



Allina Health

**Quarterly Financial Disclosure Statement
Six Months Ended
June 30, 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
June 30, 2016

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ALLINA HEALTH SYSTEM
Quarterly Financial Disclosure Statement
Six Months Ended June 30, 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 nearly 26,400 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for six months ended June 30, 2016 was \$2.0 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 51,800 inpatient admissions and more than 699,000 outpatient visits during the six months ended June 30, 2016. As of June 30, 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. Allina Health employs 1,350 physicians. Allina Health Group controls and operates 67 clinics, operates the clinical services lines, and employs approximately 740 physicians. Allina Health also operates three hospitalist programs on the Abbott Northwestern, United, and Unity hospital campuses, and employs approximately 170 hospitalists. Allina Specialty Associates, Inc. ("ASA"), operating under the name Minneapolis Heart Institute[®], employs approximately 80 physicians, consisting of cardiologists, cardiothoracic and vascular surgeons. In addition, Allina Health hospitals directly employ approximately 360 specialty physicians including intensivists, perinatologists, and psychiatrists. Allina Health physicians and allied professionals generated almost 3,683,400 work RVUs¹ during the six months ended June 30, 2016. The Allina Integrated Medical ("AIM") Network aligns Allina Health physicians, 1,700 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 31.4% inpatient market share as of December 31, 2015.

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

Board Member Updates

The Allina Health Board added two new members and had four members whose term expired.

The new members are:

| <u>Name</u> | <u>Profession/Association</u> | <u>Term Expiration</u> |
|-----------------|--|------------------------|
| Gary Bhojwani | President CNO Financial Group, Inc. | 2019 |
| Jennifer Alstad | Founder bswing | 2019 |

The members whose term expired are:

| <u>Name</u> | <u>Profession/Association</u> | <u>On Board Since</u> |
|---------------|--|-----------------------|
| William Beer | Retired President and CEO Wenger Corporation | 2007 |
| Mark Jordahl | President, Wealth Management Group US Bancorp | 2006 |
| Gloria Perez | President and CEO Jeremiah Program | 2008 |
| Mark Sheffert | Chairman and CEO Manchester Companies, Inc. | 2009 |

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.

Duncan Gallagher (56) – Executive Vice President, Chief Administrative Officer and Chief Financial Officer

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

Robert Wieland, M.D. (53) - Executive Vice President, Network/Integration Division

Dr. Wieland assumed the role of Executive Vice President, Network/Integration Division in November 2014. Dr. Wieland has been employed by Allina Health in various roles since 1994, and served as the 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 Abbott Northwestern Hospital. Earlier in his career he was District Medical Director within the Allina Medical Clinic and is co-founder of the Hospitalist Service at Abbott Northwestern Hospital. Dr. Wieland earned his Bachelor's Degree in Mechanical Engineering at the University of Minnesota, medical degree at the University of Minnesota Medical School and Internal Medicine training at Abbott Northwestern Hospital. Dr. Wieland has accountability for the Allina Integrated Medical Network, Strategy and Business Development, Care Management, Allina Health Pharmacy; Allina Home Oxygen and Medical Equipment; and Allina Home Care, Hospice and Palliative Care; 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. (58) – Senior Vice President, west region and President, Abbott Northwestern Hospital

Dr. Bache-Wiig was appointed President of Abbott Northwestern Hospital in October 2011. He served as Vice President of Medical Affairs for Abbott Northwestern Hospital since 2009. Dr. Bache-Wiig was previously Medical Director and Physician President of the North Clinic for 20 years. Dr. Bache-Wiig completed his undergraduate studies at Michigan State University and Doctor of Medicine at the University of Wisconsin. He is board certified in internal medicine. Dr. Bache-Wiig also has operational responsibility for New Ulm Medical Center, Owatonna and District One Hospitals, WestHealth Ambulatory Center, and medical operations.

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

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 (46) – 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. (53) – 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.

Chief Financial Officer Succession

Duncan Gallagher, Executive Vice President, Chief Administrative Officer and Chief Financial Officer, has announced his resignation at the end of 2016. Richard Magnuson, Senior Vice President, Finance and Treasury, has been appointed the next Chief Financial Officer, beginning in January 2017. Mr. Gallagher joined Allina Health in 2009, becoming the longest-tenured Chief Financial Officer in the history of Allina Health, and his leadership has contributed to many successes and key strategic initiatives. Richard Magnuson rejoined Allina Health in March 2016; Mr. Magnuson previously served Allina Health from 1987 to 2004. Prior to rejoining Allina Health, Mr. Magnuson most recently served as Chief Financial Officer of City of Hope in Southern California. Mr. Magnuson brings twelve years of payer and provider Chief Financial Officer experience to his new role having also served as Chief Financial Officer for Group Health in Seattle, Washington and Fletcher Allen Health Care in Burlington, Vermont.

Recent Initiatives and Developments

Minnesota Nurses Association 2016 Labor Negotiations

Allina Health and the Minnesota Nurses Association have been in negotiations for contracts covering nurses at Abbott Northwestern and Phillips Eye Institute, Mercy, United and Unity hospitals since February 2016. The current contracts expired on May 31, 2016 and the union called a seven-day strike from June 19 – 26, 2016. The hospitals affected by the strike remained open and fully staffed during the strike. The financial impact is discussed in more detail in the management discussion and analysis section of the financial disclosure. Allina Health is committed to bargaining in good faith and to reaching a settlement that is fair to both our valued nurses and to the patients and communities we serve. To date, a settlement has not been reached on a new contract.

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 at each campus that patients need most often. 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 will begin 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 is scheduled to be completed in fall 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 \$20.7 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 August of 2016.

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

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

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

Credit Ratings

In August 2015, Fitch Ratings affirmed Allina Health's bond rating of AA-. The outlook is stable.

In August 2015, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In August 2015, 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 CEO 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.

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

| | June 30 2016 | December 31 2015 |
|---------------------------------------|-----------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 195,109 | \$ 349,115 |
| Short-term investments | 450,929 | 351,062 |
| Patient accounts receivable, net | 485,301 | 465,058 |
| Inventories | 62,941 | 61,297 |
| Other current assets | 118,194 | 100,341 |
| | 1,312,474 | 1,326,873 |
| Long-term investments | 1,282,139 | 1,247,229 |
| Investments with limited uses | 166,472 | 149,313 |
| Land, buildings, and equipment, net | 1,149,075 | 1,142,461 |
| Other assets | 261,859 | 261,313 |
| Total assets | \$ 4,172,019 | \$ 4,127,189 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 407,361 | \$ 434,851 |
| Current portion - long-term debt | 23,420 | 23,948 |
| Other current liabilities | 73,045 | 95,093 |
| | 503,826 | 553,892 |
| Long-term debt | 840,843 | 844,436 |
| Other liabilities | 446,880 | 415,578 |
| Total liabilities | 1,791,549 | 1,813,906 |
| Net assets: | | |
| Unrestricted | 2,213,323 | 2,152,102 |
| Temporarily restricted | 111,795 | 105,903 |
| Permanently restricted | 55,352 | 55,278 |
| Total net assets | 2,380,470 | 2,313,283 |
| Total liabilities and net assets | \$ 4,172,019 | \$ 4,127,189 |

ALLINA HEALTH SYSTEM
Consolidated 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 |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Revenue: | | | | |
| Patient service revenue net of contractual adjustments | \$ 1,869,192 | \$ 1,788,142 | \$ 947,671 | \$ 902,004 |
| Provision for bad debts | <u>(38,593)</u> | <u>(50,552)</u> | <u>(15,149)</u> | <u>(26,504)</u> |
| Net patient service revenue | 1,830,599 | 1,737,590 | 932,522 | 875,500 |
| Other operating revenue | <u>120,568</u> | <u>136,779</u> | <u>61,127</u> | <u>64,458</u> |
| Total revenues | 1,951,167 | 1,874,369 | 993,649 | 939,958 |
| Expenses: | | | | |
| Salaries and benefits | 1,230,972 | 1,146,629 | 616,150 | 573,752 |
| Supplies and services | 404,939 | 411,494 | 189,762 | 211,450 |
| Depreciation and amortization | 81,949 | 74,859 | 41,158 | 37,528 |
| Financing costs | 18,687 | 12,036 | 9,658 | 6,248 |
| State assessments and taxes | 44,406 | 43,676 | 21,900 | 21,937 |
| Utilities and maintenance | 34,441 | 33,740 | 17,428 | 17,226 |
| Other operating expenses | <u>61,483</u> | <u>61,900</u> | <u>29,864</u> | <u>27,825</u> |
| Total expenses | <u>1,876,877</u> | <u>1,784,334</u> | <u>925,920</u> | <u>895,966</u> |
| Operating income before strike expenses | 74,290 | 90,035 | 67,729 | 43,992 |
| Strike expenses | <u>(20,204)</u> | <u>-</u> | <u>(20,204)</u> | <u>-</u> |
| Operating income | 54,086 | 90,035 | 47,525 | 43,992 |
| Nonoperating: | | | | |
| Investment return | 37,106 | 13,104 | 23,702 | (4,279) |
| Interest rate swap agreements | (30,207) | (2,793) | (12,358) | 13,209 |
| Contributions received in acquisitions | - | 36,718 | - | - |
| Other | <u>(1,493)</u> | <u>(1,156)</u> | <u>(1,079)</u> | <u>(696)</u> |
| Excess of revenues over expenses | <u>\$ 59,492</u> | <u>\$ 135,908</u> | <u>\$ 57,790</u> | <u>\$ 52,226</u> |

Continued on next page.

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 | June 30 | June 30 | June 30 |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Unrestricted net assets | | | | |
| Excess of revenue over expenses | \$ 59,492 | \$ 135,908 | \$ 57,790 | \$ 52,226 |
| Net assets released from restrictions for capital purposes | 2,424 | 2,404 | (451) | 2,003 |
| Amortization of unrealized loss on interest rate swap agreement | 437 | 437 | 218 | 218 |
| Other | <u>(1,132)</u> | <u>3,437</u> | <u>(695)</u> | <u>(1,096)</u> |
| Increase in unrestricted net assets | <u>61,221</u> | <u>142,186</u> | <u>56,862</u> | <u>53,351</u> |
| Temporarily restricted net assets | | | | |
| Contributions | 12,061 | 10,990 | 3,557 | 4,177 |
| Investment return | 2,704 | 1,146 | 1,701 | (94) |
| Net assets released from restrictions | (6,361) | (7,004) | (1,839) | (4,451) |
| Other | <u>(2,512)</u> | <u>(864)</u> | <u>(1,587)</u> | <u>(508)</u> |
| Increase (decrease) in temporarily restricted net assets | <u>5,892</u> | <u>4,268</u> | <u>1,832</u> | <u>(876)</u> |
| Permanently restricted net assets | | | | |
| Contributions for endowment funds | 30 | 150 | 16 | 121 |
| Investment return | <u>44</u> | <u>16</u> | <u>32</u> | <u>-</u> |
| Increase in permanently restricted net assets | <u>74</u> | <u>166</u> | <u>48</u> | <u>121</u> |
| Increase in net assets | 67,187 | 146,620 | 58,742 | 52,596 |
| Net assets at beginning of period | <u>2,313,283</u> | <u>2,178,133</u> | <u>2,321,728</u> | <u>2,272,156</u> |
| Net assets at end of period | <u>\$ 2,380,470</u> | <u>\$ 2,324,753</u> | <u>\$ 2,380,470</u> | <u>\$ 2,324,752</u> |

See accompanying notes.

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

| | Six Months Ended | |
|--|-------------------|-------------------|
| | June 30 2016 | June 30 2015 |
| Operating activities | | |
| Increase in net assets | \$ 67,187 | \$ 146,620 |
| Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 81,949 | 74,859 |
| Provision for bad debts | 38,593 | 50,552 |
| Gain on sale of properties | (584) | (1,166) |
| Unrealized loss (gain) on interest rate swaps, net | 23,790 | (3,897) |
| Realized and unrealized gain on investments, net | (28,051) | (3,876) |
| Restricted contributions | (12,091) | (11,140) |
| Contributions of cash for long-lived assets | (2,197) | (1,237) |
| Contributions received in acquisitions | - | (36,718) |
| Earnings on equity investments | (8,570) | (6,953) |
| Change in assets and liabilities net of impact from acquisitions: | | |
| Accounts receivable | (58,836) | (72,690) |
| Other current assets | (19,497) | (10,321) |
| Accounts payable and other current liabilities | (49,538) | (48,180) |
| Other assets and liabilities | 8,970 | 404 |
| Net cash and cash equivalents provided by operating activities | <u>41,125</u> | <u>76,257</u> |
| Investing activities | | |
| Proceeds from sales of properties | 5,955 | 3,075 |
| Purchases of land, buildings, and equipment | (93,934) | (91,186) |
| Contributions of cash for long-lived assets | 2,197 | 1,237 |
| Cash received in acquisitions | - | 987 |
| Draws on construction fund | - | 13 |
| Purchases and sales of investments classified as trading, net | (108,511) | 181 |
| Purchases and sales of investments with limited uses, net | (15,374) | 528 |
| Distributions received from equity investments | 6,607 | 4,883 |
| Contributions to joint ventures | (33) | (20,704) |
| Net cash and cash equivalents used in investing activities | <u>(203,093)</u> | <u>(100,986)</u> |
| Financing activities | | |
| Restricted contributions | 12,091 | 11,140 |
| Principal payments of long-term debt | (4,129) | (295) |
| Net cash and cash equivalents provided by financing activities | <u>7,962</u> | <u>10,845</u> |
| Decrease in cash and cash equivalents | (154,006) | (13,884) |
| Cash and cash equivalents at beginning of year | <u>349,115</u> | <u>180,985</u> |
| Cash and cash equivalents at end of period | <u>\$ 195,109</u> | <u>\$ 167,101</u> |

See accompanying notes.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 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 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, 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
Six months ended June 30, 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 June 30, 2016 as follows:

| | Total | Fair Value Measurements Using | | |
|---|---------------------|-------------------------------|----------------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Cash and Cash Equivalents | | | | |
| Cash | \$ 42,623 | 42,623 | - | - |
| Money Market Funds | 152,486 | 152,486 | - | - |
| Total Cash and Cash Equivalents | \$ 195,109 | 195,109 | - | - |
| Investments - Trading Securities | | | | |
| Short-Term Fixed Income | \$ 8,876 | 6,881 | 1,995 | - |
| Money Market Fund | 68,891 | 68,891 | - | - |
| Total Short-Term Fixed and Money Market | 77,767 | 75,772 | 1,995 | - |
| Equity | | | | |
| Financials | 17,929 | 17,929 | - | - |
| Consumer | 10,366 | 10,366 | - | - |
| Industrials | 10,848 | 10,848 | - | - |
| Technology | 2,647 | 2,647 | - | - |
| Healthcare | 2,309 | 2,309 | - | - |
| Global Equity Mutual Funds | 278,821 | 278,821 | - | - |
| Other Equity | 12,474 | 8,363 | 4,111 | - |
| Total Equity | 335,394 | 331,283 | 4,111 | - |
| Fixed Income | | | | |
| U.S. Treasury Securities | 168,165 | 168,165 | - | - |
| U.S. Agency Securities | 113,441 | - | 113,441 | - |
| Corporate Bonds | 186,240 | - | 186,240 | - |
| Mortgage, Commercial, & Asset Backed Securities | 106,801 | - | 106,801 | - |
| Sovereigns | 5,959 | - | 5,959 | - |
| Term Loan/Private Placements | 64,903 | - | 64,248 | 655 |
| All Asset Mutual Fund | 47,206 | 47,206 | - | - |
| Unconstrained Fixed Income Mutual Funds | 179,888 | 179,888 | - | - |
| Other | 24,115 | - | 24,115 | - |
| Total Fixed Income | 896,718 | 395,259 | 500,804 | 655 |
| Investments Accounted for at Net Asset Value | 423,189 | | | |
| Total Investments - Trading Securities | \$ 1,733,068 | 802,314 | 506,910 | 655 |
| Total Unrestricted Cash and Investments | \$ 1,928,177 | 997,423 | 506,910 | 655 |

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 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 | \$ 21,968 | 21,881 | 87 | - |
| Money Market Fund | 14,116 | 14,116 | - | - |
| Equity | 27,045 | 26,714 | 331 | - |
| Fixed Income | 57,476 | 26,654 | 30,769 | 53 |
| Investments Accounted for at Net Asset Value | 34,124 | | | |
| Restricted Foundation Trusts | 7,545 | - | 7,545 | - |
| Total Investments with Limited Uses - Trading Securities | <u>162,274</u> | <u>89,365</u> | <u>38,732</u> | <u>53</u> |
| Investments with Limited Uses - Available-for-Sale Securities | | | | |
| Money Market Fund | 4,198 | 4,198 | - | - |
| Total Investments with Limited Uses - Available-for-Sale Securities | <u>4,198</u> | <u>4,198</u> | <u>-</u> | <u>-</u> |
| Total Investments with Limited Uses | <u>\$ 166,472</u> | <u>93,563</u> | <u>38,732</u> | <u>53</u> |
| Total Cash and Investments | <u>\$2,094,649</u> | <u>1,090,986</u> | <u>545,642</u> | <u>708</u> |
| Liabilities: | | | | |
| Interest Rate Swaps | \$ 118,888 | - | 118,888 | - |

Fair Value Measurements, Level 3

| | <u>Term Loan</u> |
|--|------------------|
| Balance December 31, 2015 | \$ 1,178 |
| Total Realized and Unrealized Gains (Losses) | 13 |
| Purchases | 298 |
| Sales | (781) |
| Balance June 30, 2016 | <u>\$ 708</u> |

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 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 June 30, 2016, is as follows:

| | Net Asset Value* | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--|---------------------|-------------------------|-------------------------|-----------------------------|
| Global Bond Fund | \$ 80,675 | - | Monthly | 15 Days |
| Emerging Markets Equity Fund | 36,455 | - | Daily | 5 Days |
| Global Equity Fund | 80,745 | - | 45 Days | 15 Days |
| Fund of Hedge Funds | 983 | - | Quarterly | 90 Days |
| Private Equity Funds | 55,292 | \$ 29,224 | 10 Years | NA |
| Equity Long/Short Hedge Funds | 69,723 | - | Monthly/Quarterly | 30-90 Days |
| Emerging Market Debt Fund | 29,160 | - | Daily | Same Day |
| Opportunistic Fixed Income Hedge Funds | 104,280 | - | Quarterly | 45-90 Days |
| | <u>\$ 457,313</u> | <u>\$ 29,224</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 is an investment in a fund that invests in emerging market equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

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

Fund of Hedge Funds include investments in fund of hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The value of the investments in this category has been estimated using the net asset value per share of the investments. The fund 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 as well as a limited partnership that invests in distressed and opportunistic real estate investments. The fair value of the portfolio companies is determined using valuation techniques and procedures in accordance with recommendations by the AICPA for valuing private companies.

Equity Long/Short Hedge Funds include investments in hedge funds that invest both long and short in 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. The fund provides full disclosure of the underlying holdings.

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
Six months ended June 30, 2016 and 2015
(Unaudited)
(Dollars in thousands)

3. Fair Value Disclosures (continued)

The estimated fair value of long-term debt was \$946,737, compared to \$867,497 par value of long-term debt, as of June 30, 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 | 45,089 | 123,394 | 3.73% | % of Libor | JP Morgan |
| 2009B & C | Other liabilities | 15,060 | 41,131 | 3.74% | % of Libor | Wells Fargo |
| 2007C | Other liabilities | 34,337 | 120,500 | 3.58% | % of Libor | US Bank |
| 2001 | Other liabilities | 21,978 | 50,000 | 5.17% | SIFMA | Goldman Sachs |
| 1998A | Other liabilities | 2,424 | 15,075 | 4.44% | SIFMA | Goldman Sachs |
| Total | | \$ 118,888 | \$ 350,100 | | | |

As of June 30, 2016 Allina Health had \$18,450 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 \$2,816 less than the mark-to-market valuations.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Six months ended June 30, 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 | |
|----------|--|-----------|--|----------|--|------------|----------------------------|------------|
| | Six months ended June 30 | | Six months ended June 30 | | Six months ended June 30 | | Six months ended June 30 | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| 2009 B&C | \$ (13,103) | \$ 2,107 | \$ - | \$ - | \$ (2,575) | \$ (2,692) | \$ (15,678) | \$ (585) |
| 2007C | (7,124) | 1,432 | - | - | (1,839) | (1,950) | (8,963) | (518) |
| 2001 | (3,519) | 295 | - | - | (1,253) | (1,282) | (4,772) | (987) |
| 1998A | (44) | 63 | (437) | (437) | (313) | (329) | (794) | (703) |
| | \$ (23,790) | \$ 3,897 | \$ (437) | \$ (437) | \$ (5,980) | \$ (6,253) | \$ (30,207) | \$ (2,793) |
| | | | | | | | Totals | |
| | Three months ended June 30 | | Three months ended June 30 | | Three months ended June 30 | | Three months ended June 30 | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2014 |
| 2009 B&C | \$ (5,214) | \$ 8,841 | \$ - | \$ - | \$ (1,281) | \$ (1,342) | \$ (6,495) | \$ 7,499 |
| 2007C | (2,659) | 5,002 | - | - | (910) | (962) | (3,569) | 4,040 |
| 2001 | (1,338) | 2,488 | - | - | (608) | (632) | (1,946) | 1,856 |
| 1998A | 22 | 197 | (218) | (218) | (152) | (165) | (348) | (186) |
| | \$ (9,189) | \$ 16,528 | \$ (218) | \$ (218) | \$ (2,951) | \$ (3,101) | \$ (12,358) | \$ 13,209 |

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 12, 2016, 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 2016 | December 31 2015 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 187,424 | \$ 342,556 |
| Short-term investments | 450,929 | 351,062 |
| Patient accounts receivable, net | 466,023 | 443,268 |
| Inventories | 62,807 | 61,163 |
| Other current assets | 121,525 | 105,961 |
| | <u>1,288,708</u> | <u>1,304,010</u> |
| Long-term investments | 1,222,862 | 1,189,474 |
| Investments with limited uses | 32,026 | 17,866 |
| Beneficial interest in net assets of Allina | | |
| Foundations | 204,021 | 198,093 |
| Land, buildings, and equipment, net | 1,138,502 | 1,126,447 |
| Other assets | 195,645 | 195,114 |
| Total assets | <u>\$ 4,081,764</u> | <u>\$ 4,031,004</u> |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 393,617 | \$ 418,847 |
| Current portion long-term debt | 22,765 | 23,293 |
| Other current liabilities | 73,045 | 95,093 |
| | <u>489,427</u> | <u>537,233</u> |
| Long-term debt | 836,522 | 839,776 |
| Other liabilities | 395,229 | 356,774 |
| Total liabilities | <u>1,721,178</u> | <u>1,733,783</u> |
| Net assets: | | |
| Unrestricted | 2,148,589 | 2,091,052 |
| Temporarily restricted | 156,645 | 150,891 |
| Permanently restricted | 55,352 | 55,278 |
| Total net assets | <u>2,360,586</u> | <u>2,297,221</u> |
| Total liabilities and net assets | <u>\$ 4,081,764</u> | <u>\$ 4,031,004</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 |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Revenue: | | | | |
| Patient service revenue net of contractual adjustments | \$ 1,860,070 | \$ 1,779,478 | \$ 943,097 | \$ 897,830 |
| Provision for bad debts | <u>(38,907)</u> | <u>(50,708)</u> | <u>(15,454)</u> | <u>(26,789)</u> |
| Net patient service revenue | 1,821,163 | 1,728,770 | 927,643 | 871,041 |
| Other operating revenue | <u>112,750</u> | <u>127,331</u> | <u>57,351</u> | <u>59,508</u> |
| Total revenues | 1,933,913 | 1,856,101 | 984,994 | 930,549 |
| Expenses: | | | | |
| Salaries and benefits | 1,224,345 | 1,139,405 | 612,868 | 570,159 |
| Supplies and services | 384,452 | 391,202 | 179,174 | 200,376 |
| Depreciation and amortization | 80,489 | 74,421 | 40,715 | 37,309 |
| Financing costs | 18,505 | 11,823 | 9,568 | 6,136 |
| State assessments and taxes | 44,067 | 43,036 | 21,722 | 21,448 |
| Utilities and maintenance | 34,116 | 33,444 | 17,196 | 17,076 |
| Other | <u>73,281</u> | <u>69,210</u> | <u>36,732</u> | <u>31,402</u> |
| Total expenses | <u>1,859,255</u> | <u>1,762,541</u> | <u>917,975</u> | <u>883,906</u> |
| Operating income before strike expenses | 74,658 | 93,560 | 67,019 | 46,643 |
| Strike expenses | <u>(20,204)</u> | <u>-</u> | <u>(20,204)</u> | <u>-</u> |
| Operating income | 54,454 | 93,560 | 46,815 | 46,643 |
| Nonoperating: | | | | |
| Investment return | 36,680 | 12,871 | 23,150 | (4,120) |
| Interest rate swap agreements | (30,207) | (2,793) | (12,358) | 13,209 |
| Contributions received in acquisition | - | 36,718 | - | - |
| Other | <u>(725)</u> | <u>(748)</u> | <u>(409)</u> | <u>(416)</u> |
| Excess of revenues over expenses | <u>\$ 60,202</u> | <u>\$ 139,608</u> | <u>\$ 57,198</u> | <u>\$ 55,316</u> |

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 2016 | June 30 2015 | June 30 2016 | June 30 2015 |
| Unrestricted net assets | | | | |
| Excess of revenues over expenses | \$ 60,202 | \$ 139,608 | \$ 57,198 | \$ 55,316 |
| Net assets released from restrictions for capital purposes | 2,462 | 2,586 | (451) | 2,004 |
| Amortization of unrealized loss on interest rate swap agreement | 437 | 437 | 218 | 218 |
| Capital contributions from (to) nonobligated group affiliates, net | (5,293) | (6,067) | 2,697 | (618) |
| Other | (271) | 5,055 | 22 | 250 |
| Increase in unrestricted net assets | <u>57,537</u> | <u>141,619</u> | <u>59,684</u> | <u>57,170</u> |
| Temporarily restricted net assets | | | | |
| Contributions | 2,197 | 1,237 | (503) | 1,111 |
| Investment return | 87 | 47 | 52 | (2) |
| Net assets released from restrictions | (2,197) | (1,237) | 503 | (1,111) |
| Change in beneficial interest in net assets of Allina Foundations | 5,889 | 3,855 | 2,272 | (1,384) |
| Other | (222) | (571) | 376 | (376) |
| Increase (decrease) in temporarily restricted net assets | <u>5,754</u> | <u>3,331</u> | <u>2,700</u> | <u>(1,762)</u> |
| Permanently restricted net assets | | | | |
| Contributions for endowment funds | 11 | 18 | 2 | 9 |
| Investment return | 24 | 9 | 15 | (3) |
| Change in beneficial interest in net assets of Allina Foundations | 39 | 139 | 30 | 115 |
| Increase in permanently restricted net assets | <u>74</u> | <u>166</u> | <u>47</u> | <u>121</u> |
| Increase in net assets | 63,365 | 145,116 | 62,431 | 55,529 |
| Net assets at beginning of period | <u>2,297,221</u> | <u>2,160,336</u> | <u>2,298,155</u> | <u>2,249,923</u> |
| Net assets at end of period | <u>\$ 2,360,586</u> | <u>\$ 2,305,452</u> | <u>\$ 2,360,586</u> | <u>\$ 2,305,452</u> |

ALLINA OBLIGATED GROUP
Combined Statement of Cash Flows

(Unaudited)
(Dollars in thousands)

| | Six Months Ended | |
|--|------------------|-----------------|
| | June 30 2016 | June 30 2015 |
| Operating activities | | |
| Increase in net assets | \$ 63,365 | \$ 145,116 |
| 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 | 80,489 | 74,421 |
| Provision for bad debts | 38,907 | 50,708 |
| Gain on sale of properties and equity investments | (488) | (691) |
| Unrealized loss (gain) on interest rate swaps, net | 23,790 | (3,897) |
| Realized and unrealized gain on investments, net | (24,987) | (2,535) |
| Restricted contributions | (2,208) | (1,255) |
| Contributions of cash for long-lived assets | (2,197) | (1,237) |
| Beneficial interest in net assets of Allina Foundations | (5,928) | (3,994) |
| Capital contributions to non-obligated group affiliates, net | 5,293 | 6,067 |
| Contributions received in acquisition | - | (36,718) |
| Earnings on equity investments | (8,570) | (6,953) |
| Change in assets and liabilities net of impact from acquisitions: | | |
| Accounts receivable | (61,662) | (73,798) |
| Other current assets | (17,208) | (11,165) |
| Accounts payable and other current liabilities | (47,278) | (50,518) |
| Other assets and liabilities | 15,884 | 1,240 |
| Net cash and cash equivalents provided by operating activities | 57,202 | 84,791 |
| Investing activities | | |
| Proceeds from sales of properties | 114 | 17 |
| Purchases of land, buildings, and equipment | (92,170) | (89,474) |
| Contributions of cash for long-lived assets | 2,197 | 1,237 |
| Cash received in acquisitions | - | 987 |
| Draws on construction funds | - | 13 |
| Purchases and sales of investments classified as trading, net | (122,428) | 8,152 |
| Distributions received from equity investments | 6,607 | 4,883 |
| Contributions to joint ventures | (33) | (20,704) |
| Capital contributions to non-obligated group affiliates, net | (5,293) | (6,067) |
| Net cash and cash equivalents used in investing activities | (211,006) | (100,956) |
| Financing activities | | |
| Restricted contributions | 2,208 | 1,255 |
| Principal payments of long-term debt | (3,536) | (295) |
| Net cash and cash equivalents (used in) provided by financing activities | (1,328) | 960 |
| Decrease in cash and cash equivalents | (155,132) | (15,205) |
| Cash and cash equivalents at beginning of year | 342,556 | 175,655 |
| Cash and cash equivalents at end of period | \$ 187,424 | \$ 160,450 |

ALLINA HEALTH SYSTEM
Consolidating Balance Sheet

(Unaudited)
(Dollars in thousands)

June 30, 2016

| | Obligated Group | Other Allina Health Entities* | Allina Health System |
|---|--------------------|-------------------------------------|----------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 187,424 | \$ 7,685 | \$ 195,109 |
| Short-term investments | 450,929 | - | 450,929 |
| Patient accounts receivable, net | 466,023 | 19,278 | 485,301 |
| Inventories | 62,807 | 134 | 62,941 |
| Other current assets | 121,525 | (3,331) | 118,194 |
| | 1,288,708 | 23,766 | 1,312,474 |
| Long-term investments | 1,222,862 | 59,277 | 1,282,139 |
| Investments with limited uses | 32,026 | 134,446 | 166,472 |
| Beneficial interest in net assets of Allina | | | |
| Foundations | 204,021 | (204,021) | - |
| Land, buildings, and equipment, net | 1,138,502 | 10,573 | 1,149,075 |
| Other assets | 195,645 | 66,214 | 261,859 |
| Total assets | \$ 4,081,764 | \$ 90,255 | \$ 4,172,019 |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 393,617 | \$ 13,744 | \$ 407,361 |
| Current portion long-term debt | 22,765 | 655 | 23,420 |
| Other current liabilities | 73,045 | - | 73,045 |
| | 489,427 | 14,399 | 503,826 |
| Long-term debt | 836,522 | 4,321 | 840,843 |
| Other liabilities | 395,229 | 51,651 | 446,880 |
| Total liabilities | 1,721,178 | 70,371 | 1,791,549 |
| Net assets: | | | |
| Unrestricted | 2,148,589 | 64,734 | 2,213,323 |
| Temporarily restricted | 156,645 | (44,850) | 111,795 |
| Permanently restricted | 55,352 | - | 55,352 |
| Total net assets | 2,360,586 | 19,884 | 2,380,470 |
| Total liabilities and net assets | \$ 4,081,764 | \$ 90,255 | \$ 4,172,019 |

*Including eliminations.

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

Six Months Ended June 30, 2016

| | Obligated Group | Other Allina Health Entities* | Allina Health System |
|--|------------------|-------------------------------|----------------------|
| Revenue: | | | |
| Patient service revenue net of contractual adjustments | \$ 1,860,070 | \$ 9,122 | \$ 1,869,192 |
| Provision for bad debts | (38,907) | 314 | (38,593) |
| Net patient service revenue | <u>1,821,163</u> | <u>9,436</u> | <u>1,830,599</u> |
| Other operating revenue | <u>112,750</u> | <u>7,818</u> | <u>120,568</u> |
| Total revenues | <u>1,933,913</u> | <u>17,254</u> | <u>1,951,167</u> |
| Expenses: | | | |
| Salaries and benefits | 1,224,345 | 6,627 | 1,230,972 |
| Supplies and services | 384,452 | 20,487 | 404,939 |
| Depreciation and amortization | 80,489 | 1,460 | 81,949 |
| Financing costs | 18,505 | 182 | 18,687 |
| State assessments and taxes | 44,067 | 339 | 44,406 |
| Utilities and maintenance | 34,116 | 325 | 34,441 |
| Other | 73,281 | (11,798) | 61,483 |
| Total expenses | <u>1,859,255</u> | <u>17,622</u> | <u>1,876,877</u> |
| Operating income (loss) before strike expenses | 74,658 | (368) | 74,290 |
| Strike expenses | (20,204) | - | (20,204) |
| Operating income (loss) | 54,454 | (368) | 54,086 |
| Nonoperating: | | | |
| Investment return | 36,680 | 426 | 37,106 |
| Interest rate swap agreements | (30,207) | - | (30,207) |
| Other | (725) | (768) | (1,493) |
| Excess of revenues over expenses | <u>\$ 60,202</u> | <u>\$ (710)</u> | <u>\$ 59,492</u> |

*Including eliminations.

Continued on next page.

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

Six Months Ended June 30, 2016

| | Obligated Group | Other Allina Health Entities* | Allina Health System |
|---|---------------------|-------------------------------|----------------------|
| Unrestricted net assets | | | |
| Excess of revenue over expenses | \$ 60,202 | \$ (710) | \$ 59,492 |
| Net assets released from restrictions for capital purposes | 2,462 | (38) | 2,424 |
| Amortization of unrealized loss on interest rate swap agreement | 437 | - | 437 |
| Capital contributions from nonobligated group affiliates, net | (5,293) | 5,293 | - |
| Other | (271) | (861) | (1,132) |
| Increase in unrestricted net assets | <u>57,537</u> | <u>3,684</u> | <u>61,221</u> |
| Temporarily restricted net assets | | | |
| Contributions | 2,197 | 9,864 | 12,061 |
| Investment return | 87 | 2,617 | 2,704 |
| Net assets released from restrictions | (2,197) | (4,164) | (6,361) |
| Change in beneficial interest in net assets of Allina Foundations | 5,889 | (5,889) | - |
| Other | (222) | (2,290) | (2,512) |
| Increase in temporarily restricted net assets | <u>5,754</u> | <u>138</u> | <u>5,892</u> |
| Permanently restricted net assets | | | |
| Contributions for endowment funds | 11 | 19 | 30 |
| Investment return | 24 | 20 | 44 |
| Change in beneficial interest in net assets of Allina Foundations | 39 | (39) | - |
| Increase in permanently restricted net assets | <u>74</u> | <u>-</u> | <u>74</u> |
| Increase in net assets | 63,365 | 3,822 | 67,187 |
| Net assets at beginning of period | 2,297,221 | 16,062 | 2,313,283 |
| Net assets at end of period | <u>\$ 2,360,586</u> | <u>\$ 19,884</u> | <u>\$ 2,380,470</u> |

*Including eliminations.

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

Six Months Ended June 30, 2016

(Dollars in millions)

Operating Results

Allina Health's operating margin was 2.8% for the six months ended June 30, 2016 compared to 4.8% for the same period in 2015. Operating income decreased by \$35.9 million when compared to the same period in 2015. The decrease in operating income was due primarily to strike expenses, 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 incurred \$20.4 million of expenses related to the seven-day strike in June called by the Minnesota Nurses Association ("MNA"). Allina Health and the MNA continue to negotiate for a new contract. Operating income margin before the strike expenses was 3.8%.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 7.9% (or 8.9% before strike expenses) for the six months ended June 30, 2016 compared to 9.4% 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 | |
|--|-----------------------------|-----------------|-----------------------------|-----------------|
| | Six Months Ended June 30 | | Six Months Ended June 30 | |
| | 2016 | 2015 | 2016 | 2015 |
| EBIDA | \$ 154.0 | \$ 176.3 | \$ 153.1 | 179.6 |
| Interest income | 0.7 | 0.6 | 0.3 | 0.1 |
| Financing costs | (18.7) | (12.0) | (18.5) | (11.8) |
| Depreciation and amortization | (81.9) | (74.9) | (80.5) | (74.4) |
| Operating Income | 54.1 | 90.0 | 54.4 | 93.5 |
| Investment return | 37.1 | 13.1 | 36.7 | 12.9 |
| Interest rate swap agreements | (30.2) | (2.8) | (30.2) | (2.8) |
| Contributions received in acquisitions | - | 36.7 | - | 36.7 |
| Non-operating other | (1.5) | (1.1) | (0.7) | (0.7) |
| Excess of revenues over expenses | <u>\$ 59.5</u> | <u>\$ 135.9</u> | <u>\$ 60.2</u> | <u>\$ 139.6</u> |

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2016

Revenues

Allina Health's revenue increased \$76.8 million, or 4.1% for the six months ended June 30, 2016 as compared to 2015 due to increased volumes. Hospital net patient revenue growth was 3.1%. Through June 2016, 41.0% of net patient revenue is net inpatient revenue, up from 40.5% in 2015. The clinics (excluding hospital based) experienced an overall 5.8% increase in net patient revenue, due to clinical volumes that grew 4.7% year over year. Outpatient and clinic revenue increased 3.5% over the prior year, and remained flat at 59% as a percent of net patient revenue from 2015 to 2016.

| REVENUE | ALLINA HEALTH | | OBLIGATED GROUP | |
|------------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Six Months Ended June 30 | | Six Months Ended June 30 | |
| | 2016 | 2015 | 2016 | 2015 |
| Hospital Net Patient Revenue | \$ 1,373.9 | \$ 1,332.2 | \$ 1,373.9 | \$ 1,332.2 |
| Change | 3.1% | | 3.1% | |
| Clinic Net Patient Revenue | 356.2 | 336.8 | 346.9 | 328.2 |
| Change | 5.8% | | 5.7% | |
| Other Net Patient Revenue | 139.1 | 119.2 | 139.3 | 119.2 |
| Change | 16.7% | | 16.9% | |
| Bad Debt | (38.6) | (50.6) | (38.9) | (50.7) |
| Change | -23.7% | | -23.3% | |
| Other Revenue | 120.6 | 136.8 | 112.7 | 127.2 |
| Change | -11.8% | | -11.4% | |
| Total Revenue | <u>\$ 1,951.2</u> | <u>\$ 1,874.4</u> | <u>\$ 1,933.9</u> | <u>\$ 1,856.1</u> |
| Change | 4.1% | | 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 25.5% of total net patient revenue and 17.2% of total gross patient revenue for the six months ended June 30, 2016.

| ALLINA HEALTH | Net Patient Revenue | | Gross Patient Revenue | |
|----------------------|---------------------|---------------|-----------------------|---------------|
| | June 30 | | June 30 | |
| PAYER MIX PERCENTAGE | 2016 | 2015 | 2016 | 2015 |
| Medicare | 29.7% | 29.1% | 42.1% | 41.3% |
| Medicaid | 10.1 | 10.1 | 15.2 | 15.2 |
| Contracted Payers | 56.8 | 53.5 | 38.0 | 37.5 |
| Self Pay | 2.2 | 2.0 | 1.9 | 1.6 |
| Other | 1.2 | 5.3 | 2.8 | 4.4 |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2016

Uncompensated Care

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

Uncompensated care (the combination of uninsured, charity care, and bad debt expense) decreased \$5.4 million in gross charges, or 6.5% in 2016 compared to prior year. Decreases in charity care and uninsured discounts are attributable to increases in Medicaid and Prepaid Medical Assistance Program (PMAP) enrollment under MNsure, the State of Minnesota's solution under the federally mandated Accountable Care Act (ACA).

The schedule below reflects uncompensated care at gross charges forgone. The estimated cost of providing charity care, by applying a cost to charge ratio to charges identified as charity care, was \$10.7 million and \$8.8 million for the six months ended June 30, 2016 and 2015, respectively.

| UNCOMPENSATED CARE AT GROSS CHARGES | ALLINA HEALTH | |
|---|-----------------------------|----------------|
| | Six Months Ended June 30 | |
| | 2016 | 2015 |
| Uninsured Discount | \$ 14.6 | \$ 12.3 |
| Charity Care Discount | 24.9 | 20.5 |
| Bad Debt Expense | 38.6 | 50.6 |
| Total Uncompensated Care | <u>\$ 78.1</u> | <u>\$ 83.4</u> |
| Change | -6.4% | |
| Total Uncompensated Care as a % of Gross Patient Charges | 1.8% | 2.0% |

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2016

Volume

Allina Health experienced stable inpatient volumes and strong outpatient volumes in the six months ended June 30, 2016. Inpatient admissions increased by 0.5%, and inpatient surgeries remained flat for the six months ended June 30, 2016 from 2015. Outpatient hospital admissions and clinic work RVUs increased 3.1%, and 5.3%, respectively while outpatient surgeries decreased by 0.6%. 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 | |
| | 2016 | 2015 |
| Inpatient Hospital Admissions | 51,793 | 51,510 |
| Inpatient change from prior period | 0.5% | |
| Observation days | 11,383 | 10,691 |
| Observation days change from prior period | 6.5% | |
| Outpatient Hospital Admissions | 699,088 | 678,300 |
| Outpatient change from prior period | 3.1% | |
| Average Length of Stay (days) | 4.1 | 4.1 |
| Hospital Patient Days | 211,843 | 210,621 |
| Patient days change from prior period | 0.6% | |
| Hospital Occupancy (based on staffed beds) | 67.6% | 67.0% |
| Inpatient Surgeries | 14,862 | 14,856 |
| Outpatient Surgeries | 28,295 | 28,462 |
| Total Surgeries | 43,157 | 43,318 |
| Total surgeries change from prior period | -0.4% | |
| Clinic Work RVUs | 3,683,388 | 3,497,492 |
| Work RVUs change from prior period | 5.3% | |
| Total Case Mix | 1.49 | 1.44 |
| Medicare Case Mix | 1.83 | 1.77 |

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2016

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, 2015.

| MARKET SHARE STATISTICS | ALLINA HEALTH | |
|---|---------------------|---------------------|
| | December 31 2015 | December 31 2014 |
| Allina Metro Hospital Inpatient Market Share * | 31.4% | 31.6% |
| Change in Total Metro Market Volume** | 0.0% | -0.9% |
| * 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 2015 and December 2014 | | |

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 2.6% for the six months ended June 30, 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 | |
|---|-----------------------------|----------------|-----------------------------|----------------|
| | Six Months Ended June 30 | | Six Months Ended June 30 | |
| | 2016 | 2015 | 2016 | 2015 |
| Interest and dividends | \$ 11.8 | \$ 10.5 | \$ 11.8 | \$ 10.4 |
| Realized (losses) gains on sales of investments | (1.6) | 0.2 | (1.7) | (0.1) |
| Unrealized (losses) gains on investments | 26.9 | 2.4 | 26.6 | 2.6 |
| Interest rate swap agreements - fair value | (23.8) | 3.9 | (23.8) | 3.9 |
| Interest rate swap agreements - counterparty interest | (6.4) | (6.7) | (6.4) | (6.7) |
| Contributions received in acquisitions | - | 36.7 | - | 36.7 |
| Other | (1.5) | (1.1) | (0.7) | (0.7) |
| Total non-operating gains | <u>\$ 5.4</u> | <u>\$ 45.9</u> | <u>\$ 5.8</u> | <u>\$ 46.1</u> |

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2016

Balance Sheet and Cash Flow

Allina Health had 196 days cash on hand (DCOH) as of June 30, 2016, compared with 204 days at December 31, 2015. The decline is due in part to annual payments that occur in the first quarter.

Leverage decreased to 28.1% at June 30, 2016 down from 28.7% in December 31, 2015. Cash to debt is 223.1% as of June 30, 2016 compared to 224.3% at December 31, 2015.

System level capital spending was \$93.9 million for the six months ended June 30, 2016 compared to capital spending of \$91.2 million for the same time period in 2015.

| BALANCE SHEET & LIQUIDITY STATISTICS | ALLINA HEALTH | | OBLIGATED GROUP | |
|---|-----------------|---------------------|-----------------|---------------------|
| | June 30 2016 | December 31 2015 | June 30 2016 | December 31 2015 |
| Unrestricted cash & investments | \$ 1,928.2 | \$ 1,947.4 | \$ 1,861.2 | \$ 1,883.1 |
| Days cash on hand | 196 | 204 | 192 | 200 |
| Total Debt | \$ 864.3 | \$ 868.4 | \$ 859.3 | \$ 863.1 |
| Unrestricted net assets | \$ 2,213.3 | \$ 2,152.1 | \$ 2,148.6 | \$ 2,091.1 |
| Debt to capitalization * | 28.1% | 28.7% | 29.9% | 30.3% |
| Patient receivables | \$ 485.3 | \$ 465.1 | \$ 466.0 | \$ 443.3 |
| Days revenue in receivables, net | 49 | 48 | 47 | 46 |
| Cash to debt | 223% | 224% | 217% | 218% |
| Historical annual debt service coverage | 5.0 | 7.0 | 5.1 | 7.1 |

* Obligated Group includes Letters of Credit and Surety indebtedness

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Six Months Ended June 30, 2016

| DAYS CASH ON HAND ROLL-FORWARD | ALLINA HEALTH | |
|-----------------------------------|------------------|--------------|
| | Cash | Days |
| December 31, 2015 | \$1,947.4 | 203.5 |
| Operations | 35.7 | 3.6 |
| Growth in daily expenditures | | (5.5) |
| Investment gains | 37.1 | 3.8 |
| Proceeds from sales of properties | 6.0 | 0.6 |
| Capital expenditures | (93.9) | (9.5) |
| Debt payments | (4.1) | (0.4) |
| June 30, 2016 | <u>\$1,928.2</u> | <u>196.1</u> |

| DEBT TO CAPITALIZATION ROLL-FORWARD | ALLINA HEALTH | | |
|--|----------------|------------------|-------|
| | Debt | Equity | Cap % |
| December 31, 2015 | \$ 868.4 | \$ 2,152.1 | 28.7% |
| Operating income | | 54.1 | |
| Investment gains | | 37.1 | |
| Loss on interest rate swap agreements | | (30.2) | |
| Other non-operating losses | | (1.5) | |
| Other changes in net assets | | 1.7 | |
| Debt payments and amortization of bond premium, net | (4.1) | | |
| June 30, 2016 | <u>\$864.3</u> | <u>\$2,213.3</u> | 28.1% |

ALLINA HEALTH SYSTEM
Consolidated Utilization Statistics

| | Six Months Ended | | Twelve months ended | |
|--|------------------|-----------------|---------------------|---------------------|
| | June 30 2016 | June 30 2015 | December 31 2015 | December 31 2014 |
| Hospitals | | | | |
| Admissions * | 51,793 | 51,510 | 103,530 | 102,748 |
| Patient Days * | 211,843 | 210,621 | 419,174 | 418,567 |
| Average length of stay | 4.1 | 4.1 | 4.0 | 4.1 |
| Observation days | 11,383 | 10,691 | 21,372 | 19,192 |
| Licensed beds | 2,451 | 2,485 | 2,451 | 2,436 |
| Staffed beds | 1,722 | 1,736 | 1,736 | 1,692 |
| Outpatient admissions | 699,088 | 678,300 | 1,377,687 | 1,231,449 |
| Emergency room visits | 157,497 | 156,172 | 317,061 | 298,543 |
| Inpatient surgical procedures | 14,862 | 14,856 | 30,388 | 29,861 |
| Outpatient surgical procedures | 28,295 | 28,462 | 57,874 | 61,938 |
| Physicians and allied professionals | | | | |
| Work RVUs | 3,683,388 | 3,497,492 | 7,095,287 | 6,662,869 |
| Ambulance transports | 37,306 | 34,051 | 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 June 30, 2016 | | | | | |
|---|--------------------------|-------------------|----------------|-------------------------------|------------------------|
| Series | \$ Outstanding | Structure | Final Maturity | Credit Enhancement | YTD Average Int. Rate* |
| 2015 | 250,000 | Fixed Rate | 2045 | None | 4.81% |
| 2014 | 19,210 | Fixed Rate | 2028 | None | 2.55% |
| 2009A | 173,415 | Fixed Rate | 2029 | None | 4.89% |
| 2009B | 114,525 | Daily VRDB | 2035 | JP Morgan LOC | 0.18% |
| 2009C | 50,000 | Weekly VRDB | 2035 | Wells Fargo LOC | 0.22% |
| 2007A | 97,030 | Fixed Rate | 2022 | MBIA Insured | 5.06% |
| 2007C | 120,500 | Weekly VRDB | 2034 | Wells Fargo LOC | 0.22% |
| 1998A | 14,575 | Auction Rate | 2022 | MBIA Insured | 0.55% |
| 1993B | 17,000 | Auction Rate | 2017 | Ambac Insured | 0.29% |
| | <u>856,255</u> | Total Bonds | | | |
| Other *** | <u>8,008</u> | | | | |
| | 864,263 | Total Debt | | | |
| Fixed Rate | \$ 539,655 | | 62.4% | | |
| Hedged Variable Rate** | 299,600 | | 34.7% | (2009B, 2009C, 2007C & 1998A) | |
| Unhedged Variable Rate | 17,000 | | 2.0% | | |
| Other | <u>8,008</u> | | 0.9% | | |
| Total | <u>\$ 864,263</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 36.7% of total debt, totaling \$316,600.
- *** Other debt includes any premiums or discounts associated with fixed rate debt, capital leases, other small notes and loans that are included in debt on the balance sheet.

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

| Liquidity Support | | | | | | |
|--------------------------|-------------------|--------------------------|--------------|------------------------------|---------------------|--------------|
| Debt | Liquidity Support | Amount | Expiration | Termination Trigger - Rating | Term-Out Provisions | Counterparty |
| 2009B | Letter of Credit | \$ 114,525 | January 2017 | Allina Rating Less Than BBB | 5 Year | JP Morgan |
| 2009C | Letter of Credit | 50,000 | January 2017 | Allina Rating Less Than BBB | 5 Year | Wells Fargo |
| 2007C | Letter of Credit | <u>120,500</u> | January 2017 | Allina Rating Less Than BBB | 5 Year | Wells Fargo |
| | | <u>\$ 285,025</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, considers other asset classes and to address shifts in market expectations.

| Unrestricted Cash and Investments - Asset Allocation | | | | | |
|---|---------------|------------------|-----------|------------------|-----------|
| Unrestricted Balances | Target | 6/30/2016 | | 6/30/2015 | |
| Cash and Money Market | | 10.1% | 195,109 | 9.8% | 167,100 |
| Short-Term Fixed Income | | 23.4% | 450,929 | 20.3% | 346,434 |
| Total Liquidity Assets | 25.0% | 33.5% | 646,038 | 30.1% | 513,534 |
| Long-Term Assets | 75.0% | 66.5% | 1,282,139 | 69.9% | 1,194,362 |
| Total Unrestricted Assets | | 100.0% | 1,928,177 | 100.0% | 1,707,896 |

| Asset Allocation - Asset Class | | | | | |
|---------------------------------------|---------------------------|---------------------------------|--|---------------------------------|--|
| | Current Target Allocation | 6/30/2016 % of Long Term Assets | 6/30/2016 % Total Unrestricted Investments | 6/30/2015 % of Long Term Assets | 6/30/2015 % Total Unrestricted Investments |
| Investment | | | | | |
| Global Equity | 32.0% | 31.3% | 20.7% | 32.0% | 22.4% |
| Long/Short Equity Hedge Funds | 5.0% | 5.1% | 3.4% | 5.7% | 4.0% |
| Global Fixed Income | 35.0% | 35.9% | 23.9% | 34.9% | 24.4% |
| Fund of Hedge Funds | 0.0% | 0.1% | 0.1% | 0.1% | 0.1% |
| Opportunistic and Other | 20.0% | 20.3% | 13.5% | 19.2% | 13.4% |
| Real Return | 8.0% | 7.3% | 4.8% | 8.1% | 5.6% |
| Total Long-Term | 100.0% | 100.0% | 66.5% | 100.0% | 69.9% |
| Cash and Money Market | | | 10.1% | | 9.8% |
| Short-Term Fixed Income | | | 23.4% | | 20.3% |
| Total Liquidity | | | 33.5% | | 30.1% |

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 four direct investments in private capital with funding commitments that will be drawn down over the next several years. As of June 30, 2016 these holdings represented approximately 4.0% of unrestricted assets.

Allina Health Summary of Key Financial Ratios

| Indicators | Six Months Ended June 30, | | Year Ended December 31, | | |
|--|------------------------------|-------|-------------------------|-------|-------|
| | 2016 | 2015 | 2015 | 2014 | 2013 |
| Liquidity Ratios: | | | | | |
| Monthly DCOH* | 167 | 156 | 174 | 163 | 156 |
| Annual DCOH** | 191 | 180 | 199 | 187 | 181 |
| Traditional DCOH | 196 | 183 | 204 | 190 | 182 |
| Days Cash on Hand (Obligated Group) | 192 | 178 | 200 | 185 | 185 |
| Cash to Debt | 223% | 269% | 224% | 271% | 240% |
| Days Revenue in Receivables, net | | | | | |
| Hospitals | 52 | 49 | 51 | 48 | 50 |
| Clinics | 27 | 27 | 24 | 24 | 25 |
| VRDB Debt (in millions) | \$285 | \$286 | \$285 | \$286 | \$290 |
| Monthly liquidity to VRDB debt | 576% | 509% | 585% | 516% | 465% |
| Capital Structure Ratios: | | | | | |
| Historical Coverage Ratio (x) (Obligated Group) | 5.1 | 9.0 | 7.1 | 6.6 | 8.0 |
| Cushion Ratio (x) (Obligated Group) | 29.3 | 33.0 | 34.8 | 33.2 | 29.2 |
| Leverage (Obligated Group) | 29.9% | 24.8% | 30.3% | 26.1% | 28.3% |
| Leverage | 28.1% | 22.8% | 28.7% | 24.0% | 26.0% |
| Profitability Ratios: | | | | | |
| EBIDA Margin | 7.9% | 9.4% | 8.7% | 9.1% | 8.6% |
| Operating Margin | 2.8% | 4.8% | 3.9% | 4.3% | 3.9% |
| Net Income Margin | 3.0% | 7.3% | 3.4% | 4.3% | 9.5% |
| Revenue Growth | 4.1% | 9.1% | 5.4% | 5.3% | 4.3% |

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

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