



ALLINA HEALTH SYSTEM

Consolidated Financial Statements and Uniform Guidance
Single Audit Report

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

ALLINA HEALTH SYSTEM

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Independent Auditors' Report

The Board of Directors
Allina Health System:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Allina Health System and its subsidiaries (the System), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Minneapolis, Minnesota
March 20, 2024

ALLINA HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2023 and 2022

(Dollars in thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 227,248	237,047
Short-term investments	793,399	566,059
Patient accounts receivable	580,331	569,976
Inventories and supplies	101,741	105,205
Other current assets	227,021	187,850
Total current assets	1,929,740	1,666,137
Investments	1,667,312	2,203,099
Investments with limited uses	556,530	247,258
Operating lease right-of-use assets, net	216,413	197,188
Land, buildings, and equipment, net	1,510,090	1,403,241
Other assets	302,915	286,342
Total assets	\$ 6,183,000	6,003,265
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 583,753	583,254
Current portion of long-term debt	23,200	30,147
Current portion of operating lease liabilities	35,202	33,338
Line of credit draw	180,000	—
Other current liabilities	172,844	143,139
Total current liabilities	994,999	789,878
Long-term debt	1,684,466	1,583,518
Operating lease liabilities	207,405	188,299
Other liabilities	194,710	215,445
Total liabilities	3,081,580	2,777,140
Net assets:		
Without donor restriction:		
Controlling interest	2,868,724	3,005,530
Noncontrolling interest in subsidiaries	25,896	25,020
	2,894,620	3,030,550
With donor restriction	206,800	195,575
Total net assets	3,101,420	3,226,125
Total liabilities and net assets	\$ 6,183,000	6,003,265

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Revenues:		
Patient service revenue	\$ 4,754,094	4,532,330
Other operating revenue	401,143	355,147
Total revenues	5,155,237	4,887,477
Expenses:		
Salaries and benefits	3,413,060	3,192,956
Supplies and services	1,357,896	1,208,361
Depreciation and amortization	208,869	200,270
Financing costs	62,659	57,504
State assessments and taxes	84,764	93,930
Utilities and maintenance	98,799	92,411
Other operating expenses	250,634	211,038
Total expenses before restructuring and strike expenses	5,476,681	5,056,470
Operating loss before restructuring and strike expenses	(321,444)	(168,993)
Restructuring expenses	39,022	—
Strike expenses	—	26,787
Operating loss	(360,466)	(195,780)
Nonoperating gains (losses):		
Investment return	206,871	(223,225)
(Loss) gain on interest rate swap agreements	(1,899)	37,786
Nonservice periodic pension (losses) gains	(11)	7,825
Other	(5,456)	(5,109)
Deficiency of revenues over expenses	(160,961)	(378,503)
Less income attributable to noncontrolling interests	(2,875)	(1,449)
Deficiency of revenues over expenses – attributable to controlling interests	\$ (163,836)	(379,952)

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Net assets without donor restrictions, controlling interest:		
Deficiency of revenues over expenses	\$ (163,836)	(379,952)
Net assets released from restrictions for capital purposes	25,327	1,418
Amortization of unrealized loss on interest rate swap agreement	—	583
Other	1,703	(20,863)
Decrease in net assets without donor restrictions, controlling interest	(136,806)	(398,814)
Net assets without donor restrictions, noncontrolling interest:		
Excess of revenues over expenses	2,875	1,449
Distributions to noncontrolling interests	(3,616)	(2,232)
Other	1,617	25,803
Increase in net assets without donor restrictions, noncontrolling interest	876	25,020
Net assets with donor restrictions:		
Contributions	25,976	18,520
Investment return	18,897	(12,493)
Net assets released from restrictions	(32,792)	(16,850)
Other	(856)	(592)
Increase (decrease) in net assets with donor restrictions	11,225	(11,415)
Decrease in net assets	(124,705)	(385,209)
Net assets at beginning of year	3,226,125	3,611,334
Net assets at end of year	\$ 3,101,420	3,226,125

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended December 31, 2023 and 2022

(Dollars in thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (124,705)	(385,209)
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	208,869	200,270
Gain on sale of land, buildings, and equipment	756	(2,664)
Change in fair value of interest rate swaps	632	(47,294)
Swap termination settlement	(30,184)	—
Change in realized and unrealized gains on investments, net	(149,568)	292,648
Restricted contributions including cash for long-lived assets	(21,388)	(17,830)
Earnings on unconsolidated entities	(20,679)	(7,315)
Distributions to noncontrolling interests	3,616	2,232
Distributions received from unconsolidated entities	4,465	3,385
Changes in assets and liabilities:		
Medicare Advance Payments	—	(212,129)
Patient accounts receivable and other current assets	(46,307)	(56,581)
Accounts payable and accrued expenses and other current liabilities	1,067	18,983
Other assets and liabilities	5,884	20,742
Net cash and cash equivalents used in operating activities	<u>(167,542)</u>	<u>(190,762)</u>
Cash flows from investing activities:		
Proceeds from sales of land, buildings, and equipment	7,116	216
Purchases of land, buildings, and equipment	(294,453)	(327,172)
Contributions of cash for long-lived assets	4,588	690
Purchases of investments and investments with limited uses	(3,531,885)	(2,634,460)
Sales of investments and investments with limited uses	3,680,628	2,815,019
Investment in joint ventures	(2,909)	(35,805)
Net cash and cash equivalents used in investing activities	<u>(136,915)</u>	<u>(181,512)</u>
Cash flows from financing activities:		
Restricted contributions, net	17,265	18,320
Distributions to noncontrolling interests	(3,616)	(2,232)
Payments of short-term debt and lines of credit draws	(9,000)	—
Proceeds from line of credit draws	189,000	—
Proceeds from issuance of long-term debt, including premium	403,863	6,634
Payment of deferred debt acquisition costs	(2,710)	—
Refinancing and principal payments of long-term debt	(300,144)	(26,854)
Net cash and cash equivalents provided by (used in) financing activities	<u>294,658</u>	<u>(4,132)</u>
Decrease in cash and cash equivalents	(9,799)	(376,406)
Cash and cash equivalents at beginning of year	<u>237,047</u>	<u>613,453</u>
Cash and cash equivalents at end of year	\$ <u>227,248</u>	\$ <u>237,047</u>

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(1) Organization and Basis of Presentation

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

The System consists of four hospital campuses located in the Minneapolis and Saint Paul metropolitan area, seven hospitals located outside the metropolitan area, physician clinics, various other health care-related entities, one foundation supporting health-related services, and a captive risk management company.

The System owns 50% or more and has control in eight ambulatory surgery centers, which are consolidated in the System financial statements. Noncontrolling interests in these ambulatory surgery centers are represented as net assets without donor restrictions, noncontrolling interest in the consolidated financial statements.

In December 2022, the System established Allina Health Clinics, LLC, with the System being the sole member. Allina Health Clinics, LLC, is not a member of the Obligated Group. Clinic operations and assets were transferred to this new entity on December 31, 2022. The transfer resulted in no changes in operations of the clinics.

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

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and short-term investments with an original maturity of three months or less from the date of purchase that have not otherwise been classified as long-term assets due to a designation for long-term purposes. Cash equivalents held temporarily within investments is treated as investing activity for cash flow purposes. The System maintains its cash in bank deposit accounts, which at times exceed the federally insured limits of \$250 per institution.

(c) Pledges Receivable

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

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(d) Derivative Financial Instruments

The System used interest rate swaps as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps were used to hedge identified and approved exposures. Interest rate swaps were recognized as either assets or liabilities in accordance with the netting provisions in the counterparty agreement and were measured at fair value in accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*.

The System does not use cash flow hedge accounting for interest rate swaps. Gains or losses resulting from changes in the fair values of the interest rate swaps are reported as nonoperating gains or losses. Any differences between interest received and paid under swap agreements are reported with the change in fair value of the swaps as nonoperating gains or losses.

(e) Inventories and Supplies

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

(f) Investments in Unconsolidated Entities

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

(g) Investments with Limited Uses

Investments with limited uses are reported at fair value and include assets held by trustees for repayment of long-term debt, assets in escrow for capital projects, vendor deposits, and donor-restricted funds.

(h) Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost and depreciated using the straight-line method over their estimated useful lives. Interest cost, net of related interest income, incurred during the period for construction of capital assets is capitalized as a component of the cost of acquiring those assets and totaled \$7,825 and \$6,978 for 2023 and 2022, respectively.

The following useful lives are used in computing depreciation:

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

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(i) Leases

Leases are recognized in accordance with ASC 842, *Leases* (ASC 842). ASC 842 establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the consolidated balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of operations. Leases less than one year are expensed monthly as incurred.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how the System determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. The System uses its incremental borrowing rate as the discount rate for the lease.

The lease term for all of the System's leases includes the noncancelable period of the lease plus any additional periods covered by either a System option to extend (or not to terminate) the lease that the System is reasonably certain to exercise or an option to extend (or not to terminate) the lease controlled by the lessor.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The System monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

Operating lease ROU assets are presented as operating lease right of use assets on the consolidated balance sheet. The current portion and long-term portion of operating lease liabilities are presented separately as operating lease liabilities on the consolidated balance sheet.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(j) *Deferred Income Taxes*

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

The System follows ASC Topic 740, *Income Taxes* (ASC 740), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. As of December 31, 2023 and 2022, the System does not have any significant assets or liabilities recorded for uncertain tax benefits. The System has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions.

(k) *Self-Insurance*

The System insures its general and professional liability exposures under claims-made policies. Under these policies, the System self-insures the first \$8,000 in any one loss. In addition, for a first such loss of the policy period, the self-insured retention is increased to \$10,000, creating a \$2,000 buffer layer. This buffer layer is a one-time amount in a policy period. For subsequent claims, the retention reverts back to \$8,000. Premiums paid to the captive risk management subsidiary are based on claims in the self-insured retention layer and are eliminated upon consolidation. Claim payments required in excess of certain occurrence and annual aggregate amounts are covered under umbrella policies. A Single Parent Cell has been established on June 1, 2017, to fund claims that occur over \$4,000 self-insured retention beginning June 1, 2017. Actuarially determined amounts are contributed as premiums to pay for the estimated cost of claims. The System also participates in the Minnesota state workers' compensation reinsurance association program and retains self-insurance of \$5,000 with the fund responsible for losses above that amount. If claims-made policies presently in force are not renewed or replaced with equivalent insurance, claims asserted after the end of the policy term will be uninsured.

The provision for estimated claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

(l) *Net Assets With Donor Restrictions*

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time period or purpose and those that are required to be maintained in perpetuity.

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. In the absence of a donor specification that restricts income and gains on restricted gifts, such income and gains are reported as income of net assets without donor restrictions. In order to protect permanently restricted gifts from a loss of purchasing power, the System uses a spending rate policy to determine the portion of investment return that can be used to support operations of the current period.

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

(n) Other Operating Revenue

Other operating revenue includes income from investments in unconsolidated entities, rental income, pharmacy and ancillary sales, grant revenue, and services charged to unconsolidated entities as cost recoveries. Revenue is generally recognized at point of service for these transactions in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

(o) Deficiency of Revenues Over Expenses

Deficiency of revenues over expenses includes operating (loss) income and nonoperating gains and losses. The System's primary objective is to meet the health needs of individuals through a broad range of general and specialized healthcare services. Activities directly associated with the furtherance of this objective are considered to be operating activities. Restructuring expenses include consulting and workforce costs. Strike expenses include administrative, staffing, and travel costs associated with the Minnesota Nurses Association strike. Non-operating activities are included in nonoperating gains and losses and include investment returns, swap payments and other nonoperating results. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, consistent with industry practice, include investment return related to net assets with donor restrictions, interest rate swaps designated as cash flow hedges, and changes in liability relating to defined-benefit plans not marked to market.

(p) Investment Securities

The System classifies its investments as trading and are recorded at fair value. Investments in alternative investments are recorded at net asset value as a practical expedient to fair value. Unrealized gains and losses on trading securities are included in deficiency of revenues over expenses.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(q) Fair Value Measurements

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

(r) COVID-19 Pandemic

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The federal government declared COVID-19 a national emergency, and many federal and state authorities implemented aggressive measures in an attempt to curtail the spread of the virus and to avoid overwhelming the health care system. Many of the mandated measures to curtail the spread have since expired.

In March 2020, the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act) was signed into law, providing temporary and limited relief to hospitals during the COVID-19 outbreak. For the year ended December 31, 2022, the System received and \$16,213 in Provider Relief Fund distributions, as provided for under the CARES Act. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met.

The System submitted the required reporting on the CARES Act provider relief funding to Health Resources & Services Administration for period one on September 29, 2021, period two on March 29, 2022, period three on September 28, 2022, and period four on March 16, 2023. The System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund. If the System is unable to attest to or comply with current or future terms and conditions the ability to retain some or all of the distributions received may be impacted.

The CARES Act also provided for a deferral of payments of the employer portion of social security payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and paid the remaining half in January 2023. The System had deferred payroll taxes of \$37,752 at December 31, 2022, and recorded the deferral as a component of accounts payable and accrued expenses and other liabilities on the consolidated balance sheet. Additionally, the CARES Act provides for a payroll tax credit designed to encourage retention of employees during the pandemic. The System has evaluated its eligibility and related data for consideration of the employee retention credit and recorded \$5,272 as other operating revenue in 2022.

In total, the System recognized as other operating revenue \$21,485 from all COVID-19 funding sources, including all forms of CARES Act Funds and state funding for the year ended December 31, 2022.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

The System also received \$327,288 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP) as of December 31, 2020. Recoupment of APP funds began in April 2021 and have been applied against the advance payment balance. As of December 31, 2022, all accelerated Medicare payments have been recouped.

(3) Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (managed care and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Performance obligations satisfied over time relate to inpatient acute care and outpatient services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient. Performance obligations for patients that are in-house at period-end generally complete within days or possibly weeks of period-end therefore are estimated on a pro rata basis.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the System's policy, and/or implicit price concessions provided to uninsured patients. Estimates of contractual adjustments and discounts, or explicit price concessions, are based on contractual agreements, its discount policy (or policies), and historical experience. The estimate of implicit price concessions is based on its historical collection experience.

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Other: Payment agreements with managed care payers provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates, shared savings, pay for performance, care management, or medical home management per patient fees.

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, contracts with commercial payers also provide for retroactive audit and review of claims.

Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, or investigations. The System utilizes a process to identify and appeal certain settlements by government payers. Additional reimbursement is recorded in the year the appeal is successful. During 2023 and 2022, appeals, cost report settlements, and other adjustments to prior year estimates of variable consideration resulted in an increase of \$5,354 and \$20,597 in patient service revenue, respectively.

On November 2, 2023, the Centers for Medicare and Medicaid Services (CMS) issued the 340B Remedy Final Rule outlining the remedy for invalidated outpatient prospective payment 340B-acquired drug payment policy for calendar years 2018-2022. The System recorded an other miscellaneous receivable and outpatient service revenue of \$11,967 for the year ended December 31, 2023 for this one-time lump-sum remedy payment. The payment from CMS was received in January 2024.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

The System provides care to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

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Patient service revenue recognized in the period by type of service is as follows:

	<u>2023</u>	<u>2022</u>
Inpatient	\$ 1,754,284	1,751,217
Outpatient/ambulatory	1,764,942	1,609,993
Clinic	1,210,078	1,154,779
Transitional rehabilitation program	<u>24,790</u>	<u>16,341</u>
	<u>\$ 4,754,094</u>	<u>4,532,330</u>

Patient service revenue (before implicit price concessions) recognized in the period by major payer is as follows:

	<u>2023</u>	<u>2022</u>
Medicare and Medicaid	47 %	45 %
Managed care	49	51
Commercial and other	2	2
Self-pay	<u>2</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

The System grants credit without collateral to its patients, most of whom are residents in the communities that it serves and are insured under third-party payer agreements. The mix of patient accounts receivable by major payer as of December 31 consists of the following:

	<u>2023</u>	<u>2022</u>
Medicare and Medicaid	40 %	39 %
Managed care	43	44
Commercial and other	7	6
Self-pay	<u>10</u>	<u>11</u>
	<u>100 %</u>	<u>100 %</u>

Two managed care payers accounted for approximately 30% and 31% of patient service revenue in 2023 and 2022, respectively. Amounts due from these two managed care payers accounted for approximately 23% and 22% of patient accounts receivable at December 31, 2023 and 2022, respectively.

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(4) Community Benefits

The System follows Internal Revenue Service reporting guidelines for categories of community benefit provided in its service areas. The major components are defined below.

(a) Cost of Providing Charity Care (Also Referred to as Financial Assistance)

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

(b) Costs in Excess of Medicaid Payments

The System provides services to low-income public program enrollees (Medicaid). Public programs typically reimburse at amounts less than cost. Costs in excess of payments associated with providing care to patients who receive Medicaid assistance directly from the state are reported. In 2023, an in-depth assessment of current reporting practices and expert guidance was completed. The calculation of this category was adjusted to include costs in excess of payments associated with providing care to patients who are beneficiaries of programs reimbursed through managed care plans such as Minnesota Health Care Programs (MHCP). Managed care plans such as MHCP are a form of Medicaid, administered through managed care organizations. In Minnesota, most residents who qualify for Medicaid are required to enroll in an MHCP program unless they meet a certain list of exclusions. The adjustment to include MHCP programs resulted in an increase of \$244,000 reported for 2023.

(c) Medicaid Surcharge

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

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

The System also participates in the funding of medical care for the uninsured through a MinnesotaCare tax of 1.8% on certain patient service revenue. Patients who are unable to get insurance through their employer are eligible to participate in MinnesotaCare. In 2023, the System received new guidance regarding the reporting of MinnesotaCare tax as community benefit and has discontinued reporting MinnesotaCare tax as community benefit.

(e) Community Health Improvement Services

In the furtherance of its charitable purpose, the System provides a wide variety of community health improvement programs and activities to the various communities that it serves in response to specific needs within those communities. Examples are programs and activities designed to improve the quality of life and build healthier communities. Community services activities include, but are not limited to, health screenings, support counseling for patients and families, crisis intervention, health enhancement and wellness programs, classes on specific conditions, and telephone information services. Examples of community benefit and engagement programs operated by the System include Hello4Health, Health Powered Kids, and Change to Chill.

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(f) Subsidized Health Services

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

(g) Health Profession Education

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

(h) Research

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

(i) Cash and In-Kind Contributions

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

(j) Other Community Benefit Cost

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

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

Costs in excess of Medicare payments – The System provides services to public program enrollees (Medicare). Such public programs typically reimburse at amounts less than cost. In alignment with the adjusted calculation of costs in excess of Medicaid payments, the 2023 calculation of this category includes costs associated with providing care to patients who are Medicare Replacement beneficiaries.

Other care provided without compensation (implicit price concessions) – The System provides medical care in which charges are uncollected beyond what is provided under the definition of charity care.

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

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

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

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

	2023	2022
Cost of providing charity care (approximate charges foregone of \$42,500 and \$36,500, respectively)	\$ 15,700	13,700
Costs in excess of Medicaid payments	285,800	33,200
Medicaid surcharge	28,500	26,100
MinnesotaCare tax	—	54,400
Community health improvement services	9,100	8,600
Subsidized health services	21,400	28,900
Health professions education	26,300	23,800
Research	2,000	3,700
Cash and in-kind contributions	5,100	6,000
Other community benefit cost	3,500	4,700
Total cost of community benefit	397,400	203,100
Costs in excess of Medicare payments	698,600	248,900
Other care provided without compensation (implicit price concession)	89,400	104,500
Discounts offered to uninsured patients	52,800	48,400
Taxes and fees	3,300	3,800
Community building	900	200
Total value of community contributions	\$ 1,242,400	608,900

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(5) Cash and Cash Equivalents and Investments

The System holds cash balances that optimize large and predictable cash flows. To efficiently manage liquidity and capital, the System continually determines the necessary amount of cash and cash equivalents to hold in cash and money market funds to meet operational needs and allocates the excess to a separate investment account that is expected to generate higher yielding returns while still maintaining a high degree of liquidity and a focus on capital preservation. As added insurance, a line of credit is also maintained in the unlikely event there is an unexpected immediate cash need (note 11). In relation to the long-term investments of the System, approximately 76% of the funds can be liquidated within 30 days or less. Additionally, approximately 78% may be liquidated within one year or less.

As of December 31, financial assets without restriction, reduced by amounts that are considered to be illiquid within one year, consist of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 227,248	237,047
Short-term investments	793,399	566,059
Patient accounts receivable	580,331	569,976
Long-term investments	1,667,312	2,203,099
Less assets with liquidity over one year	<u>(349,772)</u>	<u>(352,401)</u>
	<u>\$ 2,918,518</u>	<u>3,223,780</u>

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

	<u>2023</u>	<u>2022</u>
By trustee for capitalized interest	\$ 46,941	—
In escrow for capital projects	312,954	68,400
Donor-restricted funds	194,158	176,415
Vendor deposits	<u>2,477</u>	<u>2,443</u>
	<u>\$ 556,530</u>	<u>247,258</u>

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Total investment return consists of the following:

	<u>2023</u>	<u>2022</u>
Investment earnings (losses) in net assets without donor restriction:		
Interest and dividend income	\$ 72,228	54,582
Realized gains on investments	88,448	94,878
Change in unrealized gains and losses on investments	<u>46,195</u>	<u>(372,685)</u>
	<u>206,871</u>	<u>(223,225)</u>
	<u>2023</u>	<u>2022</u>
Investment earnings (losses) in net assets with donor restrictions:		
Interest and dividend income	\$ 3,972	2,348
Realized gains on investments	10,482	6,616
Change in unrealized gains and losses on investments	<u>4,443</u>	<u>(21,457)</u>
	<u>18,897</u>	<u>(12,493)</u>
	\$ <u>225,768</u>	\$ <u>(235,718)</u>

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

	<u>2023</u>	<u>2022</u>
Nonoperating gains (losses)	\$ 206,871	(223,225)
Changes in net assets with donor restrictions	<u>18,897</u>	<u>(12,493)</u>
	\$ <u>225,768</u>	\$ <u>(235,718)</u>

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(6) Other Current Assets

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

	<u>2023</u>	<u>2022</u>
Pledges and notes receivable	\$ 5,437	5,682
Prepaid expenses	47,214	44,138
Third-party payer settlement receivables	45,642	40,655
Other miscellaneous receivables	128,728	97,375
	<u>\$ 227,021</u>	<u>187,850</u>

(7) Land, Buildings, and Equipment, Net

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

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 115,129	108,639
Buildings	1,965,249	1,929,282
Equipment	1,530,368	1,585,593
	3,610,746	3,623,514
Less accumulated depreciation and amortization	<u>(2,389,388)</u>	<u>(2,484,286)</u>
	1,221,358	1,139,228
Construction in progress	288,732	264,013
	<u>\$ 1,510,090</u>	<u>1,403,241</u>

As of December 31, 2023, the System had \$29,137 of capital in accrued accounts payable and \$315,071 of future capital commitments.

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(8) Other Assets

Other assets as of December 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Pledges and notes receivable, less current portion	\$ 2,120	2,340
Investment in unconsolidated entities	153,908	145,513
Deferred compensation	66,060	58,922
Other	80,827	79,567
	<u>\$ 302,915</u>	<u>286,342</u>

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

	Percentage ownership	Equity investment		Distributions received		Share of net earnings	
		<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
St. Francis Regional Medical Center	47.50%	\$ 88,166	76,688	—	—	11,451	219
Other entities	10% – 50%	65,742	68,825	(4,465)	(3,385)	9,228	7,096
		<u>\$ 153,908</u>	<u>145,513</u>	<u>(4,465)</u>	<u>(3,385)</u>	<u>20,679</u>	<u>7,315</u>

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

	<u>2023</u>	<u>2022</u>
Total assets	\$ 252,419	220,689
Total liabilities	59,918	52,818
Total net assets	<u>\$ 192,501</u>	<u>167,871</u>
Total revenue	\$ 217,571	198,158
Total operating expenses	205,928	190,057
Total investment return and other nonoperating	12,157	(8,937)
Excess (deficiency) of revenues over expenses	23,800	(836)
Net assets without donor restrictions:		
Other	307	1,354
Increase in net assets without donor restrictions	<u>\$ 24,107</u>	<u>518</u>

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(9) Accounts Payable and Accrued Expenses

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

	<u>2023</u>	<u>2022</u>
Trade accounts payable	\$ 177,424	145,048
Accrued payroll, taxes, and vacation	283,959	308,367
MinnesotaCare tax payable	11,948	13,965
Other	110,422	115,874
	<u>\$ 583,753</u>	<u>583,254</u>

(10) Other Current Liabilities

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

	<u>2023</u>	<u>2022</u>
Current portion of estimated reserves for professional and general liability claims	\$ 15,730	15,440
Current portion of estimated reserves for workers' compensation claims	15,094	16,041
Employee health plan claims incurred but not reported	21,942	23,769
Defined-contribution retirement plan	84,825	57,925
Due to third-party payers	35,253	29,964
	<u>\$ 172,844</u>	<u>143,139</u>

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(11) Long-Term Debt

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

	2023	2022
Variable-Rate Revenue Bonds, Series 2009B and 2009C (Allina Health System), Variable-Rate Demand Notes, average annual interest rate of 2.69% during 2023 and 2.15% at April 14, 2023 and 1.04% during 2022, and 3.61% at December 31, 2022	\$ —	164,525
Variable-Rate Revenue Bonds, Series 2007C (Allina Health System) Variable-Rate Demand Notes, average annual interest rate of 2.94% during 2023 and 2.15 at April 14, 2023 and 1.18% during 2022, and 3.61% at December 31, 2022	—	114,475
Fixed-Rate Taxable Bonds, Series 2015 (Allina Health System), maturing annually through 2045 annual interest rate of 4.805%	250,000	250,000
Fixed-Rate Revenue Bonds, Series 2017A (Allina Health System), maturing annually through 2029, annual interest rate of 5.00%	58,500	69,235
Fixed-Rate Taxable Bonds, Series 2017 (Allina Health System), maturing annually through 2047, annual interest rate of 4.43%	150,000	150,000
Fixed-Rate Taxable Bonds, Series 2019 (Allina Health System), maturing annually through 2049, annual interest rate of 3.887%	300,000	300,000
Fixed-Rate Revenue Refunding Bonds, Series 2019 (Allina Health System), maturing annual through 2029, annual interest rate of 5.00%	50,525	60,510
Fixed-Rate Taxable Bonds, Series 2021 (Allina Health System), maturing annually through 2051, annual interest rate of 2.902%	302,323	302,323
Fixed-Rate Revenue Refunding Bonds, Series 2021 (Allina Health System), maturing annual through 2040, annual interest rate of 4.00%	167,770	167,770
Fixed-Rate Revenue Refunding Bonds, Series 2023 (Allina Health System), maturing annual through 2053, annual interest rate of 5.00%	363,000	—
Other	9,340	7,308
	1,651,458	1,586,146
Unamortized portion of original issue premium	79,231	49,120
Unamortized deferred financing	(23,023)	(21,601)
Current portion	(23,200)	(30,147)
	\$ 1,684,466	1,583,518

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

In May 2023, the City of Minneapolis, on behalf of the System, issued fixed-rate Revenue Bonds, Series 2023, in the aggregate principal amount of \$363,000, with \$38,407 of premium and \$2,710 of issuance costs. The 2023 Revenue Bonds are secured by the Obligated Group's pledged revenue.

In November 2021, the System issued a fixed-rate Taxable Bond, Series 2021, in the aggregate principal amount of \$302,323. The 2021 Taxable Bonds are secured by the Obligated Group's pledged revenue.

In November 2021, the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of the System, issued fixed-rate Revenue Bonds, Series 2021, in the aggregate principal amount of \$167,770. The 2021 Revenue Bonds are secured by the Obligated Group's pledged revenue.

Aggregate annual maturities of long-term debt and mandatory sinking fund requirements, as stated under the actual debt terms, for each of the five years and thereafter following December 31, 2023 are as follows:

2024	\$	23,200
2025		25,085
2026		18,160
2027		19,020
2028		18,150
Thereafter		<u>1,547,843</u>
	\$	<u><u>1,651,458</u></u>

The System used 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. Effective June 29, 2023, the System terminated all four interest rate swaps, for a total termination amount of \$30,184, reducing the other long-term liability.

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The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2022, none of which were designated as cash flow hedging instruments:

Fixed payer interest rate swaps							
Swap	Consolidated balance sheet location	Fair value	Notional amount outstanding	Rate paid	Rate received	Average rate received in 2022	Counterparty
2009BC	Other liabilities	\$ 4,312	41,131	3.74 %	% of LIBOR	1.46 %	Wells Fargo
2009BC	Other liabilities	12,885	123,394	3.73	% of LIBOR	1.46	JP Morgan
2007C	Other liabilities	7,147	114,475	3.58	% of LIBOR	1.39	US Bank
2001	Other liabilities	5,208	44,460	4.44	SIFMA	1.19	Goldman Sachs
Total		<u>\$ 29,552</u>	<u>323,460</u>				

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

	Amount of loss on change in fair value recognized as nonoperating: gains on interest rate swap agreements		Amount of loss reclassified from unrestricted net assets into revenues over expenses as nonoperating: losses on interest rate swap agreements		Amount of interest paid to counterparty recognized as nonoperating: losses on interest rate swap agreements		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	2009BC	\$ (408)	25,852	—	—	(554)	(4,117)	(962)
2007C	253	13,728	—	—	(312)	(2,790)	(59)	10,938
2001	(477)	7,654	—	—	(401)	(1,963)	(878)	5,691
1998A	—	60	—	(583)	—	(55)	—	(578)
	<u>\$ (632)</u>	<u>47,294</u>	<u>—</u>	<u>(583)</u>	<u>(1,267)</u>	<u>(8,925)</u>	<u>(1,899)</u>	<u>37,786</u>

The System recorded the swaps' liability at fair value, which requires nonperformance risk (i.e., credit risk), to be included in the valuation. Nonperformance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This nonperformance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date.

Interest paid, net of amounts capitalized was \$52,516 and \$49,239 during 2023 and 2022, respectively.

The System entered into a syndicated revolving line of credit of \$400,000 in 2023. The interest rate on the line of credit is the Secured Overnight Financing Rate (SOFR) plus 0.60% and is secured by a note under the 1998 Master Trust Indenture. The unused line fee for the revolving line of credit is 0.12% per annum. The System terminated the Revolving Credit Agreement with Wells Fargo Bank and 364 Day Revolving Lines of Credit with JPMorgan Chase and US Bank. The System had insurance-related letters of credit applied against the line of credit in the amount of \$19,317 and \$220 at December 31, 2023 and 2022,

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respectively. There is a \$180,000 outstanding draw on the syndicated revolving line of credit at December 31, 2023. There were no draws on the lines of credit at December 31, 2022.

(12) Other Liabilities

Other liabilities as of December 31 consist of the following:

	<u>2023</u>	<u>2022</u>
Estimated reserves for professional and general liability claims, less current portion	\$ 51,230	55,701
Estimated reserves for workers' compensation claims, less current portion	37,074	31,592
Net pension and postretirement liability	18,742	17,231
Interest rate swaps payable	—	29,552
Deferred compensation	66,060	58,922
Other	21,604	22,447
	<u>\$ 194,710</u>	<u>215,445</u>

(13) Net Assets With Donor Restrictions

Net assets with donor restrictions have been restricted by donors for the following purposes as of December 31:

	<u>2023</u>	<u>2022</u>
Capital	\$ 18,974	17,569
Charity and indigent care	5,653	5,122
Education and research	32,956	31,139
Patient care	33,416	35,519
Other	57,870	49,072
	<u>\$ 148,869</u>	<u>138,421</u>

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In addition, the System holds net assets with donor restrictions that are endowed into perpetuity and only the income is available for designated purposes. Income on the following endowments is restricted. The following table represents endowment balances as of December 31:

	<u>2023</u>	<u>2022</u>
Capital	\$ 165	165
Charity and indigent care	1,806	1,806
Education and research	19,293	19,293
Patient care	12,707	12,347
Other	<u>23,960</u>	<u>23,543</u>
	<u>\$ 57,931</u>	<u>57,154</u>

(14) Fair Value Measurements

The System's investments include money market, fixed-income, and equity securities, which are carried at fair value based on quoted market prices and are classified as trading securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, the System invests in limited partnerships, limited liability partnerships, limited liability companies, and corporations that hold interests in hedge funds, private equity funds, and other commingled funds, which are accounted for at net asset value as a practical expedient to fair value, and the System recognizes the increase or decrease in the partnerships' net asset value in nonoperating gains (losses). The System generally has liquidity ranging from 30 to 90 days in limited partnerships and better than 30-day liquidity in commingled trusts.

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

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

Level 1 inputs: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, through corroboration with observable market data

Level 3 inputs: Unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or a liability (including risk assumptions) developed based on the best information available in the circumstances

ALLINA HEALTH SYSTEM

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

For Level 2 cash equivalents and fixed-income assets that rely on significant other observable inputs and significant unobservable inputs, the System employs multiple third-party information providers to help determine the fair value of the assets. Level 2 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. The System also employs an investment consultant who researches significant pricing differences between the manager and custodian on a security-by-security basis. The consultant will notify the custodian of any significant pricing issues.

For limited partnership assets and commingled monthly valued funds, the System utilizes net asset value per share or its equivalent to determine the fair value of the assets. The System has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, subject to notification period and other requirements specific to each investee.

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2023, are as follows:

	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Cash and cash equivalents:				
Cash	\$ 10,173	10,173	—	—
Money market funds	217,075	217,075	—	—
Total cash and cash equivalents	227,248	227,248	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	438,018	438,018	—	—
Money market fund	21,058	21,058	—	—
Total short-term fixed income and money market	459,076	459,076	—	—
Equities	347,640	123,461	224,179	—
Fixed income securities	1,293,195	458,904	834,291	—
Total investments accounted for at net asset value *	349,772			
Total investments – trading securities	2,449,683	1,041,441	1,058,470	—
Direct and Impact investments	11,028			
Total investments	2,460,711	1,041,441	1,058,470	—

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

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	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Investments with limited uses:				
Money market collective fund	\$ 379,012	379,012	—	—
Equities	20,042	7,118	12,924	—
Fixed income securities	81,875	40,634	41,241	—
Restricted foundation trusts (fixed income)	3,182	—	3,182	—
Investments accounted for at net asset value *	72,419			
Total investments with limited uses	556,530	426,764	57,347	—
Total	\$ 3,244,489	1,695,453	1,115,817	—

* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to amounts presented in the consolidated balance sheets.

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2022, are as follows:

	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Cash and cash equivalents:				
Cash	\$ 24,906	24,906	—	—
Money market funds	212,141	212,141	—	—
Total cash and cash equivalents	237,047	237,047	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	230	230	—	—
Money market fund	59,468	59,468	—	—
Total short-term fixed income and money market	59,698	59,698	—	—

ALLINA HEALTH SYSTEM

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	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Equities	\$ 565,455	380,542	184,913	—
Fixed income securities	1,408,731	657,021	751,710	—
Other investments – real return and multi-asset opportunistic mutual funds	64,868	64,868	—	—
Total investments accounted for at net asset value *	670,406			
Total investments – trading securities	2,769,158	1,162,129	936,623	—
Investments with limited uses:				
Money market collective fund	90,128	90,128	—	—
Equities	35,280	23,743	11,537	—
Fixed income securities	75,868	36,876	38,992	—
Real return and multi-asset opportunistic funds	4,047	4,047	—	—
Restricted foundation trusts (fixed income)	2,917	—	2,917	—
Investments accounted for at net asset value *	39,018			
Total investments with limited uses	247,258	154,794	53,446	—
Total	\$ 3,253,463	1,553,970	990,069	—
Liabilities:				
Interest rate swaps	\$ 29,552	—	29,552	—

* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to amounts presented in the consolidated balance sheets.

There were no significant transfers into or out of Level 1, Level 2, or Level 3 securities during the years ended December 31, 2023 and 2022.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent), including restricted and unrestricted assets, as of December 31, 2023 and 2022, are as follows:

	Net asset value	Unfunded commitments	December 31, 2023		
			Redemption frequency (if currently eligible)	Redemption notice period	Redemption settlement period
Private capital funds	\$ 422,191	226,128	Not redeemable	NA	NA

ALLINA HEALTH SYSTEM

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	December 31, 2022				
	Net asset value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period	Redemption settlement period
Global equity fund	\$ 153,867	—	Bi-Monthly	10 days	Up to 10 days
Emerging markets equity fund	91,005	—	Daily/Weekly	5/10 days	Up to 7–10 days
Equity long/short hedge funds	28,366	—	Monthly/Quarterly	5–90 days	Up to 10–90 days
Opportunistic fixed-income hedge funds	63,275	—	Quarterly/Semi- Annual	45–90 days	1–90 days
Private capital funds	372,911	265,870	Not redeemable	NA	NA
Total	\$ 709,424	265,870			

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

Emerging markets equity fund included two funds that invest in emerging market equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

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

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

Private capital funds represent investments in private equity, private credit, and real assets. These funds include a diversified approach and include limited partnership investments in the following categories: health care services and information technology companies; venture capital investments in health care companies early growth stage health care private equity investments; senior secured and floating rate loans to middle-market United States companies; co-investments in intermediate-term opportunities sourced by absolute return, private capital, and real asset managers; value-add and opportunistic real estate; special situation and other opportunistic investments distressed and opportunistic real estate investments; single family rental properties; investments in the financial services industry; investments in companies in the energy industry; and buyout investments globally. The value of the investments in this category has been estimated using the net asset value per share of the investments.

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

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(Dollars in thousands)

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2023, are as follows:

	<u>Total</u>	<u>Fair value measurements using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual funds	\$ 58,187	58,187	—	—
Guaranteed investment contracts	7,873	—	—	7,873
Total assets	\$ <u>66,060</u>	<u>58,187</u>	<u>—</u>	<u>7,873</u>

	<u>Fair value measurements, Level 3</u>
Balance, December 31, 2022	\$ 7,693
Total interest income	200
Purchases	1,960
Sales	<u>(1,980)</u>
Balance, December 31, 2023	\$ <u>7,873</u>

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2022, are as follows:

	<u>Total</u>	<u>Fair value measurements using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Mutual funds	\$ 51,229	51,229	—	—
Guaranteed investment contracts	7,693	—	—	7,693
Total assets	\$ <u>58,922</u>	<u>51,229</u>	<u>—</u>	<u>7,693</u>

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

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(Dollars in thousands)

	Fair value measurements, Level 3
Balance, December 31, 2021	\$ 8,018
Total interest income	222
Purchases	2,585
Sales	(3,132)
Balance, December 31, 2022	\$ 7,693

(15) Benefit Plans

(a) Defined-Benefit Cash Balance Plans

The System is making contributions pursuant to provisions of a collective bargaining agreement. The assets for these active participants are in a stand-alone, defined-benefit pension plan, known as the Allina Health Pension Plan for Collectively Bargained Employees. This plan holds assets of \$13,611 and \$12,725 at December 31, 2023 and 2022, respectively, which are fair value measured using Level 1 criteria. This plan has a projected benefit obligation of \$14,886 and \$14,054, using a discount rate of 5.03% and 5.25% as of December 31, 2023 and 2022, respectively. The System made contributions of \$967 and \$0 and recorded a total pension loss of \$914 and \$135 in 2023 and 2022, respectively. The unfunded balance of \$1,275 and \$1,329, respectively, as of December 31, 2023 and 2022, is reported in the consolidated balance sheets as a noncurrent other liability.

The defined-benefit pension plan of Courage Center was assumed in June 2013 with the acquisition of Courage Center. This plan, which was frozen in 2009, holds assets of \$26,700 and \$26,241, as of December 31, 2023 and 2022, respectively, which are fair value measured using Level 2 criteria and has a projected benefit obligation of \$31,866 and \$31,360, using a discount rate of 4.75% and 4.95% as of December 31, 2023 and 2022, respectively. The System made contributions of \$0 and \$0 in 2023 and 2022, respectively, and recorded a total pension (loss) return of (\$47) and \$6,714 in 2023 and 2022, respectively. The unfunded balance of \$5,166 and \$5,119 as of December 31, 2023 and 2022, respectively, is reported in the consolidated balance sheets as a noncurrent other liability.

During 2024, the System expects to make required pension contributions totaling approximately \$0 for the plans but may elect to make additional contributions.

ALLINA HEALTH SYSTEM

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Expected future benefit payments for the plans for the ten years following December 31, 2023, are as follows:

2024	\$	3,666
2025		3,328
2026		3,187
2027		3,448
2028		3,369
2029–2033		<u>17,002</u>
	\$	<u><u>34,000</u></u>

(b) Multiemployer Plans

Contributions to the union-sponsored multiemployer plans are made in accordance with collective bargaining agreements. The risks of participation in these multiemployer plans are different from single-employer plans in the following aspects: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (c) if the System chooses to stop participating in some of its multiemployer plans and, if the plan is underfunded, the System may be required to pay those plans an amount based on the underfunded status of the plan, referred to as the withdrawal liability. The System’s participation in these plans for the year ended December 31, 2023, is outlined in the table below. The “EIN/Pension plan number” column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2023 and 2022 is for the plan’s year-end at December 31, 2022 and 2021, respectively. The zone status is based on information that the System received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP status pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective bargaining agreement(s) to which the plans are subject:

Pension fund	EIN/Pension plan number	PPA status		FIP/RP status pending/implemented	Contributions of the System in plan year		Surcharge imposed	Expiration date of collective bargaining agreement
		2022	2021		2022	2021		
Tw in City Hospitals Minnesota Nurses Association Pension Plan	41-6184922-001	Green	Green	N/A	\$ 51,338	48,825	No	May 31, 2025
Other funds					<u>3,466</u>	<u>3,177</u>		
Total contributions					\$ <u><u>54,804</u></u>	<u><u>52,002</u></u>		

ALLINA HEALTH SYSTEM

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Total amounts expensed under the union-sponsored multiemployer plans were \$54,648 and \$55,922 for 2023 and 2022, respectively.

The System contributes more than 5% of the total contributions to all of the plans in which it participated for the plan years 2021 and 2020. The System is required to make minimum contributions each year and will make contributions of \$41,339 in 2024.

(c) Defined-Contribution Plans

Certain employees of the System are eligible to participate in defined-contribution plans, whereby 50% of the employees' initial 4.0% of salary contributions is matched. The System provides an additional annual nonelective employer contribution for eligible employees to the defined-contribution plans. The additional contribution is given as a percent of pay, ranging from 3.0% to 4.5%, based on years of vesting service. Contributions are made during the year following the calendar year-end. The contribution payable to employees is recorded in other current liabilities. Total amounts expensed under defined-contribution plans were \$90,160 and \$85,969 for 2023 and 2022, respectively.

(d) Postretirement Welfare Benefits

The System provides postretirement welfare benefits to certain employees. Postretirement welfare cost was \$825 and \$925 for 2023 and 2022, respectively. As of December 31, 2023 and 2022, accumulated postretirement benefit obligation was \$12,094 and \$10,762, respectively, and accrued postretirement benefit cost was \$12,046 and \$10,743, respectively. A discount rate of 5.05%, a rate of return on plan assets of 3.0%, and a medical plan trend rate of 7.0% in 2023, decreasing to 5.0% in 2033 and thereafter, have been assumed.

(16) Self-Insurance Reserves

The System has made provisions for estimated professional and general liability and workers' compensation claims that have been retained by the System because of deductible provisions of various policies or because of unasserted claims and other uninsured exposures. Reserves of \$119,128 and \$118,774 as of December 31, 2023 and 2022, respectively, have been recorded based on undiscounted historical data for professional and general liability and for workers' compensation claims.

Under the comprehensive welfare benefit plan, the System has made provisions for claims reported but not paid and claims incurred but not reported of \$21,942 and \$23,769 as of December 31, 2023 and 2022, respectively. Management of the plan believes the provisions are adequate to cover claims incurred.

The System has a fixed-rate surety bond in the amount of \$52,003 at December 31, 2023 and 2022. The surety bond was obtained in connection with the System's self-insured workers' compensation program at a rate of 0.35% per annum.

The System has an unused letter of credit totaling \$328 through May 31, 2024. The letter of credit was obtained in connection with the System's construction programs at a fee of 0.75% per annum. The System also has an unused letter of credit totaling \$18,989 through December 31, 2025 that was obtained in connection with the Centers for Medicare and Medicaid Services program at a fee of 0.75% per annum.

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(17) Taxes

The System has been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The System has also been determined to be exempt from federal and state income tax on related income under Section 501(a) of the Internal Revenue Code and Minnesota Statute Section 290.05, Subdivision 2. Certain of the System's subsidiaries and affiliates qualify as tax-exempt organizations, while others are taxable. The System and its subsidiaries paid taxes of \$2,590 and \$1,921 in 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the taxable subsidiaries of the System's continuing operations had a gross deferred tax asset of \$48,485 and \$45,916, respectively, resulting from net operating loss carryforwards, employee compensation and benefits accruals, and depreciation, offset by valuation allowances of \$29,685 and \$28,815, respectively.

As of December 31, 2023 and 2022, the continuing operations of the System and its subsidiaries had net operating loss carryforwards of \$127,705 and \$128,287, respectively, for income tax purposes, which \$93,148 will expire in various years through 2030 and with \$34,557 having an indefinite carryover period.

The System has analyzed income tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The System believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the System's consolidated financial statements. As of December 31, 2023 and 2022, the System does not have any significant liabilities for uncertain tax benefits. The filings for the years ended 2019 to 2022 are open to examination by federal and state authorities.

(18) Leases

The System has various noncancelable operating occupancy lease agreements and other operating lease agreements for computer, medical, communication, and other equipment. The terms of certain of the lease agreements contain lease escalation clauses, allow for renewal of the leases, and require the System to pay operating costs in addition to minimum base rent.

The weighted average terms of operating leases were 8.2 years and 8.4 years for the years ended December 31, 2023 and 2022, respectively. The weighted average discount rate of operating leases was 3.0% and 3.0% for the years ended December 31, 2023 and 2022, respectively.

The System incurred operating lease expense of \$39,941 and \$39,487 for the years ended December 31, 2023 and 2022, respectively.

The System added right of use assets in exchange for lease obligations resulting from lease modifications and reassessments in the amount of \$13,380 and \$27,605 for the years ended December 31, 2023 and 2022, respectively.

ALLINA HEALTH SYSTEM

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Maturities of operating lease liabilities as of December 31, 2023 are as follows:

2024	\$	42,302
2025		38,144
2026		35,332
2027		31,297
2028		26,908
Thereafter		<u>101,152</u>
Total undiscounted lease payments		275,135
Less imputed interest		<u>(32,528)</u>
Total lease liabilities		<u>\$ 242,607</u>

(19) Commitments and Contingencies

Approximately 41% of employees are represented by various collective bargaining arrangements, of whom approximately 5% are represented by arrangements that are pending or expire within one year.

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

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

ALLINA HEALTH SYSTEM

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(20) Functional Expenses

The System provides health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets as of December 31, 2023, with 2022 corresponding totals, are as follows:

	Healthcare services	General and administration	Total
2023:			
Salaries and benefits	\$ 3,071,754	341,306	3,413,060
Supplies and services	1,154,212	203,684	1,357,896
Depreciation and amortization	154,563	54,306	208,869
Financing costs	62,659	—	62,659
State assessments and taxes	77,864	6,900	84,764
Utilities and maintenance	83,979	14,820	98,799
Other operating expenses	213,585	37,049	250,634
Restructuring	—	39,022	39,022
	<u>\$ 4,818,616</u>	<u>697,087</u>	<u>5,515,703</u>
2022:			
Salaries and benefits	\$ 2,841,731	351,225	3,192,956
Supplies and services	1,027,107	181,254	1,208,361
Depreciation and amortization	150,203	50,067	200,270
Financing costs	57,504	—	57,504
State assessments and taxes	80,530	13,400	93,930
Utilities and maintenance	78,549	13,862	92,411
Other operating expenses	179,382	31,656	211,038
Strike expenses	26,787	—	26,787
	<u>\$ 4,441,793</u>	<u>641,464</u>	<u>5,083,257</u>

(21) Subsequent Events

The System has evaluated subsequent events from the consolidated balance sheet date through March 20, 2024, the date at which the consolidated financial statements were issued, and determined there are no items to disclose, other than described below.

On February 1, 2024, the System announced a strategic relationship with Optum that enables the System to leverage Optum's innovative technology, resources, and capabilities. The relationship will allow continued advancement of information system solutions to improve patient and provider experience, streamline the billing experience for patients and providers by implementing industry-leading technologies and processes, and adopt innovative technologies at an accelerated pace. Approximately 2,000 System employees in Information Services and Revenue Cycle Management will become employees of Optum effective May 5, 2024.

ALLINA HEALTH SYSTEM

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Change Healthcare (Change), a division of United Health Care Group (UHG), was subject of a cyberattack in late February 2024. Change provides electronic prescribing, electronic payment capability, insurance batch eligibility, and electronic medical claims (billing) services to the System. As a result of the cyber event, the System disconnected from Change, resulting in an inability to bill certain claims, verify insurance coverage and verify preauthorization status for hospital services. The System also activated manual workarounds for affected areas. Due to the inability to bill certain claims, the System has drawn \$200,000 on an existing line of credit for liquidity purposes.

The duration and extent of this business interruption is being actively monitored by management with the electronic prescribing currently online. It is expected that Change billing and insurance services will be available the week of March 18th, 2024. Once Change is back online, there will be a period of time where customers, like the System, will need to restore their connectivity and work through the back log of claims.

The financial impact on the System is unknown. The System is actively working with its commercial payers to ensure patient billings are filed as timely and as accurately as possible. UHG, the U.S. Department of Health and Human Services and the Center for Medicare and Medicaid Services are working to ensure patient care is not interrupted and that cash flow to impacted providers is maintained.



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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Board of Directors
Allina Health System:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Allina Health System (the System), which comprise the System's consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 20, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Minneapolis, Minnesota
March 20, 2024



KPMG LLP
Suite 600
350 N. 5th Street
Minneapolis, MN 55401

Independent Auditors' Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Allina Health System

Report on Compliance for the Major Federal Program

Opinion on The Major Federal Program

We have audited Allina Health System's (System) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the System's major federal program for the year ended December 31, 2023. The System's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the System's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not



absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the System as of and for the year ended December 31, 2023, and have issued our report thereon dated March 20, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
September 9, 2024

ALLINA HEALTH SYSTEM
Schedule of Expenditures of Federal Awards
Year ended December 31, 2023

Federal grantor/program title/pass-through agency	Pass-through agency	CFDA no./Contract no.	Contract no.	Federal expenditures	Subrecipients
Research and development cluster:					
U.S. Department of Health & Human Services:					
Administration for Community Living:					
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	University of Minnesota	93.433	N010473303	\$ 67,368	—
National Heart, Lung, and Blood Institute:					
Cardiovascular Diseases Research	Massachusetts General Brigham	93.837	5U01HL123336-06	39,212	—
Cardiovascular Diseases Research	VoluMetrix LLC	93.837	2R44HL14069-04A1	26,462	10,548
Total for National Heart, Lung, and Blood Institute:				<u>65,674</u>	<u>10,548</u>
National Institute of Neurological Disorders:					
Extramural Research Programs in the Neurosciences and Neurological Disorders	University of Cincinnati	93.853	010785-133368	9,876	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	University of Cincinnati	93.853	012340-133368	2,022	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	University of Cincinnati	93.853	012043-133368	11,074	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	Stanford University	93.853	1R01NS121720-01	9,535	—
Total for Extramural Research Programs in the Neurosciences and Neurological Disorders				<u>32,507</u>	<u>—</u>
National Institute of Aging:					
Aging Research	MOAI Technologies	93.866	1R43AG066270-01A1	2,046	—
Aging Research	Duke University	93.866		2,390	—
Total for National Institute of Aging				<u>4,436</u>	<u>—</u>
National Institutes of Health:					
Trans-NIH Research Support	Regents of the University of Minnesota	93.310	PO10523201	22,702	—
National Institute of Child Health and Human Development:					
Child Health and Human Development Extramural Research	HealthPartners Institute	93.865	1R01HD107753-01	31,022	—
National Institute of Drug Abuse:					
Drug Abuse and Addiction Research Program	Hennepin Healthcare Research Institute	93.279	15390-23	23,933	—
Total for U.S. Department of Health & Human Services				<u>247,642</u>	<u>10,548</u>
U.S. Department of Defense:					
Military Medical Research and Development	Oregon Health & Science University	12.420	1013370	57,908	—
Total research and development cluster				<u>305,550</u>	<u>10,548</u>
Other Federal Awards:					
U.S. Department of Health & Human Services:					
Substance Abuse and Mental Health Services Administration:					
Opioid STR	State of MN	93.788	Contract# 192601/192970	343,415	—
Block Grants for Community Mental Health Services	MN Department of Health	93.958	230873	135,132	—
Total for Substance Abuse and Mental Health Services Administration				<u>478,547</u>	<u>—</u>
Health Resources & Services Administration:					
Rural Health Research Centers	Minnesota Department of Health	93.155	Contract# 20428/20430/20445	354,314	—
Small Rural Hospital Improvement Program	Minnesota Department of Health	93.301	Contract 216683	10,100	—
Provider Relief Fund	N/A	93.498	N/A	16,213,041	—
HIV Emergency Relief Project Grants	Hennepin County	93.914	HS00000522-5/HS000000522-6	672,885	—
HIV Care Formula Grants	Hennepin County	93.917	HS00000542-2	45,765	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	HealthPartners Institute	93.286	186591	79,000	—
Total for Health Resources & Services Administration				<u>17,375,105</u>	<u>—</u>
Centers for Disease Control:					
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	MN Department of Health	93.391	210905	25,000	—
Strengthening Public Health Systems and Services and Services through National Partnership to Improve and Protect the Nation's Health Immunization Cooperative Agreements	The Task Force for Global Health	93.421	NU38OT000316	73,000	—
	Hennepin Healthcare System	93.268	NH23IP922628	197,328	—
Total for Centers for Disease Control				<u>295,328</u>	<u>—</u>
Total Other Federal Awards				<u>18,148,980</u>	<u>—</u>
Total Expenditures of Federal Awards				<u>\$ 18,454,530</u>	<u>10,548</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

ALLINA HEALTH SYSTEM

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2023

(1) Basis of Presentation

The purpose of the schedule of expenditures of federal awards (the Schedule) is to present those activities of Allina Health System (the System) for the year ended December 31, 2023, which have been financed by the U.S. government. For purposes of the Schedule, federal awards include all federal assistance entered into directly between the System and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. The Schedule does not include payments received under Medicare and Medicaid reimbursement programs. Since the Schedule presents only a selected portion of the activities of the System, it is not intended to, and does not, present the consolidated financial position, revenue and expenses, changes in net assets, and cash flows of the System.

Expenditures are recognized as incurred using the accrual method of accounting, except for PRF whose accounting is described below.

(2) Relationship to the Consolidated Financial Statements

Federal awards revenue is reported as other revenue in the consolidated financial statements of the System.

(3) Indirect Cost Rates

Expenditures for federal programs are subject to the provisions of Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Under these cost principles, certain types of expenditures are not allowed or are limited as to reimbursement. Expenditures include a portion of costs associated with general institute activities (facilities and administrative costs or indirect costs), which are allocated to federal awards under negotiated formulas commonly referred to as facilities and administrative cost rates. Facilities and administrative costs allocated to such awards for the year ended December 31, 2023 were based on provisional rates of 49% negotiated with the System's oversight federal agency, the U.S. Department of Health and Human Services, and are included as a component of the expenditures in the Schedule. Lower facilities and administrative cost rates were used when specifically stated in respective grant agreements.

(4) Provider Relief Fund

The Provider Relief Fund (PRF) program is administered by the Health Resources and Services Administration to support eligible providers during the COVID-19 pandemic and was approved for funding originally under the Coronavirus Aid, Relief, and Economic Securities Act. Funds were provided to eligible providers to support healthcare related expenses or lost revenues attributable to the Coronavirus without application but rather with terms and conditions. These terms and conditions required acceptance through an online portal or the funds were to be returned. The System accepted the terms and conditions.

The accompanying schedule of expenditures of Federal awards includes PRF for Reporting Period 5 (defined as payments received between January 1, 2022 to June 30, 2022) and Reporting Period 6 (defined as payments received between July 1, 2022 and December 31, 2022). The Tax Identification Number (TIN) that received PRF funds for Periods 5 and 6 is as follows: Allina Health System is 363261413.

ALLINA HEALTH SYSTEM
Schedule of Findings and Questioned Costs
Year ended December 31, 2023

(1) Summary of Auditors' Results

- a. Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- c. Noncompliance material to the consolidated financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- e. Type of report issued on compliance for major programs: Unmodified
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): No
- g. Major program:
 - **ALN 93.498: Provider Relief Fund**
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Consolidated Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None