ALLINA HEALTH SYSTEM

Uniform Guidance Single Audit Report

December 31, 2022

(With Independent Auditors’ Report Thereon)

ALLINA HEALTH SYSTEM

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

Independent Auditors' Report

The Board of Directors
Allina Health System:

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, 2022 and 2021, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of December 31, 2022 and 2021, 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, 2023 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 15, 2023

ALLINA HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2022 and 2021

(Dollars in thousands)

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	237,047	613,453
Short-term investments		566,059	599,722
Patient accounts receivable		569,976	565,687
Inventories and supplies		105,205	92,784
Other current assets		187,850	148,288
Total current assets		1,666,137	2,019,934
Investments		2,203,099	2,527,402
Investments with limited uses		247,258	362,499
Operating lease right-of-use assets, net		197,188	178,701
Land, buildings, and equipment, net		1,403,241	1,273,891
Other assets		286,342	299,423
Total assets	$	6,003,265	6,661,850
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	583,254	583,301
Current portion of long-term debt		30,147	27,293
Current portion of operating lease liabilities		33,338	33,811
Current portion of Medicare Advance Payments		—	212,129
Other current liabilities		143,139	124,109
Total current liabilities		789,878	980,643
Long-term debt		1,583,518	1,609,890
Operating lease liabilities		188,299	161,521
Other liabilities		215,445	298,462
Total liabilities		2,777,140	3,050,516
Net assets:			
Without donor restriction:			
Controlling interest		3,005,530	3,404,344
Noncontrolling interest in subsidiaries		25,020	—
		3,030,550	3,404,344
With donor restriction		195,575	206,990
Total net assets		3,226,125	3,611,334
Total liabilities and net assets	$	6,003,265	6,661,850

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2022 and 2021

(Dollars in thousands)

		2022	2021
Revenues:			
Patient service revenue	$	4,532,330	4,469,730
Other operating revenue		355,147	389,012
Total revenues		4,887,477	4,858,742
Expenses:			
Salaries and benefits		3,192,956	2,964,516
Supplies and services		1,208,361	1,144,916
Depreciation and amortization		200,270	194,909
Financing costs		57,504	47,196
State assessments and taxes		93,930	85,093
Utilities and maintenance		92,411	87,886
Other operating expenses		211,038	205,460
Total expenses		5,056,470	4,729,976
Operating (loss) income before strike expenses		(168,993)	128,766
Strike expenses		26,787	—
Operating (loss) income		(195,780)	128,766
Nonoperating gains (losses):			
Investment return		(223,225)	246,068
Gain on interest rate swap agreements		37,786	8,827
Nonservice periodic pension gains		7,825	3,684
Other		(5,109)	(6,290)
(Deficiency) excess of revenues over expenses		(378,503)	381,055
Less income attributable to noncontrolling interests		(1,449)	—
(Deficiency) excess of revenues over expenses – attributable to controlling interests	$	(379,952)	381,055

(Continued)

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2022 and 2021

(Dollars in thousands)

		2022	2021
Net assets without donor restrictions, controlling interest:			
(Deficiency) excess of revenues over expenses	$	(379,952)	381,055
Net assets released from restrictions for capital purposes		1,418	6,157
Amortization of unrealized loss on interest rate swap agreement		583	874
Other		(20,863)	23,233
(Decrease) increase in net assets without donor restrictions, controlling interest		(398,814)	411,319
Net assets without donor restrictions, noncontrolling interest:			
Excess of revenues over expenses		1,449	—
Distributions to noncontrolling interests		(2,232)	—
Other		25,803	—
Increase in net assets without donor restrictions, noncontrolling interest		25,020	—
Net assets with donor restrictions:			
Contributions		18,520	26,562
Investment return		(12,493)	16,686
Net assets released from restrictions		(16,850)	(22,947)
Other		(592)	(13)
(Decrease) increase in net assets with donor restrictions		(11,415)	20,288
(Decrease) increase in net assets		(385,209)	431,607
Net assets at beginning of year		3,611,334	3,179,727
Net assets at end of year	$	3,226,125	3,611,334

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

(Dollars in thousands)

		2022	2021
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(385,209)	431,607
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents (used in) provided by operating activities:			
Depreciation and amortization		200,270	194,909
Gain on sale of land, buildings, and equipment		(2,664)	(16,304)
Change in fair value of interest rate swaps		(47,294)	(21,549)
Change in realized and unrealized gains on investments, net		292,648	(223,605)
Restricted contributions including cash for long-lived assets		(17,830)	(26,551)
Earnings on unconsolidated entities		(7,315)	(13,635)
Distributions to noncontrolling interests		2,232	—
Distributions received from unconsolidated entities		3,385	5,693
Changes in assets and liabilities:			
Medicare Advance Payments		(212,129)	(115,159)
Patient accounts receivable and other current assets		(56,581)	(46,442)
Accounts payable and accrued expenses and other current liabilities		18,983	78,051
Other assets and liabilities		20,742	(67,793)
Net cash and cash equivalents (used in) provided by operating activities		(190,762)	179,222
Cash flows from investing activities:			
Proceeds from sales of land, buildings, and equipment		216	25,037
Purchases of land, buildings, and equipment		(327,172)	(188,967)
Contributions of cash for long-lived assets		690	11
Purchases of investments and investments with limited uses		(2,634,460)	(2,283,309)
Sales of investments and investments with limited uses		2,815,019	1,823,975
Investment in joint ventures		(35,805)	(5,989)
Net cash and cash equivalents used in investing activities		(181,512)	(629,242)
Cash flows from financing activities:			
Restricted contributions, net		18,320	26,669
Change in outstanding checks payable		—	(27,905)
Distributions to noncontrolling interests		(2,232)	—
Payments of short-term debt and lines of credit draws		—	(100,000)
Proceeds from issuance of long-term debt, including premium		6,634	503,539
Payment of deferred debt acquisition costs		—	(12,929)
Refinancing and principal payments of long-term debt		(26,854)	(24,410)
Net cash and cash equivalents (used in) provided by financing activities		(4,132)	364,964
Decrease in cash and cash equivalents		(376,406)	(85,056)
Cash and cash equivalents at beginning of year		613,453	698,509
Cash and cash equivalents at end of year	$	237,047	613,453

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Presentation

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

The System consists of 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 seven 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. Outstanding checks that are book or bank overdrafts are classified as cash flows from financing activities in the consolidated statements of cash flows. 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.

(d) Derivative Financial Instruments

The System uses interest rate swaps as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to hedge identified and approved exposures. Interest rate swaps are recognized as either assets or liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value 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 $6,978 and $2,410 for 2022 and 2021, respectively.

(Dollars in thousands)

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

(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.

(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, 2022 and 2021, 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.

(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) Operating Income Before Strike Expenses

Revenue, gains, expenses, and losses (expect for those items identified as strike expenses) are included in operating income before strike expenses.

In 2022, administrative, staffing, and travel costs associated with the Minnesota Nurses Association strike resulted in expenses of $26,787.

(p) Excess (Deficiency) of Revenues Over Expenses

Excess (deficiency) of revenues over expenses includes operating (loss) income and nonoperating gains and losses. 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.

(q) 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) excess of revenues over expenses.

(r) Fair Value Measurements

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

(s) 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 years ended December 31, 2022 and 2021, the System received $16,213 and $58,916, respectively in Provider Relief Fund distributions, as provided for under the CARES Act. Generally, these distributions from the Provider Relief Fund are not subject to repayment, provided the recipient is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. In addition, the System received $636 in other federal and state funding as a result of other stimulus programs for the years ended December 31, 2021. 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, and period three on September 28, 2022. 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 the remaining half until January 2023. The System has deferred payroll taxes of $37,752 at December 31, 2022 and 2021, 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. The System also recorded $2,587 in relief from the Emergency Unemployment Relief for Governmental Entities and Nonprofit Organizations section of the CARES Act as other operating revenue for the year ended December 31, 2021.

In total, the System recognized as other operating revenue $21,485 and $62,437 from all COVID-19 funding sources, including all forms of CARES Act Funds and state funding for the years ended December 31, 2022 and 2021, respectively.

The System also received $327,288 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP) as of December 31, 2020. APP payments allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. Recoupment of APP funds began in April 2021 and have been applied against the advance payment balance. As of December 31, 2022, all $327,288 of the 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.

(Continued)

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.

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 2022 and 2021, successful appeals, cost report settlements, and other adjustments to prior year estimates of variable consideration resulted in an increase of $20,597 and $10,751 in patient service revenue, respectively.

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.

(Dollars in thousands)

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.

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

	2022	2021
Inpatient	$ 1,751,217	1,790,913
Outpatient/ambulatory	1,609,993	1,529,651
Clinic	1,154,779	1,129,945
Transitional rehabilitation program	16,341	19,221
	$ 4,532,330	4,469,730

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

	2022	2021
Medicare and Medicaid	45 %	43 %
Managed care	51	53
Commercial and other	2	2
Self-pay	2	2
	100 %	100 %

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

	2022	2021
Medicare and Medicaid	39 %	35 %
Managed care	44	47
Commercial and other	6	7
Self-pay	11	11
	100 %	100 %

(Continued)

Two managed care payers accounted for approximately 31% and 33% of patient service revenue in 2022 and 2021, respectively. Amounts due from these two managed care payers accounted for approximately 22% and 24% of patient accounts receivable at December 31, 2022 and 2021, respectively.

(4) Community Benefits

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

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

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

(b) Costs in Excess of Medicaid Payments

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

(c) Medicaid Surcharge

The System is a participant in the Medicaid Surcharge program. The current program includes a 1.56% surcharge on a hospital's 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.

(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 Backyard Initiative, Free Bikes 4 Kidz, Neighborhood Health Connection, Health Powered Kids, and Change to Chill.

(f) Subsidized Health Services

The System provides necessary health care services, which include 24-hour emergency services to the community and behavioral health services. These clinical services are provided despite financial losses so significant that negative margins remain after removing the effects of charity care 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 the donation of space for use by community groups, event sponsorships, donation of food, equipment and supplies, and grants.

(j) Other Community Benefit Cost

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

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

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

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

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

(Dollars in thousands)

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:

		2022	2021
Cost of providing charity care (approximate charges foregone of $36,500 and $46,460, respectively)	$	13,700	16,800
Costs in excess of Medicaid payments		33,200	39,900
Medicaid surcharge		26,100	27,000
MinnesotaCare tax		54,400	48,300
Community health improvement services		8,600	9,300
Subsidized health services		28,900	22,300
Health professions education		23,800	24,100
Research		3,700	3,300
Cash and in-kind contributions		6,000	5,300
Other community benefit cost		4,700	4,700
Total cost of community benefit		203,100	201,000
Costs in excess of Medicare payments		248,900	232,900
Other care provided without compensation (implicit price concession)		104,500	98,000
Discounts offered to uninsured patients		48,400	42,000
Taxes and fees		3,800	4,900
Community building		200	300
Total value of community contributions	$	608,900	579,100

(Continued)

(Dollars in thousands)

(5) Cash and Cash Equivalents and Investments

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

	2022	2021
Cash and cash equivalents	$ 237,047	613,453
Money market collective fund and short-term fixed income	149,826	255,778
Fixed income	1,487,516	1,515,692
Equity securities	600,735	632,269
Real return mutual fund	68,915	188,453
Investments accounted for at net asset value	709,424	897,431
	$ 3,253,463	4,103,076

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 80% of the funds can be liquidated within 30 days or less. Additionally, approximately 90% 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:

	2022	2021
Cash and cash equivalents	$ 237,047	613,453
Short-term investments	566,059	599,722
Patient accounts receivable	569,976	565,687
Long-term investments	2,203,099	2,527,402
Less assets with liquidity over one year	(352,401)	(241,979)
	$ 3,223,780	4,064,285

(Dollars in thousands)

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

		2022	2021
By trustee for swap collateralization	$	—	3,440
In escrow for capital projects		68,400	164,849
Donor-restricted funds		176,415	191,767
Vendor deposits		2,443	2,443
	$	247,258	362,499

Total investment return consists of the following:

		2022	2021
Investment earnings (losses) in net assets without donor restriction:			
Interest and dividend income	$	54,582	37,024
Realized gains on investments		94,878	61,756
Change in unrealized gains and losses on investments		(372,685)	147,288
		(223,225)	246,068
Investment earnings (losses) in net assets with donor restrictions:			
Interest and dividend income		2,348	2,125
Realized gains on investments		6,616	3,660
Change in unrealized gains and losses on investments		(21,457)	10,901
		(12,493)	16,686
	$	(235,718)	262,754

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

		2022	2021
Nonoperating (losses) gains	$	(223,225)	246,068
Changes in net assets with donor restrictions		(12,493)	16,686
	$	(235,718)	262,754

(Continued)

(Dollars in thousands)

(6) Other Current Assets

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

	2022	2021
Pledges and notes receivable	$ 5,682	5,991
Prepaid expenses	44,138	43,310
Third-party payer settlement receivables	40,655	17,820
Other miscellaneous receivables	97,375	81,167
	$ 187,850	148,288

(7) Land, Buildings, and Equipment

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

	2022	2021
Land and land improvements	$ 108,639	104,465
Buildings	1,929,282	1,882,352
Equipment	1,585,593	1,680,783
	3,623,514	3,667,600
Less accumulated depreciation and amortization	(2,484,286)	(2,531,257)
	1,139,228	1,136,343
Construction in progress	264,013	137,548
	$ 1,403,241	1,273,891

As of December 31, 2022, the System had $157,919 of future capital commitments.

(8) Other Assets

Other assets as of December 31 consist of the following:

	2022	2021
Pledges and notes receivable, less current portion	$ 2,340	3,211
Investment in unconsolidated entities	145,513	134,257
Deferred compensation	58,922	77,671
Other	79,567	84,284
	$ 286,342	299,423

(Dollars in thousands)

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

	Percentage ownership	Equity investment 2022	Equity investment 2021	Distributions received 2022	Distributions received 2021	Share of net earnings 2022	Share of net earnings 2021
St. Francis Regional Medical Center	47.50%	$ 76,688	76,471	—	—	219	8,800
Other entities	10% – 50%	68,825	57,786	(3,385)	(5,693)	7,096	4,835
		$ 145,513	134,257	(3,385)	(5,693)	7,315	13,635

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

	2022	2021
Total assets	$ 220,689	229,859
Total liabilities	52,818	61,222
Total net assets	$ 167,871	168,637
Total revenue	$ 198,158	185,132
Total operating expenses	190,057	175,550
Total investment return and other nonoperating	(8,937)	8,883
(Deficiency) excess of revenues over expenses	(836)	18,465
Net assets without donor restrictions:		
Other	1,354	60
Increase in net assets without donor restrictions	$ 518	18,525

(9) Accounts Payable and Accrued Expenses

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

	2022	2021
Trade accounts payable	$ 145,048	137,859
Accrued payroll, taxes, and vacation	308,367	317,580
MinnesotaCare tax payable	13,965	14,131
Other	115,874	113,731
	$ 583,254	583,301

(Dollars in thousands)

(10) Other Current Liabilities

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

		2022	2021
Current portion of estimated reserves for professional and general liability claims	$	15,440	17,070
Current portion of estimated reserves for workers' compensation claims		16,041	14,883
Employee health plan claims incurred but not reported		23,769	19,860
Defined-contribution retirement plan		57,925	55,235
Due to third-party payers		29,964	17,061
	$	143,139	124,109

(11) Long-Term Debt

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

		2022	2021
Variable-Rate Revenue Bonds, Series 2009B and 2009C (Allina Health System), Variable-Rate Demand Notes maturing annually through 2035, annual interest rate of 1.04% during 2022 and 0.03% during 2021, and 3.61% and 0.08% at December 31, 2022 and 2021, respectively	$	164,525	164,525
Variable-Rate Revenue Bonds, Series 2007C (Allina Health System), Variable-Rate Demand Notes maturing annually through 2034, average annual interest rate of 1.18% during 2022 and 0.04% during 2021, and 3.61% and 0.09% at December 31, 2022 and 2021, respectively		114,475	115,525
Variable-Rate Revenue Bonds, Series 1998A (Allina Health System) Periodic Auction Reset, maturing annually through 2022, average annual interest rate of 0.10% during 2021, and 0.10% at December 31, 2021		—	2,200
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%		69,235	73,080

(Dollars in thousands)

		2022	2021
Fixed-Rate Health Care Facilities Revenue Note, Series 2017B (Allina Health System), maturing annually through 2022, annual interest rate of 2.589%	$	—	14,800
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%		60,510	63,845
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
Other		7,308	2,298
		1,586,146	1,606,366
Unamortized portion of original issue premium		49,120	53,457
Unamortized deferred financing		(21,601)	(22,640)
Current portion		(30,147)	(27,293)
	$	1,583,518	1,609,890

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 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.

(Dollars in thousands)

The Series 2009B and 2009C Bonds are secured by letters of credit issued by two banks. Repayment of draws against the letters is secured by term credit agreements with the banks in the amount of $114,525, which expires on January 4, 2024, and $50,000, which expires on November 3, 2025. If the bonds were put and not remarketed, the banks would be required to purchase the bonds. Draws under the term credit agreements to repay the banks for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years in equal quarterly installments, beginning 367 days after the draw, based on the bank’s base rate plus 2.00%.

The Series 2007C Bonds are secured by a letter of credit issued by bank. Repayment of draws against the letter is secured by a term credit agreement with the bank in the aggregate amount of $114,475, which expires on November 3, 2025. If the bonds were put and not remarketed, the bank would be required to purchase the bonds. Draws under the term credit agreement to repay the bank for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years, beginning 367 days after the draw, based on the bank’s base rate plus 2.00%.

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, 2022 are as follows:

2023	$	30,147
2024		32,007
2025		27,895
2026		26,535
2027		27,745
Thereafter		1,441,817
	$	1,586,146

Aggregate principal payments of long-term debt based on the variable-rate demand notes being put back to the System and a corresponding draw being made on underlying liquidity facilities for each of the five years and thereafter following December 31, 2022 are as follows:

2023	$	30,147
2024		80,082
2025		75,670
2026		73,960
2027		74,820
Thereafter		1,251,467
	$	1,586,146

(Dollars in thousands)

The System uses interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Four of the five interest rate swaps are used to hedge identified debt, or interest rate exposures, and are not used for speculative purposes. One of the interest rate swaps was established for speculative purposes and is not tied directly to outstanding debt.

The System posted no collateral as of December 31, 2022 and collateral of $3,440 as of December 31, 2021, related to one of the System's swaps due to changes in interest rates. The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2022, none of which are 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		$ 29,552	323,460				

The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2021, none of which are 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 2021	Counterparty
2009BC	Other liabilities	$ 10,778	41,131	3.74 %	% of LIBOR	0.42 %	Wells Fargo
2009BC	Other liabilities	32,271	123,394	3.73	% of LIBOR	0.42	JP Morgan
2007C	Other liabilities	20,875	115,525	3.58	% of LIBOR	0.32	US Bank
2001	Other liabilities	12,862	45,985	5.17	SIFMA	0.04	Goldman Sachs
1998A	Other liabilities	60	2,425	4.44	SIFMA	0.04	Goldman Sachs
Total		$ 76,846	328,460				

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.

(Dollars in thousands)

	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	
	2022	2021	2022	2021	2022	2021	2022	2021
2009BC	$ 25,852	10,553	—	—	(4,117)	(5,448)	21,735	5,105
2007C	13,728	6,677	—	—	(2,790)	(3,782)	10,938	2,895
2001	7,654	4,125	—	—	(1,963)	(2,394)	5,691	1,731
1998A	60	194	(583)	(874)	(55)	(224)	(578)	(904)
	$ 47,294	21,549	(583)	(874)	(8,925)	(11,848)	37,786	8,827

The System records the swaps' liability at fair value, which requires nonperformance risk (i.e., credit risk), to be included in the valuation. Nonperformance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This nonperformance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date. The addition of the credit spread to the discounting rate reduces the reported liability. Because of market volatility, the fair value reported liability of the swaps is $1,409 and $1,696 less as of December 31, 2022 and 2021, respectively, than the mark-to-market valuations (note 14).

Interest paid, net of amounts capitalized was $49,239 and $36,708 during 2022 and 2021, respectively.

The System has a Revolving Credit Agreement with Wells Fargo Bank through December 20, 2023, which consists of a line of credit of $50,000. The interest rate on the line of credit is the Reserve Adjusted London Interbank Offered Rate (LIBOR) plus 0.50% and is secured by a note under the 1998 Master Trust Indenture. The unused line fee for the revolving line of credit is 0.10% per annum. The System had insurance-related letters of credit applied against the line of credit in the amount of $220 and $185 at December 31, 2022 and 2021, respectively. The System has 364 Day Revolving Lines of Credit with JPMorgan Chase and US Bank through April 11, 2023, which consists of a line of credit of $50,000 for each bank. There were no draws on the lines of credit at December 31, 2022 and 2021.

(Dollars in thousands)

(12) Other Liabilities

Other liabilities as of December 31 consist of the following:

		2022	2021
Estimated reserves for professional and general liability claims, less current portion	$	55,701	59,958
Estimated reserves for workers' compensation claims, less current portion		31,592	31,229
Net pension and postretirement liability		17,231	25,296
Interest rate swaps payable		29,552	76,846
Deferred compensation		58,922	77,671
Other		22,447	27,462
	$	215,445	298,462

(13) Net Assets With Donor Restrictions

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

		2022	2021
Capital	$	17,569	12,254
Charity and indigent care		5,122	5,697
Education and research		31,139	34,066
Patient care		35,519	31,690
Other		49,072	66,116
	$	138,421	149,823

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:

		2022	2021
Capital	$	165	165
Charity and indigent care		1,806	1,806
Education and research		19,293	19,218
Patient care		12,347	12,347
Other		23,543	23,631
	$	57,154	57,167

(Continued)

(14) Fair Value Measurements

The System's investments include money market, fixed-income, and equity securities, which are carried at fair value based on quoted market prices and are classified as trading securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, the System invests in limited partnerships, 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

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.

(Dollars in thousands)

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, 2022, are as follows:

		Fair value measurements using		
	Total	**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	—	—
Equity	565,455	380,542	184,913	—
Fixed income	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	—	—
Equity	35,280	23,743	11,537	—
Fixed income	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	—

(Dollars in thousands)

* 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, 2021, are as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents:				
Cash	$ 27,086	27,086	—	—
Money market funds	586,367	586,367	—	—
Total cash and cash equivalents	613,453	613,453	—	—
Short-term and long-term investments – trading securities:				
Short-term fixed income	230	230	—	—
Money market fund	70,351	70,351	—	—
Total short-term fixed income and money market	70,581	70,581	—	—
Equity	596,711	370,732	225,979	—
Fixed income	1,433,905	741,468	692,437	—
Other investments – real return and multi-asset opportunistic mutual funds	177,854	177,854	—	—
Total investments accounted for at net asset value *	848,072			
Total investments – trading securities	3,127,123	1,360,635	918,416	—
Investments with limited uses:				
Money market collective fund	185,197	185,197	—	—
Equity	35,558	22,092	13,466	—
Fixed income	71,899	38,285	33,614	—
Real return and multi-asset opportunistic funds	10,599	10,599	—	—
Restricted foundation trusts (fixed income)	9,888	—	9,888	—
Investments accounted for at net asset value *	49,359			
Total investments with limited uses	362,500	256,173	56,968	—
Total	$ 4,103,076	2,230,261	975,384	—
Liabilities:				
Interest rate swaps	$ 76,846	—	76,846	—

(Dollars in thousands)

* 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, 2022 and 2021.

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, 2022 and 2021, are as follows:

	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			

	December 31, 2021				
	Net asset value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period	Redemption settlement period
Global equity fund	$ 191,650	—	Bi-Monthly	10 days	Up to 10 days
Emerging markets equity fund	111,686	—	Daily/Weekly	5/10 days	Up to 7–10 days
Equity long/short hedge funds	112,620	—	Monthly/Quarterly	5–90 days	Up to 10–90 days
Opportunistic fixed-income hedge funds	178,639	—	Quarterly/Semi-Annual	45–90 days	1–90 days
Private capital funds	256,062	186,818	Not redeemable	NA	NA
Emerging market debt fund	46,774	—	Daily	Same day	Up to 15 days
Total	$ 897,431	186,818			

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

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

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

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

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

(Continued)

(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, 2022, are as follows:

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

	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

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, 2021, are as follows:

		Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Mutual funds	$ 69,653	69,653	—	—
Guaranteed investment contracts	8,018	—	—	8,018
Total assets	$ 77,671	69,653	—	8,018

(Dollars in thousands)

		Fair value measurements, Level 3
Balance, December 31, 2020	$	14,525
Total interest income		288
Purchases		1,198
Sales		(7,993)
Balance, December 31, 2021	$	8,018

(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 $12,725 and $15,579 at December 31, 2022 and 2021, respectively, which are fair value measured using Level 1 criteria. This plan has a projected benefit obligation of $14,054 and $16,773, using a discount rate of 5.25% and 2.74% as of December 31, 2022 and 2021, respectively. The System made contributions of $0 and $0 and recorded a total pension return of $135 and $682 in 2022 and 2021, respectively. The unfunded balance of $1,329 and $1,194, respectively, as of December 31, 2022 and 2021, 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 $26,241 and $29,836, as of December 31, 2022 and 2021, respectively, which are fair value measured using Level 2 criteria and has a projected benefit obligation of $31,360 and $41,669, using a discount rate of 4.95% and 2.30% as of December 31, 2022 and 2021, respectively. The System made contributions of $0 and $65 in 2022 and 2021, respectively, and recorded a total pension return of $6,714 and $1,685 in 2022 and 2021, respectively. The unfunded balance of $5,119 and $11,833 as of December 31, 2022 and 2021, respectively, is reported in the consolidated balance sheets as a noncurrent other liability.

During 2022, the System expects to make required pension contributions totaling approximately $0 for the plans but may elect to make additional contributions.

(Dollars in thousands)

Expected future benefit payments for the plans for the ten years following December 31, 2022, are as follows:

2023	$ 2,873
2024	3,547
2025	3,225
2026	3,145
2027	3,306
2028–2032	16,889
	$ 32,985

(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, 2022, 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 2022 and 2021 is for the plan's year-end at December 31, 2021 and 2020, 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 2021	PPA status 2020	FIP/RP status pending/ implemented	Contributions of the System in plan year 2021	Contributions of the System in plan year 2020	Surcharge imposed	Expiration date of collective bargaining agreement
Twin City Hospitals Minnesota Nurses Association Pension Plan	41-6184922-001	Green	Green	N/A	$ 48,825	45,380	No	May 31, 2025
Other funds					3,177	3,401		
Total contributions					$ 52,002	48,781		

Total amounts expensed under the union-sponsored multiemployer plans were $55,922 and $53,743 for 2022 and 2021, 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 $49,406 in 2023.

At the date the System's consolidated financial statements were issued, Forms 5500 were not available for the plan year ended December 31, 2022.

(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 $85,969 and $81,166 for 2022 and 2021, respectively.

(d) Postretirement Welfare Benefits

The System provides postretirement welfare benefits to certain employees. Postretirement welfare cost was $925 and $1,312 for 2022 and 2021, respectively. As of December 31, 2022 and 2021, accumulated postretirement benefit obligation was $10,762 and $12,305, respectively, and accrued postretirement benefit cost was $10,743 and $12,269, respectively. A discount rate of 5.35%, a rate of return on plan assets of 3.0%, and a medical plan trend rate of 7.0% in 2022, 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 $118,774 and $123,140 as of December 31, 2022 and 2021, respectively, have been recorded based on undiscounted historical data for professional and general liability and on a present-value basis, using an annual discount rate of 2% for workers' compensation claims.

Under the comprehensive welfare benefit plan, the System has made provisions for claims reported but not paid and claims incurred but not reported of $23,769 and $19,860 as of December 31, 2022 and 2021, 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 and $50,592 at December 31, 2022 and 2021, respectively. 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 also has an unused letter of credit totaling $220 through May 31, 2023. The letter of credit was obtained in connection with the System's construction programs at a fee of 0.60% per annum.

(17) Taxes

The System has been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The System has also been determined to be exempt from federal and state income tax on related income under Section 501(a) of the Internal Revenue Code and Minnesota Statute Section 290.05, Subdivision 2. Certain of the System's subsidiaries and affiliates qualify as tax-exempt organizations, while others are taxable. The System and its subsidiaries paid taxes of $1,921 and $2,359 in 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the taxable subsidiaries of the System's continuing operations had a gross deferred tax asset of $45,916 and $55,996, respectively, resulting from net operating loss carryforwards, employee compensation and benefits accruals, and depreciation, offset by valuation allowances of $28,815 and $33,726, respectively.

As of December 31, 2022 and 2021, the continuing operations of the System and its subsidiaries had net operating loss carryforwards of $128,287 and $119,473, respectively, for income tax purposes, which $93,148 will expire in various years through 2029 and with $35,139 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, 2022 and 2021, the System does not have any significant liabilities for uncertain tax benefits. The filings for the years ended 2018 to 2021 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 8.4 years and 8.3 years for the years ended December 31, 2022 and 2021, respectively. The weighted average discount rate of operating leases was 3.0% and 3.1% for the years ended December 31, 2022 and 2021, respectively.

The System incurred operating lease expense of $39,487 and $38,913 for the years ended December 31, 2022 and 2021, respectively.

The System added right of use assets in exchange for lease obligations resulting from lease modifications and reassessments in the amount of $27,605 and $5,039 for the years ended December 31, 2022 and 2021, respectively.

(Dollars in thousands)

Maturities of operating lease liabilities as of December 31, 2022 are as follows:

2023	$	40,004
2024		36,102
2025		30,620
2026		28,125
2027		24,266
Thereafter		93,056
Total undiscounted lease payments		252,173
Less imputed interest		(30,536)
Total lease liabilities	$	221,637

(19) Commitments and Contingencies

Approximately 39% of employees are represented by various collective bargaining arrangements, of whom approximately 14% 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.

(Dollars in thousands)

(20) Functional Expenses

The System provides health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets as of December 31, 2022, with 2021 corresponding totals, are as follows:

		Healthcare services	General and administration	Total
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
	$	4,415,006	641,464	5,056,470
2021:				
Salaries and benefits	$	2,608,774	355,742	2,964,516
Supplies and services		927,382	217,534	1,144,916
Depreciation and amortization		153,978	40,931	194,909
Financing costs		47,196	—	47,196
State assessments and taxes		75,277	9,816	85,093
Utilities and maintenance		71,188	16,698	87,886
Other operating expenses		166,423	39,037	205,460
	$	4,050,218	679,758	4,729,976

(21) Subsequent Events

The System has evaluated subsequent events from the consolidated balance sheet date through March 15, 2023, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.

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

Independent Auditors' Report 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 and its subsidiaries (the System), which comprise the System's consolidated balance sheet as of December 31, 2022, 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 15, 2023.

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 consolidated 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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Minneapolis, Minnesota
March 15, 2023

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
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Independent Auditors’ Report on Compliance for Each 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 Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Allina Health System’s (the 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 each of the System’s major federal programs for the year ended December 31, 2022. 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, 2022.

Basis for Opinion on Each 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 each 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 each 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, 2022, and have issued our report thereon dated March 15, 2023, 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 19, 2023

ALLINA HEALTH SYSTEM

Schedule of Expenditures of Federal Awards

Year ended December 31, 2022

Federal grantor/program title/pass-through agency	Pass-through agency	Assistance Listing 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	N009403603/N010473303	$ 68,157	—
National Heart, Lung, and Blood Institute:					
Cardiovascular Diseases Research	Massachusetts General Bringham	93.837	5U01HL123336-06	11,588	—
Cardiovascular Diseases Research	University of Minnesota	93.837	5R01HL123699-05	714	—
Total for National Heart, Lung, and Blood Institute:				$ 12,302	—
National Institute of Neurological Disorders					
Extramural Research Programs in the Neurosciences and Neurological Disorders	University of Cincinnati	93.853	010785-133368	4,243	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	University of Cincinnati	93.853	012340-133368	1,038	—
Total for Extramural Research Programs in the Neurosciences and Neurological Disorders				$ 5,281	—
National Institute of Aging					
Aging Research	MOAI Technologies	93.866	1R43AG066270-01A1	2,985	—
Aging Research	Duke University	93.866	A032814	160	—
Total for National Institute of Aging				$ 3,145	—
National Institute of Child Health and Human Development					
Child Health and Human Development Extramural Research	HealthPartners Institute	93.865	1R01HD107753-01	4,160	—
National Institute of Drug Abuse					
Drug Abuse and Addiction Research Program	Hennepin Healthcare Research Institute	93.279	15390-23	19,923	—
Total for U.S. Department of Health & Human Services				$ 112,968	—
U.S. Department of Defense:					
Military Medical Research and Development	Oregon Health & Science University	12.420	W81XWH1820049 P00001	56,277	—
Total Research and Development cluster				$ 169,245	—
Other Federal Awards:					
U.S. Department of Health & Human Services:					
Centers for Medicare & Medicaid Services:					
Accountable Health Communities	N/A	93.650	1P1CMS331589-05-01	$ 206,079	—
Substance Abuse and Mental Health Services Administration:					
Opioid STR	State of MN	93.788	Contract# 192601/192970	852,124	—
Health Resources & Services Administration					
Rural Health Research Centers	Minnesota Department of Health	93.155	Contract# 20428/20430/20445	339,856	—
Rural Health Research Centers	University of Wisconsin	93.155	Contract# 1512	257,021	—
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	N/A	93.461	N/A	229,176	—
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	N/A	93.498	N/A	58,916,338	—
HIV Emergency Relief Project Grants	Hennepin County	93.914	HS00000522-5	802,458	—
HIV Care Formula Grants	Hennepin County	93.917	HS00000542-2	46,465	—
Total for Health Resources & Services Administration				$ 60,591,314	—
Administration for Strategic Preparedness and Response					
National Bioterrorism Hospital Preparedness Program-2016	Hennepin County Medical Center	93.889		86,130	—
National Bioterrorism Hospital Preparedness Program-2017	Hennepin County Medical Center	93.889		57,288	—
National Bioterrorism Hospital Preparedness Program-2018	Hennepin County Medical Center	93.889		110,633	—
National Bioterrorism Hospital Preparedness Program-2019	Hennepin County Medical Center	93.889		161,518	—
National Bioterrorism Hospital Preparedness Program-2020	Hennepin County Medical Center	93.889		143,432	—
National Bioterrorism Hospital Preparedness Program-2021	Hennepin County Medical Center	93.889		99,273	—
National Bioterrorism Hospital Preparedness Program-2022	Hennepin County Medical Center	93.889	Contract# 160752	29,696	—
Total for Administration for Strategic Preparedness and Response				$ 687,970	—
Centers for Disease Control:					
Centers for Disease Control and Prevention Investigations and Technical Assistance	University of Minnesota	93.283	N009668301	147,063	—
Strengthening Public Health Systems and Services and Services through National Partnership to Improve and Protect the Nation's Health	The Task Force for Global Health	93.421	NU38OT000316	73,000	—
Total for Centers for Disease Control				$ 220,063	—
Total Other Federal Awards				$ 62,557,550	—
Total Expenditures of Federal Awards				$ 62,726,795	—

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

(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, 2022, 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, 2022 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 3 (defined as payments received between January 1, 2021 to June 30, 2021) and Reporting Period 4 (defined as payments received between July 1, 2021 and December 31, 2021). The Tax Identification Number (TIN) that received PRF funds for Periods 3 and 4 is as follows: Allina Health System is 363261413.

(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: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution**

h. Dollar threshold used to distinguish between Type A and Type B programs: **$1,881,804**

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