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Check if Schedule O contains a response to any question in this Part III ☒

Avera is a health ministry rooted in the gospel. Our mission is to make a positive impact in the lives and health of persons and communities by providing quality services guided by Christian values.

If "Yes," describe these new services on Schedule O

If "Yes," describe these changes on Schedule O

4a (Code) (Expenses \$ 41,659,415 including grants of \$ 61,360) (Revenue \$ 54,678,778)

Avera Marshall (dba Avera Marshall Regional Medical Center) is a non-profit organization, privately owned and operated by Avera Health. Avera Marshall consists of a 25-bed Critical Access Hospital, an attached 76-bed nursing home, three physician clinics, and five optometry clinics. The physician clinics include specialty services (ob/gyn, pediatrics, orthopedics, general surgery, and internal medicine), psychiatry services and ophthalmology services. In FY 2011, Avera Marshall had 4,216 patient days in addition to 951 newborn patient days, 409 swing-bed days, and 2,657 behavioral-health bed days. AWARDS AND RECOGNITION: Avera Marshall has been the recipient of five safety awards from the Minnesota Hospital Association over the past several years, including Safe from Falls June 2008, Safe Site October 2008, Safe Count January 2009, Safe Skin April 2009, Safe Account March 2011. STRATEGIC ACCOMPLISHMENTS: Joint Ventures - A home medical equipment store in Marshall is a joint venture between Avera Marshall and Avera McKennan in Sioux Falls. The showroom features equipment and supplies ranging from small personal care items to beds and wheelchairs, in addition to oxygen supplies and service. Management agreements - Avera Marshall has a "Partner in Health Agreement" with other non-profit organizations, which include Divine Providence Health Center in Ivanhoe, MN, Western Mental Health Center in Marshall, MN and Prairie Home Hospice in Marshall, MN. Partnerships - Avera Marshall has a partnership arrangement for therapy services with Big Stone Therapies, Inc., to offer hospital and long term care based services to inpatients and outpatients. They have also worked with Prairie Home Hospice, a free-standing agency, upon request, to provide temporary management services and business analysis. Physician recruitment - Avera Marshall has been successful in recruiting 21 providers to the Avera Medical Group since 2009. Surgery Center - A new surgery center opened in the summer of 2010, featuring state-of-the-art equipment and design concepts. It includes the same day surgery center and procedure/treatment rooms, along with four complete operating rooms. Community needs fulfillment - Avera Marshall is currently completing a community health needs assessment that will identify unmet needs in the community and be used for subsequent strategic planning purposes. Aging Services - The neighborhood model has resulted in changes to the way care is provided in the long term care facility. More choice from the resident on schedules, activities and dining experiences has resulted in some remodeling and modified staffing patterns. Transitions Care offers individuals a place for recovery and rehab following an illness, injury or surgery. Clinic addition - A physician office building is being constructed that will add 40 clinic rooms, lab and imaging space. The singular location for Avera Medical Group physicians to offer their services will enhance the patient experience and create a welcome, private environment for people needing physician services. Outreach - Avera Marshall has identified new outreach locations by the general surgeon, ob/gyn, orthoped and ophthalmologists increasing access in local communities by bringing the specialist to people and making it convenient for those who need care. This is especially important for the elderly populations who have concerns about travel or physical limitations. Palliative care services will be added to the community within the next year.



















4b (Code) (Expenses \$ including grants of \$) (Revenue \$)

4c (Code) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule O)
(Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

| | | |
|-----------|---------------------------------------|----------------------|
| 4e | Total program service expenses | \$ 41,659,415 |
|-----------|---------------------------------------|----------------------|

Part IV Checklist of Required Schedules

| | Yes | No |
|---|---------|----|
| 1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A  | 1 Yes | |
| 2 Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)?  | 2 Yes | |
| 3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I  | 3 | No |
| 4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II  | 4 Yes | |
| 5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III | 5 | |
| 6 Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I  | 6 | No |
| 7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II  | 7 | No |
| 8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III  | 8 | No |
| 9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV  | 9 Yes | |
| 10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If "Yes," complete Schedule D, Part V  | 10 Yes | |
| 11 If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable | | |
| a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI.  | 11a Yes | |
| b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII.  | 11b Yes | |
| c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII.  | 11c | No |
| d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX.  | 11d | No |
| e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X.  | 11e Yes | |
| f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X.  | 11f Yes | |
| 12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII  | 12a | No |
| b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional  | 12b Yes | |
| 13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E | 13 | No |
| 14a Did the organization maintain an office, employees, or agents outside of the United States? | 14a | No |
| b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? If "Yes," complete Schedule F, Parts I and IV | 14b | No |
| 15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? If "Yes," complete Schedule F, Parts II and IV | 15 | No |
| 16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? If "Yes," complete Schedule F, Parts III and IV | 16 | No |
| 17 Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions) | 17 | No |
| 18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II | 18 | No |
| 19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III | 19 | No |
| 20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H  | 20a Yes | |
| b If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions) | 20b Yes | |

Part IV

Checklist of Required Schedules (continued)

| | | | | |
|-----|--|-----|-----|----|
| 21 | Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> | 21 | | No |
| 22 | Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> | 22 | Yes | |
| 23 | Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> | 23 | Yes | |
| 24a | Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25</i> | 24a | | No |
| b | Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? | 24b | | |
| c | Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? | 24c | | |
| d | Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? | 24d | | |
| 25a | Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> | 25a | | No |
| b | Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> | 25b | | No |
| 26 | Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> | 26 | Yes | |
| 27 | Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i> | 27 | | No |
| 28 | Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions) | | | |
| a | A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> | 28a | | No |
| b | A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> | 28b | | No |
| c | An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> | 28c | Yes | |
| 29 | Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> | 29 | | No |
| 30 | Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> | 30 | | No |
| 31 | Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> | 31 | | No |
| 32 | Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> | 32 | | No |
| 33 | Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> | 33 | | No |
| 34 | Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> | 34 | Yes | |
| 35 | Is any related organization a controlled entity within the meaning of section 512(b)(13)? | 35 | Yes | |
| a | Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | | |
| 36 | Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> | 36 | | No |
| 37 | Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> | 37 | | No |
| 38 | Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O | 38 | Yes | |

| | | | |
|---|--|------------|-----------|
| Part V Statements Regarding Other IRS Filings and Tax Compliance | | | |
| Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/> | | | |
| | | Yes | No |
| 1a | Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. | 1a | 69 |
| b | Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable. | 1b | 0 |
| c | Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners? | 1c | Yes |
| 2a | Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return. | 2a | 535 |
| b | If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions). | 2b | Yes |
| 3a | Did the organization have unrelated business gross income of \$1,000 or more during the year? | 3a | Yes |
| b | If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O. | 3b | Yes |
| 4a | At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)? | 4a | No |
| b | If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. | | |
| 5a | Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? | 5a | No |
| b | Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction? | 5b | No |
| c | If "Yes" to line 5a or 5b, did the organization file Form 8886-T? | 5c | |
| 6a | Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible? | 6a | No |
| b | If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? | 6b | |
| 7 | Organizations that may receive deductible contributions under section 170(c). | | |
| a | Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor? | 7a | No |
| b | If "Yes," did the organization notify the donor of the value of the goods or services provided? | 7b | |
| c | Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282? | 7c | No |
| d | If "Yes," indicate the number of Forms 8282 filed during the year. | 7d | |
| e | Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? | 7e | No |
| f | Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? | 7f | No |
| g | If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required? | 7g | |
| h | If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C? | 7h | |
| 8 | Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year? | 8 | |
| 9 | Sponsoring organizations maintaining donor advised funds. | | |
| a | Did the organization make any taxable distributions under section 4966? | 9a | |
| b | Did the organization make a distribution to a donor, donor advisor, or related person? | 9b | |
| 10 | Section 501(c)(7) organizations. Enter | | |
| a | Initiation fees and capital contributions included on Part VIII, line 12. | 10a | |
| b | Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities. | 10b | |
| 11 | Section 501(c)(12) organizations. Enter | | |
| a | Gross income from members or shareholders. | 11a | |
| b | Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them). | 11b | |
| 12a | Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041? | 12a | |
| b | If "Yes," enter the amount of tax-exempt interest received or accrued during the year. | 12b | |
| 13 | Section 501(c)(29) qualified nonprofit health insurance issuers. | | |
| a | Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O. | 13a | |
| b | Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans. | 13b | |
| c | Enter the amount of reserves on hand. | 13c | |
| 14a | Did the organization receive any payments for indoor tanning services during the tax year? | 14a | No |
| b | If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O. | 14b | |

Part VI

Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.
Check if Schedule O contains a response to any question in this Part VI ☒

Section A. Governing Body and Management

| | | | |
|--|--------------|-----|----|
| | | Yes | No |
| 1a Enter the number of voting members of the governing body at the end of the tax year | 1a 13 | | |
| b Enter the number of voting members included in line 1a, above, who are independent | 1b 10 | | |
| 2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? | 2 | Yes | |
| 3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? | 3 | | No |
| 4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? | 4 | | No |
| 5 Did the organization become aware during the year of a significant diversion of the organization's assets? | 5 | | No |
| 6 Does the organization have members or stockholders? | 6 | Yes | |
| 7a Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body? | 7a | Yes | |
| b Are any decisions of the governing body subject to approval by members, stockholders, or other persons? | 7b | Yes | |
| 8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following | | | |
| a The governing body? | 8a | Yes | |
| b Each committee with authority to act on behalf of the governing body? | 8b | Yes | |
| 9 Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O | 9 | | No |

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

| | | | |
|---|------------|-----|----|
| | | Yes | No |
| 10a Does the organization have local chapters, branches, or affiliates? | 10a | | No |
| b If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization? | 10b | | |
| 11a Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form? | 11a | Yes | |
| b Describe in Schedule O the process, if any, used by the organization to review this Form 990 | | | |
| 12a Does the organization have a written conflict of interest policy? If "No," go to line 13 | 12a | Yes | |
| b Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? | 12b | Yes | |
| c Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done | 12c | Yes | |
| 13 Does the organization have a written whistleblower policy? | 13 | Yes | |
| 14 Does the organization have a written document retention and destruction policy? | 14 | Yes | |
| 15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision? | | | |
| a The organization's CEO, Executive Director, or top management official | 15a | | No |
| b Other officers or key employees of the organization | 15b | | No |
| If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions) | | | |
| 16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? | 16a | Yes | |
| b If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements? | 16b | | No |

Section C. Disclosure

| |
|--|
| 17 List the States with which a copy of this Form 990 is required to be filed ► MN |
| 18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request |
| 19 Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table. |
| 20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ► Sharon Williams 300 S Bruce St Marshall, MN 562581934 (507) 537-9150 |

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

| (A) Name and Title | (B) Average hours per week (describe hours for related organizations in Schedule O) | (C) Position (check all that apply) | | | | | | (D) Reportable compensation from the organization (W-2/1099-MISC) | (E) Reportable compensation from related organizations (W-2/1099-MISC) | (F) Estimated amount of other compensation from the organization and related organizations |
|--|--|--|-----------------------|---------|--------------|------------------------------|--------|--|---|---|
| | | Individual trustee or director | Institutional Trustee | Officer | Key employee | Highest compensated employee | Former | | | |
| (1) Dr Paul J Puetz Chair | 1 30 | X | | X | | | | 0 | 0 | 0 |
| (2) James H Fuhrmann Vice Chair | 1 30 | X | | X | | | | 0 | 0 | 0 |
| (3) Robert J Byrnes Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (4) Roger Pabst Director | 1 30 | X | | | | | | 188,937 | 0 | 8,193 |
| (5) Arthur M Olson Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (6) Michael K Rich Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (7) Randy Gaffney Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (8) Sr Mary J Reichelt Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (9) Sr Joann Sturzl Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (10) Sr Jodelle A Zimmerman Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (11) Donna Hartfiel MD Director | 40 00 | X | | | | | | 0 | 306,792 | 7,095 |
| (12) Randy Serreyn Director | 1 30 | X | | | | | | 0 | 0 | 0 |
| (13) Jill Vroman MD Director (thru 9-20-10) | 1 30 | X | | | | | | 0 | 0 | 0 |
| (14) Mary B Maertens President & CEO | 40 00 | X | | X | | | | 0 | 301,191 | 26,001 |
| (15) Sharon Williams Sec/Treas & VP Finance | 40 00 | | | X | | | | 108,031 | 0 | 23,474 |
| (16) Richard Jueneman CRNA | 40 00 | | | | | X | | 257,500 | 0 | 24,325 |

Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

| (A) Name and Title | (B) Average hours per week (describe hours for related organizations in Schedule O) | (C) Position (check all that apply) | | | | | | (D) Reportable compensation from the organization (W-2/1099-MISC) | (E) Reportable compensation from related organizations (W-2/1099-MISC) | (F) Estimated amount of other compensation from the organization and related organizations |
|--|--|--|-----------------------|---------|--------------|------------------------------|--------|--|---|---|
| | | Individual trustee or director | Institutional Trustee | Officer | Key employee | Highest compensated employee | Former | | | |
| (17) Amber Boles CRNA | 40 00 | | | | | X | | 262,413 | 0 | 9,870 |
| (18) Jason Klein CRNA | 40 00 | | | | | X | | 246,169 | 0 | 26,563 |
| (19) Kevin Gildner MD Physician | 40 00 | | | | | X | | 343,458 | 0 | 17,887 |
| (20) Curtis Louwagie MD Physician | 40 00 | | | | | X | | 311,286 | 0 | 18,325 |
| | | | | | | | | | | |
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| | | | | | | | | | | |
| 1b Sub-Total | | | | | | | | | | |
| c Total from continuation sheets to Part VII, Section A | | | | | | | | | | |
| d Total (add lines 1b and 1c) | | | | | | | | 1,717,794 | 607,983 | 161,733 |

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization▶17

| | Yes | No |
|---|-----|----|
| 3 Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> | | No |
| 4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i> | Yes | |
| 5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i> | | No |

Section B. Independent Contractors

| 1 | Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization | | |
|---|--|--------------------------------|---------------------|
| | (A) Name and business address | (B) Description of services | (C) Compensation |
| | Avera McKennan 1001 E 21st ST Ste 401 Sioux Falls, SD 57105 | Physicians and Ancillary | 3,582,363 |
| | Avera Health 3900 W Avera Dr Ste 301 Sioux Falls, SD 57105 | Central Service Fees | 2,295,757 |
| | Big Stone Therapies 830 Roy ST Ortonville, MN 56278 | Therapy Services | 1,337,074 |
| | Weatherby Locums PO Box 972633 Dallas, TX 753972633 | Locum Physicians | 487,119 |
| | Leonard Street & Deinard PA 150 South Fifth Ste 2300 Minneapolis, MN 55402 | Legal Services | 474,864 |
| 2 | Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization ▶16 | | |

Part VIII

Statement of Revenue

| | | | | (A) Total revenue | (B) Related or exempt function revenue | (C) Unrelated business revenue | (D) Revenue excluded from tax under sections 512, 513, or 514 | |
|---|---|---|---|----------------------|---|---|--|---------------|
| Contributions, gifts, grants and other similar amounts | 1a | Federated campaigns . . . | 1a | | 133,845 | | | |
| | b | Membership dues | 1b | | | | | |
| | c | Fundraising events | 1c | | | | | |
| | d | Related organizations | 1d | | | | | |
| | e | Government grants (contributions) | 1e | 89,626 | | | | |
| | f | All other contributions, gifts, grants, and similar amounts not included above | 1f | 44,219 | | | | |
| | g | Noncash contributions included in lines 1a-1f \$ | | | | | | |
| | h | Total. Add lines 1a-1f | | | | | | |
| | Program Service Revenue | 2a | | | | | | Business Code |
| | | Net Patient Service Re | 622110 | 53,791,143 | 53,791,143 | | | |
| b | | Miscellaneous Revenue | 900099 | 474,369 | 376,066 | 98,303 | | |
| c | | Cafeteria Revenue | 900099 | 266,931 | 218,558 | 48,373 | | |
| d | | Gain on Auxiliary | 900099 | 230,542 | 230,542 | | | |
| e | | Equity Earnings of Aff | 900099 | 88,101 | 62,469 | 25,632 | | |
| f | | All other program service revenue | | | | | | |
| g | | Total. Add lines 2a-2f | | | 54,851,086 | | | |
| Other Revenue | 3 | Investment income (including dividends, interest and other similar amounts) | | | 671,081 | | 671,081 | |
| | 4 | Income from investment of tax-exempt bond proceeds . . | | | | | | |
| | 5 | Royalties | | | | | | |
| | 6a | | | (i) Real | (ii) Personal | 71,792 | | 71,792 |
| | | | | 216,760 | | | | |
| | | b | Less rental expenses | 144,968 | | | | |
| | | c | Rental income or (loss) | 71,792 | | | | |
| | d | Net rental income or (loss) | | | | | | |
| | 7a | | | (i) Securities | (ii) Other | 726,464 | | 726,464 |
| | | | | 736,793 | 27,001 | | | |
| | | b | Less cost or other basis and sales expenses | | 37,330 | | | |
| | | c | Gain or (loss) | 736,793 | -10,329 | | | |
| | d | Net gain or (loss) | | | | | | |
| | 8a | Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 | | | | | | |
| | | a | | | | | | |
| | | b | Less direct expenses | b | | | | |
| | c | Net income or (loss) from fundraising events . . | | | | | | |
| | 9a | Gross income from gaming activities See Part IV, line 19 . . | | a | | | | |
| | | b | Less direct expenses | b | | | | |
| | | c | Net income or (loss) from gaming activities . . | | | | | |
| 10a | Gross sales of inventory, less returns and allowances . . | | | | | | | |
| | a | | | | | | | |
| | b | Less cost of goods sold | b | | | | | |
| c | Net income or (loss) from sales of inventory . . | | | | | | | |
| Miscellaneous Revenue | | | Business Code | | | | | |
| 11a | | | | | | | | |
| b | | | | | | | | |
| c | | | | | | | | |
| d | All other revenue | | | | | | | |
| e | Total. Add lines 11a-11d | | | | | | | |
| 12 | Total revenue. See Instructions | | | | 56,454,268 | 54,678,778 | 172,308 | 1,469,337 |

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

| Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII. | | (A) Total expenses | (B) Program service expenses | (C) Management and general expenses | (D) Fundraising expenses |
|--|--|-----------------------|---------------------------------|--|-----------------------------|
| 1 | Grants and other assistance to governments and organizations in the U S See Part IV, line 21 | | | | |
| 2 | Grants and other assistance to individuals in the U S See Part IV, line 22 | 61,360 | 61,360 | | |
| 3 | Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16 | | | | |
| 4 | Benefits paid to or for members | | | | |
| 5 | Compensation of current officers, directors, trustees, and key employees | 357,954 | 216,991 | 140,963 | |
| 6 | Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) | | | | |
| 7 | Other salaries and wages | 21,050,957 | 18,204,536 | 2,782,615 | 63,806 |
| 8 | Pension plan contributions (include section 401(k) and section 403(b) employer contributions) | 962,012 | 919,342 | 42,656 | 14 |
| 9 | Other employee benefits | 2,948,310 | 2,527,378 | 414,542 | 6,390 |
| 10 | Payroll taxes | 1,297,322 | 1,110,066 | 181,611 | 5,645 |
| a | Fees for services (non-employees) | | | | |
| | Management | 1,059,247 | | 1,059,247 | |
| b | Legal | 715,084 | | 715,084 | |
| c | Accounting | 31,140 | | 31,140 | |
| d | Lobbying | | | | |
| e | Professional fundraising services See Part IV, line 17 | | | | |
| f | Investment management fees | | | | |
| g | Other | 6,053,421 | 5,126,361 | 925,060 | 2,000 |
| 12 | Advertising and promotion | 305,887 | | 305,887 | |
| 13 | Office expenses | 754,965 | 689,119 | 65,038 | 808 |
| 14 | Information technology | 483,742 | 34,542 | 449,200 | |
| 15 | Royalties | | | | |
| 16 | Occupancy | 698,568 | 697,757 | 811 | |
| 17 | Travel | 210,945 | 132,497 | 76,714 | 1,734 |
| 18 | Payments of travel or entertainment expenses for any federal, state, or local public officials | | | | |
| 19 | Conferences, conventions, and meetings | | | | |
| 20 | Interest | 1,149,138 | 1,149,138 | | |
| 21 | Payments to affiliates | | | | |
| 22 | Depreciation, depletion, and amortization | 3,843,801 | 3,363,237 | 479,324 | 1,240 |
| 23 | Insurance | 235,740 | 92,598 | 143,142 | |
| 24 | Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O) | | | | |
| a | Provision for income ta | 21,076 | 21,076 | | |
| b | Medical Supplies | 6,102,571 | 6,088,917 | 13,654 | |
| c | Fees, Taxes and Surchar | 1,294,953 | 268,309 | 1,026,644 | |
| d | Bad Debt Expense | 518,029 | 518,029 | | |
| e | Recruitment | 490,375 | | 490,375 | |
| f | All other expenses | 742,775 | 438,162 | 303,086 | 1,527 |
| 25 | Total functional expenses. Add lines 1 through 24f | 51,389,372 | 41,659,415 | 9,646,793 | 83,164 |
| 26 | Joint costs. Check here <input checked="" type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation | | | | |

Part X

Balance Sheet

| | | | | | (A) | | (B) |
|-----------------------------|---|--|-----|------------|-------------------|------------|-------------|
| | | | | | Beginning of year | | End of year |
| Assets | 1 | Cash—non-interest-bearing | | | | 1 | |
| | 2 | Savings and temporary cash investments | | | 4,498,695 | 2 | 5,512,468 |
| | 3 | Pledges and grants receivable, net | | | | 3 | |
| | 4 | Accounts receivable, net | | | 7,267,723 | 4 | 6,594,339 |
| | 5 | Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L | | | 7,778 | 5 | 230,208 |
| | 6 | Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Schedule L | | | | 6 | |
| | 7 | Notes and loans receivable, net | | | | 7 | |
| | 8 | Inventories for sale or use | | | 990,380 | 8 | 1,138,457 |
| | 9 | Prepaid expenses and deferred charges | | | 483,793 | 9 | 1,276,169 |
| | 10a | Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D. | 10a | 60,902,177 | | | |
| | b | Less: accumulated depreciation | 10b | 34,383,964 | 26,450,240 | 10c | 26,518,213 |
| | 11 | Investments—publicly traded securities | | | 483,225 | 11 | 1,499,855 |
| | 12 | Investments—other securities. See Part IV, line 11 | | | 19,610,155 | 12 | 25,470,583 |
| | 13 | Investments—program-related. See Part IV, line 11 | | | 972,291 | 13 | 1,240,385 |
| | 14 | Intangible assets | | | 250,500 | 14 | 264,610 |
| | 15 | Other assets. See Part IV, line 11 | | | 290,516 | 15 | 275,184 |
| 16 | Total assets. Add lines 1 through 15 (must equal line 34) | | | 61,305,296 | 16 | 70,020,471 | |
| Liabilities | 17 | Accounts payable and accrued expenses | | | 3,962,864 | 17 | 5,984,271 |
| | 18 | Grants payable | | | | 18 | |
| | 19 | Deferred revenue | | | | 19 | |
| | 20 | Tax-exempt bond liabilities | | | | 20 | |
| | 21 | Escrow or custodial account liability. Complete Part IV of Schedule D | | | 12,388 | 21 | 6,083 |
| | 22 | Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L | | | | 22 | |
| | 23 | Secured mortgages and notes payable to unrelated third parties | | | 18,300,000 | 23 | 17,992,194 |
| | 24 | Unsecured notes and loans payable to unrelated third parties | | | | 24 | |
| | 25 | Other liabilities. Complete Part X of Schedule D | | | 2,585,797 | 25 | 2,856,899 |
| | 26 | Total liabilities. Add lines 17 through 25 | | | 24,861,049 | 26 | 26,839,447 |
| Net Assets or Fund Balances | Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34. | | | | | | |
| | 27 | Unrestricted net assets | | | 34,944,247 | 27 | 43,181,024 |
| | 28 | Temporarily restricted net assets | | | 1,500,000 | 28 | 0 |
| | 29 | Permanently restricted net assets | | | | 29 | |
| | Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34. | | | | | | |
| | 30 | Capital stock or trust principal, or current funds | | | | 30 | |
| | 31 | Paid-in or capital surplus, or land, building or equipment fund | | | | 31 | |
| | 32 | Retained earnings, endowment, accumulated income, or other funds | | | | 32 | |
| | 33 | Total net assets or fund balances | | | 36,444,247 | 33 | 43,181,024 |
| 34 | Total liabilities and net assets/fund balances | | | 61,305,296 | 34 | 70,020,471 | |

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

| | | | |
|---|---|---|------------|
| 1 | Total revenue (must equal Part VIII, column (A), line 12) | 1 | 56,454,268 |
| 2 | Total expenses (must equal Part IX, column (A), line 25) | 2 | 51,389,372 |
| 3 | Revenue less expenses Subtract line 2 from line 1 | 3 | 5,064,896 |
| 4 | Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) | 4 | 36,444,247 |
| 5 | Other changes in net assets or fund balances (explain in Schedule O) | 5 | 1,671,881 |
| 6 | Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B)) | 6 | 43,181,024 |

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

| | | Yes | No |
|----|--|-----|----|
| 1 | Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O | | |
| 2a | Were the organization's financial statements compiled or reviewed by an independent accountant? | | No |
| b | Were the organization's financial statements audited by an independent accountant? | Yes | |
| c | If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O | Yes | |
| d | If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis | | |
| 3a | As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133? | | No |
| b | If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits | | |

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Avera Marshall

Employer identification number
41-0919153

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**

2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**

11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

| | Yes | No |
|----------|-----|----|
| 11g(i) | | |
| 11g(ii) | | |
| 11g(iii) | | |

| (i) Name of supported organization | (ii) EIN | (iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions)) | (iv) Is the organization in col (i) listed in your governing document? | | (v) Did you notify the organization in col (i) of your support? | | (vi) Is the organization in col (i) organized in the U S ? | | (vii) Amount of support |
|---------------------------------------|-------------|---|---|----|--|----|---|----|----------------------------|
| | | | Yes | No | Yes | No | Yes | No | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| Total | | | | | | | | | |

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

| Section A. Public Support | | | | | | |
|---|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in) ▶ | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.") | | | | | | |
| 2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf | | | | | | |
| 3 The value of services or facilities furnished by a governmental unit to the organization without charge | | | | | | |
| 4 Total. Add lines 1 through 3 | | | | | | |
| 5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f) | | | | | | |
| 6 Public Support. Subtract line 5 from line 4 | | | | | | |

| Section B. Total Support | | | | | | |
|---|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in) ▶ | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 7 Amounts from line 4 | | | | | | |
| 8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources | | | | | | |
| 9 Net income from unrelated business activities, whether or not the business is regularly carried on | | | | | | |
| 10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV) | | | | | | |
| 11 Total support (Add lines 7 through 10) | | | | | | |
| 12 Gross receipts from related activities, etc (See instructions) | | | | | 12 | |
| 13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶ | | | | | | |

| Section C. Computation of Public Support Percentage | | | | | | |
|--|--|--|--|--|----|--|
| 14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f)) | | | | | 14 | |
| 15 Public Support Percentage for 2009 Schedule A, Part II, line 14 | | | | | 15 | |
| 16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶ | | | | | | |
| b 33 1/3% support test—2009. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶ | | | | | | |
| 17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶ | | | | | | |
| b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶ | | | | | | |
| 18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶ | | | | | | |

Part IIIPart III

Support Schedule for Organizations Described in Section 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

| Section A. Public Support | | | | | | |
|--|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in)  | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.") | | | | | | |
| 2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose | | | | | | |
| 3 Gross receipts from activities that are not an unrelated trade or business under section 513 | | | | | | |
| 4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf | | | | | | |
| 5 The value of services or facilities furnished by a governmental unit to the organization without charge | | | | | | |
| 6 Total. Add lines 1 through 5 | | | | | | |
| 7a Amounts included on lines 1, 2, and 3 received from disqualified persons | | | | | | |
| b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year | | | | | | |
| c Add lines 7a and 7b | | | | | | |
| 8 Public Support (Subtract line 7c from line 6) | | | | | | |

| Section B. Total Support | | | | | | |
|--|----------|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in)  | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
| 9 Amounts from line 6 | | | | | | |
| 10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources | | | | | | |
| b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975 | | | | | | |
| c Add lines 10a and 10b | | | | | | |
| 11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on | | | | | | |
| 12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV) | | | | | | |
| 13 Total support (Add lines 9, 10c, 11 and 12) | | | | | | |
| 14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here  | | | | | | |

| Section C. Computation of Public Support Percentage | | |
|---|----|--|
| 15 Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f)) | 15 | |
| 16 Public support percentage from 2009 Schedule A, Part III, line 15 | 16 | |

| Section D. Computation of Investment Income Percentage | | |
|--|----|--|
| 17 Investment income percentage for 2010 (line 10c column (f) divided by line 13 column (f)) | 17 | |
| 18 Investment income percentage from 2009 Schedule A, Part III, line 17 | 18 | |
| 19a 33 1/3% support tests—2010. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization  | | |
| b 33 1/3% support tests—2009. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization  | | |
| 20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions  | | |

Part IV

Supplemental Information. Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527
▶ **Complete if the organization is described below.**
▶ **Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35a (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

| | |
|--|--|
| Name of the organization Avera Marshall | Employer identification number 41-0919153 |
|--|--|

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

| | | |
|---|--|------------|
| 1 | Provide a description of the organization’s direct and indirect political campaign activities in Part IV | |
| 2 | Political expenditures | ▶ \$ _____ |
| 3 | Volunteer hours | _____ |

Part I-B Complete if the organization is exempt under section 501(c)(3).

| | | |
|----|---|--|
| 1 | Enter the amount of any excise tax incurred by the organization under section 4955 | ▶ \$ _____ |
| 2 | Enter the amount of any excise tax incurred by organization managers under section 4955 | ▶ \$ _____ |
| 3 | If the organization incurred a section 4955 tax, did it file Form 4720 for this year? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 4a | Was a correction made? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| b | If “Yes,” describe in Part IV | |

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

| | | |
|---|---|--|
| 1 | Enter the amount directly expended by the filing organization for section 527 exempt function activities | ▶ \$ _____ |
| 2 | Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities | ▶ \$ _____ |
| 3 | Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b | ▶ \$ _____ |
| 4 | Did the filing organization file Form 1120-POL for this year? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 5 | Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization’s funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV | |

| (a) Name | (b) Address | (c) EIN | (d) Amount paid from filing organization's funds If none, enter -0- | (e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0- |
|----------|-------------|---------|---|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A

Check

☐

if the filing organization belongs to an affiliated group

B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

| Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.) | | (a) Filing Organization's Totals | (b) Affiliated Group Totals | | | | | | | | | | | | |
|--|---|--|------------------------------------|--------------------|------------------------------|---|---|---|---|--|--|-------------------|-------------|--|--|
| 1a Total lobbying expenditures to influence public opinion (grass roots lobbying) | | | | | | | | | | | | | | | |
| b Total lobbying expenditures to influence a legislative body (direct lobbying) | | | | | | | | | | | | | | | |
| c Total lobbying expenditures (add lines 1a and 1b) | | | | | | | | | | | | | | | |
| d Other exempt purpose expenditures | | | | | | | | | | | | | | | |
| e Total exempt purpose expenditures (add lines 1c and 1d) | | | | | | | | | | | | | | | |
| f Lobbying nontaxable amount Enter the amount from the following table in both columns | | | | | | | | | | | | | | | |
| <table><thead><tr><th>If the amount on line 1e, column (a) or (b) is:</th><th>The lobbying nontaxable amount is:</th></tr></thead><tbody><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></tbody></table> | | If the amount on line 1e, column (a) or (b) is: | The lobbying nontaxable amount is: | Not over \$500,000 | 20% of the amount on line 1e | Over \$500,000 but not over \$1,000,000 | \$100,000 plus 15% of the excess over \$500,000 | Over \$1,000,000 but not over \$1,500,000 | \$175,000 plus 10% of the excess over \$1,000,000 | Over \$1,500,000 but not over \$17,000,000 | \$225,000 plus 5% of the excess over \$1,500,000 | Over \$17,000,000 | \$1,000,000 | | |
| If the amount on line 1e, column (a) or (b) is: | The lobbying nontaxable amount is: | | | | | | | | | | | | | | |
| Not over \$500,000 | 20% of the amount on line 1e | | | | | | | | | | | | | | |
| Over \$500,000 but not over \$1,000,000 | \$100,000 plus 15% of the excess over \$500,000 | | | | | | | | | | | | | | |
| Over \$1,000,000 but not over \$1,500,000 | \$175,000 plus 10% of the excess over \$1,000,000 | | | | | | | | | | | | | | |
| Over \$1,500,000 but not over \$17,000,000 | \$225,000 plus 5% of the excess over \$1,500,000 | | | | | | | | | | | | | | |
| Over \$17,000,000 | \$1,000,000 | | | | | | | | | | | | | | |
| g Grassroots nontaxable amount (enter 25% of line 1f) | | | | | | | | | | | | | | | |
| h Subtract line 1g from line 1a If zero or less, enter -0- | | | | | | | | | | | | | | | |
| i Subtract line 1f from line 1c If zero or less, enter -0- | | | | | | | | | | | | | | | |
| j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year? | | <input type="checkbox"/> Yes <input type="checkbox"/> No | | | | | | | | | | | | | |

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

| Lobbying Expenditures During 4-Year Averaging Period | | | | | |
|--|----------|----------|----------|----------|-----------|
| Calendar year (or fiscal year beginning in) | (a) 2007 | (b) 2008 | (c) 2009 | (d) 2010 | (e) Total |
| 2a Lobbying non-taxable amount | | | | | |
| b Lobbying ceiling amount (150% of line 2a, column(e)) | | | | | |
| c Total lobbying expenditures | | | | | |
| d Grassroots non-taxable amount | | | | | |
| e Grassroots ceiling amount (150% of line 2d, column (e)) | | | | | |
| f Grassroots lobbying expenditures | | | | | |

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

| | | (a) | | (b) |
|----|--|-----|----|--------|
| | | Yes | No | Amount |
| 1 | During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of | | | |
| a | Volunteers? | | No | |
| b | Paid staff or management (include compensation in expenses reported on lines 1c through 1i)? | | No | |
| c | Media advertisements? | | No | |
| d | Mailings to members, legislators, or the public? | | No | |
| e | Publications, or published or broadcast statements? | | No | |
| f | Grants to other organizations for lobbying purposes? | Yes | | 3,237 |
| g | Direct contact with legislators, their staffs, government officials, or a legislative body? | | No | |
| h | Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means? | | No | |
| i | Other activities? If "Yes," describe in Part IV | | No | |
| j | Total lines 1c through 1i | | | 3,237 |
| 2a | Did the activities in line 1 cause the organization to be not described in section 501(c)(3)? | | No | |
| b | If "Yes," enter the amount of any tax incurred under section 4912 | | | |
| c | If "Yes," enter the amount of any tax incurred by organization managers under section 4912 | | | |
| d | If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year? | | | |

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

| | | | Yes | No |
|---|--|---|-----|----|
| 1 | Were substantially all (90% or more) dues received nondeductible by members? | 1 | | |
| 2 | Did the organization make only in-house lobbying expenditures of \$2,000 or less? | 2 | | |
| 3 | Did the organization agree to carryover lobbying and political expenditures from the prior year? | 3 | | |

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

| | | | |
|---|--|----|--|
| 1 | Dues, assessments and similar amounts from members | 1 | |
| 2 | Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid). | | |
| a | Current year | 2a | |
| b | Carryover from last year | 2b | |
| c | Total | 2c | |
| 3 | Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues | 3 | |
| 4 | If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year? | 4 | |
| 5 | Taxable amount of lobbying and political expenditures (see instructions) | 5 | |

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|

SCHEDULE D

(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ **Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.**
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Avera Marshall

Employer identification number
41-0919153

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

| | | |
|---|--|------------------------------|
| | (a) Donor advised funds | (b) Funds and other accounts |
| 1 | Total number at end of year | |
| 2 | Aggregate contributions to (during year) | |
| 3 | Aggregate grants from (during year) | |
| 4 | Aggregate value at end of year | |
| 5 | Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? <div><input type="checkbox"/> Yes<input type="checkbox"/> No</div> | |
| 6 | Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? <div><input type="checkbox"/> Yes<input type="checkbox"/> No</div> | |

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

| | |
|---|--|
| | Held at the End of the Year |
| a | Total number of conservation easements |
| b | Total acreage restricted by conservation easements |
| c | Number of conservation easements on a certified historic structure included in (a) |
| d | Number of conservation easements included in (c) acquired after 8/17/06 |

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶_____

4

Number of states where property subject to conservation easement is located ▶_____

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

☐ Yes☐ No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶_____

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ _____

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

☐ Yes☐ No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a

If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

(ii) Assets included in Form 990, Part X

▶ \$ _____

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

b

Assets included in Form 990, Part X

▶ \$ _____

For Privacy Act and Paperwork Reduction Act Notice, see the Intructions for Form 990

Cat No 52283D

Schedule D (Form 990) 2010

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

- 3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)
- a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other
- 4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV
- 5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

- 1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☒ No
- b

If "Yes," explain the arrangement in Part XIV and complete the following table
- | | |
|----|--------|
| | Amount |
| 1c | |
| 1d | |
| 1e | |
| 1f | |
- 2a

Did the organization include an amount on Form 990, Part X, line 21?

☒ Yes

☐ No
- b

If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

| | (a)Current Year | (b)Prior Year | (c)Two Years Back | (d)Three Years Back | (e)Four Years Back |
|--|-----------------|---------------|-------------------|---------------------|--------------------|
| 1a Beginning of year balance | 1,500,000 | | | | |
| b Contributions | | 1,500,000 | | | |
| c Investment earnings or losses | | | | | |
| d Grants or scholarships | | | | | |
| e Other expenditures for facilities and programs | 1,500,000 | | | | |
| f Administrative expenses | | | | | |
| g End of year balance | | 1,500,000 | | | |

- 2

Provide the estimated percentage of the year end balance held as
- a

Board designated or quasi-endowment
- b

Permanent endowment
- c

Term endowment
- 3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by
- (i)

unrelated organizations

(ii)

related organizations
- b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?
- | | | |
|--------|-----|----|
| | Yes | No |
| 3a(i) | | No |
| 3a(ii) | Yes | |
| 3b | Yes | |

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Investments—Land, Buildings, and Equipment. See Form 990, Part X, line 10.

| Description of investment | (a) Cost or other basis (investment) | (b)Cost or other basis (other) | (c) Accumulated depreciation | (d) Book value |
|--|--------------------------------------|--------------------------------|------------------------------|----------------|
| 1a Land | | 439,812 | | 439,812 |
| b Buildings | | 35,428,009 | 19,731,161 | 15,696,848 |
| c Leasehold improvements | | | | |
| d Equipment | | 22,464,437 | 14,024,001 | 8,440,436 |
| e Other | | 2,569,919 | 628,802 | 1,941,117 |
| Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) | | | | 26,518,213 |

Part XI

Reconciliation of Change in Net Assets from Form 990 to Financial Statements

| | | | |
|----|---|----|--|
| 1 | Total revenue (Form 990, Part VIII, column (A), line 12) | 1 | |
| 2 | Total expenses (Form 990, Part IX, column (A), line 25) | 2 | |
| 3 | Excess or (deficit) for the year Subtract line 2 from line 1 | 3 | |
| 4 | Net unrealized gains (losses) on investments | 4 | |
| 5 | Donated services and use of facilities | 5 | |
| 6 | Investment expenses | 6 | |
| 7 | Prior period adjustments | 7 | |
| 8 | Other (Describe in Part XIV) | 8 | |
| 9 | Total adjustments (net) Add lines 4 - 8 | 9 | |
| 10 | Excess or (deficit) for the year per financial statements Combine lines 3 and 9 | 10 | |

Part XII

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

| | | | |
|---|--|----|--|
| 1 | Total revenue, gains, and other support per audited financial statements | 1 | |
| 2 | Amounts included on line 1 but not on Form 990, Part VIII, line 12 | | |
| a | Net unrealized gains on investments | 2a | |
| b | Donated services and use of facilities | 2b | |
| c | Recoveries of prior year grants | 2c | |
| d | Other (Describe in Part XIV) | 2d | |
| e | Add lines 2a through 2d | 2e | |
| 3 | Subtract line 2e from line 1 | 3 | |
| 4 | Amounts included on Form 990, Part VIII, line 12, but not on line 1 | | |
| a | Investment expenses not included on Form 990, Part VIII, line 7b | 4a | |
| b | Other (Describe in Part XIV) | 4b | |
| c | Add lines 4a and 4b | 4c | |
| 5 | Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12) | 5 | |

Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

| | | | |
|---|---|----|--|
| 1 | Total expenses and losses per audited financial statements | 1 | |
| 2 | Amounts included on line 1 but not on Form 990, Part IX, line 25 | | |
| a | Donated services and use of facilities | 2a | |
| b | Prior year adjustments | 2b | |
| c | Other losses | 2c | |
| d | Other (Describe in Part XIV) | 2d | |
| e | Add lines 2a through 2d | 2e | |
| 3 | Subtract line 2e from line 1 | 3 | |
| 4 | Amounts included on Form 990, Part IX, line 25, but not on line 1: | | |
| a | Investment expenses not included on Form 990, Part VIII, line 7b | 4a | |
| b | Other (Describe in Part XIV) | 4b | |
| c | Add lines 4a and 4b | 4c | |
| 5 | Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18) | 5 | |

Part XIV

Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

| Identifier | Return Reference | Explanation |
|---|------------------|---|
| | Part IV, Line 2b | The Organization holds funds on behalf of its residents |
| Description of Intended Use of Endowment Funds | Part V, Line 4 | All requirements of the endowment have been met. Therefore all funds were expended during the year. |
| Description of Uncertain Tax Positions Under FIN 48 | Part X | The Medical Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Medical Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Medical Center's federal Form 990T filings are no longer subject to federal tax examinations by tax authorities for years before 2008. |

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Avera Marshall

Employer identification number
41-0919153

Part I

Financial Assistance and Certain Other Community Benefits at Cost

| | | | |
|----|--|-----|----|
| | | Yes | No |
| 1a | Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a | Yes | |
| 1b | If "Yes," is it a written policy? | Yes | |
| 2 | If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year <input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Applied uniformly to most hospitals <input type="checkbox"/> Generally tailored to individual hospitals | | |
| 3 | Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <input type="checkbox"/> 100% <input checked="" type="checkbox"/> 150% <input type="checkbox"/> 200% <input type="checkbox"/> Other _____ % b Does the organization use FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input checked="" type="checkbox"/> 400% <input type="checkbox"/> Other _____ % c If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"? | Yes | |
| 5a | Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? | Yes | |
| 5b | If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? | Yes | |
| 5c | If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? | | No |
| 6a | Does the organization prepare a community benefit report during the tax year? | Yes | |
| 6b | If "Yes," did the organization make it available to the public? Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H | Yes | |

7

Financial Assistance and Certain Other Community Benefits at Cost

| Financial Assistance and Means-Tested Government Programs | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community benefit expense | (d) Direct offsetting revenue | (e) Net community benefit expense | (f) Percent of total expense |
|---|---|-------------------------------|-------------------------------------|-------------------------------|-----------------------------------|------------------------------|
| a Financial Assistance at cost (from Worksheets 1 and 2) | | 313 | 278,494 | | 278,494 | 0 550 % |
| b Unreimbursed Medicaid (from Worksheet 3, column a) | | | 3,108,474 | 1,587,384 | 1,521,090 | 2 990 % |
| c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b) | | | | | | |
| d Total Financial Assistance and Means-Tested Government Programs | | 313 | 3,386,968 | 1,587,384 | 1,799,584 | 3 540 % |
| Other Benefits | | | | | | |
| e Community health improvement services and community benefit operations (from Worksheet 4) | 15 | 607 | 74,498 | 1,200 | 73,298 | 0 140 % |
| f Health professions education (from Worksheet 5) | 2 | 327 | 186,451 | 7,300 | 179,151 | 0 350 % |
| g Subsidized health services (from Worksheet 6) | 4 | 15,342 | 7,678,164 | 4,637,736 | 3,040,428 | 5 980 % |
| h Research (from Worksheet 7) | | | | | | |
| i Cash and in-kind contributions to community groups (from Worksheet 8) | 2 | | 17,100 | 2,308 | 14,792 | 0 030 % |
| j Total Other Benefits | 23 | 16,276 | 7,956,213 | 4,648,544 | 3,307,669 | 6 500 % |
| k Total. Add lines 7d and 7j | 23 | 16,589 | 11,343,181 | 6,235,928 | 5,107,253 | 10 040 % |

Part II

Community Building Activities during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

| | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community building expense | (d) Direct offsetting revenue | (e) Net community building expense | (f) Percent of total expense |
|--|---|-------------------------------|--------------------------------------|-------------------------------|------------------------------------|------------------------------|
| 1Physical improvements and housing | 1 | | 4,170 | | 4,170 | 0 010 % |
| 2Economic development | 1 | | 8,447 | | 8,447 | 0 020 % |
| 3Community support | 4 | 180 | 70,290 | | 70,290 | 0 140 % |
| 4Environmental improvements | | | | | | |
| 5Leadership development and training for community members | | | | | | |
| 6Coalition building | 1 | | 152 | | 152 | 0 % |
| 7Community health improvement advocacy | | | | | | |
| 8Workforce development | 2 | 539 | 3,123 | | 3,123 | 0 010 % |
| 9Other | | | | | | |
| 10Total | 9 | 719 | 86,182 | | 86,182 | 0 180 % |

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

| | | | |
|---|---|-----|---------|
| | | Yes | No |
| 1 | Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15? | 1 | No |
| 2 | Enter the amount of the organization's bad debt expense (at cost) | 2 | 265,005 |
| 3 | Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy | 3 | 13,250 |
| 4 | Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit | | |

Section B. Medicare

| | | | |
|---|---|---|------------|
| 5 | Enter total revenue received from Medicare (including DSH and IME) | 5 | 11,034,149 |
| 6 | Enter Medicare allowable costs of care relating to payments on line 5 | 6 | 10,897,297 |
| 7 | Subtract line 6 from line 5. This is the surplus or (shortfall) | 7 | 136,852 |
| 8 | Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input type="checkbox"/> Cost to charge ratio <input checked="" type="checkbox"/> Other | | |

Section C. Collection Practices

| | | | |
|----|---|----|-----|
| 9a | Does the organization have a written debt collection policy? | 9a | Yes |
| 9b | If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI | 9b | Yes |

Part IV

Management Companies and Joint Ventures

| (a) Name of entity | (b) Description of primary activity of entity | (c) Organization's profit % or stock ownership % | (d) Officers, directors, trustees, or key employees' profit % or stock ownership% | (e) Physicians' profit % or stock ownership % |
|--------------------|---|--|---|---|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
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| 11 | | | | |
| 12 | | | | |
| 13 | | | | |

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 1

[illegible]

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year?10

| Name and address | Type of Facility (Describe) |
|------------------------|-----------------------------|
|------------------------|-----------------------------|

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g, open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part I, Line 3c Patients with income less than 400% of the poverty guidelines are eligible for financial assistance The organization has a grid that looks at income, assets and balance of current medical claims to determine eligibility based upon a sliding scale It is possible to receive assistance from zero to 100% |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part I, Line 6a Our community benefit report is contained in a report prepared by Avera Health, a related organization It is available through the website and requested mailing, and is filed with the catholic health association |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|--|
| | | Part I, Line 7 Charity care and unreimbursed Medicaid was converted to cost using the cost-to-charge ratio derived from Worksheet 2 Lines 7e - i are gathered from expenses reported in the general ledger |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part I, Line 7g Subsidized health includes expenses related to a psychiatric and specialty clinics with community benefit expenses of \$4,886,533 |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|--|
| | | Part I, Line 7, Column (f) The Bad Debt expense included on Form 990, Part IX, Line 25, Column (A), but subtracted for purposes of calculating the percentage in this column is \$ 518029 |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part II The amounts reported as community building include monetary and in-kind donations to community organizations to support the needs of the community beyond the need for healthcare During this time, Avera Marshall donated a house to Habitat for Humanity Avera Marshall's employees and management also volunteer and participate in area community organizations These organizations include non-profit and civic organizations Avera Marshall also encourages middle-school aged students to consider a career in healthcare through their Scrubs Camp which is a one-day program These contributions strengthen the community by focusing on underlying causes of health care issues |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | <p>Part III, Line 4 Bad debt expense was converted to cost using the cost-to-charge ratio derived from Worksheet 2 The estimated amount of bad debt expense attributable to patients eligible under the Organization's charity care policy is calculated by taking 5% of bad debt at cost The Organization evaluates bad debt and identifies charity care as applicable However, based on review of the bad debt the Organization estimates that 5% of bad debt at cost could be charity care as there are individuals who do not complete the paper work Bad debt expense is reported net of discounts and contractual allowances A payment on an account previously written off reduces bad debt expense in the current year Financial Statement Note The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts Management considers historical write off and recovery information in determining the estimated bad debt provision Management also reviews accounts to determine if classification as charity care is appropriate</p> |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part III, Line 8 Medicare allowable costs of care are based on the Medicare cost report The Medicare cost report is completed based on the rules and regulations set forth by CMS |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part III, Line 9b If the patient qualifies for the Organization's financial assistance policy for low-income, uninsured patients and is cooperating with the Organization with regard to efforts to settle an outstanding bill within a reasonable time period, the Organization or its agent shall not send, nor intimate that it will send, the unpaid bill to any outside collection agency At such time as the Organization sends the uncollected account to an outside collection agency, the amount referred to the agency shall reflect the reduced-payment level for which the patient was eligible under the Organization's financial assistance policy for low-income uninsured patients Avera Marshall does not report any data to any of the credit agencies, however, the collection agencies Avera Marshall utilizes may report to the credit agencies Any extended payment plans offered by the Hospital, or the Hospital's representative, in settling the outstanding bills of patients who qualify for financial assistance shall be interest-free so long as the repayment schedule is met |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part VI, Line 2 Avera Marshall, in conjunction with several other agencies located in the City of Marshall and the surrounding areas, is currently collaborating to put together a Community Health Needs Assessment Several groups/organizations have been contacted and interviews set up in order to cultivate their needs and input A target date of January 2012 has been set to quantify information received from these meetings |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part VI, Line 3 Anyone who is uninsured receives a letter with their itemized bill which describes both the uninsured program and the charity care program Any uninsured patient is contacted by phone or letter by our collections department at which time our programs are described Also, inpatient and same day surgery patients receive a brochure in their admissions packet Pre-collection letters also include information regarding our charity care and uninsured programs |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|--|
| | | Part VI, Line 4 Avera Marshall's service area includes Lyon County and surrounding counties in Minnesota In 2010, the population for Lyon County was estimated to be 25,857 Approximately 13.6% of the population is age 65 or older The average per capita income is \$23,560 and approximately 11.7% of individuals are below the federal poverty level The nearest hospital in the area is approximately 22 miles from Avera Marshall |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | <p>Part VI, Line 6 The organization's governing body is comprised of volunteer members who reside in the community Medical staff privileges are extended to all qualified physicians in the community Surplus funds are reinvested in facilities to improve patient care Charity care is available for those with a diminished ability to pay In addition, Avera Marshall is the sole provider for hospital inpatient care, the only physician staffed 24/7 ER, birthing center and full service surgery center As a result of our mission statement, Avera Marshall provides numerous services which do not produce a profit An example of this is psychiatric services provided by the facility This is a subsidized health service Avera Marshall also operates Curaquick to provide an alternative, low-cost convenience care for walk-in patients Avera Marshall is very involved in the community We offer classes such as childbirth and various other support groups Planet Heart community screenings are provided with reduced imaging fees in addition to free vein screenings We provide educational experiences for school-aged children, students needing work study experience and med student internships Physicals for sports are given to students who have no means to pay but wish to participate in athletic activities at Marshall schools Basic supply items are donated to school nurse providers for triage care Avera Marshall participates in community health events such as Community Connect which provides options on accessing health care resources The Foundation, a separate exempt organization, focused on raising dollars for community health needs, such as assistance with mammograms through the Tough Enough to Wear Pink campaign, the baby hat and blanket fund and more They also offer many opportunities for community members to volunteer</p> |

| Identifier | ReturnReference | Explanation |
|------------|-----------------|---|
| | | Part VI, Line 7 The communities in which Avera operates all have unique health and community benefit needs and in keeping with the Catholic Healthcare Association guidelines each hospital strives to meet its community's identified needs The Avera central office advocates for all on community benefit related matters of state, regional and national importance |

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

Grants and Other Assistance to Organizations,
Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization
Avera Marshall

Employer identification number
41-0919153

Part I

General Information on Grants and Assistance

- 1

Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

☒ Yes ☐ No
- 2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II

Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed. ▶ ☐

| 1 (a) Name and address of organization or government | (b) EIN | (c) IRC Code section if applicable | (d) Amount of cash grant | (e) Amount of non-cash assistance | (f) Method of valuation (book, FMV, appraisal, other) | (g) Description of non-cash assistance | (h) Purpose of grant or assistance |
|--|---------|------------------------------------|--------------------------|-----------------------------------|---|--|------------------------------------|
| | | | | | | | |
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| | | | | | | | |

2

Enter total number of section 501(c)(3) and government organizations ▶

3

Enter total number of other organizations ▶

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.
Use Schedule I-1 (Form 990) if additional space is needed.

| (a)Type of grant or assistance | (b)Number of recipients | (c)Amount of cash grant | (d)Amount of non-cash assistance | (e)Method of valuation (book, FMV, appraisal, other) | (f)Description of non-cash assistance |
|---|-------------------------|-------------------------|----------------------------------|--|---------------------------------------|
| (1) Medical Student Scholarships | 8 | 48,000 | | | |
| (2) Stipend for SIM (Student Internship in Medicine) Students | 3 | 1,500 | | | |
| (3) LTC Employee Scholarships | 20 | 11,860 | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Part IV

Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

| Identifier | Return Reference | Explanation |
|--|------------------|--|
| Procedure for Monitoring Grants in the U S | Part I, Line 2 | Schedule I, Part I, Line 2 The Organization provides scholarships to medical students, long-term care employees and a stipend to SIM (Student Internship in Medicine) students The Organization monitors the use of the scholarships through a recruiter who maintains contact with the students, and monitors receipt of the employee scholarship by the learning institution |

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2010

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

| | |
|--|--|
| Name of the organization Avera Marshall | Employer identification number 41-0919153 |
|--|--|

Part I

Questions Regarding Compensation

| | Yes | No |
|--|-----|----|
| 1a Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items | | |
| <input type="checkbox"/> First-class or charter travel | | |
| <input type="checkbox"/> Travel for companions | | |
| <input type="checkbox"/> Tax idemnification and gross-up payments | | |
| <input type="checkbox"/> Discretionary spending account | | |
| <input type="checkbox"/> Housing allowance or residence for personal use | | |
| <input type="checkbox"/> Payments for business use of personal residence | | |
| <input type="checkbox"/> Health or social club dues or initiation fees | | |
| <input type="checkbox"/> Personal services (e g , maid, chauffeur, chef) | | |
| 1b If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain | | |
| 2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a? | | |
| 3 Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply | | |
| <input type="checkbox"/> Compensation committee | | |
| <input type="checkbox"/> Independent compensation consultant | | |
| <input type="checkbox"/> Form 990 of other organizations | | |
| <input type="checkbox"/> Written employment contract | | |
| <input checked="" type="checkbox"/> Compensation survey or study | | |
| <input checked="" type="checkbox"/> Approval by the board or compensation committee | | |
| 4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization | | |
| a Receive a severance payment or change-of-control payment from the organization or a related organization? | | No |
| b Participate in, or receive payment from, a supplemental nonqualified retirement plan? | | No |
| c Participate in, or receive payment from, an equity-based compensation arrangement? | | No |
| If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III | | |
| Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9. | | |
| 5 For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of | | |
| a The organization? | | No |
| b Any related organization? | | No |
| If "Yes," to line 5a or 5b, describe in Part III | | |
| 6 For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of | | |
| a The organization? | | No |
| b Any related organization? | | No |
| If "Yes," to line 6a or 6b, describe in Part III | | |
| 7 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III | | No |
| 8 Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III | | No |
| 9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)? | | |

Part II **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

| (A) Name | | (B) Breakdown of W-2 and/or 1099-MISC compensation | | | (C) Retirement and other deferred compensation | (D) Nontaxable benefits | (E) Total of columns (B)(i)-(D) | (F) Compensation reported in prior Form 990 or Form 990-EZ |
|------------------------|------|--|-------------------------------------|-------------------------------------|--|-------------------------|---------------------------------|--|
| | | (i) Base compensation | (ii) Bonus & incentive compensation | (iii) Other reportable compensation | | | | |
| (1) Roger Pabst | (i) | 168,219 | 0 | 20,718 | 600 | 7,805 | 197,342 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) Donna Hartfiel MD | (i) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (ii) | 299,792 | 0 | 7,000 | 0 | 7,095 | 313,887 | 0 |
| (3) Mary B Maertens | (i) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | (ii) | 291,769 | 0 | 9,422 | 12,102 | 15,177 | 328,470 | 0 |
| (4) Richard Jueneman | (i) | 256,067 | 0 | 1,433 | 3,500 | 21,402 | 282,402 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (5) Amber Boles | (i) | 262,184 | 0 | 229 | 3,002 | 7,445 | 272,860 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (6) Jason Klein | (i) | 245,522 | 0 | 647 | 4,738 | 22,402 | 273,309 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (7) Kevin Gildner MD | (i) | 300,808 | 0 | 42,650 | 0 | 18,332 | 361,790 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (8) Curtis Louwagie MD | (i) | 250,549 | 0 | 60,737 | 0 | 18,856 | 330,142 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (9) | | | | | | | | |
| (10) | | | | | | | | |
| (11) | | | | | | | | |
| (12) | | | | | | | | |
| (13) | | | | | | | | |
| (14) | | | | | | | | |
| (15) | | | | | | | | |
| (16) | | | | | | | | |

Part III **Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

| Identifier | Return Reference | Explanation |
|--------------------------|------------------|--|
| Supplemental Information | Part III | The President & CEO was compensated by Avera Health. Avera Marshall relied on the related organization for determining the compensation for the President & CEO using the methods described in Part I, Line 3. |

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

► Complete if the organization answered
"Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c,
or Form 990-EZ, Part V lines 38a or 40b.
► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

| | |
|--|--|
| Name of the organization Avera Marshall | Employer identification number 41-0919153 |
|--|--|

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

| 1 | (a) Name of disqualified person | (b) Description of transaction | (c) Corrected? | |
|---|---------------------------------|--------------------------------|-------------------|----|
| | | | Yes | No |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 ► \$ _____

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ► \$ _____

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

| (a) Name of interested person and purpose | (b) Loan to or from the organization? | | (c) Original principal amount | (d) Balance due | (e) In default? | | (f) Approved by board or committee? | | (g) Written agreement? | |
|--|---------------------------------------|------|-------------------------------|-----------------|-----------------|----|-------------------------------------|----|------------------------|----|
| | To | From | | | Yes | No | Yes | No | Yes | No |
| (1) Dr Roger Pabst Community needs loan | | X | 60,000 | 33,333 | | No | | No | Yes | |
| (2) Dr Curtis Louwagie Community needs loan | | X | 200,000 | 100,000 | | No | | No | Yes | |
| (3) Dr Kevin Gildner Community needs loan | | X | 150,000 | 96,875 | | No | | No | Yes | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| Total ► \$ 230,208 | | | | | | | | | | |

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

| (a) Name of interested person | (b) Relationship between interested person and the organization | (c) Amount of grant or type of assistance |
|-------------------------------|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

Part IV

Business Transactions Involving Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

| (a) Name of interested person | (b) Relationship between interested person and the organization | (c) Amount of transaction | (d) Description of transaction | (e) Sharing of organization's revenues? | |
|----------------------------------|---|---------------------------|--------------------------------|---|----|
| | | | | Yes | No |
| (1) PBR Windom and Mountain Lake | Board member was 20% owner in clinic | 168,209 | Purchase of Optometry Clinics | | No |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Part V

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010

Open to Public
Inspection

| | |
|--|--|
| Name of the organization Avera Marshall | Employer identification number 41-0919153 |
|--|--|

| Identifier | Return Reference | Explanation |
|----------------------|----------------------------|---|
| New Program Services | Form 990, Part III, line 2 | 12/2010 - Curaquick was added as a walk-in convenience care option for people in the area. It is located at 900 East Main Street in the Hy-Vee store in Marshall, MN. |

| Identifier | Return Reference | Explanation |
|-----------------------------|----------------------------|---|
| Changes in Program Services | Form 990, Part III, line 3 | The number of optometry clinics has increased for FYE 2011 by the addition of the following clinics 03/01/2010 - Avera Medical Group Optometry Redwood Falls, located at 500 E. Bridge Street in Redwood Falls, MN 10/01/2010 - Avera Medical Group Optometry Springfield, located at 602 N Jackson Avenue in Springfield, MN 07/01/2010 - Avera Medical Group Optometry Windom, located at 1006 Fourth Street in Windom, MN 07/01/2010 - Avera Medical Group Optometry Mountain Lake, located at 1040 Third Avenue in Mountain Lake, MN 01/01/2011 - Avera Medical Group Optometry Tracy, located at 505 State Street in Tracy, MN |

| Identifier | Return Reference | Explanation |
|--------------------------------------|------------------|--|
| Form 990, Part VI, Section A, line 2 | | Donna Hartfiel, MD has a business relationship with Sr Mary J Reichelt |

| Identifier | Return Reference | Explanation |
|--------------------------------------|------------------|---|
| Form 990, Part VI, Section A, line 6 | | The sole member of the organization is Avera Health, a nonprofit corporation organized and existing under the laws of the state of South Dakota and exempt under 501(c)(3) of the Internal Revenue Code of 1986, as amended |

| Identifier | Return Reference | Explanation |
|---------------------------------------|------------------|---|
| Form 990, Part VI, Section A, line 7a | | Avera Health, as the sole member, has the power to appoint and remove, with or without cause, members of the board of directors |

| Identifier | Return Reference | Explanation |
|---------------------------------------|------------------|---|
| Form 990, Part VI, Section A, line 7b | | <p>Avera Health has the following rights as the member</p> <ol style="list-style-type: none"> 1 To approve the adoption, amendment or repeal of the statements of philosophy, mission and values of corporation, 2 To initiate the adoption, amendment or repeal of any provision of the articles of incorporation or bylaws of corporation, and to give final approval of any such action with respect thereto, 3 To approve and act upon the alienation of real property and precious artifacts under the canonical stewardship of the Sisters of the Presentation of the Blessed Virgin Mary of Aberdeen, South Dakota ("Presentation Sisters") or the Benedictine Sisters of Sacred Heart Monastery ("Benedictine Sisters"), pursuant to the policies established by the member, 4 To approve any plan of merger, consolidation or dissolution of the corporation, or the divestiture of a sponsored work or ministry associated with the corporation, 5 To approve the creation of new sponsored works or ministries to be conducted by or under the authority of the corporation, 6 To appoint and remove, with or without cause, the board of directors of the corporation, 7 To appoint and/or remove, with or without cause, the President and Chief Executive Officer of the corporation, 8 To approve operating/capital budgets and strategic plans of the corporation, 9 To approve expenditures outside of operating and capital budgets exceeding defined thresholds according to policy which may be adopted from time to time by the member, 10 To approve acquisitions, sales and leases, according to policy which may be adopted from time to time by the members, 11 To establish and maintain employee benefit programs, 12 To establish and maintain insurance programs, 13 To approve major community fund drives, 14 To approve the appointment of auditors, 15 To adopt policies designed to effectuate the reserved powers of the member |

| Identifier | Return Reference | Explanation |
|---------------------------------------|------------------|---|
| Form 990, Part VI, Section B, line 11 | | The Form 990 is reviewed initially by the CEO and CFO, then the finance committee. The return is made available to the board of directors for review prior to filing. |

| Identifier | Return Reference | Explanation |
|------------|--|---|
| | Form 990, Part VI, Section B, line 12c | <p>The conflict of interest policy covers board members, officers and key employees. At each board meeting, a request is made for all board members to disclose any potential conflict of interest pertaining to any item listed on the agenda or pertaining to any potential item that could be discussed during the course of the meeting. The declaration of conflict of interest is recorded in the meeting minutes. The board makes a determination of whether there is a conflict of interest and if so, implements the procedure for evaluating the issue or transaction involved. The board member or officer with the conflict must refrain from voting. A statement of conflict of interest disclosure is made on an annual basis by officers and directors. The information is maintained in a database and a report is provided to the board.</p> |

| Identifier | Return Reference | Explanation |
|------------|------------------|---|
| | | Form 990, Part VI, Section B, Line 15 The President & CEO was compensated by Avera Health. Annually the compensation committee of Avera Health, which is comprised of six (6) system members appointed by the religious orders, meets with an independent consultant regarding fair market value of officers and key employees. The compensation committee approves all salaries based on comparable data and documents the basis for their decision in meeting minutes. The compensation of the CFO is determined by Avera Marshall Human Resources based on a market analysis. The CEO approves the CFO's compensation. |

| Identifier | Return Reference | Explanation |
|------------|--|---|
| | Form 990, Part VI, Section C, line 19 | The organization's governing documents and conflict of interest policy are not made available to the general public The Organization's financial statements are attached to the Form 990 per IRS instructions and therefore available to the general public |

| Identifier | Return Reference | Explanation |
|------------|-----------------------|---|
| | Form 990, Part VII | Michael Rich and Dr Donna R Hartfiel serve Avera Marshall Foundation, a related organization, 2 hours per week. Mary Maertens and Sharon Williams serve Avera Marshall Foundation, related organization, 1 2 and 1 hours per week, respectively. As board members, Sr Mary J Reichelt serves a related organization 2 hours per week and Sr Joann Sturtzel serves a related organization 1 hour per week. |

| Identifier | Return Reference | Explanation |
|--|---------------------------|---|
| Changes in Net Assets or Fund Balances | Form 990, Part XI, line 5 | Net unrealized gains on investments 1,671,881 |

| Identifier | Return Reference | Explanation |
|------------|--------------------------------|---|
| | Form 990, Part XII, Line 2c | The Audit Committee of Avera Health, parent organization, selects the auditor and reviews the audited financial statements for Avera Marshall |

| Identifier | Return Reference | Explanation |
|------------|-----------------------------|--|
| | Form 990, Part VI, Line 16b | There is no written policy or procedure in the event of any such proposed transaction. The board or a committee with delegated authority reviews all materials, valuations and operational aspects for any proposed transaction. Such transaction would be evaluated in accordance with the exempt status of the organization and its applicable purposes. Any transaction also would be approved by the board and the member. |

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Avera Marshall

Employer identification number
41-0919153

Part I

Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

| (a) Name, address, and EIN of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Part II

Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled organization | |
|---|-------------------------|--|----------------------------|---|----------------------------------|---|----|
| | | | | | | Yes | No |
| See Additional Data Table | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Predominant income (related, unrelated, excluded from tax under sections 512- 514) | (f) Share of total income | (g) Share of end-of-year assets | (h) Disproporionate allocations? | | (i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065) | (j) General or managing partner? | | (k) Percentage ownership |
|--|-------------------------|--|-------------------------------------|---|------------------------------|---------------------------------------|--|----|---|---|----|--------------------------------|
| | | | | | | | Yes | No | | Yes | No | |
| See Additional Data Table | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Type of entity (C corp, S corp, or trust) | (f) Share of total income | (g) Share of end-of-year assets | (h) Percentage ownership |
|---|--|---|-------------------------------------|--|------------------------------|--|--------------------------------|
| (1) Accounts Management Inc 5132 S Cliff Ave Suite 101 Sioux Falls, SD57108 46-0373021 | Collection Agency | SD | N/A | C | | | |
| (2) Avera Health Plans Inc 3900 West Avera Drive Suite 101 Sioux Falls, SD57108 46-0451539 | Health Financing and Health Plan Admin | SD | N/A | C | | | |
| (3) Avera Property Insurance Inc 610 W 23rd St PO Box 38 Yankton, SD57078 46-0463155 | Insurance | SD | N/A | C | | | |
| (4) Valley Health Services 501 Summit Street Yankton, SD57078 46-0357149 | Medical Equipment | SD | N/A | C | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

Part V

Transactions With Related Organizations

(Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b Gift, grant, or capital contribution to other organization(s)

c Gift, grant, or capital contribution from other organization(s)

d Loans or loan guarantees to or for other organization(s)

e Loans or loan guarantees by other organization(s)

f Sale of assets to other organization(s)

g Purchase of assets from other organization(s)

h Exchange of assets

i Lease of facilities, equipment, or other assets to other organization(s)

j Lease of facilities, equipment, or other assets from other organization(s)

k Performance of services or membership or fundraising solicitations for other organization(s)

l Performance of services or membership or fundraising solicitations by other organization(s)

m Sharing of facilities, equipment, mailing lists, or other assets

n Sharing of paid employees

o Reimbursement paid to other organization for expenses

p Reimbursement paid by other organization for expenses

q Other transfer of cash or property to other organization(s)

r Other transfer of cash or property from other organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

Yes

No

Yes

No

No

No

Yes

No

No

Yes

No

No

Yes

Yes

Yes

Yes

| 2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds | | | |
|---|---------------------------------|------------------------|---|
| (a) Name of other organization | (b) Transaction type(a-r) | (c) Amount involved | (d) Method of determining amount involved |
| (1) Avera Marshall Foundation | | | |
| (2) | | | |
| (3) | | | |
| (4) | | | |
| (5) | | | |
| (6) | | | |

Schedule R (Form 990) 2010

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|

Software ID:

Software Version:

EIN: 41-0919153

Name: Avera Marshall

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512 (b)(13) controlled organization | |
|--|--|--|----------------------------|---|----------------------------------|--|----|
| | | | | | | Yes | No |
| Avera St Anthony's Hospital 300 N 2nd Street ONeill, NE68763 47-0463911 | Healthcare Services | NE | 501(c)(3) | Line 3 | Avera Health | | No |
| Avera Holy Family 826 N 8th Street Estherville, IA51334 42-0680370 | Healthcare Services | IA | 501(c)(3) | Line 3 | Avera Health | | No |
| Avera Holy Family Foundation 826 N 8th Street Estherville, IA51334 42-1317452 | Support of Holy Family Hospital and Home Health Agency | IA | 501(c)(3) | Line 9 | Avera Holy Family | | No |
| St Benedict Health Center 401 West Glynn Drive Parkston, SD57366 46-0226738 | Healthcare Services | SD | 501(c)(3) | Line 3 | Avera Health | | No |
| St Benedict Health Center Foundation West Glynn Drive PO Box B Parkston, SD57366 46-0226738 | Support Health Related Services | SD | 501(c)(3) | Line 11a, I | St Benedict Health Center | | No |
| Avera McKennan 1325 S Cliff Ave PO Box 5045 Sioux Falls, SD57117 46-0224743 | Healthcare Services | SD | 501(c)(3) | Line 3 | Avera Health | | No |
| Avera Queen of Peace Hospital 525 North Foster Mitchell, SD57301 46-0224604 | Healthcare Services | SD | 501(c)(3) | Line 3 | Avera Health | | No |
| Sacred Heart Health Services 501 Summit Street Yankton, SD57078 46-0225483 | Healthcare Services | SD | 501(c)(3) | Line 3 | Avera Health | | No |
| Sacred Heart Rural Health Clinics 501 Summit Street Yankton, SD57078 46-0423930 | Clinic Services | SD | 501(c)(3) | Line 3 | Sacred Heart Health Services | | No |
| Health Management Services 501 Summit Street Yankton, SD57078 46-0399291 | Adult Daycare and Homemaking Services | SD | 501(c)(3) | Line 9 | Sacred Heart Health Services | | No |
| Lewis and Clark Health Education and Service Agency 1000 W 4th Street Suite 9 Yankton, SD57078 46-0337013 | Healthcare Education | SD | 501(c)(3) | Line 9 | Sacred Heart Health Services | | No |
| Avera St Luke's 305 South State Street Aberdeen, SD57401 46-0224598 | Healthcare Services | SD | 501(c)(3) | Line 3 | Avera Health | | No |

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512 (b)(13) controlled organization | |
|--|---|---|----------------------------|--|----------------------------------|--|----|
| | | | | | | Yes | No |
| Avera Workers' Compensation Trust 3900 West Avera Drive Sioux Falls, SD57108 46-0407148 | Economical Coverage of Workers' Compensation Claims | SD | 501(c)(3) | Line 11b, II | Avera Health | | No |
| Avera Health 3900 West Avera Drive Suite 300 Sioux Falls, SD57108 46-0422673 | Healthcare Services | SD | 501(c)(3) | Line 9 | N/A | | No |
| Avera Marshall Foundation 300 S Bruce Street Marshall, MN56258 41-1784801 | Fundraising | MN | 501(c)(3) | Line 7 | Avera Marshall | Yes | |



Consolidated Financial Statements
June 30, 2011 and 2010

Avera Marshall Regional Medical Center

Avera Marshall Regional Medical Center

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Independent Auditor's Report

The Board of Directors
Avera Marshall Regional Medical Center
Marshall, Minnesota

We have audited the accompanying consolidated balance sheets of Avera Marshall Regional Medical Center (Medical Center) as of June 30, 2011 and 2010, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avera Marshall Regional Medical Center as of June 30, 2011 and 2010, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sioux Falls, South Dakota
September 28, 2011

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| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 4,926,389 | \$ 4,332,677 |
| Temporary investments | 645,000 | 480,000 |
| Receivables | | |
| Patient, net of estimated uncollectibles, charity, and other allowances of approximately \$4,186,000 in 2011 and \$4,779,000 in 2010 | 6,017,655 | 7,094,455 |
| Other receivables | 588,666 | 450,936 |
| Supplies | 1,138,457 | 990,380 |
| Prepaid expenses | 1,276,169 | 666,007 |
| Total current assets | <u>14,592,336</u> | <u>14,014,455</u> |
| Assets Limited as to Use | | |
| By Board for capital improvements and debt redemption | 26,734,707 | 19,777,250 |
| Investments held by foundation | 10,124,312 | 9,194,146 |
| Total assets limited as to use | <u>36,859,019</u> | <u>28,971,396</u> |
| Property and Equipment | <u>26,518,213</u> | <u>26,450,240</u> |
| Other Assets | | |
| Receivables | 1,457,873 | 682,291 |
| Intangible assets, net of accumulated amortization of \$59,045 in 2011 and \$28,500 in 2010 | 264,610 | 250,500 |
| Deferred financing costs, net of accumulated amortization of \$21,620 in 2011 and \$6,288 in 2010 | 275,184 | 290,516 |
| Investment in affiliated organizations | 235,731 | 316,130 |
| Total other assets | <u>2,233,398</u> | <u>1,539,437</u> |
| | <u>\$ 80,202,966</u> | <u>\$ 70,975,528</u> |

See Notes to Consolidated Financial Statements

Avera Marshall Regional Medical Center
Consolidated Balance Sheets
June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 890,461 | \$ 1,046,577 |
| Accounts payable | | |
| Trade | 2,607,313 | 1,519,890 |
| Estimated third-party payor settlements | 1,426,260 | 380,279 |
| Accrued expenses | | |
| Salaries, wages and benefits | 1,620,692 | 1,160,464 |
| Vacation | 1,242,643 | 1,030,055 |
| Other | 39,995 | 35,968 |
| Interest | 475,697 | 408,700 |
| Total current liabilities | <u>8,303,061</u> | <u>5,581,933</u> |
| Long-Term Debt, Less Current Maturities | <u>18,532,372</u> | <u>19,458,941</u> |
| Total liabilities | <u>26,835,433</u> | <u>25,040,874</u> |
| Net Assets | | |
| Unrestricted | 43,256,154 | 34,954,089 |
| Temporarily restricted | 9,745,420 | 10,803,090 |
| Permanently restricted | <u>365,959</u> | <u>177,475</u> |
| Total net assets | <u>53,367,533</u> | <u>45,934,654</u> |
| | <u>\$ 80,202,966</u> | <u>\$ 70,975,528</u> |

Avera Marshall Regional Medical Center

Consolidated Statements of Operations
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------------------|------------------------------|
| Unrestricted Revenues, Gains, and Other Support | | |
| Net patient and resident service revenue | \$ 53,791,143 | \$ 46,315,324 |
| Other revenue | <u>1,142,111</u> | <u>1,435,872</u> |
| Total unrestricted revenues, gains, and other support | <u>54,933,254</u> | <u>47,751,196</u> |
| Expenses | | |
| Salaries | 22,998,273 | 21,179,127 |
| Employee benefits | 5,237,446 | 5,147,591 |
| Medical fees | 1,472,955 | 1,114,484 |
| Purchased services | 1,015,885 | 1,234,260 |
| Supplies | 6,694,960 | 6,148,551 |
| Repairs and maintenance | 1,610,957 | 1,610,857 |
| Other | 5,860,476 | 4,207,639 |
| Insurance | 235,740 | 205,804 |
| Utilities and communication | 785,007 | 677,671 |
| Interest | 1,149,138 | 941,724 |
| Depreciation and amortization | 3,935,070 | 3,445,676 |
| Provision for bad debts | <u>518,029</u> | <u>1,081,670</u> |
| Total expenses | <u>51,513,936</u> | <u>46,995,054</u> |
| Operating Income | <u>3,419,318</u> | <u>756,142</u> |
| Other Income (Loss) | | |
| Investment income | 3,087,106 | (246,265) |
| Loss on retirement of long-term debt | - | (2,970,128) |
| Other income (expense), net | 209,466 | (20,281) |
| Loss on sale of fixed assets | <u>(10,329)</u> | <u>(20,803)</u> |
| Total other income (loss), net | <u>3,286,243</u> | <u>(3,257,477)</u> |
| Revenues in Excess of (Less Than) Expenses | 6,705,561 | (2,501,335) |
| Contributions and grants for capital | 96,504 | 274,644 |
| Net assets acquired through foundation membership transfer | - | 35,697 |
| Net assets acquired through dissolution of auxiliary | - | 137,384 |
| Net assets released from restrictions for capital | 1,500,000 | 67,547 |
| Net equity transfers to related parties | <u>-</u> | <u>(2,500,000)</u> |
| Increase (Decrease) in Unrestricted Net Assets | <u><u>\$ 8,302,065</u></u> | <u><u>\$ (4,486,063)</u></u> |

Avera Marshall Regional Medical Center
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|-----------------------------|-----------------------------|
| Unrestricted Net Assets | | |
| Revenues in excess of (less than) expenses | \$ 6,705,561 | \$ (2,501,335) |
| Contributions and grants for capital | 96,504 | 274,644 |
| Net assets acquired through foundation membership transfer | - | 35,697 |
| Net assets acquired through dissolution of auxiliary | - | 137,384 |
| Net assets released from restrictions for capital | 1,500,000 | 67,547 |
| Net equity transfers to related parties | - | (2,500,000) |
| | <u>8,302,065</u> | <u>(4,486,063)</u> |
| Increase (decrease) in unrestricted net assets | | |
| Temporarily Restricted Net Assets | | |
| Contributions | 77,223 | 158,167 |
| Investment income, net of expenses | 465,107 | 136,337 |
| Equity transfers from related parties | - | 10,000,000 |
| Net assets acquired through foundation membership transfer | - | 576,133 |
| Net assets transferred to permanently restricted | (100,000) | - |
| Net assets released from restrictions for capital | (1,500,000) | (67,547) |
| | <u>(1,057,670)</u> | <u>10,803,090</u> |
| (Decrease) increase in temporarily restricted net assets | | |
| Permanently Restricted Net Assets | | |
| Contributions | 88,484 | 25 |
| Net assets transferred from temporarily restricted | 100,000 | - |
| Net assets acquired through foundation membership transfer | - | 177,450 |
| | <u>188,484</u> | <u>177,475</u> |
| Increase in permanently restricted net assets | | |
| Increase in Net Assets | 7,432,879 | 6,494,502 |
| Net Assets, Beginning of Year | <u>45,934,654</u> | <u>39,440,152</u> |
| Net Assets, End of Year | <u><u>\$ 53,367,533</u></u> | <u><u>\$ 45,934,654</u></u> |

Avera Marshall Regional Medical Center

Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Operating Activities | | |
| Change in net assets | \$ 7,432,879 | \$ 6,494,502 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 3,935,070 | 3,445,676 |
| Amortization of financing costs | 15,332 | 22,082 |
| Net equity transfers from related parties | - | (7,500,000) |
| Net assets acquired through foundation membership transfer | - | (789,280) |
| Net assets acquired through dissolution of auxiliary | - | (137,384) |
| Loss on retirement of long-term debt | - | 2,970,128 |
| Realized loss on sale of property, plant, and equipment | 10,329 | 20,803 |
| Contributions and investment earnings restricted by donors | (630,814) | (294,529) |
| Earnings from equity method investments | (88,101) | (406,998) |
| Net realized and unrealized gains and losses on investments | (2,408,673) | 947,679 |
| Changes in assets and liabilities | | |
| Receivables | 939,070 | (177,774) |
| Supplies | (148,077) | (155,302) |
| Prepaid expenses | (610,162) | 234,389 |
| Other assets | (775,582) | (278,958) |
| Accounts payable | 1,512,503 | (428,121) |
| Accrued expenses | 743,840 | 212,759 |
| Net Cash from Operating Activities | 9,927,614 | 4,179,672 |
| Investing Activities | | |
| Purchase of property and equipment | (3,359,061) | (4,960,456) |
| Distributions from equity method investments | 168,500 | 765,273 |
| Purchase of intangible assets | (47,520) | (129,000) |
| Increase in assets limited as to use and temporary investments | (5,643,950) | (3,291,279) |
| Net Cash used for Investing Activities | (8,882,031) | (7,615,462) |
| Financing Activities | | |
| Proceeds of long-term debt | - | 18,300,000 |
| Repayment of long-term debt | (1,082,685) | (20,171,799) |
| Cash payment for defeasance of bonds | - | (2,392,399) |
| Cash payments for deferred financing costs | - | (296,804) |
| Net equity transfers from related parties | - | 7,500,000 |
| Net assets acquired through foundation membership transfer | - | 789,280 |
| Net assets acquired through dissolution of auxiliary | - | 137,384 |
| Contributions and investment earnings restricted by donors | 630,814 | 294,529 |
| Net Cash (used for) from Financing Activities | (451,871) | 4,160,191 |
| Net Increase in Cash and Cash Equivalents | 593,712 | 724,401 |
| Cash and Cash Equivalents, Beginning of Year | 4,332,677 | 3,608,276 |
| Cash and Cash Equivalents, End of Year | \$ 4,926,389 | \$ 4,332,677 |

Avera Marshall Regional Medical Center
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|-------------------|
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 1,082,141</u> | <u>\$ 699,500</u> |
| Supplemental Disclosure of Noncash Financing and Investing Activities | | |
| Property and equipment acquired under note payable | <u>\$ -</u> | <u>\$ 157,570</u> |
| Accounts payable for property, plant, and equipment | <u>\$ 620,901</u> | <u>\$ -</u> |

Note 1 - Organization and Significant Accounting Policies

Organization

Avera Marshall Regional Medical Center (Medical Center) operates a 25-bed critical access hospital, a 76-licensed-bed skilled nursing facility, a 10-bed behavioral health unit, and an adult day-care center located in Marshall, Minnesota. The Organization also operates various clinics in Marshall, Minnesota and the surrounding region. The Medical Center is organized as a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Change in Corporate Membership

On November 2, 2009, Avera Health, based in Sioux Falls, South Dakota, entered into a Membership Transfer Agreement with the City of Marshall, Minnesota. Under this agreement, Avera Health acquired from the City of Marshall the sole membership interest in the nonprofit corporation which owned and operated Weiner Memorial Medical Center (d/b/a/ Avera Marshall Regional Medical Center), in exchange for certain post-transaction commitments and cash transfers. Cash transfers consisted of net transfers of \$2.5 million from the Medical Center to the City of Marshall and \$4.5 million from Avera Health to the City of Marshall, upon which the City of Marshall transferred \$5 million to a trust fund established for employees that had been participants in the Public Employees Retirement Association of Minnesota (PERA) program while under sponsorship of the City of Marshall. Finally, a \$10 million transfer was made to the Avera Marshall Foundation restricted for specific health care related purposes. The transfers resulted in a net inflow of \$7.5 million to the consolidated net assets of the Medical Center. The transfers are reflected as equity transfers from related parties in the consolidated financial statements.

In addition to the transfers discussed above, the Series 2003 and Series 2006 General Revenue Medical Facility Bonds had to be defeased. The defeasance of these series of bonds resulted in a loss of \$2,970,128 which is recorded in other income in the consolidated financial statements.

The Membership Transfer Agreement also resulted in the Medical Center becoming the sole corporate member of the Weiner Memorial Foundation, a Minnesota non-profit corporation. Due to the Membership Transfer Agreement, Weiner Memorial Foundation legally changed its name to Avera Marshall Foundation (Foundation).

As part of the transaction, all full-time and certain part-time employees of the Medical Center were no longer covered by the defined benefit pension plan administrated by the Public Employees Retirement Association of Minnesota (PERA) which employees participated in under City of Marshall ownership. As discussed above, a \$5 million trust was established as part of the Membership Transfer Agreement. The purpose of the trust is to address the difference between the retirement benefits employees would have received under PERA and benefits received under the new retirement plans of the Medical Center.

Effective November 2, 2009, the Medical Center began operating under the tenets of the Roman Catholic Church and in accordance with the philosophy and values established for Avera Health, a sponsored ministry of the Benedictine and Presentation Sisters.

Principles of Consolidation

Effective November 2, 2009, the consolidated financial statements of the Medical Center include the accounts and operations of its sponsored affiliate, Avera Marshall Foundation (Foundation). Prior to November 2, 2009, the financial statements were not consolidated as the Medical Center was not the corporate member for the Foundation. All material inter-organizational transactions between the Foundation and the Medical Center have been eliminated.

The Foundation is a Minnesota nonprofit organization formed to further develop the health care needs of the area.

Auxiliary Dissolution

During March 2010, the Avera Marshall Auxiliary (Auxiliary), a Minnesota non-profit corporation and affiliated fundraising organization of the Medical Center adopted a resolution approving a Plan of Dissolution for the Corporation. All net assets of the Auxiliary were transferred to the Medical Center on the date of dissolution. Upon dissolution, the Auxiliary is being recognized as a department within the Medical Center. Upon the transfer, net assets of \$137,384 were transferred to the Medical Center. The transfer is reflected as an increase to unrestricted net assets in the consolidated statement of changes in net assets.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

Temporary Investments

Temporary investments include investments with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. The Medical Center does not charge interest on its patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Investments and Investment Income

Investments with readily determinable market values are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national and foreign securities exchanges. The fair value of certificates of deposit is recorded at historical cost, plus accrued interest. Investment income or loss (including interest income, dividends, net changes in unrealized gains and losses, and net realized gains and losses) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law.

The Medical Center participates in the Avera Pooled Investment Fund, a fund administered by Avera Health. The Pooled Investment Fund has a portion of its holdings in alternative investments, which are not readily marketable. These alternative investments include partnerships and other interests that invest in hedge funds, real asset funds, and private equity/venture capital funds, among others. Certain alternative investments held within Avera Pooled Investment Fund include liquidity and redemption limitations. Alternative investments representing less than 3% ownership interest are carried at cost, subject to an annual review for impairment. Alternative investments representing greater than 3% ownership interest are recorded using the equity method. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants of the Avera Pooled Investment Fund.

Investments in Affiliated Organizations

Investments in affiliated organizations in which the Medical Center has the ability to exercise significant influence over operating and financial policies but does not have operation control are recorded under the equity method of accounting. Under the method equity, the initial investment is recorded at cost and adjusted annually to recognize the Medical Center's share of earnings and losses of those entities, net of any additional investments or distributions. The Medical Center's share of net earnings or losses of the entities is included in other operating revenue.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements and debt redemption over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by a trustee under indenture agreements, and assets held by the foundation and restricted by donors.

Fair Value Measurements

The Medical Center has determined the fair value of certain assets and liabilities in accordance with the provision of FASB ASC 820-10, Fair Value Measurements, which provides a framework for measuring fair value under generally accepted accounting principles (GAAP).

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of 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 are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Physician Loans

The Medical Center created a community needs loan program to recruit physicians to provide services to the Marshall community. The Medical Center enters into employment agreements with physicians, whereby the Medical Center provides a loan to the physician, and the physician agrees to establish and maintain a practice in the Marshall community for a minimum number of years. The Medical Center will forgive the loan over the period that the practice is maintained. The Medical Center amortizes each loan on a straight-line basis over the minimum number of years the practice must be maintained.

At June 30, 2011 and 2010, community need loans due to the Medical Center totaled approximately \$1,467,000 and \$972,000, respectively. Community need loans have terms ranging from two to five years, with annual interest rates at prime plus 2%, and are included in other receivables for the current portion and long-term receivables for the long term portion on the consolidated balance sheets.

Property and Equipment

Property and equipment acquisitions in excess of \$5,000 (\$2,500 prior to November 1, 2010) are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. The estimated useful lives of property and equipment are as follows:

| | |
|----------------------------|------------|
| Land improvements | 5-25 years |
| Buildings and improvements | 5-40 years |
| Equipment | 3-20 years |

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets and are excluded from revenues in excess of (less than) expenses 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, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the interest method.

Intangible Assets

Intangible assets consist of medical records purchased as part of the acquisition of clinics and are being amortized over the estimated useful life of 10 years using the straight-line method. These intangible assets are included in other assets on the consolidated balance sheets.

Revenues in Excess of (Less than) Expenses

Revenues in excess of (less than) expenses excludes transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include reimbursed costs, prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets 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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statement of operations.

Income Taxes

The Medical Center is a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Medical Center is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Medical Center files an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report its unrelated business taxable income.

The Medical Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Medical Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Medical Center's federal Form 990T filings are no longer subject to federal tax examinations by tax authorities for years before 2008.

Advertising Costs

The Medical Center expenses advertising costs as they are incurred.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications did not affect the consolidated financial position or the consolidated change in net assets as previously reported.

Subsequent Events

The Medical Center has evaluated subsequent events through September 28, 2011, the date which the consolidated financial statements were available to be issued.

Note 2 - Charity Care and Community Benefit

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. These amounts do not include those services that are provided to patients covered by Medicare, Medicaid, county, state agencies and other third-party payors where less than full charges are received.

The amounts of charges foregone, based on established rates, were \$544,398 and \$454,906 for the years ended June 30, 2011 and 2010, respectively.

The Medical Center also provides community benefit health activities at less than or at no cost to support those in the area served. In furtherance of its charitable purposes, the Medical Center is involved in community benefit activities which include community-based social service programs such as health screenings, childbirth classes, and social service and support counseling for patients and families. Additionally, a large number of educational programs are provided for the benefit of the community including health enhancements and wellness classes on specific conditions, unreimbursed costs of medical education, and costs related to programs designed to improve the general health standards of the community it serves.

Note 3 - Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services on a cost-based methodology with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the period ended June 30, 2010.

Medicaid: The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2006.

Blue Cross: Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed on the basis of the Medical Center's charges.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing Medicare, Medicaid, and other programs are extremely 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.

A summary of patient service revenue and contractual allowances for the years ended June 30, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|-------------------------------|---------------|---------------|
| Total patient service revenue | \$ 84,131,748 | 69,960,608 |
| Contractual adjustments | | |
| Medicare | 16,562,215 | 12,569,225 |
| Medicaid | 4,941,991 | 3,869,287 |
| Blue Cross | 4,572,199 | 4,320,358 |
| Other | 3,873,821 | 2,785,061 |
| Cost of goods sold | 390,379 | 101,353 |
| Total contractual adjustments | 30,340,605 | 23,645,284 |
| Net patient service revenue | \$ 53,791,143 | \$ 46,315,324 |

Note 4 - Investments and Investment Income

Temporary Investments

The composition of temporary investments at June 30, 2011 and 2010, is shown in the following table.

| | <u>2011</u> | <u>2010</u> |
|-------------------------|-------------------|-------------------|
| Certificate of deposits | <u>\$ 645,000</u> | <u>\$ 480,000</u> |

Assets Limited as to Use

The composition of assets limited as to use at June 30, 2011 and 2010, is set forth in the following table.

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|----------------------|----------------------|
| By Board for capital improvements | | |
| Certificate of deposits | \$ 1,499,855 | \$ 483,225 |
| Asset backed securities | 620,622 | - |
| Accrued interest receivable | 5,977 | 2,196 |
| Pooled Investment Fund* | <u>24,608,253</u> | <u>19,291,829</u> |
| | <u>\$ 26,734,707</u> | <u>\$ 19,777,250</u> |
| Held by Foundation | | |
| Equity and stocks | \$ 507,140 | \$ 429,754 |
| U.S. Treasury bills | 1,305,569 | 1,048,211 |
| U.S. government agency securities | 3,536,791 | 3,756,276 |
| Municipal bonds | 1,372,474 | 1,057,082 |
| Corporate bonds | 2,213,517 | 2,031,797 |
| Pooled Investment Fund* | <u>1,188,821</u> | <u>871,026</u> |
| | <u>\$ 10,124,312</u> | <u>\$ 9,194,146</u> |

Pooled Investment Fund *

The Medical Center is a participant in the Avera Pooled Investment Fund, a fund administered by Avera Health that is maintained for the benefit of facilities that are sponsored, operated, or managed by Avera Health. Investments are made in conformity with the objectives and guidelines of the Avera Health Pooled Investment Committee. Within the fund, facilities share in a pool of investments that are managed by various fund managers. Asset valuation and income and losses of the fund are allocated to participating members based on the carrying amount of their investment in the fund. The Pooled Investment Fund includes investments in securities that are measured at fair value using inputs under the guidance provided by FASB ASC 820-10. The Pooled Investment Fund also contains investments that are recorded at historical cost or under the equity method as described in the Fund's investment policy.

As of June 30, 2011, the Avera Pooled Investment Fund assets consisted of the following types of investments:

| | 2011 | 2010 |
|---|---------------|---------------|
| Publicly traded equity mutual funds | 21.0% | 12.1% |
| US Treasury and Agency obligations | 13.4% | 18.9% |
| Publicly traded equity securities | 13.2% | 12.9% |
| Non-publicly traded alternative investments | | |
| Hedge fund | 10.1% | 9.9% |
| Real asset | 5.4% | 6.7% |
| Foreign stocks | 8.5% | 7.5% |
| Publicly traded fixed income mutual funds | 7.3% | 6.2% |
| Cash and short-term investments | 6.7% | 10.3% |
| Corporate bonds | 5.2% | 5.8% |
| Institutional equity mutual funds | 3.8% | 3.6% |
| Institutional fixed income mutual funds | 2.7% | 3.2% |
| Other fixed income | 2.7% | 2.9% |
| | <u>100.0%</u> | <u>100.0%</u> |

As of June 30, 2011, the valuations of investments within the Avera Pooled Investment Fund were as follows:

| | 2011 | 2010 |
|-----------------------------|---------------|---------------|
| Fair value - Level 1 inputs | 56.7% | 49.0% |
| Fair value - Level 2 inputs | 27.9% | 34.4% |
| Fair value - Level 3 inputs | 0.0% | 0.0% |
| Cost basis or equity method | 15.4% | 16.6% |
| | <u>100.0%</u> | <u>100.0%</u> |

Investment Income

Investment income and gains and losses on assets limited as to use, cash equivalents, and temporary investments consist of the following for the years ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Other income | | |
| Interest income | \$ 678,433 | \$ 701,414 |
| Net realized gains (losses) on investments | 736,792 | (1,117,200) |
| Change in unrealized gains and losses on investments | 1,671,881 | 169,521 |
| | <u>\$ 3,087,106</u> | <u>\$ (246,265)</u> |
| Changes in temporarily restricted net assets | | |
| Investment income, net of expenses | | |
| Net realized gains on investments | \$ 296,441 | \$ 54,456 |
| Change in unrealized gains and losses on investments | 168,666 | 81,881 |
| | <u>\$ 465,107</u> | <u>\$ 136,337</u> |

Note 5 - Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and 2010, respectively, are as follows:

| | 2011 | 2010 |
|-----------------------------------|---------------------|---------------------|
| Assets limited as to use | | |
| Asset backed securities | \$ 620,622 | \$ - |
| Equity and stocks | 507,140 | 429,754 |
| U.S. Treasury bills | 1,305,569 | 1,048,211 |
| U.S. government agency securities | 3,536,791 | 3,756,276 |
| Corporate bonds | 1,372,474 | 1,057,082 |
| Taxable municipal bonds | 2,213,517 | 2,031,797 |
| | <u>\$ 9,556,113</u> | <u>\$ 8,323,120</u> |
| Total assets | | |

The related fair value of these assets and liabilities are determined as follows:

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|-----------------------------------|---|--|-------------------------------------|
| <u>June 30, 2011</u> | | | |
| Asset backed securities | \$ - | \$ 620,622 | \$ - |
| Equity and stocks | 507,140 | - | - |
| U.S. Treasury bills | - | 1,305,569 | - |
| U.S. government agency securities | - | 3,536,791 | - |
| Corporate bonds | - | 1,372,474 | - |
| Taxable municipal bonds | - | 2,213,517 | - |
| Total assets | <u>\$ 507,140</u> | <u>\$ 9,048,973</u> | <u>\$ -</u> |
| <u>June 30, 2010</u> | | | |
| Equity and stocks | \$ 429,754 | \$ - | \$ - |
| U.S. Treasury bills | - | 1,048,211 | - |
| U.S. government agency securities | - | 3,756,276 | - |
| Corporate bonds | - | 1,057,082 | - |
| Taxable municipal bonds | - | 2,031,797 | - |
| Total assets | <u>\$ 429,754</u> | <u>\$ 7,893,366</u> | <u>\$ -</u> |

The fair value for Level 1 assets are determined by reference to quoted market prices. The fair value of level 2 assets is based on quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active.

Note 6 - Fair Value of Financial Instruments

The Medical Center considers the carrying amount of significant classes of financial instruments on the consolidated balance sheets including cash and cash equivalents, temporary investments, accounts receivable, assets limited as to use, accounts payable, and accrued expenses, to be reasonable estimates of fair value either due to their length of maturity or the existence of underlying considerations that approximate prevailing market rates at June 30, 2011 and 2010.

The Medical Center's fixed rate long-term debt, including current portion, has a carrying amounts that may differ from its estimated fair value. The fair value of the Medical Center's fixed rate long-term debt is determined by references to trading activity of the underlying bonds or if unavailable, estimated using discounted cash flow analyses, based on the Medical Center's effective borrowing rates at respective reporting dates for similar types of arrangements.

As of June 30, 2011 and 2010, the carrying value of long-term debt is estimated to approximate fair value as estimated discounted cash flows are not expected to be significantly different under current market conditions and there are no active markets for similar debt arrangements.

The Medical Center's has an interest in the Avera Pooled Investment Fund which includes alternative investments with no readily determinable market value. These investments are recorded using cost or equity method by the Avera Pooled Investment Fund. The allocated difference between the carrying value and fair value of the Medical Center's interest in the Avera Pooled Investment Fund was not considered material as of June 30, 2011 and 2010.

Note 7 - Investment in Affiliated Organizations

The Medical Center had a 50 percent ownership interest in Marshall Medical Services, LLC and shared 50 percent of the profits and losses until the LLC was dissolved on April 1, 2010.

The Medical Center is a 50 percent owner in Avera Home Medical Equipment of Marshall, LLC and shares 50 percent of the profits and losses. This entity was capitalized by assets and cash contributed by the Medical Center and Avera Home Medical Equipment LLC, an organization sponsored by Avera Health. Summary unaudited balance sheet information as of June 30, 2011 and 2010, for the equity investee is as follows:

| | 2011 | 2010 |
|-----------------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 53,028 | \$ 88,221 |
| Accounts receivable, net | 193,220 | 208,066 |
| Other current assets | 97,219 | 119,281 |
| Land, building and equipment, net | 92,977 | 164,784 |
| Other long-term assets | 64,063 | 95,713 |
| Total assets | <u>\$ 500,507</u> | <u>\$ 676,065</u> |
| Current liabilities | \$ 29,046 | \$ 43,805 |
| Net assets | <u>471,461</u> | <u>632,260</u> |
| Total liabilities and net assets | <u>\$ 500,507</u> | <u>\$ 676,065</u> |

Summary income statement information for the years ended June 30, 2011 and 2010, for the equity investee is as follows:

| | 2011 | 2010 |
|--------------------------------|-------------------|-------------------|
| Total revenues | \$ 865,608 | \$ 907,990 |
| Total expenses | <u>689,407</u> | <u>695,538</u> |
| Revenues in excess of expenses | <u>\$ 176,201</u> | <u>\$ 212,452</u> |

Note 8 - Leases

The Medical Center is the lessor of an ambulatory care center under agreement with Affiliated Community Medical Center (ACMC). The lease of one floor of the ambulatory care center is with ACMC and required annual payments that approximated the debt service on the Medical Center's 1975 Gross Revenue bonds. Under the lease, payments (other than maintenance, utilities and real estate taxes) terminated when the related Gross Revenue Bonds were paid. No significant rental payments were required under this lease for the years ended June 30, 2011 and 2010, as the Gross Revenue Bonds were previously paid off. With the improvements to the building in 2002, the tenant began annual lease payments of approximately \$38,817 through September 2012. In addition to the annual rent, the lessee is also liable for maintenance, utilities and any ad valorem taxes and special assessments that may be levied against the property.

Property leased to others under operating leases consists of the following:

| | 2011 | 2010 |
|---|--------------------------|--------------------------|
| Land improvements | \$ 8,528 | \$ 16,232 |
| Building | 1,113,219 | 1,105,880 |
| | <u>1,121,747</u> | <u>1,122,112</u> |
| Less accumulated amortization (included with depreciation and amortization) | <u>(771,125)</u> | <u>(718,978)</u> |
| | <u><u>\$ 350,622</u></u> | <u><u>\$ 403,134</u></u> |

The Medical Center leases certain equipment under long-term lease agreements and other equipment and property is leased with terms of less than one year or cancelable upon written notice. Total lease expense under operating leases was \$175,062 and \$141,031 for the years ended June 30, 2011 and 2010. The capitalized leased assets consist of:

| | 2011 | 2010 |
|---|--------------------------|----------------------------|
| Equipment | \$ 2,820,068 | \$ 2,820,068 |
| Less accumulated amortization (included with depreciation and amortization) | <u>(2,080,667)</u> | <u>(1,519,153)</u> |
| | <u><u>\$ 739,401</u></u> | <u><u>\$ 1,300,915</u></u> |

Minimum future lease payments for the capital leases are as follows:

Years Ending June 30,

| | |
|---|--------------------------|
| 2012 | \$ 498,555 |
| 2013 | 271,255 |
| | <u>769,810</u> |
| Less interest | <u>(32,752)</u> |
| Present value of minimum lease payments - Note 10 | <u><u>\$ 737,058</u></u> |

Note 9 - Property and Equipment

A summary of property and equipment at June 30, 2011 and 2010, is as follows:

| | 2011 | | 2010 | |
|----------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| | Cost | Accumulated Depreciation | Cost | Accumulated Depreciation |
| Land | \$ 439,812 | \$ - | \$ 441,822 | \$ - |
| Land improvements | 812,115 | 628,802 | 808,006 | 605,759 |
| Buildings and improvements | 35,428,009 | 19,731,161 | 34,243,871 | 18,304,176 |
| Equipment | 22,464,437 | 14,024,001 | 20,566,329 | 11,843,992 |
| Construction in progress | 1,757,804 | - | 1,144,139 | - |
| | <u>\$ 60,902,177</u> | <u>\$ 34,383,964</u> | <u>\$ 57,204,167</u> | <u>\$ 30,753,927</u> |
| Net property and equipment | | <u>\$ 26,518,213</u> | | <u>\$ 26,450,240</u> |

Construction in progress at June 30, 2011 primarily represents costs in relation to the Medical Center's operating room remodel. This project is expected to be completed early in fiscal year 2012 with minimal additional costs to complete. There is also a small amount of construction in progress costs incurred as of June 30, 2011 relating to a new medical office building. The estimated total cost of the project is \$8.5 million, of which approximately \$440,000 has been expended or accrued as of June 30, 2011. The project has an estimated completion date of January 2013.

Note 10 - Long-Term Debt

Long-term debt is as follows:

| | 2011 | 2010 |
|--|----------------------|----------------------|
| 6% Health Facilities Revenue Bonds, due in semi-annual installments of \$659,628 including interest, to February 2040, secured by property and equipment | \$ 17,992,194 | \$ 18,300,000 |
| 0% note payable, unsecured, due to Avera Health, payable equally over 60 months beginning in November 2009; the note payable is being used by the Medical Center to finance the purchase of an electronic medical records system | 693,581 | 901,655 |
| | <u>18,685,775</u> | <u>19,201,655</u> |
| Capital lease obligation - Note 8 | 737,058 | 1,303,863 |
| | <u>19,422,833</u> | <u>20,505,518</u> |
| Less current maturities | <u>(890,461)</u> | <u>(1,046,577)</u> |
| | <u>\$ 18,532,372</u> | <u>\$ 19,458,941</u> |

Long term debt maturities as follows:

| <u>Year Ending June 30,</u> | |
|-----------------------------|-----------------------------|
| 2012 | \$ 890,461 |
| 2013 | 725,971 |
| 2014 | 479,459 |
| 2015 | 357,270 |
| 2016 | 305,446 |
| Thereafter | <u>16,664,226</u> |
| | <u><u>\$ 19,422,833</u></u> |

The revenue bonds also places limits on the incurrence of additional borrowings and requires that the Medical Center satisfy certain measures of financial performance as long as the bonds are outstanding.

Note 11 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|----------------------------|-----------------------------|
| Oncology program | \$ 7,354,504 | \$ 7,140,474 |
| Board-designated endowment for healthcare services | 1,638,907 | 1,495,629 |
| Various health care services | <u>752,009</u> | <u>2,166,987</u> |
| | <u><u>\$ 9,745,420</u></u> | <u><u>\$ 10,803,090</u></u> |

The funds held under the Oncology program and board designated endowment for healthcare services are contractually committed to be overseen by a special committee (Special Committee) of the Foundation that was established as part of the Membership Transfer Agreement for a period of 10 years, expiring November 2, 2019.

Permanently restricted net assets at June 30, 2011 and 2010, are restricted to:

| | <u>2011</u> | <u>2010</u> |
|--|--------------------------|--------------------------|
| Investments to be held in perpetuity, the income from which is expendable to support the Medical Center and its programs | <u><u>\$ 365,959</u></u> | <u><u>\$ 177,475</u></u> |

In 2011 and 2010, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$1,500,000 and \$67,547, respectively. These amounts are included in net assets released from restrictions in the accompanying consolidated financial statements.

Note 12 - Endowments

The Medical Center's endowments consist of donor-restricted funds held at the Avera Health Foundation and board designated funds held at a local financial institution. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Medical Center's permanently restricted endowment funds are donor restricted and totaled \$455,712 and \$216,178 at June 30, 2011 and 2010, respectively. The Medical Center's board designated endowment funds totaled \$1,638,907 and \$1,495,629 at June 30, 2011 and 2010, respectively. The board-designated endowment funds are classified as temporarily restricted net assets as the original funds have been assigned to a special committee for future grant-making under a contractual arrangement. All donor-restricted endowment funds of the Medical Center are held at the Avera Health Foundation. Below is a summary of policies that have been implemented by the Avera Health Foundation for endowment funds.

Interpretation of Relevant Law

The Avera Health Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Medical Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Avera Marshall Regional Medical Center
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Changes in endowment net assets for the year ending June 30, 2011 and 2010, are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------|---------------------------|---------------------------|---------------------|
| Endowment net assets, June 30, 2009 | \$ - | \$ - | \$ - | \$ - |
| Net assets acquired through foundation membership transfer | - | 38,968 | 177,450 | 216,418 |
| Equity transfers from related parties | - | 1,500,000 | - | 1,500,000 |
| Investment return, net of expenses | - | (4,636) | - | (4,636) |
| Contributions | - | - | 25 | 25 |
| Endowment net assets, June 30, 2010 | - | 1,534,332 | 177,475 | 1,711,807 |
| Reclassification of net assets | | | 100,000 | 100,000 |
| Investment return, net of expenses | - | 117,080 | - | 117,080 |
| Contributions | - | 77,223 | 88,484 | 165,707 |
| Endowment net assets, June 30, 2011 | <u>\$ -</u> | <u>\$ 1,728,635</u> | <u>\$ 365,984</u> | <u>\$ 2,094,619</u> |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Medical Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies that were deemed material as of June 30, 2011 and 2010.

Return Objectives and Risk Parameters

Through its affiliation with the Avera Health Foundation, the Medical Center will be looking to adopt investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified period.

Under these policies, once approved by the Board of Directors, the endowment assets will be invested in a manner that is intended to produce results that meet the price and yield investment returns established by the Avera Pooled Investment Committee while assuming a moderate level of investment risk. The Medical Center expects its endowment funds with the Avera Health Foundation, over time, to provide an average rate of return of approximately 6%-8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Avera Health Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Avera Health Foundation targets a diversified asset allocation including equity securities, fixed-income securities, hedge funds, and private equity to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Avera Health Foundation Board of Directors determines the annual spending rate and distribution amounts based on a review of the average market value of the endowment funds over the most recent 20 quarters. Local governing boards review the spending rate and distribution information and determine if payouts that would invade the corpus would be fiscally responsible.

Note 13 - Contingencies

Malpractice Insurance

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and \$3 million annual aggregate. The Medical Center is also insured under an excess umbrella liability policy with a limit of \$10 million per claim and \$10 million annual aggregate and a limit of \$35 million shared with Avera Health. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigation, Claims, and Disputes

The Medical Center is subject to the usual contingencies in the normal course of operations relating to the performance of its task under its various services it offers. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the consolidated financial position of the Medical Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes the Medical Center is in substantial compliance with current laws and regulations.

Note 14 - Employee Pension Plan

The Sisters of the Presentation of the Blessed Virgin Mary (PBVM) of Aberdeen, South Dakota sponsor two multiemployer defined benefit pension plans, the career average and cash balance plans. After January 1, 2001, all new employees of health care organizations sponsored by PBVM can only participate in the cash balance pension plan. As a result of the Membership Transfer Agreement on November 2, 2009, eligible employees of the Medical Center began participating in the defined benefit multiemployer cash balance pension plan. Those employees participating in the cash balance pension plan also have the option to also participate in an employer match retirement savings program. Prior to November 2, 2009, all full-time and certain part-time employees of the Medical Center were covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA).

Defined Benefit Pension Plan (Cash Balance)

The Medical Center recorded expenses for the cash balance pension plan and retirement savings plan for the years ended June 30, 2011 and 2010, in the amounts of \$1,016,642 and \$763,754, respectively.

Career Average and Cash Balance Accumulated Plan Benefits

The latest available information on the accumulated plan benefits and plan net assets available for benefits for the entire plan is presented below:

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| As of January 1st | | |
| Actuarial present value of accumulated plan benefits | | |
| Vested | \$ 289,361,806 | \$ 255,074,839 |
| Nonvested | 3,673,758 | 2,604,901 |
| Total actuarial present value of accumulated plan benefits | <u>\$ 293,035,564</u> | <u>\$ 257,679,740</u> |
| Net assets available for benefits - market value | <u>\$ 264,222,859</u> | <u>\$ 227,973,129</u> |
| Net assets available for benefits - cost basis | <u>\$ 246,144,113</u> | <u>\$ 220,717,623</u> |

The Medical Center had 358 participants out of a total 11,121 participants, covered by the pension plans as of January 1, 2011. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent for 2011 and 2010.

Public Employees Retirement Association of Minnesota

Plan Description

All full-time and certain part-time employees of the Medical Center were covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. As discussed in Note 1, the Medical Center was no longer covered by the defined benefit pension plan administrated by PERA effective November 2, 2009 as part of the Membership Transfer Agreement.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age of unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.mnpera.org, by writing PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Medical Center made annual contributions to the pension plan equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 5.10 percent and 6.75 percent, respectively, of their annual covered salary for 2009. The Medical Center's contributions, which were expensed, to the Public Employees Retirement Fund for the year ended June 30, 2010 was \$393,559.

Note 15 - Related Party Transactions

The Medical Center became sponsored by Avera Health on November 2, 2009 as described in Note 1. Avera Health and its sponsors, the Benedictine and Presentation Sisters, operate various health care related organizations in addition to the Medical Center. Material transactions between the Medical Center and these affiliated organizations were as follows for the years ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|--------------|------------|
| Payments to related organizations recorded by the Medical Center: | | |
| Management and other services | \$ 2,138,779 | \$ 920,286 |
| Salaries, wages and benefits | 3,116,972 | 2,535,976 |
| Employee benefit programs | 2,032,196 | 595,175 |
| Purchased services | 316,373 | 148,464 |
| Lease | 208,074 | 138,716 |
| Supplies | 50,760 | 36,813 |
| Fixed asset additions | 80,859 | 12,257 |
| Professional liability and workers' compensation insurance programs | - | 149,276 |
| Consolidated balance sheet items: | | |
| Receivables | 68,885 | 108,552 |
| Payables | 99,681 | 545,046 |
| Equity in investment in HME LLC | 235,731 | 316,130 |

Note 16 - Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2011 and 2010, is as follows:

| | 2011 | 2010 |
|----------------------|-------------|-------------|
| Medicare | 32% | 30% |
| Medicaid | 14% | 9% |
| Commercial insurance | 28% | 29% |
| Self pay | 19% | 16% |
| Other | 7% | 16% |
| | <u>100%</u> | <u>100%</u> |

The Medical Center's cash balances are maintained in various bank deposit accounts. At times during the years ended June 30, 2011 and 2010, the balances of these deposits were in excess of federally-insured limits. The Medical Center's practice is to ensure collateralization for deposits made with financial institutions.

The Medical Center is subject to two collective bargaining agreements. The Minnesota Nursing Association (MNA) contract is effective through September 30, 2012. MNA is 18.4 percent of the Medical Center employees. The American Federation of State, County, and Municipal Employees (AFSCME) contract also expires on September 30, 2012. AFSCME is 3.25 percent of the Medical Center employees.

Note 17 - Functional Expenses

The Medical Center provides health care services to residents within its geographic location. Expenses related to providing these services by functional class are as follows:

| | <u>2011</u> | <u>2010</u> |
|----------------------------|----------------------|----------------------|
| Health care services | \$ 41,217,513 | \$ 38,540,486 |
| General and administrative | 10,206,649 | 8,361,626 |
| Fundraising | <u>89,774</u> | <u>92,943</u> |
| | <u>\$ 51,513,936</u> | <u>\$ 46,995,054</u> |



Supplementary Information
June 30, 2011 and 2010

Avera Marshall Regional Medical Center



Independent Auditor's Report on Supplementary Information

The Board of Directors
Avera Marshall Regional Medical Center
Marshall, Minnesota

We have audited the consolidated financial statements of Avera Marshall Regional Medical Center as of and for the years ended June 30, 2011 and 2010 and our report thereon dated September 28, 2011, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The statistical and financial highlights on page 30 are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Sioux Falls, South Dakota
September 28, 2011

Avera Marshall Regional Medical Center
Statistical and Financial Highlights – Unaudited
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Patient Days (1) | | |
| Medicare | 1,924 | 1,698 |
| Non-Medicare | 2,292 | 2,225 |
| Total | 4,216 | 3,923 |
| Newborn Patient Days | 951 | 899 |
| Swing-Bed Days | 409 | 752 |
| Discharges | | |
| Medicare | 633 | 620 |
| Non-Medicare | 1,402 | 1,347 |
| Total | 2,035 | 1,967 |
| Average Length of Stay | 2.7 | 2.8 |
| Behavioral-Health Bed Days | 2,657 | 1,756 |
| Discharges | | |
| Medicare | 109 | 71 |
| Non-Medicare | 380 | 261 |
| Total | 489 | 332 |
| Average Length of Stay | 5.4 | 5.3 |
| Nursing Home Days | 27,402 | 27,395 |
| Most Frequent Year-End Routine Service Rates | | |
| Basic room charge | \$ 1,323.00 | \$ 1,248.00 |
| Nursery | 958.00 | 903.00 |
| Collection Statistics | | |
| Number of days gross charges outstanding | 43 | 54 |
| Uncollectible accounts (2) | \$ 1,167,448 | \$ 1,457,489 |
| Percentage of uncollectible accounts to total charges | 1.4% | 2.1% |
| Financial Statistics | | |
| Percentage of operating income to total unrestricted revenues, gains, and other support | 6.2% | 1.6% |
| Percentage of revenues in excess of (less than) expenses to total unrestricted revenues, gains, and other support | 12.2% | -5.2% |

(1) Excludes newborn and swing-bed

(2) Includes collection fees, provision for bad debts and charity allowances