



Allina Health

**Quarterly Financial Disclosure Statement
Twelve Months Ended
December 31, 2016**

*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
December 31, 2016

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ALLINA HEALTH SYSTEM
Quarterly Financial Disclosure Statement
Twelve Months Ended December 31, 2016

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 26,200 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for twelve months ended December 31, 2016 was \$3.9 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 twelve hospitals and jointly owns and operates one other hospital. These include urban tertiary care, suburban community and rural hospitals. Allina Health hospitals provided nearly 103,300 inpatient admissions and nearly 1,398,600 outpatient visits during the twelve months ended December 31, 2016. As of December 31, 2016, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,722 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,370 physicians. These physicians include approximately 760 in the Allina Health Group, which controls and operates 61 clinics and operates the clinical services lines. They include approximately 170 hospitalists in three hospitalist programs operated by Allina Health on the Abbott Northwestern, United, and Unity hospital campuses. They include approximately 90 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 350 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals generated almost 7,330,200 work RVUs¹ during the twelve months ended December 31, 2016. 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 8.5% from 2008 to 2015. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 31.0% inpatient market share as of June 30, 2016.

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

Executive Leadership Team

Following are the Executive Leadership Team members and their biographies:

Penny Wheeler, M.D. (58) –*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 (46) – *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 Information Systems, Payer Relations and Contracting, Supply Chain Management and Revenue Cycle Management.

Robert Wieland, M.D. (53) - *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 (53) – *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 (55) – 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, Cambridge and Unity Hospitals and patient experience.

Tom O'Connor (50) – 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

Minnesota Nurses Association 2016 Labor Negotiations

On October 13, 2016 the Minnesota Nurses Association announced that Allina Health nurses voted to ratify the agreement reached with the union. The new contract is effective through May 31, 2019. Nurses returned to work on October 16, 2016 after an open-ended strike that began on September 5, 2016. The union also called a seven-day strike from June 19-26, 2016. Allina Health and the Minnesota Nurses Association had been in negotiations for contracts covering nurses at Abbott Northwestern, Phillips Eye Institute, and Mercy, United and Unity hospitals since February 2016 on a contract that expired on May 31, 2016. Allina Health was committed to bargaining in good faith to reach a settlement that is fair to both our valued nurses and to the patients and communities we serve. The hospitals affected remained open and fully staffed during both strikes. The financial impact is discussed in more detail in the management and discussion and analysis section of the financial disclosure.

North Metro Hospital Care

Allina Health will be integrating hospital care in the north metro region through a “One Hospital, Two Campuses” initiative in the Mercy and Unity hospitals’ service area. Allina Health will reconfigure the services provided at the two hospitals over the next few years. The reconfiguration will ensure access to high quality care and service and improve the practice and work environment for providers and staff. The two campuses will function as one hospital, each providing its specific services for the entire north metro region, rather than both hospitals duplicating most services. However, Allina Health will continue to offer emergency care and other basic care services that patients need most often at each campus. The reconfiguration will continue to optimize the services around what is best for patients and the community. Allina Health will invest approximately \$103 million in the reconfiguration and related infrastructure needs over the next several years.

Clinic Transaction

In February 2016, the Allina Health Board of Directors approved capital investments to create new clinics in Isanti, MN and River Falls, WI. The new clinics will enable Allina Health to improve access and meet patient demand. Construction began in 2016 with a projected opening in 2017.

United Hospital OB Project

In December 2014, the Allina Health Board of Directors approved a capital investment in The Mother Baby Center –St. Paul in collaboration with Children’s. Allina Health funded \$7.9 million and \$8.0 million was funded through philanthropic funds. Phase one of the project was completed in October 2015, and phase two was completed in June 2016.

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 \$13.2 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.

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.

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.

The hospitals of Allina Health attested with the federal government that they met 19 objective measures and 15 quality measures in Stage Two, Year Two 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 has recorded Medicare payments of \$2.8 million, \$3.7 million, \$14.8 million, \$23.5 million, \$20.4 million and \$25.8 million for 2016, 2015, 2014, 2013, 2012, and 2011 respectively.

Credit Ratings

In December 2016, Fitch Ratings affirmed Allina Health's bond rating of AA-. The outlook is stable.

In December 2016, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In December 2016, 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 March 2016, Truven Health Analytics named Mercy Hospital one of the nation's 100 Top Hospitals in the large community hospitals group. This is the fifth time Mercy Hospital has been named a Top 100 Hospital.

In April 2016, Modern Healthcare listed Penny Wheeler, MD, President and Chief Executive Office of Allina Health, one of the nation's "50 most Influential Physician Executives and Leaders." The list honors physicians working in the healthcare industry who are deemed by their peers and an expert panel to be the most influential in terms of demonstrating leadership and impact.

In August 2016, U.S. News & World Report named Abbott Northwestern, Mercy, and United hospitals among the top five hospitals in the metro and top ten in Minnesota in the 2015-2016 Best Hospitals rankings. Abbott Northwestern Hospital retained first place ranking for the Best Hospital in the Twin Cities and second best in Minnesota.

In September 2016, Penny Wheeler, MD, President and Chief Executive Officer, was named one of the 110 Physician Leaders of Hospitals and Health Systems for 2016 by Becker's Hospital Review for demonstrating outstanding leadership and clinical expertise and improving the care of the communities we serve.

In October 2016, Allina Health was honored with Minnesota Business Magazine's Leaders in Health Care Award for Community Outreach for its Change to Chill™ program. Allina Health created Change to Chill in response to the mental health crisis among teens, as revealed in a recent community health needs assessment.

In November 2016, Minneapolis/ St. Paul Business Journal named Duncan Gallagher CFO of the year for spearheading investments into care efficiency and care processes as well as working with insurance companies to test new payment models that emphasize better-quality care over higher volume of care.

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

	December 31 2016	December 31 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 172,710	\$ 349,115
Short-term investments	451,327	351,062
Patient accounts receivable, net	470,216	465,058
Inventories	64,225	61,297
Other current assets	94,546	100,341
	1,253,024	1,326,873
Long-term investments	1,330,283	1,247,229
Investments with limited uses	151,537	149,313
Land, buildings, and equipment, net	1,166,397	1,142,461
Other assets	290,036	261,313
Total assets	\$ 4,191,277	\$ 4,127,189
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 477,535	\$ 434,851
Current portion - long-term debt	24,341	23,948
Other current liabilities	87,036	95,093
	588,912	553,892
Long-term debt	818,192	844,436
Other liabilities	409,721	415,578
Total liabilities	1,816,825	1,813,906
Net assets:		
Unrestricted	2,208,557	2,152,102
Temporarily restricted	109,078	105,903
Permanently restricted	56,817	55,278
Total net assets	2,374,452	2,313,283
Total liabilities and net assets	\$ 4,191,277	\$ 4,127,189

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

	Twelve Months Ended		Three Months Ended	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
Revenue:				
Patient service revenue net of contractual adjustments	\$ 3,777,363	\$ 3,620,983	\$ 982,699	\$ 940,255
Provision for bad debts	(85,604)	(98,536)	(22,997)	(18,171)
Net patient service revenue	<u>3,691,759</u>	<u>3,522,447</u>	<u>959,702</u>	<u>922,084</u>
Other operating revenue	255,930	274,445	74,207	80,354
Total revenues	<u>3,947,689</u>	<u>3,796,892</u>	<u>1,033,909</u>	<u>1,002,438</u>
Expenses:				
Salaries and benefits	2,495,717	2,322,105	646,967	594,078
Supplies and services	855,816	858,331	233,189	230,582
Depreciation and amortization	165,433	155,253	42,320	41,107
Financing costs	37,726	28,245	9,546	9,574
State assessments and taxes	82,147	79,823	23,027	21,911
Utilities and maintenance	72,244	74,612	20,939	21,983
Other operating expenses	119,359	129,502	29,900	36,403
Total expenses	<u>3,828,442</u>	<u>3,647,871</u>	<u>1,005,888</u>	<u>955,638</u>
Operating income before strike expenses	119,247	149,021	28,021	46,800
Estimated strike expenses	<u>(149,271)</u>	<u>-</u>	<u>(44,388)</u>	<u>-</u>
Operating (loss) income	(30,024)	149,021	(16,367)	46,800
Nonoperating:				
Investment return	83,374	(33,234)	9,774	10,391
Interest rate swap agreements	(3,178)	(17,608)	27,785	1,152
Contributions received in acquisitions	-	34,849	-	(62)
Other	(3,255)	(2,507)	(898)	(878)
Excess of revenues over expenses	<u>\$ 46,917</u>	<u>\$ 130,521</u>	<u>\$ 20,294</u>	<u>\$ 57,403</u>

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

	Twelve Months Ended		Three Months Ended	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
Unrestricted net assets				
Excess of revenue over expenses	\$ 46,917	\$ 130,521	\$ 20,294	\$ 57,403
Net assets released from restrictions for capital purposes	12,588	9,698	9,104	7,042
Amortization of unrealized loss on interest rate swap agreement	874	874	218	218
Other	(3,924)	2,979	(1,790)	407
Increase in unrestricted net assets	<u>56,455</u>	<u>144,072</u>	<u>27,826</u>	<u>65,070</u>
Temporarily restricted net assets				
Contributions	22,508	21,399	6,719	6,208
Investment return	7,828	(2,231)	1,537	1,377
Net assets released from restrictions	(24,461)	(27,400)	(13,986)	(17,684)
Other	(2,700)	(1,020)	(1,801)	(844)
Increase (decrease) in temporarily restricted net assets	<u>3,175</u>	<u>(9,252)</u>	<u>(7,531)</u>	<u>(10,943)</u>
Permanently restricted net assets				
Contributions for endowment funds	272	371	85	160
Investment return	1,267	(41)	1,159	8
Increase in permanently restricted net assets	<u>1,539</u>	<u>330</u>	<u>1,244</u>	<u>168</u>
Increase in net assets	61,169	135,150	21,539	54,295
Net assets at beginning of period	<u>2,313,283</u>	<u>2,178,133</u>	<u>2,352,913</u>	<u>2,258,988</u>
Net assets at end of period	<u>\$ 2,374,452</u>	<u>\$ 2,313,283</u>	<u>\$ 2,374,452</u>	<u>\$ 2,313,283</u>

See accompanying notes.

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

	Twelve Months Ended	
	December 31 2016	December 31 2015
Operating activities		
Increase in net assets	\$ 61,169	\$ 135,150
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	165,433	155,253
Provision for bad debts	85,604	98,536
Goodwill impairment	-	4,110
Gain on sale of properties	(2,739)	(524)
Unrealized loss (gain) loss on interest rate swaps, net	(9,458)	4,249
Realized and unrealized (gain) loss on investments, net	(66,119)	59,365
Restricted contributions	(22,780)	(21,770)
Contributions of cash for long-lived assets	(2,449)	(1,504)
Contributions received in acquisitions	-	(34,849)
Earnings on equity investments	(16,389)	(12,310)
Pension Plan expenses	2,254	538
Pension Plan contributions	(1,822)	(2,358)
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(90,762)	(138,147)
Other current assets	2,867	(1,663)
Accounts payable and other current liabilities	34,627	16,154
Other assets and liabilities	(8,841)	(2,115)
Net cash and cash equivalents provided by operating activities	<u>130,595</u>	<u>258,115</u>
Investing activities		
Proceeds from sales of properties	37,574	4,326
Purchases of land, buildings, and equipment	(223,525)	(218,151)
Contributions of cash for long-lived assets	2,449	1,504
Cash received in acquisitions	-	987
Draws on construction fund	-	13
Purchases and sales of investments classified as trading, net	(122,577)	(115,460)
Purchases and sales of investments with limited uses, net	3,153	(472)
Distributions received from equity investments	13,816	10,072
Contributions to joint ventures	(17,590)	(21,066)
Net cash and cash equivalents used in investing activities	<u>(306,700)</u>	<u>(338,247)</u>
Financing activities		
Restricted contributions	22,780	21,770
Principal payments of long-term debt	(23,080)	(20,876)
Proceeds from issuance of long-term debt	-	250,000
Deferred debt acquisition costs	-	(2,632)
Net cash and cash equivalents (used in) provided by financing activities	<u>(300)</u>	<u>248,262</u>
(Decrease) increase in cash and cash equivalents	(176,405)	168,130
Cash and cash equivalents at beginning of year	349,115	180,985
Cash and cash equivalents at end of period	<u>\$ 172,710</u>	<u>\$ 349,115</u>
Schedule of noncash financing activities		
Capitalized lease	\$ 679	\$ 10,756

See accompanying notes.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Twelve months ended December 31, 2016 and 2015
(Unaudited)
(Dollars in thousands)

1. Adoption of New Accounting Standards

On January 1, 2016, Allina Health adopted guidance under Accounting Standards Update (ASU) 2015-03, Interest-Imputation of Interest, which amended Accounting Standards Codification (ASC) Subtopic 835-30. The amendment required that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than a long-term asset. The adoption of the authoritative guidance resulted in a reclassification of \$6,072 of unamortized deferred financing costs from other assets to long-term debt on the balance sheet as of January 1, 2016. The December 31, 2015 balance was also reclassified to conform to the 2016 presentation. Other than this reclassification, the adoption of the authoritative guidance did not have an impact on the consolidated financial statements.

2. 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 utilizes a process to identify and appeal certain settlements by Medicare. Additional reimbursement is recorded in the year the appeal is successful. During the twelve months ended December 31, 2016 and 2015, successful appeals, cost report settlements, and other adjustments to prior year settlements resulted in an increase in net patient service revenue of \$11,886 and \$1,820, respectively.

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
Twelve months ended December 31, 2016 and 2015
(Unaudited)
(Dollars in thousands)

3. 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
Twelve months ended December 31, 2016 and 2015
(Unaudited)
(Dollars in thousands)

3. 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 December 31, 2016 as follows:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Cash and Cash Equivalents				
Cash	\$ 38,028	38,028	-	-
Money Market Funds	134,682	134,682	-	-
Total Cash and Cash Equivalents	\$ 172,710	172,710	-	-
Investments - Trading Securities				
Short-Term Fixed Income	\$ 21,994	19,106	2,888	-
Money Market Fund	31,586	31,586	-	-
Total Short-Term Fixed and Money Market	53,580	50,692	2,888	-
Equity				
Financials	25,023	25,023	-	-
Consumer	11,618	11,618	-	-
Industrials	10,674	10,674	-	-
Technology	3,274	3,274	-	-
Healthcare	2,173	2,173	-	-
Global Equity Mutual Funds	121,730	121,730	-	-
Other Equity	14,635	11,890	2,745	-
All Asset Mutual Fund	48,374	48,374	-	-
Total Equity	237,501	234,756	2,745	-
Fixed Income				
U.S. Treasury Securities	148,775	148,775	-	-
U.S. Agency Securities	149,174	-	149,174	-
Corporate Bonds	201,647	-	201,647	-
Mortgage, Commercial, & Asset Backed Securities	94,937	-	94,937	-
Sovereigns	5,515	-	5,515	-
Term Loan/Private Placements	68,057	-	67,567	490
Unconstrained Fixed Income Mutual Funds	175,396	175,396	-	-
Other	26,153	-	26,153	-
Total Fixed Income	869,654	324,171	544,993	490
Investments Accounted for at Net Asset Value	620,875			
Total Investments - Trading Securities	\$1,781,610	609,619	550,626	490
Total Unrestricted Cash and Investments	\$1,954,320	782,329	550,626	490

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Twelve months ended December 31, 2016 and 2015
(Unaudited)
(Dollars in thousands)

3. 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	\$ 8,054	7,913	141	-
Money Market Fund	12,461	12,461	-	-
Equity	18,985	18,766	219	-
Fixed Income	54,549	21,544	32,966	39
Investments Accounted for at Net Asset Value	49,630			
Restricted Foundation Trusts	7,807	-	7,807	-
Total Investments with Limited Uses - Trading Securities	<u>151,486</u>	<u>60,684</u>	<u>41,133</u>	<u>39</u>
Investments with Limited Uses - Available-for-Sale Securities				
Money Market Fund	51	51	-	-
Total Investments with Limited Uses - Available-for-Sale Securities	<u>51</u>	<u>51</u>	<u>-</u>	<u>-</u>
Total Investments with Limited Uses	<u>\$ 151,537</u>	<u>60,735</u>	<u>41,133</u>	<u>39</u>
Total Cash and Investments	<u>\$ 2,105,857</u>	<u>843,064</u>	<u>591,759</u>	<u>529</u>
Liabilities:				
Interest Rate Swaps	\$ 85,640	-	85,640	-

Fair Value Measurements, Level 3

	<u>Term Loan</u>
Balance December 31, 2015	\$ 1,178
Total Realized and Unrealized Gains (Losses)	32
Purchases	298
Sales	(979)
Balance December 31, 2016	<u>\$ 529</u>

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Twelve months ended December 31, 2016 and 2015
(Unaudited)
(Dollars in thousands)

3. Fair Value Disclosures (continued)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2016, is as follows:

	Net Asset Value*	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global Bond Fund	\$ 85,530	-	Monthly	15 Days
Emerging Markets Equity Fund	64,905	-	Daily/Weekly	5/10 Days
Global Equity Fund	241,785	-	Daily/Bi-Monthly	1-10 Days
Fund of Hedge Funds	647	-	Quarterly	90 Days
Private Equity Funds	64,023	\$ 42,726	10 Years	NA
Equity Long/Short Hedge Funds	73,827	-	Monthly/Quarterly	30-90 Days
Emerging Market Debt Fund	28,465	-	Daily	Same Day
Opportunistic Fixed Income Hedge Funds	111,323	-	Quarterly	45-90 Days
	<u>\$ 670,505</u>	<u>\$ 42,726</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 funds provide full disclosure of the underlying holdings.

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

The Global Equity Funds include two funds that invest in global equities. The net asset value of the funds have been estimated using the net asset value per share of the investments. The funds provide full disclosure of the underlying holdings.

The Fund of Hedge Funds includes an investment in a fund of hedge funds that pursues 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 is currently in liquidation and is making quarterly redemptions to shareholders.

The Private Equity Funds include a limited partnership investment that focuses on health care 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 Markets 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
Twelve months ended December 31, 2016 and 2015
(Unaudited)
(Dollars in thousands)

3. Fair Value Disclosures (continued)

The estimated fair value of long-term debt was \$889,545, compared to \$845,759 par value of long-term debt, as of December 31, 2016. Interest rates that are currently available to Allina Health 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 fair value hierarchy criteria. The carrying amount of variable rate bonds and other notes payable approximates fair value.

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	32,470	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	10,850	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	24,526	119,700	3.58%	% of Libor	US Bank
2001	Other liabilities	16,089	50,000	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	1,705	15,075	4.44%	SIFMA	Goldman Sachs
Total		\$ 85,640	\$ 349,300			

As of December 31, 2016 Allina Health had \$4,070 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 \$2,489 less than the mark-to-market valuations.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Twelve months ended December 31, 2016 and 2015
(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	
	Twelve months ended Dec. 31		Twelve months ended Dec. 31		Twelve months ended Dec. 31		Twelve months ended Dec. 31	
	2016	2015	2016	2015	2016	2015	2016	2015
2009 B&C	\$ 3,725	\$ (2,576)	\$ -	\$ -	\$ (5,107)	\$ (5,371)	\$ (1,382)	\$ (7,947)
2007C	2,687	(813)	-	-	(3,645)	(3,878)	(958)	(4,691)
2001	2,371	(1,014)	-	-	(2,406)	(2,567)	(35)	(3,581)
1998A	675	154	(874)	(874)	(604)	(669)	(803)	(1,389)
	\$ 9,458	\$ (4,249)	\$ (874)	\$ (874)	\$ (11,762)	\$ (12,485)	\$ (3,178)	\$ (17,608)
							Totals	
	Three months ended Dec. 31		Three months ended Dec. 31		Three months ended Dec. 31		Three months ended Dec. 31	
	2016	2015	2016	2015	2016	2015	2016	2014
2009 B&C	\$ 16,065	\$ 1,938	\$ -	\$ -	\$ (1,261)	\$ (1,340)	\$ 14,804	\$ 598
2007C	9,061	1,503	-	-	(903)	(969)	8,158	534
2001	5,308	807	-	-	(561)	(644)	4,747	163
1998A	435	247	(218)	(218)	(141)	(172)	76	(143)
	\$ 30,869	\$ 4,495	\$ (218)	\$ (218)	\$ (2,866)	\$ (3,125)	\$ 27,785	\$ 1,152

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 February 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)

	December 31 2016	December 31 2015
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 166,469	\$ 342,556
Short-term investments	451,327	351,062
Patient accounts receivable, net	449,845	443,268
Inventories	64,059	61,163
Other current assets	93,734	105,961
	<u>1,225,434</u>	<u>1,304,010</u>
Long-term investments	1,279,528	1,189,474
Investments with limited uses	14,688	17,866
Beneficial interest in net assets of Allina Foundations	200,945	198,093
Land, buildings, and equipment, net	1,156,000	1,126,447
Other assets	219,320	195,114
Total assets	<u>\$ 4,095,915</u>	<u>\$ 4,031,004</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 458,919	\$ 418,847
Current portion long-term debt	23,687	23,293
Other current liabilities	87,036	95,093
	<u>569,642</u>	<u>537,233</u>
Long-term debt	814,220	839,776
Other liabilities	353,336	356,774
Total liabilities	<u>1,737,198</u>	<u>1,733,783</u>
Net assets:		
Unrestricted	2,148,607	2,091,052
Temporarily restricted	153,293	150,891
Permanently restricted	56,817	55,278
Total net assets	<u>2,358,717</u>	<u>2,297,221</u>
Total liabilities and net assets	<u>\$ 4,095,915</u>	<u>\$ 4,031,004</u>

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

	Twelve Months Ended		Three Months Ended	
	December 31	December 31	December 31	December 31
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue:				
Patient service revenue net of contractual adjustments	\$ 3,759,177	\$ 3,603,439	\$ 978,012	\$ 935,603
Provision for bad debts	(86,099)	(98,774)	(23,218)	(18,267)
Net patient service revenue	<u>3,673,078</u>	<u>3,504,665</u>	<u>954,794</u>	<u>917,336</u>
Other operating revenue	<u>236,474</u>	<u>249,039</u>	<u>65,891</u>	<u>67,736</u>
Total revenues	<u>3,909,552</u>	<u>3,753,704</u>	<u>1,020,685</u>	<u>985,072</u>
Expenses:				
Salaries and benefits	2,482,518	2,307,920	643,670	590,519
Supplies and services	814,687	818,208	222,739	220,571
Depreciation and amortization	163,583	153,981	41,867	40,526
Financing costs	37,353	27,861	9,441	9,457
State assessments and taxes	81,519	78,864	22,903	21,861
Utilities and maintenance	71,608	74,145	20,766	21,903
Other	136,370	137,459	31,185	32,970
Total expenses	<u>3,787,638</u>	<u>3,598,438</u>	<u>992,571</u>	<u>937,807</u>
Operating income before strike expenses	121,914	155,266	28,114	47,265
Estimated strike expenses	<u>(149,271)</u>	<u>-</u>	<u>(44,388)</u>	<u>-</u>
Operating (loss) income	(27,357)	155,266	(16,274)	47,265
Nonoperating:				
Investment return	82,162	(31,118)	9,689	10,229
Interest rate swap agreements	(3,178)	(17,608)	27,785	1,152
Contributions received in acquisition	-	34,849	-	(62)
Other	(1,993)	(1,911)	(545)	(805)
Excess of revenues over expenses	<u>\$ 49,634</u>	<u>\$ 139,478</u>	<u>\$ 20,655</u>	<u>\$ 57,779</u>

Continued on next page.

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

	Twelve Months Ended		Three Months Ended	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
Unrestricted net assets				
Excess of revenues over expenses	\$ 49,634	\$ 139,478	\$ 20,655	\$ 57,779
Net assets released from restrictions for capital purposes	12,868	10,771	9,320	7,832
Amortization of unrealized loss on interest rate swap agreement	874	874	218	218
Capital contributions from (to) nonobligated group affiliates, net	(4,201)	(4,018)	5,658	4,305
Other	(1,620)	5,828	(900)	629
Increase in unrestricted net assets	<u>57,555</u>	<u>152,933</u>	<u>34,951</u>	<u>70,763</u>
Temporarily restricted net assets				
Contributions	2,449	2,004	126	641
Investment return	215	(51)	31	35
Net assets released from restrictions	(2,449)	(1,504)	(126)	(141)
Change in beneficial interest in net assets of Allina Foundations	2,538	(16,362)	(5,551)	(11,883)
Other	(351)	(465)	(1,796)	(748)
Increase (decrease) in temporarily restricted net assets	<u>2,402</u>	<u>(16,378)</u>	<u>(7,316)</u>	<u>(12,096)</u>
Permanently restricted net assets				
Contributions for endowment funds	25	27	2	-
Investment return	1,200	(24)	1,150	11
Change in beneficial interest in net assets of Allina Foundations	314	327	91	157
Increase in permanently restricted net assets	<u>1,539</u>	<u>330</u>	<u>1,243</u>	<u>168</u>
Increase in net assets	61,496	136,885	28,878	58,835
Net assets at beginning of period	<u>2,297,221</u>	<u>2,160,336</u>	<u>2,329,839</u>	<u>2,238,386</u>
Net assets at end of period	<u><u>\$ 2,358,717</u></u>	<u><u>\$ 2,297,221</u></u>	<u><u>\$ 2,358,717</u></u>	<u><u>\$ 2,297,221</u></u>

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

	Twelve Months Ended	
	December 31 2016	December 31 2015
Operating activities		
Increase in net assets	\$ 61,496	\$ 136,885
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	163,583	153,981
Provision for bad debts	86,099	98,774
Loss on impairment of goodwill	-	4,110
Gain on sale of properties and equity investments	(2,643)	(3,944)
Unrealized loss (gain) loss on interest rate swaps, net	(9,458)	4,249
Realized and unrealized (gain) loss on investments, net	(57,227)	55,052
Restricted contributions	(2,474)	(2,031)
Contributions of cash for long-lived assets	(2,449)	(1,504)
Beneficial interest in net assets of Allina Foundations	(2,852)	16,035
Capital contributions to non-obligated group affiliates, net	4,201	4,018
Contributions received in acquisition	-	(34,849)
Earnings on equity investments	(16,389)	(12,310)
Pension Plan expenses	2,254	538
Pension Plan contributions	1,822	(2,358)
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(92,676)	(139,126)
Other current assets	9,331	(5,608)
Accounts payable and other current liabilities	32,015	11,912
Other assets and liabilities	(5,549)	(216)
Net cash and cash equivalents provided by operating activities	169,084	283,608
Investing activities		
Proceeds from sales of properties	36,952	34
Purchases of land, buildings, and equipment	(226,766)	(214,937)
Contributions of cash for long-lived assets	2,449	1,504
Cash received in acquisitions	-	987
Draws on construction funds	-	13
Purchases and sales of investments classified as trading, net	(129,914)	(118,034)
Distributions received from equity investments	13,816	10,071
Contributions to joint ventures	(17,590)	(21,066)
Capital contributions to non-obligated group affiliates, net	(4,201)	(4,018)
Net cash and cash equivalents used in investing activities	(325,254)	(345,446)
Financing activities		
Restricted contributions	2,474	2,031
Principal payments of long-term debt	(22,391)	(20,660)
Retirements of long-term debt	-	250,000
Deferred debt acquisition costs	-	(2,632)
Net cash and cash equivalents (used in) provided by financing activities	(19,917)	228,739
(Decrease) increase in cash and cash equivalents	(176,087)	166,901
Cash and cash equivalents at beginning of year	342,556	175,655
Cash and cash equivalents at end of period	\$ 166,469	\$ 342,556
Schedule of noncash financing activities		
Capitalized lease	\$ 679	\$ 5,225

ALLINA HEALTH SYSTEM
Consolidating Balance Sheet

(Unaudited)
(Dollars in thousands)

December 31, 2016

	Obligated Group	Other Allina Health Entities*	Allina Health System
Assets			
Current assets:			
Cash and cash equivalents	\$ 166,469	\$ 6,241	\$ 172,710
Short-term investments	451,327	-	451,327
Patient accounts receivable, net	449,845	20,371	470,216
Inventories	64,059	166	64,225
Other current assets	93,734	812	94,546
	1,225,434	27,590	1,253,024
Long-term investments	1,279,528	50,755	1,330,283
Investments with limited uses	14,688	136,849	151,537
Beneficial interest in net assets of Allina			
Foundations	200,945	(200,945)	-
Land, buildings, and equipment, net	1,156,000	10,397	1,166,397
Other assets	219,320	70,716	290,036
Total assets	\$ 4,095,915	\$ 95,362	\$ 4,191,277
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 458,919	\$ 18,616	\$ 477,535
Current portion long-term debt	23,687	654	24,341
Other current liabilities	87,036	-	87,036
	569,642	19,270	588,912
Long-term debt	814,220	3,972	818,192
Other liabilities	353,336	56,385	409,721
Total liabilities	1,737,198	79,627	1,816,825
Net assets:			
Unrestricted	2,148,607	59,950	2,208,557
Temporarily restricted	153,293	(44,215)	109,078
Permanently restricted	56,817	-	56,817
Total net assets	2,358,717	15,735	2,374,452
Total liabilities and net assets	\$ 4,095,915	\$ 95,362	\$ 4,191,277

*Including eliminations.

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

Twelve Months Ended December 31, 2016

	Obligated Group	Other Allina Health Entities*	Allina Health System
Revenue:			
Patient service revenue net of contractual adjustments	\$ 3,759,177	\$ 18,186	\$ 3,777,363
Provision for bad debts	(86,099)	495	(85,604)
Net patient service revenue	<u>3,673,078</u>	<u>18,681</u>	<u>3,691,759</u>
Other operating revenue	<u>236,474</u>	<u>19,456</u>	<u>255,930</u>
Total revenues	<u>3,909,552</u>	<u>38,137</u>	<u>3,947,689</u>
Expenses:			
Salaries and benefits	2,482,518	13,199	2,495,717
Supplies and services	814,687	41,129	855,816
Depreciation and amortization	163,583	1,850	165,433
Financing costs	37,353	373	37,726
State assessments and taxes	81,519	628	82,147
Utilities and maintenance	71,608	636	72,244
Other	136,370	(17,011)	119,359
Total expenses	<u>3,787,638</u>	<u>40,804</u>	<u>3,828,442</u>
Operating income (loss) before strike expenses	121,914	(2,667)	119,247
Estimated strike expenses	<u>(149,271)</u>	<u>-</u>	<u>(149,271)</u>
Operating (loss) income	(27,357)	(2,667)	(30,024)
Nonoperating:			
Investment return	82,162	1,212	83,374
Interest rate swap agreements	(3,178)	-	(3,178)
Other	(1,993)	(1,262)	(3,255)
Excess of revenues over expenses	<u>\$ 49,634</u>	<u>\$ (2,717)</u>	<u>\$ 46,917</u>

*Including eliminations.

Continued on next page.

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

Twelve Months Ended December 31, 2016

	Obligated Group	Other Allina Health Entities*	Allina Health System
Unrestricted net assets			
Excess of revenue over expenses	\$ 49,634	\$ (2,717)	\$ 46,917
Net assets released from restrictions for capital purposes	12,868	(280)	12,588
Amortization of unrealized loss on interest rate swap agreement	874	-	874
Capital contributions from nonobligated group affiliates, net	(4,201)	4,201	-
Other	(1,620)	(2,304)	(3,924)
Increase in unrestricted net assets	<u>57,555</u>	<u>(1,100)</u>	<u>56,455</u>
Temporarily restricted net assets			
Contributions	2,449	20,059	22,508
Investment return	215	7,613	7,828
Net assets released from restrictions	(2,449)	(22,012)	(24,461)
Change in beneficial interest in net assets of Allina Foundations	2,538	(2,538)	-
Other	(351)	(2,349)	(2,700)
Increase in temporarily restricted net assets	<u>2,402</u>	<u>773</u>	<u>3,175</u>
Permanently restricted net assets			
Contributions for endowment funds	25	247	272
Investment return	1,200	67	1,267
Change in beneficial interest in net assets of Allina Foundations	314	(314)	-
Increase in permanently restricted net assets	<u>1,539</u>	<u>-</u>	<u>1,539</u>
Increase in net assets	61,496	(327)	61,169
Net assets at beginning of period	<u>2,297,221</u>	<u>16,062</u>	<u>2,313,283</u>
Net assets at end of period	<u>\$ 2,358,717</u>	<u>\$ 15,735</u>	<u>\$ 2,374,452</u>

*Including eliminations.

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations

Twelve Months Ended December 31, 2016

(Dollars in millions)

Operating Results

Allina Health's operating margin before strike expenses was 3.0% for the twelve months ended December 31, 2016 compared to 3.9% for the same period in 2015. Operating income decreased by \$29.7 million when compared to the same period in 2015. The decrease in operating income was due primarily to softer than expected hospital volumes coupled with continued investment in clinical service line capabilities and the redesign of the primary care clinical delivery model. Allina Health estimates \$149.3 million of expenses for the twelve months ended December 31, 2016 related to strikes called by the Minnesota Nurses Association ("MNA"). The final reconciled strike expense total could be different in the 2016 audit published in late March 2017, due to ongoing reconciliation work with strike-related vendors. Allina Health and the MNA succeeded in negotiating a new three year contract that was ratified as of October 13, 2016. Because of the unusual nature of the strike, for purposes of evaluating our performance, we are excluding the strike expenses incurred in 2016.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 8.1% before strike expenses for the twelve months ended December 31, 2016 compared to 8.7% for the same period in 2015. Non operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Twelve Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
EBIDA	\$ 321.0	\$ 330.8	\$ 322.3	336.5
Interest income	1.4	1.7	0.6	0.6
Financing costs	(37.7)	(28.2)	(37.4)	(27.9)
Depreciation and amortization	(165.4)	(155.3)	(163.6)	(154.0)
Operating Income before strike expenses	119.3	149.0	121.9	155.2
Estimated strike expenses	(149.3)	-	(149.3)	-
Operating Income	(30.0)	149.0	(27.4)	155.2
Investment return	83.4	(33.2)	82.2	(31.1)
Interest rate swap agreements	(3.2)	(17.6)	(3.2)	(17.6)
Contributions received in acquisitions	-	34.8	-	34.8
Non-operating other	(3.3)	(2.5)	(2.0)	(1.8)
Excess of revenues over expenses	<u>\$ 46.9</u>	<u>\$ 130.5</u>	<u>\$ 49.6</u>	<u>\$ 139.5</u>

Revenues

Allina Health's revenue increased \$150.8 million, or 4.0% for the twelve months ended December 31, 2016 as compared to 2015. Hospital net patient revenue growth was 3.2%. Through December 2016, 40.7% of net patient revenue is net inpatient revenue, up from 39.9% in 2015. The clinics (excluding hospital based) experienced an overall 4.7% increase in net patient revenue, due to clinical volumes that grew 3.3% year over year. Outpatient and clinic revenue increased 3.0% over the prior year, and decreased to 59.3% as a percent of net patient revenue in 2016 when compared to 60.1% in 2015.

REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Twelve Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Hospital Net Patient Revenue	\$ 2,764.7	\$ 2,680.2	\$ 2,764.7	\$ 2,680.2
Change	3.2%		3.2%	
Clinic Net Patient Revenue	730.9	698.4	712.6	681.1
Change	4.7%		4.6%	
Other Net Patient Revenue	281.8	242.3	281.9	242.0
Change	16.3%		16.5%	
Bad Debt	(85.6)	(98.5)	(86.1)	(98.8)
Change	-13.1%		-12.9%	
Other Revenue	255.9	274.5	236.5	249.2
Change	-6.8%		-5.1%	
Total Revenue	<u>\$ 3,947.7</u>	<u>\$ 3,796.9</u>	<u>\$ 3,909.6</u>	<u>\$ 3,753.7</u>
Change	4.0%		4.2%	

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 25.2% of total net patient revenue and 17.2% of total gross patient revenue for the twelve months ended December 31, 2016.

ALLINA HEALTH	Net Patient Revenue		Gross Patient Revenue	
	December 31		December 31	
	2016	2015	2016	2015
PAYER MIX PERCENTAGE				
Medicare	29.8%	29.4%	42.1%	41.6%
Medicaid	10.4	10.1	15.2	15.1
Contracted Payers	56.0	53.8	37.9	37.6
Self Pay	2.4	2.2	2.0	1.7
Other	1.4	4.5	2.8	4.0
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 \$5.5 million in gross charges, or 3.4% in 2016 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 \$21.2 million and \$14.8 million for the twelve months ended December 31, 2016 and 2015, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH	
	Twelve Months Ended December 31	
	2016	2015
Uninsured Discount	\$ 32.1	\$ 26.8
Charity Care Discount	49.3	36.2
Bad Debt Expense	85.6	98.5
Total Uncompensated Care	<u>\$ 167.0</u>	<u>\$ 161.5</u>
Change	3.4%	
Total Uncompensated Care as a % of Gross Patient Charges	1.9%	1.9%

Volume

Allina Health experienced stable inpatient volumes and strong outpatient volumes in the twelve months ended December 31, 2016. Inpatient admissions decreased by 0.3%, and inpatient surgeries decreased 0.3% for the twelve months ended December 31, 2016 from 2015. Outpatient hospital admissions and clinic work RVUs increased 1.5%, and 3.3%, respectively while outpatient surgeries decreased by 1.9%. 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	
	Twelve Months Ended December 31	
	2016	2015
Inpatient Hospital Admissions	103,268	103,530
Inpatient change from prior period	-0.3%	
Observation days	22,172	21,372
Observation days change from prior period	3.7%	
Outpatient Hospital Admissions	1,398,558	1,377,687
Outpatient change from prior period	1.5%	
Average Length of Stay (days)	4.1	4.0
Hospital Patient Days	422,334	419,174
Patient days change from prior period	0.8%	
Hospital Occupancy (based on staffed beds)	67.0%	66.2%
Inpatient Surgeries	30,311	30,388
Outpatient Surgeries	56,758	57,874
Total Surgeries	87,069	88,262
Total surgeries change from prior period	-1.4%	
Clinic Work RVUs	7,330,158	7,095,287
Work RVUs change from prior period	3.3%	
Total Case Mix	1.49	1.45
Medicare Case Mix	1.84	1.80

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 June 30, 2016.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	June 30 2016	December 31 2015
Allina Metro Hospital Inpatient Market Share *	31.0%	31.5%
Change in Total Metro Market Volume**	0.1%	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 June 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 6.9% for the twelve months ended December 31, 2016, 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	
	Twelve Months Ended December 31		Twelve Months Ended December 31	
	2016	2015	2016	2015
Interest and dividends	\$ 26.4	\$ 23.9	\$ 26.3	\$ 23.9
Realized (losses) gains on sales of investments	16.2	(2.2)	15.4	(2.5)
Unrealized (losses) gains on investments	40.8	(54.9)	40.5	(52.5)
Interest rate swap agreements - fair value	9.5	(4.2)	9.5	(4.2)
Interest rate swap agreements - counterparty interest	(12.7)	(13.4)	(12.7)	(13.4)
Contributions received in acquisitions	-	34.8	-	34.8
Other	(3.3)	(2.5)	(2.0)	(1.9)
Total non-operating gains	<u>\$ 76.9</u>	<u>\$ (18.5)</u>	<u>\$ 77.0</u>	<u>\$ (15.8)</u>

Balance Sheet and Cash Flow

Allina Health had 195 days cash on hand (DCOH) as of December 31, 2016, compared with 204 days at December 31, 2015.

Leverage decreased to 27.6% at December 31, 2016 down from 28.7% in December 31, 2015. Cash to debt is 232.0% as of December 31, 2016 compared to 224.3% at December 31, 2015.

System level capital spending was \$223.5 million for the twelve months ended December 31, 2016 compared to capital spending of \$218.1 million for the same time period in 2015.

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

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
Unrestricted cash & investments	\$ 1,954.3	\$ 1,947.4	\$ 1,897.3	\$ 1,883.1
Days cash on hand	195	204	192	200
Total Debt	\$ 842.5	\$ 868.4	\$ 837.9	\$ 863.1
Unrestricted net assets	\$ 2,208.6	\$ 2,152.1	\$ 2,148.6	\$ 2,091.1
Debt to capitalization *	27.6%	28.7%	29.5%	30.3%
Patient receivables	\$ 470.2	\$ 465.1	\$ 449.8	\$ 443.3
Days revenue in receivables, net	47	48	45	46
Cash to debt	232%	224%	226%	218%
Historical annual debt service coverage	5.3	7.0	5.4	7.1

* Obligated Group includes Letters of Credit and Surety indebtedness

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2015	\$1,947.4	203.5
Operations	132.5	13.2
Growth in daily expenditures		(8.9)
Investment gains	83.4	8.3
Proceeds from sales of properties	37.6	3.8
Capital expenditures	(223.5)	(22.3)
Debt payments	(23.1)	(2.3)
December 31, 2016	<u>\$1,954.3</u>	<u>195.3</u>

DEBT TO CAPITALIZATION ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2015	\$ 868.4	\$ 2,152.1	28.7%
Operating income		(30.0)	
Investment gains		83.4	
Loss on interest rate swap agreements		(3.2)	
Other non-operating losses		(3.3)	
Other changes in net assets		9.6	
Debt payments and amortization of bond premium, net	(25.9)		
December 31, 2016	<u>\$842.5</u>	<u>\$2,208.6</u>	27.6%

ALLINA HEALTH SYSTEM
Consolidated Utilization Statistics

	Twelve Months Ended		
	December 31 2016	December 31 2015	December 31 2014
Hospitals			
Admissions *	103,268	103,530	102,748
Patient Days *	422,334	419,174	418,567
Average length of stay	4.1	4.0	4.1
Observation days	22,172	21,372	19,192
Licensed beds	2,451	2,451	2,436
Staffed beds	1,722	1,736	1,692
Outpatient admissions	1,398,558	1,377,687	1,231,449
Emergency room visits	312,851	317,061	298,543
Inpatient surgical procedures	30,311	30,388	29,861
Outpatient surgical procedures	56,758	57,874	61,938
Physicians and allied professionals			
Work RVUs	7,330,158	7,095,287	6,662,869
Ambulance transports	74,775	70,991	68,228

* Results exclude newborns.

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

Debt Structure

Allina Health's current debt structure as of December 31, 2016					
Series	\$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*
2015	250,000	Fixed Rate	2045	None	4.81%
2014	18,520	Fixed Rate	2028	None	2.55%
2009A	171,345	Fixed Rate	2029	None	4.89%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	0.34%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	0.40%
2007A	87,540	Fixed Rate	2022	MBIA Insured	5.06%
2007C	119,700	Weekly VRDB	2034	Wells Fargo LOC	0.41%
1998A	14,575	Auction Rate	2022	MBIA Insured	0.58%
1993B	8,700	Auction Rate	2017	Ambac Insured	0.56%
	<u>834,905</u>	Total Bonds			
Other ***	<u>7,628</u>				
	842,533	Total Debt			
Fixed Rate	\$ 527,405		62.6%		
Hedged Variable Rate**	298,800		35.5%	(2009B, 2009C, 2007C & 1998A)	
Unhedged Variable Rate	8,700		1.0%		
Other	<u>7,628</u>		0.9%		
Total	<u>\$ 842,533</u>				

- * 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 36.5% 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	12/31/2016		12/31/2015	
Cash and Money Market		8.8%	172,710	18.0%	349,115
Short-Term Fixed Income		23.1%	451,327	18.0%	351,062
Total Liquidity Assets	25.0%	31.9%	624,037	36.0%	700,177
Long-Term Assets	75.0%	68.1%	1,330,283	64.0%	1,247,229
Total Unrestricted Assets		100.0%	1,954,320	100.0%	1,947,406

Asset Allocation - Asset Class					
	Current Target Allocation	12/31/2016 % of Long Term Assets	12/31/2016 % Total Unrestricted Investments	12/31/2015 % of Long Term Assets	12/31/2015 % Total Unrestricted Investments
Investment					
Global Equity	32.0%	32.9%	22.4%	30.3%	19.4%
Long/Short Equity Hedge Funds	5.0%	5.2%	3.6%	5.6%	3.6%
Global Fixed Income	35.0%	34.3%	23.3%	36.3%	23.2%
Fund of Hedge Funds	0.0%	0.1%	0.0%	0.1%	0.1%
Opportunistic and Other	20.0%	20.4%	13.9%	19.7%	12.6%
Real Return	8.0%	7.2%	4.9%	8.0%	5.0%
Total Long-Term	100.0%	100.0%	68.1%	100.0%	64.0%
Cash and Money Market			8.8%		18.0%
Short-Term Fixed Income			23.1%		18.0%
Total Liquidity			31.9%		36.0%

Allina Health is 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 other fund of hedge funds manager that is in liquidation. Allina Health also has five direct investments in private capital with funding commitments that will be drawn down over the next several years. As of December 31, 2016 these private capital holdings represented approximately 3.0% of unrestricted assets.

Allina Health Summary of Key Financial Ratios

Indicators	Year Ended December 31,			
	2016	2015	2014	2013
Liquidity Ratios:				
Monthly DCOH*	172	174	163	156
Annual DCOH**	189	199	187	181
Traditional DCOH	195	204	190	182
Days Cash on Hand (Obligated Group)	192	200	185	185
Cash to Debt	232%	224%	271%	240%
Days Revenue in Receivables, net				
Hospitals	49	51	48	50
Clinics	27	24	24	25
VRDB Debt (in millions)	\$284	\$285	\$286	\$290
Monthly liquidity to VRDB debt	606%	585%	516%	465%
Capital Structure Ratios:				
Historical Coverage Ratio (x) (Obligated Group)	5.4	7.1	6.6	8.0
Cushion Ratio (x) (Obligated Group)	29.8	34.8	33.2	29.2
Leverage (Obligated Group)	29.5%	30.3%	26.1%	28.3%
Leverage	27.6%	28.7%	24.0%	26.0%
Profitability Ratios:				
EBIDA Margin	8.1%	8.7%	8.8%	8.6%
Operating Margin	3.0%	3.9%	4.0%	3.9%
Net Income Margin	1.2%	3.4%	4.3%	9.5%
Revenue Growth	4.0%	5.4%	5.3%	4.3%

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted.
All ratios exclude strike expenses.

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