016. Cash to debt is 206.8% as of June 30, 2017 compared to 232.0% at December 31, 2016.

System level capital spending was \$119.3 million for the six months ended June 30, 2017 compared to capital spending of \$93.9 million for the same time period in 2016.

The one-time strike expenses incurred in 2016 have been excluded from the balance sheet and liquidity statistics as applicable.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	June 30 2017	December 31 2016	June 30 2017	December 31 2016
Unrestricted cash & investments	\$ 2,068.5	\$ 1,954.3	\$ 2,013.4	\$ 1,897.3
Days cash on hand	201	195	198	192
Total Debt	\$ 1,000.3	\$ 842.5	\$ 996.0	\$ 837.9
Unrestricted net assets	\$ 2,330.4	\$ 2,222.2	\$ 2,269.4	\$ 2,162.3
Debt to capitalization *	30.0%	27.5%	31.9%	29.3%
Patient receivables	\$ 491.7	\$ 470.2	\$ 470.7	\$ 449.8
Days revenue in receivables, net	48	47	46	45
Cash to debt	207%	232%	202%	226%
Historical annual debt service coverage	4.9	5.3	5.0	5.4

* Obligated Group includes Letters of Credit and Surety indebtedness

ALLINA HEALTH SYSTEM
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DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2016	\$1,954.3	195.3
Operations	145.1	14.1
Growth in daily expenditures		(5.7)
Investment gains	84.8	8.2
Proceeds from sales of properties	4.7	0.5
Capital expenditures	(119.3)	(11.6)
Debt payments	(1.1)	(0.1)
June 30, 2017	<u>\$2,068.5</u>	<u>200.7</u>

DEBT TO CAPITALIZATION ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2016	\$ 842.5	\$ 2,222.2	27.5%
Operating income		32.2	
Investment gains		84.8	
Loss on interest rate swap agreements		(5.3)	
Other non-operating losses		(1.5)	
Loss on Debt Refinancing		(8.5)	
Other changes in net assets		6.5	
Proceeds from issuance of long-term debt	233.1		
Refinancing of long term debt	(82.3)		
Debt acquisition cost and premium on issuance of long term debt	8.4		
Debt payments and amortization of bond premium, net	(1.4)		
June 30, 2017	<u>\$1,000.3</u>	<u>\$2,330.4</u>	30.0%

ALLINA HEALTH SYSTEM
Consolidated Utilization Statistics

	Six Months Ended		Twelve Months ended	
	June 30	June 30	December 31	December 31
	2017	2016	2016	2015
Hospitals				
Admissions *	51,479	51,793	103,268	103,530
Patient Days *	210,938	211,843	422,334	419,174
Average length of stay	4.1	4.1	4.1	4.0
Observation days	10,599	11,383	22,172	21,372
Licensed beds	2,451	2,451	2,451	2,451
Staffed beds	1,681	1,722	1,722	1,736
Outpatient admissions	716,964	699,088	1,398,558	1,377,687
Emergency room visits	151,964	157,497	312,851	317,061
Inpatient surgical procedures	15,339	15,001	30,311	30,388
Outpatient surgical procedures	28,280	28,031	56,758	57,874
Physicians and allied professionals				
Work RVUs	3,896,677	3,683,388	7,330,158	7,095,287
Ambulance transports	40,463	37,306	74,775	70,991

* Results exclude newborns.

ALLINA HEALTH SYSTEM
Debt and Investment Appendix
(Dollars in thousands)

Debt Structure

Allina Health's current debt structure as of June 30, 2017					
Series	\$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*
2017	150,000	Fixed Rate	2042	None	4.43%
2017A	78,515	Fixed Rate	2029	None	5.00%
2015	250,000	Fixed Rate	2045	None	4.81%
2014	18,520	Fixed Rate	2028	None	2.55%
2009A	89,050	Fixed Rate	2029	None	4.89%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	0.68%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	0.74%
2007A	87,540	Fixed Rate	2022	MBIA Insured	5.06%
2007C	119,700	Weekly VRDB	2034	Wells Fargo LOC	0.75%
1998A	14,575	Auction Rate	2022	MBIA Insured	1.22%
1993B	8,700	Auction Rate	2017	Ambac Insured	1.11%
	<u>981,125</u>	Total Bonds			
Other ***	<u>19,125</u>				
	1,000,250	Total Debt			
Fixed Rate	\$ 673,625	67.3%			
Hedged Variable Rate**	298,800	29.9%	(2009B, 2009C, 2007C & 1998A)		
Unhedged Variable Rate	8,700	0.9%			
Other	<u>19,125</u>	1.9%			
Total	\$ 1,000,250				

* 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 30.8% of total debt, totaling \$307,500.

*** Other debt includes unamortized deferred financing costs, 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 2018	Allina Rating Less Than BBB	5 Year	JP Morgan
2009C	Letter of Credit	50,000	January 2018	Allina Rating Less Than BBB	5 Year	Wells Fargo
2007C	Letter of Credit	<u>119,700</u>	January 2018	Allina Rating Less Than BBB	5 Year	Wells Fargo
		<u>\$ 284,225</u>				

Asset Allocation and Liquidity

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, to consider other asset classes, and to address shifts in market expectations.

Unrestricted Cash and Investments - Asset Allocation					
Unrestricted Balances	Target	6/30/2017		6/30/2016	
Cash and Money Market		7.1%	147,633	10.1%	195,109
Short-Term Fixed Income		22.3%	461,176	23.4%	450,929
Total Liquidity Assets	25.0%	29.4%	608,809	33.5%	646,038
Long-Term Assets	75.0%	70.6%	1,459,731	66.5%	1,282,139
Total Unrestricted Assets		100.0%	2,068,540	100.0%	1,928,177

Asset Allocation - Asset Class					
Investment	Current Target Allocation	6/30/2017 % of Long Term Assets	6/30/2017 % Total Unrestricted Investments	6/30/2016 % of Long Term Assets	6/30/2016 % Total Unrestricted Investments
Global Equity	32.0%	33.9%	23.9%	31.3%	20.7%
Long/Short Equity Hedge Funds	5.0%	5.5%	3.9%	5.1%	3.4%
Global Fixed Income	35.0%	33.2%	23.4%	35.9%	23.9%
Fund of Hedge Funds	0.0%	0.0%	0.0%	0.1%	0.1%
Opportunistic and Other	20.0%	20.1%	14.2%	20.3%	13.5%
Real Return	8.0%	7.3%	5.2%	7.3%	4.8%
Total Long-Term	100.0%	100.0%	70.6%	100.0%	66.5%
Cash and Money Market			7.1%		10.1%
Short-Term Fixed Income			22.3%		23.4%
Total Liquidity			29.4%		33.5%

Allina Health is invested in nine 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. Six additional long/short equity direct hedge funds are considered a part of the overall global equity component. Allina Health also has six direct investments in private capital with funding commitments that will be drawn down over the next several years. As of June 30, 2017 these private capital holdings represented approximately 3.4% of unrestricted assets.

Allina Health Summary of Key Financial Ratios

Indicators	Six Months Ended June 30,		Year Ended December 31,		
	2017	2016	2016	2015	2014
Liquidity Ratios:					
Monthly DCOH*	177	167	172	174	163
Annual DCOH**	195	191	189	199	187
Traditional DCOH	201	196	195	204	190
Days Cash on Hand (Obligated Group)	198	192	192	200	185
Cash to Debt	207%	223%	232%	224%	271%
Days Revenue in Receivables, net					
Hospitals	49	52	49	51	48
Clinics	28	27	27	24	24
VRDB Debt (in millions)	\$284	\$285	\$284	\$285	\$286
Monthly liquidity to VRDB debt	640%	576%	606%	585%	516%
Capital Structure Ratios:					
Historical Coverage Ratio (x) (Obligated Group)	5.0	5.1	5.4	7.1	6.6
Cushion Ratio (x) (Obligated Group)	30.8	29.3	29.8	34.8	33.2
Leverage (Obligated Group)	31.9%	29.9%	29.4%	30.3%	26.1%
Leverage	30.0%	28.1%	27.5%	28.7%	24.0%
Profitability Ratios:					
EBIDA Margin	6.7%	8.9%	8.1%	8.7%	8.8%
Operating Margin	1.6%	3.8%	3.0%	3.9%	4.0%
Net Income Margin	5.1%	4.1%	1.5%	3.4%	4.3%
Revenue Growth	3.0%	4.1%	4.0%	5.4%	5.3%

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted.
All ratios exclude strike expenses incurred in 2016, where applicable.

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