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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2010

Open to Public Inspection

A For the 2010 calendar year, or tax year beginning 07-01-2010 and ending 06-30-2011

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
St Mary's Hospital & Clinics Inc

Doing Business As

Number and street (or P O box if mail is not delivered to street address) PO Box 137 | Room/suite

City or town, state or country, and ZIP + 4
Cottonwood, ID 83522

D Employer identification number 82-0226453

E Telephone number (208) 962-3251

G Gross receipts $ 19,549,881

F Name and address of principal officer
Colleen Meza
PO Box 137
Cottonwood, ID 83522

H(a) Is this a group return for affiliates? ☐ Yes ☑ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶ 0928

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: ▶ WWW ESSENTIAHEALTH ORG

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶ | **L** Year of formation 1957 | **M** State of legal domicile ID

Part I Summary

Activities & Governance

1 Briefly describe the organization's mission or most significant activities
See schedule O

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	3	13
4	Number of independent voting members of the governing body (Part VI, line 1b)	4	9
5	Total number of individuals employed in calendar year 2010 (Part V, line 2a)	5	250
6	Total number of volunteers (estimate if necessary)	6	51
7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	0
b	Net unrelated business taxable income from Form 990-T, line 34	7b	0

			Prior Year	Current Year
Revenue	8	Contributions and grants (Part VIII, line 1h)	287,841	262,596
	9	Program service revenue (Part VIII, line 2g)	17,895,899	18,811,280
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	189,954	405,079
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	60,341	54,145
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	18,434,035	19,533,100
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	200
	14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	11,142,200	12,099,790
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶77,925		
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	6,315,360	6,600,476
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	17,457,560	18,700,466
	19	Revenue less expenses Subtract line 18 from line 12	976,475	832,634

			Beginning of Current Year	End of Year
Net Assets or Fund Balances	20	Total assets (Part X, line 16)	15,458,277	16,884,472
	21	Total liabilities (Part X, line 26)	2,307,585	2,368,234
	22	Net assets or fund balances Subtract line 21 from line 20	13,150,692	14,516,238

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer | 2012-05-01 Date

Lenne Bonner CFO
Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check if self-employed ▶ ☐	PTIN
Firm's name ▶				Firm's EIN ▶
Firm's address ▶				Phone no ▶

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☐ No

Part III Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission

SEE SCHEDULE O

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . ☐ **Yes** ☑ **No**

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

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . ☐ **Yes** ☑ **No**

If "Yes," describe these changes on Schedule O

4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code) (Expenses $ 15,814,811 including grants of $ 200) (Revenue $ 18,811,280)

See schedule O

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** ▶$ 15,814,811

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		No
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		No
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, line10? *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)*

		Line	Yes	No
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? *If "Yes," complete Schedule I, Parts I and II*	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? *If "Yes," complete Schedule I, Parts I and III*	22		No
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? *If "Yes," complete Schedule J*	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? *If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25*	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? *If "Yes," complete Schedule L, Part 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? *If "Yes," complete Schedule L, Part 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? *If "Yes," complete Schedule L, Part II*	26		No
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? *If "Yes," complete Schedule L, Part III*	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? *If "Yes," complete Schedule L, Part IV*	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	28b	Yes	
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? *If "Yes," complete Schedule L, Part IV*	28c		No
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	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? *If "Yes," complete Schedule R, Part I*	33		No
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1*	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)? *If "Yes," complete Schedule R, Part V, line 2* ☑ Yes ☐ No			
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	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? *If "Yes," complete Schedule R, Part VI*	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 . . . . ☐

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a 25			
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, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return	2a 250			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?		2b	Yes	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)				
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?		3a		No
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*		3b		
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 9			
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	Yes	
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		No
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		

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed ▶ID

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

☐ Own website ☐ Another's website ☑ 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 ▶

LENNE BONNER CFO
701 LEWISTON ST
Cottonwood, ID 83522
(208) 962-3251

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): Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former	(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
(1) Gordon Harman Board DIRECTOR	1 0	X						0	0	0
(2) Marjorie Kuchynka Board SECRETARY/TREASURER	1 0	X		X				0	0	0
(3) Marguerite McLaughlin Secretary/Treasurer THRU 9/10	1 0	X		X				0	0	0
(4) Larry Coonts Board Director	1 0	X						0	0	0
(5) Maurice Masar MD Board Director	1 0	X						0	0	0
(6) Gary Rehder Board VICE CHAIRMAN	1 0	X		X				0	0	0
(7) Dan Davis Board CHAIRMAN	1 0	X		X				0	0	0
(8) Sister Mary Rochefort Board Director thru 2/11	1 0	X						0	0	0
(9) Sister Barbara Jean Glodowski Board Director	1 0	X						0	0	0
(10) Bryan Higgins Board Director	1 0	X						0	0	0
(11) Lee Pippenger Board Director	1 0	X						0	0	0
(12) Michael Hedrix Board Director	60 0	X						0	330,056	98,555
(13) Andrew Gilbert MD Board Director	40 0	X						310,947	0	29,073
(14) Kelly McGrath MD Board Director	40 0	X						0	176,578	28,588
(15) SISTER MARY ODILE CAHOON BOARD DIRECTOR thru 2/11	1 0	X						0	0	0
(16) HENRY CLAY BOARD DIRECTOR	1 0	X						0	0	0

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): Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former	(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
(17) Colleen Meza Chief Executive Officer	40 0			X				0	264,614	64,800
(18) Lenne Bonner Chief Financial Officer	40 0			X				0	135,036	28,070
(19) Andrew Jones MD Physician	40 0					X		396,370	0	23,701
(20) Ronald Sigler MD Physician	40 0					X		282,974	0	28,788
(21) Jermey Ostrander MD Physician	40 0					X		231,057	0	28,111
(22) Jack Casteel Bruner II MD Physician	40 0					X		242,242	0	27,490
(23) Alvin Secrest III MD Physician	40 0					X		239,676	0	29,226

		(D)	(E)	(F)
1b	**Sub-Total** . . . . ▶			
c	**Total from continuation sheets to Part VII, Section A** . . . . ▶			
d	**Total (add lines 1b and 1c)** . . . . ▶	1,703,266	906,284	386,402

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 ▶11

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**3**		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? *If "Yes," complete Schedule J for such individual*	**4**	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? *If "Yes," complete Schedule J for such person*	**5**		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
Palouse Imaging Consultants PO Box 9583 MOSCOW, ID 83843	Radiology Services	253,707
DMS Imaging Inc PO Box 86 MINNEAPOLIS, MN 55486	Radiology SERVICES	188,270
Gritman Medical Center 700 S Main St MOSCOW, ID 83843	Radiology Services	173,649

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 ▶3

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**					
	b Membership dues **1b**					
	c Fundraising events **1c**					
	d Related organizations . . . **1d**					
	e Government grants (contributions) **1e**	179,507				
	f All other contributions, gifts, grants, and similar amounts not included above **1f**	83,089				
	g Noncash contributions included in lines 1a-1f $	500				
	h **Total.** Add lines 1a-1f . . . . ▶		262,596			
Program Service Revenue		Business Code				
	2a HOSPITAL & CLINIC SERVICES	621110	18,811,280	18,811,280		
	b					
	c					
	d					
	e					
	f All other program service revenue					
	g **Total.** Add lines 2a–2f . . . . ▶		18,811,280			
Other Revenue	3 Investment income (including dividends, interest and other similar amounts) . . . . . ▶		128,952			128,952
	4 Income from investment of tax-exempt bond proceeds . . ▶		0			
	5 Royalties . . . . ▶		0			
	6a Gross Rents — (i) Real: ; (ii) Personal:					
	b Less rental expenses — (i) Real: ; (ii) Personal:					
	c Rental income or (loss) — (i) Real: ; (ii) Personal:					
	d Net rental income or (loss) . . . . ▶					
	7a Gross amount from sales of assets other than inventory — (i) Securities: 276,127; (ii) Other: 16,781					
	b Less cost or other basis and sales expenses — (i) Securities: ; (ii) Other: 16,781					
	c Gain or (loss) — (i) Securities: 276,127; (ii) Other: 0					
	d Net gain or (loss) . . . . ▶		276,127			276,127
	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 . . ▶		0			
	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 . . ▶		0			
	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 . . ▶		0			
	Miscellaneous Revenue	Business Code				
	11a CAFETERIA SALES	722210	35,668			35,668
	b FITNESS DUES & WEIGHT LOSS PROGRAM	713940	14,132			14,132
	c MEDICAL RECORD COPIES	561439	3,705			3,705
	d All other revenue		640			640
	e **Total.** Add lines 11a–11d . . . . . . ▶		54,145			
	12 **Total revenue.** See Instructions . . . ▶		19,533,100	18,811,280		459,224

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	200	200		
2 Grants and other assistance to individuals in the U S See Part IV, line 22	0			
3 Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16	0			
4 Benefits paid to or for members	0			
5 Compensation of current officers, directors, trustees, and key employees	595,480	272,016	323,464	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7 Other salaries and wages	9,212,094	8,224,533	928,678	58,883
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	462,642	412,981	46,735	2,926
9 Other employee benefits	1,204,564	1,062,398	134,739	7,427
10 Payroll taxes	625,010	556,252	64,921	3,837
a Fees for services (non-employees) Management	0			
b Legal	20,344		20,344	
c Accounting	21,320		21,320	
d Lobbying	3,809		3,809	
e Professional fundraising services *See Part IV, line 17*	0			
f Investment management fees	30,394		30,394	
g Other	1,708,341	1,146,603	560,609	1,129
12 Advertising and promotion	60,635	11,179	49,456	
13 Office expenses	2,339,845	2,182,861	155,362	1,622
14 Information technology	336,049	229,488	106,124	437
15 Royalties	0			
16 Occupancy	243,149	170,518	72,410	221
17 Travel	104,637	58,762	45,723	152
18 Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19 Conferences, conventions, and meetings	115,818	88,356	27,462	
20 Interest	6,741	6,741		
21 Payments to affiliates	0			
22 Depreciation, depletion, and amortization	553,433	377,939	174,775	719
23 Insurance	266,860	254,562	12,298	
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 BAD DEBTS	560,008	560,008		
b MEDICARE ASSESSMENT TAX	160,000	160,000		
c DUES & SUBSCRIPTIONS	69,093	39,414	29,107	572
d				
e				
f All other expenses				
25 **Total functional expenses.** Add lines 1 through 24f	18,700,466	15,814,811	2,807,730	77,925
26 **Joint costs.** Check here ▶ ☐ 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) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		525	1	625
	2	Savings and temporary cash investments		873,865	2	1,460,553
	3	Pledges and grants receivable, net		73,240	3	76,524
	4	Accounts receivable, net		3,236,349	4	3,196,281
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5	
	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		486,064	8	505,389
	9	Prepaid expenses and deferred charges		54,488	9	47,853
	10a	Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D*	10a 11,762,166			
	b	Less accumulated depreciation	10b 6,291,503	5,178,989	10c	5,470,663
	11	Investments—publicly traded securities			11	
	12	Investments—other securities See Part IV, line 11		5,099,412	12	5,760,985
	13	Investments—program-related See Part IV, line 11		455,345	13	365,599
	14	Intangible assets			14	
	15	Other assets See Part IV, line 11			15	
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		15,458,277	16	16,884,472
Liabilities	17	Accounts payable and accrued expenses		2,078,224	17	2,068,021
	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*			21	
	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		215,611	23	285,672
	24	Unsecured notes and loans payable to unrelated third parties			24	
	25	Other liabilities Complete Part X of Schedule D		13,750	25	14,541
	26	**Total liabilities.** Add lines 17 through 25		2,307,585	26	2,368,234
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		13,150,692	27	14,516,238
	28	Temporarily restricted net assets			28	
	29	Permanently restricted net assets			29	
		Organizations that do not follow SFAS 117, check here ▶ ☐ 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		13,150,692	33	14,516,238
	34	Total liabilities and net assets/fund balances		15,458,277	34	16,884,472

Part XI Reconcilliation 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	19,533,100
2	Total expenses (must equal Part IX, column (A), line 25)	2	18,700,466
3	Revenue less expenses Subtract line 2 from line 1	3	832,634
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) . .	4	13,150,692
5	Other changes in net assets or fund balances (explain in Schedule O)	5	532,912
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	14,516,238

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 ☐ Cash ☑ Accrual ☐ 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? . .	2a		No
b	Were the organization's financial statements audited by an independent accountant?	2b	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	2c	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 ☐ Separate basis ☑ Consolidated basis ☐ 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?	3a	Yes	
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 . .	3b	Yes	

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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
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

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 331/3% 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 331/3% 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?

		Yes	No
(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?	**11g(i)**		
(ii) a family member of a person described in (i) above?	**11g(ii)**		
(iii) a 35% controlled entity of a person described in (i) or (ii) above?	**11g(iii)**		

h Provide the following information about the supported organization(s)

(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? Yes	(iv) No	(v) Did you notify the organization in col (i) of your support? Yes	(v) No	(vi) Is the organization in col (i) organized in the U S ? Yes	(vi) No	(vii) Amount of support
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 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 section501(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).

Facts And Circumstances Test

(Dollars in Thousands)

4. Net Patient Revenue (continued)

The mix of net patient revenue from patients and third-party payors for the years ended June 30 is summarized below

	2011	2010
	34%	30%
	14	12
	22	22
	30	36
	100%	100%

Net patient revenue is presented net of Medicare, Medicaid, managed care, and other third-party contractual adjustments of $1,350,838 and $1,317,824 for the years ended June 30, 2011 and 2010, respectively

Essentia grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements The mix of receivables from patients and third-party payors at June 30 consists of the following:

	2011	2010
	$ 69,907	$ 44,699
	32,648	23,039
	45,674	39,376
Private-pay, managed care, commercial insurance, and other payors	**91,349**	84,022
	$ 239,578	$ 191,136

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	Employer identification number
St Mary's Hospital & Clinics Inc	82-0226453

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? ☐ Yes ☐ No

4a Was a correction made? ☐ Yes ☐ 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? ☐ Yes ☐ 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		

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

		(a)	(b)
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?	☐ **Yes**	☐ **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) Yes	(a) No	(b) 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?		No	
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	Yes		3,809
j	Total lines 1c through 1i			3,809
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?		No	

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 C, Part II-B		Lobbying Activity Explanation St Mary's Hospital & Clinics, Inc pays dues to certain organizations related to the industry which have lobbying expenses The amount listed is the percent of dues paid that were used for lobbying

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
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

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? ☐ Yes ☐ No

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 ☐ Yes ☐ No

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	2a	
b	Total acreage restricted by conservation easements	2b	
c	Number of conservation easements on a certified historic structure included in (a)	2c	
d	Number of conservation easements included in (c) acquired after 8/17/06	2d	

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 ▶ $ ________

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
c	Beginning balance	1c	
d	Additions during the year	1d	
e	Distributions during the year	1e	
f	Ending balance	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					
b	Contributions					
c	Investment earnings or losses					
d	Grants or scholarships					
e	Other expenditures for facilities and programs					
f	Administrative expenses					
g	End of year balance					

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

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

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		512,773		512,773
b Buildings		3,977,118	1,662,931	2,314,187
c Leasehold improvements				
d Equipment		6,644,100	4,627,474	2,016,626
e Other		628,175	1,098	627,077
Total. Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶				5,470,663

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other		
(A) POOLED INVESTMENT FUND	5,760,985	F
Total. *(Column (b) should equal Form 990, Part X, col (B) line 12)* ▶	5,760,985	

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
Total. *(Column (b) should equal Form 990, Part X, col (B) line 13)* ▶		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
Total. *(Column (b) should equal Form 990, Part X, col.(B) line 15.)* . . . . ▶	

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	0
FIN 47 ASSET RETIREMENT OBLIGATION	14,541
Total. *(Column (b) should equal Form 990, Part X, col (B) line 25)* ▶	14,541

2. Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC740)

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
Schedule D, Part X		ASC 740 footnote Essentia Health has adopted Accounting Standards Codification 740, Income Taxes (formerly known as FASB Interpretation No 48 (FIN 48), Accounting for Uncertainty in Income Tax - an interpretation of FASB Statement No 109, Accounting for Income Taxes) The adoption of this interpretation had no material impact on the consolidated financial statements and therefore, Essentia Health's consolidated financial statements for fiscal year ended June 30, 2011 no longer includes an ASC 740 footnote

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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
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

Part I Financial Assistance and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a finnancial assistance policy during the tax year? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	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 ☑ Applied uniformly to all hospitals ☐ Applied uniformly to most hospitals ☐ 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 *free* care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care ☑ 100% ☐ 150% ☐ 200% ☐ Other ____ %	3a	Yes	
b	Does the organization use FPG to determine eligibility for providing *discounted* care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care ☑ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☐ Other ____ %	3b	Yes	
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"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	5b		No
c	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 eligibile for free or discounted care?	5c		
6a	Does the organization prepare a community benefit report during the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	

Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H

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)		175	149,958	0	149,958	0 830 %
b Unreimbursed Medicaid (from Worksheet 3, column a)		5,621	2,146,341	1,571,577	574,764	3 170 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)			0	0	0	0 %
d **Total** Financial Assistance and Means-Tested Government Programs		5,796	2,296,299	1,571,577	724,722	4 000 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	10	4,797	65,911	3,600	62,311	0 340 %
f Health professions education (from Worksheet 5)	2	17	25,228	0	25,228	0 140 %
g Subsidized health services (from Worksheet 6)			0	0	0	0 %
h Research (from Worksheet 7)			0	0	0	0 %
i Cash and in-kind contributions to community groups (from Worksheet 8)	5	31,028	28,711	0	28,711	0 160 %
j **Total** Other Benefits	17	35,842	119,850	3,600	116,250	0 640 %
k **Total.** Add lines 7d and 7j	17	41,638	2,416,149	1,575,177	840,972	4 640 %

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
1	Physical improvements and housing			0	0	0	0 %
2	Economic development	1	10	84		84	0 %
3	Community support			0	0	0	0 %
4	Environmental improvements			0	0	0	0 %
5	Leadership development and training for community members			0	0	0	0 %
6	Coalition building			0	0	0	0 %
7	Community health improvement advocacy			0	0	0	0 %
8	Workforce development			0	0	0	0 %
9	Other			0	0	0	0 %
10	**Total**	1	10	84	0	84	0 %

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	Yes	
2	Enter the amount of the organization's bad debt expense (at cost)	2	390,118		
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	1,300		
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	7,281,691
6	Enter Medicare allowable costs of care relating to payments on line 5	6	7,209,595
7	Subtract line 6 from line 5 This is the surplus or (shortfall)	7	72,096

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

☐ Cost accounting system ☐ Cost to charge ratio ☑ Other

Section C. Collection Practices

			Yes	No
9a	Does the organization have a written debt collection policy?	9a	Yes	
b	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					
5					
6					
7					
8					
9					
10					
11					
12					
13					

Part V Facility Information

Section A. Hospital Facilities
(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

	Name and address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
1	St Mary's Hospital & Clinics Inc PO Box 137 701 Lewiston St Cottonwood, ID 83522	X	X			X		X		

Part V **Facility Information** *(continued)*

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? 7

	Name and address	Type of Facility (Describe)
1	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
2	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
3	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
4	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
5	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
6	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
7	COTTONWOOD MEDICAL CLINIC PO BOX 137 701 LEWISTON STREET COTTONWOOD,ID 83522	PROVIDER BASED CLINIC
8		
9		
10		

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
Schedule H, Part VI, Line 1		Provide the description required for Part I, lines 3c, 6a, 7g, 7, column (f), 7, Part II, Part III, lines 4, 8, 9b, Part V, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 18c, 18d, 19d, 20, 21 Part I, line 3c If asset levels are deemed to be significant, no discounted or free care will be offered, even if they meet the income thresholds Part I, line 6a St Mary's Hospital & Clinics, Inc 's community benefit information is consolidated into the Essentia Health community benefit information which is included in the Essentia Health ann ual report The annual report is made available to the public via the website at www essen tiahealth org Essentia Health, headquartered in Duluth, Minn , is an integrated health sy stem serving patients in Minnesota, Wisconsin, North Dakota and Idaho and is St Mary's Ho spital & Clinics, Inc 's parent corporation Part 1, line 7g not applicable Part I, line 7, column (f) Bad debt expense that was subtracted from total expense to obtain the % of c ommunity benefit to total expense amounted to $560,008 Part I, line 7 The cost to charge ratio derived from Worksheet 2, Ratio of Patient Care Cost-to-Charges was used to calculat e the costs for the following community benefits Charity Care and Unreimbursed Medicaid Actual costs were used for the remainder of the community benefits reported Part II - Des cribe how the organization's community building activities, as reported in Part II, promot e the health of the communities the organization serves Economic development is provided through our support of one of our staff members to attend Chamber Meetings to assist in th e economic development of our community Part III, line 4 The costing methodology used to report bad debt expense at cost was the cost to charge ratio from Worksheet 2, Ratio of Pa tient Care Cost-to-Charges The rationale for using the Cost-to-Charge ratio is that it is the most efficient way to calculate bad debt at cost We believe this method materially r epresents the cost of bad debt Part III, line 4 Discounts and charity care are accounted for as reductions to revenue, where bad debts are accounted for as operating expenses Bad debt expense on patient accounts would be identified as any balance on the account, less any previous payments and discounts, that has aged and is absent of any payments If, duri ng the collection process, it becomes known that the patient qualifies for charity care, t he amounts included within bad debt expense would be reclassified to charity care (reducti on of revenue) Part III, Line 4 A record review was completed of all denied charity care applications for FY2011 It was found that only one denial was due to incomplete documenta tion The denial totaled $1,300 Part III, Line 4 St Mary's Hospital & Clinics, Inc is a part of a larger organization, Essentia Health Essentia Health and its member organizati ons incorporate the full value of the cost of bad debt as a community benefit The rationa le for the organization's opinion is similar to the rationale used by the American Hospita l Association There are extensive administrative challenges of verifying income and asset s to determine charity care eligibility There is also evidence that low-income patients a ccount for the majority of bad debt expenses Part III, line 4 The provision for uncollect ible accounts is based upon management's ongoing assessment of historical and expected net collections considering historical business and economic conditions, trends in health car e coverage, and other collection indicators The results of this assessment are used to ma ke modifications to the provision for uncollectible accounts, if necessary Essentia follo ws established guidelines for placing certain past-due patient balances with collection ag encies, subject to certain restrictions on collection efforts as determined by Essentia E ffective July 1, 2011, Essentia will adopt new accounting guidance regarding the presentat ion and disclosure of patient service revenue, the provision for bad debts, and the allowa nce for doubtful accounts The guidance requires healthcare entities to change the present ation of their statement of operations by reclassifying the provision for bad debts associ ated with patient service revenue from an operating expense to a deduction from patient se rvice revenue (net of contractual allowances and discounts) Additionally, enhanced disclo sures will be required surrounding the entity's policies for recognizing revenue and asses sing bad debts Essentia is evaluating new guidance and will make any additional required disclosures Part III, line 8 The costing methodology used in determining the Medicare All owable Cost reported in the organization's Medicare Cost Report is to take total Medicare costs from the general ledger system and then follow the instructions provided by Centers for Medicare Services (CMS) to back off all costs not allowable From the Medicare allowab le costs, any costs attributable to subsidized hea

Identifier	ReturnReference	Explanation
Schedule H, Part VI, Line 1		lth services and costs attributable to GME were subtracted, if applicable Part III, line 8 St Mary's Hospital & Clinics, Inc is a part of a larger organization, Essentia Health Essentia Health and its member organizations incorporate the full value of the Medicare s hortfall as a community benefit The rationale for the organization's opinion is similar t o the rationale used by the American Hospital Association Providing care for the elderly and serving Medicare patients is an essential part of the community benefit standard Medi care, like Medicaid, does not pay the full cost of care and it is likely to get worse Man y Medicare beneficiaries are poor and are eligible for Medicaid in addition to Medicare M edicare underpayment must be shouldered by the hospital in order to continue treating the community's elderly and poor These underpayments represent a real cost of serving the com munity Part III, line 8 Each Essentia Health hospital is required to file a Medicare cost report 5 months after the close of their fiscal year The cost report provides Medicare w ith information that is used to determine utilization and spending trends but also is used to set future payment rates for most Medicare services If the interim payments paid to a hospital are higher or lower than the filed cost report allowable reimbursement there wil l be a settlement for that fiscal year This can be due to changes in utilization or cost of providing services for Critical Access Hospitals (CAH) or differences between interim a nd final payment factors for Disproportionate Share, Bad Debts, or Indirect Medical Educat ion for non-CAH hospitals An estimate for these settlements is recorded at the close of t he fiscal year If the estimate varies from the final settlement received 6-7 months after the fiscal year ends then these amounts are recorded as prior year Medicare revenue Part III, line 9b At any stage of the patient experience, including collections, a determinati on may be made that the patient qualifies for Financial Assistance All collection efforts must be suspended while a patient's Financial Assistance application is being considered and until the patient is notified regarding the determination of eligibility Once eligibi lity (or lack of eligibility) is determined, amounts still owed by patients will be collec ted in the same manner as all other patient bills

Identifier	ReturnReference	Explanation
Part VI, line 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 St Mary's Hospital & Clinics, Inc is overseen by a volunteer board of directors consisting of representatives of its service area These directors bring community health needs to the table In addition, service usage patterns are monitored by administrators, doctors are consulted for needed care improvements in monthly medical staff meetings, and an organization-wide quality council monitors quality improvement data regularly St Mary's Hospital & Clinics, Inc also participated in a county-wide assessment of health care impacts performed by a state university, with funding from the Federal Office of Rural Health Policy This assessment includes a gap analysis of community health care needs

Identifier	ReturnReference	Explanation
Part VI, line 3		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 The booklet, Financial Information for our Patients and other printed materials on Charity Care, is made widely available to the public in the admitting, billing and patient/family reception areas Reference to the program is also contained in the hospital admissions packet The Financial Counselor visits uninsured or underinsured patients or their family during their stay, whenever possible, to discuss financial arrangements Charity Care applications, Medicaid applications, and County forms are distributed at that time Follow up calls are made after discharge to finalize arrangements This information is provided to anyone requesting it, whether they request it in person, by mail, or by phone Signs indicating the availability of charity care are posted in the ER area, the inpatient family waiting room, business office and admitting area The signs provide a phone number and contact information All staff with public and patient contact, including but not restricted to billing and emergency staff will refer patients to the Financial Counselor for detailed explanations of the Charity Care program and to acquire forms The Financial Counselor can then do the appropriate follow up Based on the information gathered by the Financial Arrangement worksheet, the Financial Counselor will determine whether the account should be directed to a bank loan, Medicaid, County Social Services, or Charity Care The patient will then complete the Determination Form and forward to the Business Office Manager for approval

Identifier	ReturnReference	Explanation
Part VI, line 4		Community information Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves St Mary's Hospital & Clinics, Inc is located in Cottonwood, ID St Mary's Hospital & Clinics, Inc is a part of the larger Essentia Health system, which is defined in Part VI, line 6 St Mary's Hospital & Clinics, Inc operates 1 hospital and 7 clinics that serve the communities of Idaho, Lewis and Clearwater counties covering 2,400 square miles The overall community is classified as rural St Mary's Hospital & Clinics, Inc and its related clinics cover a service region of approximately 10,000 people The service region age distribution is 22 0% under the age of 18, 58 5% between the ages of 18 and 65, and 19 5% over the age of 65 The racial makeup of the service region is 94 6% Caucasian, 0 3% Black or African American, 1 4% American Indian or Alaskan Native, 0 6% Asian, 2 1% two or more races, and 1 0% other The gender split ratio is 48 5% women and 51 5% men The average income for the service area is approximately $48,000 Approximately 11 8% of the population falls below the federal poverty guidelines St Mary's Hospital & Clinics, Inc , along with Essentia Health is committed to serve patients regardless of their ability to pay 3 5% net revenue dollars were from self pay patients In addition, approximately 10 8% of their net revenue dollars were Medicaid recipients A large portion of the population lacks medical insurance As mentioned above, St Mary's Hospital & Clinics, Inc is part of a larger system, Essentia Health Essentia Health staffs hospitals and clinics in federally-recognized underserved areas and supports the health of its communities through an active outreach program that brings specialists like oncologists, cardiologists, neurologists and others into its smaller communities This eliminates barriers to care for many patients, particularly those who are elderly, living on low incomes, or are faced with other challenges that make it difficult to travel long distances for care There are no other hospitals outside of the Essentia Health umbrella that service the community

Identifier	ReturnReference	Explanation
Part VI, line 5		Provide any other information important to describing how the organization's hospitals or other health care facilities further its exempt purpose by promoting the health of the community St Mary's Hospital & Clinics, Inc's board of directors is composed of volunteer representatives from the communities it serves In addition, the hospital serves as a clinical practice site for many students in x-ray technology, nursing, physician assistant, nurse practitioner, and medical residency programs This is especially important because Idaho has one of the lowest physician per capita rates in the nation Recently St Mary's Hospital & Clinics, Inc has expanded its use of telehealth services to improve patient care These types of services are extremely important for expanding access to health care in rural America It takes close to 12 hours to drive from the northern part of our state to the southern border Add to that river canyons, mountains and treacherous roads and you'll have a better understanding of the challenge of commuting to receive health care specialty services The closest large urban centers are either three or five hours away Having specialists 'see' our patients and consult with our physicians using teleconferencing and our Remote Presence (RP-7) robots allows us to access cardiologists, hospitalists, adult and child psychiatrists, surgical specialists, ED specialists and soon, a dermatologist In our rural area we don't have the patient base necessary to establish full time specialty care However, we have the same types of illnesses and injuries that people have in larger cities Using technology to bring those specialists to our area so people can receive their healthcare locally is vital to providing a fuller range of medical care to our patients

Identifier	ReturnReference	Explanation
Part VI, line 6		St Mary's Hospital & Clinics, Inc is part of Essentia Health, an integrated health system of 14 hospitals, 64 clinics and several long-term care facilities in four states Minnesota, Wisconsin, North Dakota and Idaho The health system serves a predominantly rural population whose median incomes generally fall below averages of the states where they live The presence of our clinics and hospitals ensures that people with few economic resources don't have to drive an hour or more to receive basic (and in some cases live-saving) medical care In addition to staffing hospitals and clinics in federally-recognized underserved areas, we support the health of our communities through an active outreach program that brings specialists like oncologists, cardiologists, neurologists and others into our smaller communities This eliminates barriers to care for many patients, particularly those who are elderly, living on low incomes, or are faced with other challenges that make it difficult to travel long distances for care Our size and integrated structure allow us to offer patients services often found only in larger urban settings Services ranging from chemotherapy and cancer clinical trials to congestive heart failure management and hospice are available to patients in many of the rural communities we serve Essentia Health also supports the health of our communities with active research and clinical trials, through the Essentia Institute of Rural Health The Institute conducts clinical, translational and health services research with a primary focus on the needs of rural Americans Essentia Health is also serving patients through implementation of the Epic electronic health record (EHR) By the end of FY 2011, the vast majority of Essentia's 14 hospitals and 64 clinics were using a fully-integrated EHR for patient care A common electronic health record allows health professionals to share test results and consult with colleagues in real time across great distances Medical information is no longer lost in the shuffle of paper records - an important consideration in a region where patients must often be transferred to a larger Essentia facility for complex surgeries or medical care Essentia is also actively working with government agencies and insurers to develop innovative, cost-effective approaches to care that will improve health outcomes while reducing overall costs to patients and insurers This innovation can be found in our use of remote home monitors for patients with congestive heart failure to a focus on using a team-based approach to helping patients manage chronic diseases Essentia Health is committed to helping patients and their families lead active and fulfilling lives in the small and large communities where they live We hope to become a model of health care delivery, particularly in rural areas, in the years to come

Identifier	ReturnReference	Explanation
Part VI, Line 7		St Mary's Hospital of Cottonwood files a community benefit report in Idaho

Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate 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 ☐ First-class or charter travel ☐ Housing allowance or residence for personal use ☐ Travel for companions ☐ Payments for business use of personal residence ☐ Tax idemnification and gross-up payments ☐ Health or social club dues or initiation fees ☐ Discretionary spending account ☐ Personal services (e g , maid, chauffeur, chef)			
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement orprovision of all the expenses described above? If "No," complete Part III to explain	**1b**		
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?	**2**		
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 ☑ Compensation committee ☑ Written employment contract ☑ Independent compensation consultant ☑ Compensation survey or study ☐ Form 990 of other organizations ☑ 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?	**4a**		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement? If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III	**4c**		No
	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?	**5a**		No
b	Any related organization? If "Yes," to line 5a or 5b, describe in Part III	**5b**		No
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?	**6a**		No
b	Any related organization? If "Yes," to line 6a or 6b, describe in Part III	**6b**		No
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	**7**		No
8	Were any amounts reported in Form 990, Part VII, paid or accured 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	**8**		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	**9**		

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) Michael Hedrix	(i)	0	0	0	0	0	0	0
	(ii)	254,392	59,642	16,022	45,160	53,395	428,611	13,829
(2) Colleen Meza	(i)	0	0	0	0	0	0	0
	(ii)	203,924	60,307	383	57,989	6,811	329,414	0
(3) Lenne Bonner	(i)	0	0	0	0	0	0	0
	(ii)	117,001	18,035	0	5,544	22,526	163,106	0
(4) Andrew Jones MD	(i)	252,323	144,047	0	11,598	12,103	420,071	0
	(ii)	0	0	0	0	0	0	0
(5) Ronald Sigler MD	(i)	211,292	71,682	0	11,180	17,608	311,762	0
	(ii)	0	0	0	0	0	0	0
(6) Jermey Ostrander MD	(i)	176,669	54,388	0	9,197	18,914	259,168	0
	(ii)	0	0	0	0	0	0	0
(7) Jack Casteel Bruner II MD	(i)	186,741	55,501	0	9,608	17,882	269,732	0
	(ii)	0	0	0	0	0	0	0
(8) Alvin Secrest III MD	(i)	178,363	61,313	0	9,512	19,714	268,902	0
	(ii)	0	0	0	0	0	0	0
(9) Andrew Gilbert MD	(i)	178,908	132,039	0	11,201	17,872	340,020	0
	(ii)	0	0	0	0	0	0	0
(10) Kelly McGrath MD	(i)	0	0	0	0	0	0	0
	(ii)	147,208	29,370	0	7,062	21,526	205,166	0
(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
Schedule J, Part I, Line 3		Methods used to establish CEO's compensation St Mary's Hospital & Clinics, Inc relied on Critical Access Group's, supporting organization of St Mary's Hospital & Clinics, Inc , methods for establishing St Mary's Hospital & Clinics, Inc 's CEO's compensation a compensation committee, independent compensation consultant, written employment contract, compensation survey or study, and approval by the board or compensation committee
Schedule J, Part I Line 4b		Supplemental nonqualified retirement plan The following individuals listed in Form 990, Part VII, Section A, Line 1a received payment from a supplemental nonqualified retirement plan during the year Colleen Meza (Critical Access Group) $0 Michael Hedrix (Critical Access Group)) $13,829 Critical Access Group's nonqualified retirement plan is offered to Critical Access Group executives There is a minimum two year vesting date, benefits are subject to income taxes upon vesting, and benefits are payable from Critical Access Group's general assets

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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
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

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? To	From	(c) Original principal amount	(d) Balance due	(e) In default? Yes	No	(f) Approved by board or committee? Yes	No	(g) Written agreement? Yes	No
Total . . . . ▶ $										

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) Kimberly Harman	Related to Gary Rehder	54,762	Employee of SMH		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
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

Identifier	Return Reference	Explanation
Form 990, Part I, Line 1		Organization's mission or most significant activities St Mary's Hospital & Clinics, Inc is a health & human service organization entrusted with the furtherance of the health care mission of the Sisters of St Scholastica Priory The hospital & clinics, therefore, are committed to witness God's love for all people, with special concern for the poor & powerless This mission is accomplished by the provision of competent, compassionate health & wellness services in an environment which enhances human worth

Identifier	Return Reference	Explanation
Form 990, Part III, Line 1		Organization's mission St Mary's Hospital & Clinics, Inc is a health & human service organization entrusted with the furtherance of the health care mission of the Sisters of St Scholastica Priory The hospital & clinics, therefore, are committed to witness God's love for all people, with special concern for the poor & powerless This mission is accomplished by the provision of competent, compassionate health & wellness services in an environment which enhances human worth

Identifier	Return Reference	Explanation
Form 990, Part III, Line 4		Program service accomplishments St Mary's Hospital & Clinics, Inc is created & organized exclusively for charitable, religious, educational & scientific purposes St Mary's Hospital & Clinics, Inc is created & organized to own, maintain, operate & conduct, directly or indirectly, & to assist & coordinate activities of facilities for health care, education, care for the aged & social services in accordance with the charitable works tradition of the Roman Catholic Church In keeping with this specific purpose, all works shall be carried out in accordance with the charism of the Benedictine Sisters Benevolent Association, a Minnesota nonprofit corporation In keeping with its mission, St Mary's is committed to serve all members of its communities by providing free care and/or subsidized care, care for the persons covered by governmental programs at below cost, & providing health activities & programs to support the community During fiscal year 2011, St Mary's had 1,142 admissions involving 3,828 hospital patient days & 41,639 outpatient visits in the hospital, emergency room, & clinics Charity care is provided through many reduced price services & free programs offered throughout the year based upon activities & services which St Mary's believes will serve a bona fide need These include health fairs, immunizations clinics, health education classes, rural education training, & wellness programs St Mary's provided nearly $150,000 in charity care as well as an additional $574,764 of costs incurred in excess of Medicaid payments received during the fiscal year ended June 30, 2011 Further community benefits provided during the fiscal year include education and workforce development of over $25,000 community services of over $62,000 and cash & in-kind donations of nearly $29,000

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 2		Family relationship Lenne Bonner, current officer, and Bryan Higgins, current director, have a family relationship

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 6		Members of organization Critical Access Group may elect one or more members of the governing body as described in Schedule O Part VI Line 7a Essentia Health and Benedictine Sisters Benevolent Association have reserved powers with respect to St Mary's Hospital & Clinics, Inc as described in Schedule O Part VI Line 7b

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 7a		Member with right to elect governing body According to its Bylaws, Critical Access Group shall appoint and remove St Mary's Hospital & Clinic's governing body

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 7b		Members w ith right to approve governing body decisions St Mary's Hospital & Clinics, Inc is a subsidiary of Essentia Health, w hose Board of Directors has reserved pow ers w ith re spect to this corporation and its subsidiaries, and all of the other direct and indirect s ubsidiaries of Essentia Health (collectively, the "System") Essentia Health's reserved po w ers are as follow s Strategic and Business Plans Authority to create, and to approve, th e System's strategic and business plans Mission Authority to create, and to approve, the mission, purpose and vision statements for all entities in the System by the affirmative vote of at least 67% of the Essentia Health board of directors Debt Approval of the incu rrence of debt by, and the creation of all mortgages, liens, security interests, or other encumbrances on the assets of, all entities in the System in excess of the single or annua l aggregate dollar limits prescribed in w riting by the Essentia Health board of directors, and the authority to cause all entities in the System to participate in System borrow ing Governing Instruments Authority to cause, and to approve, amendments of the articles of incorporation and bylaw s of all entities in the System Mergers and Acquisitions Authorit y to cause, and to approve, all mergers, consolidations, and dissolutions of all entities in the System Affiliations and Joint Ventures Authority to cause, and to approve, all af filiations, joint ventures and other alliances w ith third parties of all entities in the S ystem Transfer of Assets Within the System Authority to transfer assets, including cash, betw een and among entities w ithin the System, provided, how ever, that Essentia Health sha ll not have authority to require any entity in the System to transfer assets (a) that w oul d cause such entity to be in default of its covenants or obligations under any bond or oth er financing documents, (b) from the Catholic entities to the secular entities or from the secular entities to the Catholic entities in a manner or to an extent that w ould cause th e Catholic entities to be in violation of the Ethical and Religious Directives for Catholi c Health Care Services in the judgment of the local ordinary, or (c) such that money gener ated by services at secular facilities w ithin the System by procedures that are contrary t o the Ethical and Religious Directives for Catholic Health Care Services w ould be used at the Catholic entities or money generated by Catholic entities w ould be used in the providi ng of services contrary to the Ethical and Religious Directives for Catholic Health Care S ervices at secular facilities w ithin the System Transfer of Assets Outside the System Au thority to cause, and to approve, the sale, lease or other transfer of assets of all entit ies in the System to parties outside of the System w hen the asset's value exceeds the sing le or annual aggregate dollar limits prescribed in w riting by the Essentia Health board of directors Services Authority to cause, and to approve, the addition of new services and service locations and the discontinuance of services and service locations w ithin all ent ities in the System Budgets Approval of capital and operating budgets of all entities in the System Professional Services Selection of the general legal counsel and external au ditors of all entities in the System Acquisitions Authority to cause, and to approve, al l acquisitions by and formations of entities in the System Marketing, Authority to implem ent System-w ide marketing and promotional activities Compliance Plans Authority to creat e, and to approve, corporate compliance, safety and risk management plans for entities w it hin the System Quality Plan Authority to create, and to approve, the System's quality pl an Non-Budgeted Purchases Approval of non-budgeted capital purchases and leases in exces s of the single or annual aggregate dollar limits prescribed in w riting by Essentia Health for entities w ithin the System Human Resources Authority to create human resource polic ies and procedures w ithin the System Reserved Pow ers Authority to create additional Esse ntia Health reserved pow ers by the affirmative vote of at least 80% of the Essentia Health board of directors (excluding the Essentia Health CEO), provided, how ever, that any addit ional Essentia Health reserved pow ers shall not contravene or hinder the reserved pow ers o f Benedictine Sisters Benevolent Association The Benedictine Sisters Benevolent Associati on ("BSBA") also has certain reserved pow ers over all Catholic facilities w ithin Essentia Health BSBA's reserved pow ers are as follow s Mission Authority to approve the mission, purpose and vision statements for Catholic facilities and entities w ithin the System Adhe rence to Ethical Religious Directives (ERDs) Authority to approve the methods, policies a nd procedures pertaining to the adherence of Catholic facilities and entities w ithin the S ystem to the ERDs, and to require the use of relig

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 7b		ious symbols, distinguishing elements and prayers Official Catholic Directory Authority to request the listing of qualified entities and facilities within the System in The Official Catholic Directory, subject to the approval of applicable Catholic authorities Catholic Health Association Authority to require Catholic facilities and entities within the System to join the membership of the Catholic Health Association of the United States Alienation of Stable Patrimony or Ecclesiastical Goods Authority to approve alienation of either stable patrimony or other ecclesiastical goods in the System if such goods involved in a specific transaction approved by Essentia Health pursuant to Section 2 8(g) or 2 8(h) of the Affiliation Agreement have a dollar value equal to or greater than 70% of the amount established from time to time that requires approval from the Holy See Amendments Authority to approve any amendments to the Articles of Incorporation or Bylaws of this corporation that would alter the number of Benedictine Sisters of St Scholastica Monastery of Duluth or Benedictine Sisters Benevolent Association board of director members serving as members of this corporation's board of directors, authority to approve any amendments to the Articles of Incorporation or Bylaws of the Supported Organizations, as well as the Catholic ECHC and SMDC Subsidiaries (as defined in the Affiliation Agreement), which could materially affect such entity's identity as a Catholic institution, including without limitation any amendment that would alter the number of Benedictine Sisters of St Scholastica Monastery of Duluth or Benedictine Sisters Benevolent Association board of director members serving as members of such entity's board of directors, and authority to cause Essentia Health to make amendments to the Articles of Incorporation or Bylaws of the Supported Organizations, as well as the Catholic ECHC and SMDC Subsidiaries, which amendments Benedictine Sisters Benevolent Association in good faith are necessary to preserve such entity's identity as a Catholic institution Mission Effectiveness Authority to approve annual plans and evaluations relating to mission effectiveness and chaplaincy for the Catholic facilities and entities within the System Mergers and Dissolution Subject to the approval of the Benedictine Sisters of St Scholastica Monastery of Duluth, authority to approve a proposed merger, consolidation, liquidation, dissolution, or the disposition of all or substantially all the assets

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 11a		Form 990 review process The 2010 Form 990 including all schedules was reviewed by St Mary's Hospital & Clinics, Inc management and governing body on April 24, 2012 prior to filing with the Internal Revenue Service Each current director of the governing body received a final copy of the 2010 Form 990 St Mary's Hospital & Clinics, Inc's Chief Financial Officer led the review of the form and schedules and any questions were discussed

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 12c		Practices for monitoring and enforcing Conflict of Interest policy Interested persons shall annually disclose relationships which might lead to a conflict of interest by completing a conflict of interest disclosure form Interested persons include any person in a position to exercise substantial influence over the organization It includes but is not limited to any director, officer, management, employee, or committee member of Essentia Health or any of its affiliates Essentia shall be responsible for the annual distribution of conflict of interest forms and review of disclosures for the governing bodies of Essentia and Essentia Operating Members and for senior management employees of Essentia Transactions with parties with whom a conflict of interest exists may be undertaken only if all of the following are observed the conflict of interest is fully disclosed, the interested person with the conflict of interest doesn't participate in the approval of such transactions, if practical or appropriate, a competitive bid or comparable valuation is obtained, and the board or committee of the board has determined that the transaction is in the best interest of the organization Disclosure by any interested person other than a board or committee member should be made to the Chief Executive Officer (or if she/he is the one with the conflict, then to the board chair), who shall bring the matter to the attention of the board or an appropriate committee of the board Disclosure involving board or committee members shall be made to the board chair (or if she/he is the one with the conflict, then to the board vice chair), who shall bring these matters to the board or an appropriate committee of the board The board or committee of the board shall determine whether a conflict exists and if so, whether the contemplated transaction may be authorized as just, fair, and reasonable to Essentia or its affiliate(s) The decision of the board or a duly constituted committee of the board on these matters will be at its sole discretion, and its concern must be the welfare of Essentia and its affiliate(s) and the advancement of its purposes The decision of the board is final If the board determines a conflict does not exist, the interested person may proceed with the transaction, however, he/she will not be eligible to vote on related issues should they arise If the board determines a conflict does exist, the interested person will be notified of the decision regarding whether the contemplated transaction will be authorized as just, fair, and reasonable

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 15 A		Process for determining CEO's compensation As an employee of Critical Access Group, St Mary's Hospital & Clinics, Inc 's CEO's compensation is reviewed and approved by the CRITICAL ACCESS GROUP's Compensation Committee The purpose of the CRITICAL ACCESS GROUP Compensation Committee (the "Committee") is to determine the reasonableness of and approve the compensation of CRITICAL ACCESS GROUP executives consistent with the CRITICAL ACCESS GROUP and Essentia Health compensation philosophy The philosophy is to insure that the organization is able to attract, retain and motivate employees as well as provide the opportunity for adjustments to compensation based upon performance The Committee will consist of members of the CRITICAL ACCESS GROUP Board of Directors who are not CRITICAL ACCESS GROUP employees The compensation review will include all benefits paid to the CRITICAL ACCESS GROUP executives The CRITICAL ACCESS GROUP executives to be reviewed will include all senior/executive vice presidents, all vice presidents, all directors and all CRITICAL ACCESS GROUP facility administrators/CEOs The CRITICAL ACCESS GROUP CEO and CFO compensation will be reviewed and approved by the Essentia Health Board of Directors Compensation Committee The Committee will meet at least annually to determine the reasonableness of executive compensation as proposed by CRITICAL ACCESS GROUP management consistent with the CRITICAL ACCESS GROUP compensation philosophy and to approve the proposed compensation CRITICAL ACCESS GROUP management (HR) will (i) monitor trends in the marketplace on an annual basis and, when appropriate, make recommendations to the Committee regarding overall salary range adjustments prior to the annual budgeting process, and (ii) review the market competitiveness of all CRITICAL ACCESS GROUP executive positions at least once every two years Prior to making its determination, the Committee will obtain and rely upon appropriate data as to comparability CRITICAL ACCESS GROUP will contract with an outside third party to conduct market pricing analysis for the CRITICAL ACCESS GROUP executives as well as salary range development The Committee will adequately document the basis for its determination concurrently with making that determination The Committee minutes shall include A The terms of the approved compensation and the date approved, B The Committee members present during the review, discussion and approval of the proposed compensation and those who voted on the proposed compensation, C Identification of the comparability data obtained and relied upon by the Committee and how the data was obtained, D Any actions by a Committee member having a conflict of interest, and E Documentation of the basis for the determination before the later of the next meeting of the CRITICAL ACCESS GROUP Board of Directors or sixty (60) days after the final actions of the Committee are taken The CRITICAL ACCESS GROUP Board of Directors shall approve the minutes as reasonable, accurate and complete within a reasonable time thereafter The year this process was last undertaken for St Mary's Hospital & Clinics, Inc 's CEO was 2009

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 19		Availability of governing documents, conflict of interest policy, and financial statements to the public St Mary's Hospital & Clinics, Inc makes its governing documents, conflict of interest policy, and financial statements available to the public St Mary's Hospital & Clinics, Inc 's governing documents, conflict of interest policy, and financial statements are available to the public upon request St Mary's Hospital & Clinics, Inc is part of Essentia Health's consolidated financial statements which are included in Essentia Health's annual report posted on Essentia Health's web site

Identifier	Return Reference	Explanation
Form 990, Part VII Section A, Line 1a, Column B		Hours devoted to related organizations The following individuals listed in Form 990, Part VII, Section A, Line 1a also devoted time each week to related organizations Gordon Harman approximately 1 hour Marjorie Kuchynka approximately 1 hour Marguerite McLaughlin approximately 1 hour Maurice Masar, MD approximately 1 hour Larry Coonts approximately 1 hour Gary Rehder approximately 1 hour Dan Davis approximately 6 hours Sister Mary Rochefort approximately 1 hour Sister Barbara Jean Glodowski approximately 1 hour Bryan Higgins approximately 1 hour Lee Pippenger approximately 1 hour Sister Mary Odile Cahoon approximately 1 hour Henry Clay approximately 1 hour Michael Hedrix is employed by Critical Access Group as Critical Access Group Senior Vice President of Operations 100% of his time is spent furthering the purpose of Critical Access Group and its' related organizations Andrew Gilbert, MD is employed by St Mary's Hospital & Clinics, Inc 100% of his time is spent furthering the purpose of Clearwater Valley Hospital and Clinics, Inc and St Mary's Hospital & Clinics, Inc Kelly McGrath, MD is employed by of Clearwater Valley Hospital and Clinics, Inc 100% of his time is spent furthering the purpose of Clearwater Valley Hospital and Clinics, Inc and St Mary's Hospital & Clinics, Inc Colleen Meza is employed by Critical Access Group as Clearwater Valley Hospital and Clinics, Inc 's and St Mary's Hospital & Clinics, Inc 's Chief Executive Officer 100% of her time is spent furthering the purpose of Clearwater Valley Hospital and Clinics, Inc and St Mary's Hospital & Clinics, Inc Lenne Bonner is employed by Clearwater Valley Hospital and Clinics, Inc as Clearwater Valley Hospital and Clinics, Inc 's and St Mary's Hospital & Clinics, Inc 's Chief Financial Officer 100% of her time is spent furthering the purpose of Clearwater Valley Hospital and Clinics, Inc and St Mary's Hospital & Clinics, Inc

Identifier	Return Reference	Explanation
Form 990, Part XI, Line 5		Other Changes in Net Assets The total amount of other changes in net assets includes Unrealized gain on trading securities $555,533 Prior Year adjustment ($22,621)

Identifier	Return Reference	Explanation
Form 990, Part XII, Line 3		Consolidated A-133 St Mary's Hospital & Clinics, Inc , as part of Essentia Health's consolidated financial statements, was required and underwent a consolidated audit set forth in the Single Audit Act and OMB Circular A-133 The consolidated audit is reviewed by the Essentia Health Audit Committee

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
St Mary's Hospital & Clinics Inc

Employer identification number
82-0226453

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) Disproprtionate allocations? Yes	(h) No	(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership
(1) PMC-Gateway Imaging LLC 109 Court Ave S Sandstone, MN55072 26-1634764	Imaging ServiCES	MN	NA	NONE	0	0			0			0 %

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) Essentia Health Insurance Services SPC Buckingham Sq 720 W Bay Rd PO 69 Grand Cayman, Cayman Islands KY1-1102 CJ 000000000	Insurance	CJ	NA	Foreign Corp	0	0	0 %
(2) East Range Clinics LTD 910 6th Ave N Virginia, MN55792 41-0909915	Clinics	MN	NA	C	0	0	0 %

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

		Yes	No
1 During the tax year, did the orgranization 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	1a		No
b Gift, grant, or capital contribution to other organization(s)	1b		No
c Gift, grant, or capital contribution from other organization(s)	1c		No
d Loans or loan guarantees to or for other organization(s)	1d		No
e Loans or loan guarantees by other organization(s)	1e		No
f Sale of assets to other organization(s)	1f		No
g Purchase of assets from other organization(s)	1g		No
h Exchange of assets	1h		No
i Lease of facilities, equipment, or other assets to other organization(s)	1i		No
j Lease of facilities, equipment, or other assets from other organization(s)	1j		No
k Performance of services or membership or fundraising solicitations for other organization(s)	1k		No
l Performance of services or membership or fundraising solicitations by other organization(s)	1l	Yes	
m Sharing of facilities, equipment, mailing lists, or other assets	1m		No
n Sharing of paid employees	1n	Yes	
o Reimbursement paid to other organization for expenses	1o	Yes	
p Reimbursement paid by other organization for expenses	1p	Yes	
q Other transfer of cash or property to other organization(s)	1q		No
r Other transfer of cash or property from other organization(s)	1r	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) Clearwater Valley Hospital and Clinics Inc	n	1,226,381	
(2) Clearwater Valley Hospital and Clinics Inc	o	966,072	
(3) Clearwater Valley Hospital and Clinics Inc	P	864,375	
(4) Critical Access Group	l	392,136	
(5) Critical Access Group	o	1,284,642	
(6) Essentia Health	o	410,221	

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Are all partners section 501(c)(3) organizations?		(e) Share of end-of-year assets	(f) Disproprtionate allocations?		(g) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(h) General or managing partner?	
			Yes	No		Yes	No		Yes	No

Part VII **Supplemental Information**

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

Identifier	Return Reference	Explanation

Additional Data

Return to Form

Software ID:
Software Version:
EIN: 82-0226453
Name: St Mary's Hospital & Clinics Inc

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
Brainerd Lakes Integreated Health System 2024 S 6th St Brainerd, MN56401 37-1532145	SUPPORT ORG	MN	501(C)(3)	11 II	ESSENTIA		
Brainerd Medical Center Inc 2024 S 6th St Brainerd, MN56401 37-1532148	Clinic	MN	501(C)(3)	3	BLIHS		
Bridges Medical Center 201 9th St W Ada, MN56510 20-0479568	Clinic/Hosp	MN	501(C)(3)	3	INNOVIS		
Clearwater Valley Hospital & Clinics Inc 301 Cedar Orofino, ID83544 82-0497771	Clinic/Hosp	ID	501(C)(3)	3	CAG		
Divine Medical Services 709 N Lincoln Jerome, ID83338 20-2773717	Emerg SrvS	ID	501(C)(3)	3	SBFMC		
DL Surgery Center 1027 Washington Ave Detroit Lakes, MN56501 26-3837203	ASC	MN	501(C)(3)	3	CAG		
ECHC Foundation 502 E 2nd St Duluth, MN55805 26-3359418	Foundation	MN	501(C)(3)	11 I	CAG		
CRITICAL ACCESS GROUP 503 E 3rd St Ste 400 Duluth, MN55805 26-1219624	SUPPORT ORG	MN	501(C)(3)	11 II	Essentia		
St Benedict's Family Medical Center 709 N Lincoln Jerome, ID83338 82-0227163	Clinic/Hosp	ID	501(C)(3)	3	CAG		
St Joseph's Medical Center 523 N 3rd St Brainerd, MN56401 41-0695602	CLINIC/HOSP	MN	501(C)(3)	3	BLIHS		
St Mary's EMS 1027 Washington Ave Detroit Lakes, MN56501 41-1805811	Emerg SRVS	MN	501(C)(3)	9	SMRHC		
St Mary's Innovis Health 1027 Washington Ave Detroit Lakes, MN56501 26-2861321	Clinic	MN	501(C)(3)	3	INNOVIS		

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
St Mary's Regional Health Center 1027 Washington Ave Detroit Lakes, MN56501 41-1620386	Clinic/Hosp	MN	501(C)(3)	3	INNOVIS		
Essentia Health 502 E 2nd St Duluth, MN55805 20-0360007	SUPPORT ORG	MN	501(C)(3)	11 III-FI	NA		
Innovis Health LLC 3000 32nd Ave Fargo, ND58103 26-1175213	Clinic/Hosp	DE	501(C)(3)	3	Essentia		
Midwest Medical Equipment & Supply Inc 4418 Haines Rd Duluth, MN55811 41-1674021	Medical Equip	MN	501(C)(3)	9	SMDCHS		
SMDC Medical Center 502 E 2nd St Duluth, MN55811 41-1878730	Clinic/Hosp	MN	501(C)(3)	3	SMDCHS		
Pine Medical Center 109 Court Ave S Sandstone, MN55072 41-1884597	HOSPITAL/NURS	MN	501(C)(3)	3	SMDCHS		
Polinsky Medical Rehabilitation Center 530 E 2nd St Duluth, MN55805 41-0691275	CLINIC	MN	501(C)(3)	3	SMMC		
St Mary's Duluth Clinic Foundation 400 E 3rd St Duluth, NM55805 41-2016979	Foundation	MN	501(C)(3)	7	SMDCHS		
St Mary's Duluth Clinic Health System 407 E 3rd St Duluth, MN55805 41-1836633	SUPPORT ORG	MN	501(C)(3)	11 II	Essentia		
St Mary's Hospital of Superior 3500 Tower Ave Superior, WI54880 41-1811073	Clinic/Hosp	WI	501(C)(3)	3	SMMC		
St Mary's Medical Center 407 E 3rd St Duluth, MN55805 41-0695604	HOSPITAL	MN	501(C)(3)	3	SMDCHS		
The Duluth Clinic Ltd 400 E 3rd St Duluth, MN55805 41-0883623	CLINIC	MN	501(C)(3)	3	SMDCHS		

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
First Care Medical Services 900 Hilligross Blvd SE Fosston, MN56542 41-0706143	Clinic/Hosp	MN	501(C)(3)	3	INNOVIS		
Minnesota Valley Health Center 621 S 4th St LeSueur, MN56058 41-0837659	Hospital/NURS	MN	501(C)(3)	3	CAG		
Essentia Institute of Rural Health 502 E 2nd St Duluth, MN55805 27-1291124	Research	MN	501(C)(3)	4	Essentia		
ESSENTIA Health Foundation 502 E 2nd St Duluth, MN55805 27-1984704	Foundation	MN	501(C)(3)	7	Innovis		
NORTHERN PINES MEDICAL CENTER 5211 HWY 110 AURORA, MN55705 41-0841441	HOSPITAL/NURS	MN	501(C)(3)	3	SMDCHS		
GRACEVILLE HEALTH CENTER 115 WEST SECOND STREET GRACEVILLE, MN56240 41-0726173	CLINIC/HOSP	MN	501(C)(3)	3	INNOVIS		

Form 990, Schedule R, Part V - Transactions With Related Organizations

	(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved ($)	(d) Method of determining amount involved
(1)	Clearwater Valley Hospital and Clinics Inc	n	1,226,381	
(2)	Clearwater Valley Hospital and Clinics Inc	o	966,072	
(3)	Clearwater Valley Hospital and Clinics Inc	P	864,375	
(4)	Critical Access Group	l	392,136	
(5)	Critical Access Group	o	1,284,642	
(6)	Essentia Health	o	410,221	

Consolidated Financial Statements and Other Financial Information

Essentia Health
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Essentia Health

Consolidated Financial Statements
and Other Financial Information

Years Ended June 30, 2011 and 2010

Contents

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Report of Independent Auditors

The Board of Directors
Essentia Health

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

We conducted our audits in accordance with auditing standards generally accepted in the United States Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Essentia Health's internal control over financial reporting Our audits included 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 Essentia Health's internal control over financial reporting. Accordingly, we express no such 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, and evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Essentia Health at June 30, 2011 and 2010, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with U S generally accepted accounting principles

Ernst + Young LLP

October 4, 2011

Essentia Health

Consolidated Balance Sheets

(Dollars in Thousands)

	June 30 2011	June 30 2010
Assets		
Current assets		
Cash and cash equivalents	**$ 74,478**	$ 97,040
Short-term investments	**7,302**	22,992
Current portion of assets whose use is limited	**33,265**	41,982
Patient accounts receivable, less allowances for uncollectible accounts of $56,720 and $48,169 at June 30, 2011 and 2010, respectively *(Note 4)*	**239,578**	191,136
Prepaid expenses and other receivables	**29,129**	25,821
Inventories	**24,641**	23,909
Total current assets	**408,393**	402,880
Assets whose use is limited, less current portion *(Note 5)*		
Funds designated by Board	**421,956**	328,635
Funds held by trustee	**3,754**	3,911
Funds held under self-insurance program	**36,558**	27,800
Other	**50,319**	37,037
	512,587	397,383
Property and equipment, net *(Note 7)*	**584,453**	543,612
Investments and other non-current assets, net *(Note 8)*	**119,633**	121,830
Total assets	**$ 1,625,066**	$ 1,465,705

	June 30	
	2011	**2010**
Liabilities and net assets		
Current liabilities		
Accounts payable	**$ 36,332**	$ 26,228
Payable to third-party payors	**15,719**	18,902
Accrued liabilities		
Salaries, wages, and benefits	**127,567**	114,310
Interest	**7,217**	6,494
Current portion of long-term debt *(Note 9)*	**14,260**	13,054
Other	**22,387**	17,045
Total current liabilities	**223,482**	196,033
Long-term debt *(Note 9)*	**517,160**	515,435
Professional, pension, and other non-current liabilities *(Notes 11 and 12)*	**150,160**	173,625
Total liabilities	**890,802**	885,093
Net assets:		
Unrestricted	**717,719**	566,028
Temporarily restricted	**15,836**	13,933
Permanently restricted	**709**	651
Total net assets	**734,264**	580,612
Total liabilities and net assets	**$ 1,625,066**	$ 1,465,705

See accompanying notes.

Essentia Health

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30	
	2011	**2010**
Unrestricted revenue		
Net patient revenue *(Note 4)*	**$ 1,550,648**	$ 1,456,014
Other operating revenue	**42,806**	44,275
Total unrestricted revenue	**1,593,454**	1,500,289
Expenses *(Note 14)*		
Salaries, wages, and related benefits	**942,095**	878,808
Professional fees	**26,658**	22,576
Supplies	**228,201**	219,105
Purchased services	**56,872**	51,036
Provision for uncollectible accounts	**68,489**	65,529
Professional liability and general insurance	**4,898**	12,008
Utilities	**17,398**	13,386
Repairs and maintenance	**32,123**	29,517
Depreciation and amortization	**65,535**	73,350
Interest	**20,726**	15,641
Other	**79,572**	71,186
Total expenses	**1,542,567**	1,452,142
Income from operations	**50,887**	48,147
Non-operating gains (losses), net		
Investment income on funds designated by Board	**6,867**	6,370
Net realized gains	**23,466**	8,637
Net change in unrealized gains and losses on trading securities	**38,069**	5,683
(Loss) gain on disposal of property, net	**(742)**	839
Gain (loss) on swap agreements	**3,106**	(9,386)
Loss on refinancing	**–**	(2,472)
Other, net	**1,861**	(1,156)
Total non-operating gains, net	**72,627**	8,515
Excess of revenue and gains over expenses and losses	**123,514**	56,662

	Year Ended June 30	
	2011	**2010**
Unrestricted net assets:		
Excess of revenue and gains over expenses and losses	**$ 123,514**	$ 56,662
Net change in unrealized gains and losses on other-than-trading securities	**220**	442
Contribution of long-lived assets, net	**3,672**	12,429
Pension and other postretirement liability adjustments	**20,836**	(8,136)
Other, net	**3,449**	(375)
Increase in unrestricted net assets	**151,691**	61,022
Temporarily restricted net assets:		
Contributions	**1,355**	4,971
Net change in unrealized gains and losses	**1,342**	576
Net realized gains	**288**	56
Investment income	**677**	90
Net assets released from restrictions and other changes, net	**(1,759)**	(6,167)
Increase (decrease) in temporarily restricted net assets	**1,903**	(474)
Permanently restricted net assets		
Contributions and other changes, net	**58**	611
Total increase in net assets	**153,652**	61,159
Net assets at beginning of year	**580,612**	519,453
Net assets at end of year	**$ 734,264**	$ 580,612

See accompanying notes.

Essentia Health

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended June 30 2011	2010
Operating activities		
Increase in net assets	$ **153,652**	$ 61,159
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	**65,535**	73,350
Provision for uncollectible accounts	**68,489**	65,529
(Gain) loss on swap agreements	**(3,106)**	9,386
Gain on investments in joint ventures and related organizations, net	**(3,375)**	(2,985)
Net change in unrealized gains and losses on other-than-trading securities	**(1,562)**	(1,018)
Net change in unrealized gains and losses on trading securities	**(38,069)**	(5,683)
Loss on refinancing	**–**	2,472
Pension and other postretirement liability adjustments	**(20,836)**	8,136
Restricted contributions and investment income	**(2,032)**	(5,061)
Contribution of long-lived assets, net	**(3,107)**	(8,049)
Changes in assets and liabilities		
Patient accounts receivable	**(111,360)**	(70,407)
Accounts payable and accrued liabilities	**17,450**	24,991
Professional, pension, and other non-current liabilities	**6,835**	14,932
Other	**(10,404)**	(10,446)
Net cash provided by operating activities	**118,110**	156,306
Investing activities		
Purchase of property and equipment, net	**(97,105)**	(55,804)
Change in investments in joint ventures and related organizations, net	**2,214**	3,079
Purchase of trading securities, net	**(45,195)**	(160,803)
(Purchase) sales of securities and assets whose use is limited classified as other-than-trading, net	**(4,891)**	24,358
Net cash used in investing activities	**(144,977)**	(189,170)
Financing activities		
Proceeds from issuance and borrowings of long-term debt	**46,136**	365,375
Payment for defeasance of long-term debt	**–**	(322,365)
Principal payments on long-term debt	**(44,020)**	(31,457)
Increase in funds held by trustee	**157**	4,349
Restricted contributions and investment income	**2,032**	5,061
Net cash provided by financing activities	**4,305**	20,963
Net decrease in cash and cash equivalents	**(22,562)**	(11,901)
Cash and cash equivalents at beginning of year	**97,040**	108,941
Cash and cash equivalents at end of year	$ **74,478**	$ 97,040
Supplemental disclosure of cash flow information		
Interest paid, net of capitalized interest	$ **20,795**	$ 13,020

See accompanying notes

1. Organization

Essentia Health, a Minnesota nonprofit corporation headquartered in Duluth, Minnesota (Essentia), is an integrated health system serving patients in Minnesota, Wisconsin, North Dakota, and Idaho

Essentia is the parent company of the following tax-exempt entities

- St Mary's Duluth Clinic Health System (operating as Essentia Health East (EH East)) in Duluth, Minnesota
- Brainerd Lakes Integrated Health System (operating as Essentia Health Central (EH Central)) in Brainerd, Minnesota
- Innovis Health LLC (operating as Essentia Health West (EH West)) in Fargo, North Dakota
- Critical Access Group (CAG), formerly known as Essentia Community Hospitals & Clinics (ECHC)
- Essentia Institute of Rural Health (EIRH)
- Essentia Health Insurance Services (EHIS), a Cayman-based captive insurance company

In 2011, many Essentia entities adopted an operating name as part of a system-wide rebranding strategy using the Essentia brand

Essentia is a regional leader in the development and advancement of business, clinical, and financial models for the delivery of high-quality and cost-effective healthcare Essentia provides integrated healthcare delivery through its physician group practices, ambulatory and out-patient centers, acute care hospitals (including tertiary referral centers), and community, rural, and critical access hospitals

Essentia has been determined to qualify as a tax-exempt charitable, educational, and scientific organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and also has been determined to be exempt from state income tax under Minnesota Statute 290 05, Subdivision 2

1. Organization (continued)

EH East is the sole corporate member of the following tax-exempt entities.

Legal Entity	Operating Name, If Applicable	Location
St Mary's Medical Center	Essentia Health St Mary's Medical Center	Duluth, Minnesota
The Duluth Clinic, Ltd	N/A	Duluth, Minnesota
SMDC Medical Center	Essentia Health Duluth	Duluth, Minnesota
Nat G Polinsky Memorial Rehabilitation Center, Inc	Essentia Health Polinsky Medical Rehabilitation Center	Duluth, Minnesota
Midwest Medical Equipment and Supplies, Inc	Essentia Health Medical Equipment & Supplies	Duluth, Minnesota
SMDC Foundation	N/A	Duluth, Minnesota
Northern Pines Medical Center (since July 2010)	Essentia Health Northern Pines	Aurora, Minnesota
Pine Medical Center	Essentia Health Sandstone	Sandstone, Minnesota
St Mary's Hospital of Superior	Essentia Health St Mary's Hospital-Superior	Superior, Wisconsin

EH Central is the sole corporate member of the following tax-exempt entities

Legal Entity	Operating Name	Location
St Joseph's Medical Center	Essentia Health St Joseph's Medical Center	Brainerd, Minnesota
Brainerd Medical Center, Inc	Essentia Health Brainerd Specialty Clinic	Brainerd, Minnesota

EH West is the sole member of the following tax-exempt entities

Legal Entity	Operating Name, If Applicable	Location
St Mary's Regional Health Center	Essentia Health St Mary's-Detroit Lakes	Detroit Lakes, Minnesota
St Mary's Innovis Health	N/A	Detroit Lakes, Minnesota
Bridges Medical Center	Essentia Health Ada	Ada, Minnesota
First Care Medical Services	Essentia Health Fosston	Fosston, Minnesota
Graceville Health Center (since October 2010)	Essentia Health Holy Trinity Hospital	Graceville, Minnesota

(Dollars in Thousands)

1. Organization (continued)

CAG is the sole corporate member of the following tax-exempt entities.

Operating Name	Location
Detroit Lakes Surgery Center	Detroit Lakes, Minnesota
ECHC Foundation	Duluth, Minnesota
Minnesota Valley Health Center	Le Sueur, Minnesota
Clearwater Valley Hospital and Clinics	Orofino, Idaho
St Mary's Hospital	Cottonwood, Idaho
St Benedict's Family Medical Center	Jerome, Idaho

In addition to their membership rights, Essentia and Benedictine Sisters Benevolent Association (BSBA), a sponsor of Essentia's Catholic hospitals, have retained various reserved powers over Essentia's hospitals

Essentia's investments in joint ventures and related organizations are accounted for under the equity method and recorded in investments and other non-current assets in the consolidated balance sheets and in other non-operating gains (losses) in the consolidated statements of operations and changes in net assets, as follows

	Investment June 30		Share of Income (Loss) Year Ended June 30	
	2011	2010	2011	2010
Benedictine Health System	$ 58,533	$ 58.533	$ –	$ –
St Francis Regional Medical Center	28,556	26.695	2,861	4.404
Rainy Lake Medical Center	906	1.576	(710)	(151)
Brainerd Lakes Surgery Center	1,180	1.000	911	709
Other joint ventures	2,185	2.395	313	192
	$ 91,360	$ 90.199	$ 3,375	$ 5.154

In accordance with a reorganization agreement between Benedictine Health System (BHS) and Essentia effective December 31, 2007, upon any subsequent dissolution or sale of BHS or any of BHS' subsidiaries, Essentia would be entitled to receive the net proceeds of the dissolved or sold entity up to the BHS' net asset value as of December 31, 2007 As a result, Essentia has recorded a $58,533 investment in BHS as of June 30, 2011 and 2010

(Dollars in Thousands)

1. Organization (continued)

In June 2010, Essentia entered into agreements to withdraw from two joint ventures and sell its membership interests As a result, a non-operating loss of $4,561 was recorded in other non-operating gains (losses) for the year ended June 30, 2010

The following is a summary of the combined operating results and balance sheet information of the joint ventures and related organizations as of and for the years ended June 30

	2011	2010
Total revenue	**$ 424,179**	$ 341,371
Excess of revenue and gains over expenses	**46,509**	22,372
Total assets	**559,473**	469,432
Net assets	**233,602**	171,276

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements represent the consolidated financial position, results of operations, and cash flows of Essentia All significant interaffiliate accounts and transactions have been eliminated in consolidation

Use of Estimates

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

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with maturities of 90 days or less from the date of purchase Cash deposits are federally insured in limited amounts

Short-Term Investments

Short-term investments are stated at fair value and include corporate bonds and notes with maturities of one year or less from the date of purchase, certificates of deposit, and mutual funds Short-term investments are available to meet Essentia's operating cash requirements

Inventories

Inventories, including drugs and supplies, are stated at the lower of cost (principally on the first-in, first-out basis) or market

Assets Whose Use Is Limited

Assets whose use is limited are composed primarily of investments held for trading, which are stated at fair value, and include assets designated by the Board of Directors (over which the Board retains control and may, at its discretion, subsequently use for other purposes) for future capital improvements and retirement of debt, investments of EHIS, which was formed as a professional liability funding arrangement, assets held by trustees under indenture agreements for construction and debt service payments, and other assets, which consist of donor-restricted assets provided on behalf of certain members of Essentia

Investment income earned on funds held by the bond trustee is reported as other operating revenue since the interest expense on the related bonds is reported as an operating expense All other investment income (including realized gains and losses on investments, interest, dividends, declines in value determined to be other than temporary, and net change in unrealized gains and losses on trading securities) is reported as non-operating income, other than changes in unrealized gains and losses on other-than-trading securities that are determined to be temporary, which are reported as other changes in unrestricted net assets Realized gains and losses are determined using the specific identification method

2. Summary of Significant Accounting Policies (continued)

Essentia reviews its other-than-trading securities for impairment conditions, which could indicate that an other-than-temporary decline in market value has occurred In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold the securities until recovery

The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. The gross unrealized gains and losses from other-than-trading securities at June 30, 2011, were $247 and $11, respectively, and at June 30, 2010, were $1,367 and $13, respectively Based on management's analysis, no other-than-temporary loss was recognized during the years ended June 30, 2011 and 2010

Net unrealized gains (losses) on trading securities held at June 30, 2011 and 2010, were $36,256 and ($3,166), respectively

Derivative Financial Instruments

Essentia uses interest rate, total return, constant maturity, fixed payer, basis, and fixed receiver swap instruments (see Note 9) as part of a risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt Derivatives are used to hedge identified and approved exposures and are not used for speculative purposes

All derivatives are recognized as either assets or liabilities and are measured at fair value Essentia uses pricing models for various types of derivative instruments that take into account the present value of estimated future cash flows Gains and losses resulting from changes in the fair values of derivatives are reflected in the consolidated statements of operations and changes in net assets Any differences between interest received and paid on derivatives are reported with the change in fair values of the derivative as non-operating gains or losses None of the swaps has been designated as a hedge. Accordingly, all changes in the fair values of the swaps and the net difference between interest received and paid are reported as non-operating gains or losses

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost, if purchased or at fair market value on the date received, if donated, less accumulated depreciation and amortization Depreciation is provided on a straight-line basis over estimated useful lives but not for a term in excess of the associated ground leases, if any

Maintenance and repairs are charged to expense as incurred. Major improvements that extend the useful life of the related item are capitalized and depreciated The cost and accumulated depreciation of property and equipment retired or disposed of are removed from the related accounts, and any residual value after considering proceeds is charged or credited to income

Intangible Assets

Identifiable intangible assets are amortized on a straight-line basis over a range of 15 to 40 years based on the expected useful lives

Deferred financing costs, consisting primarily of underwriting fees and discounts, credit enhancement fees, and legal fees, are amortized using the interest method over the period that the obligation is outstanding

Asset Impairment

Essentia periodically evaluates whether events and circumstances have occurred that may affect the estimated useful life or recoverability of the net book value of property and equipment and the unamortized excess cost over net assets acquired If such events or circumstances indicate that the carrying amounts may not be recoverable, an impairment loss is recorded based on an undiscounted cash flow analysis

Insurance

The provision for estimated self-insured general and professional liability claims includes estimates of the undiscounted ultimate costs for both reported claims and claims incurred but not reported (IBNR) Most of Essentia's members are self-insured for workers' compensation claims and discount their workers' compensation reserves

2. Summary of Significant Accounting Policies (continued)

Costs of Borrowing

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets For the years ended June 30, 2011 and 2010, capitalized interest totaled $781 and $319, respectively

Net Patient Revenue

Essentia has agreements with third-party payors that provide reimbursement to Essentia at amounts different from established rates Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered Contractual adjustments arising from various reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered Differences between amounts originally recorded and finally settled are included in operations in the year in which the differences become known. Certain reimbursement arrangements are subject to retroactive audits and adjustments

Essentia utilizes a process to identify and appeal settlements by Medicare and other payors Additional reimbursement is recorded in the year the appeal is successful. During the years ended June 30, 2011 and 2010, additional revenue due to successful appeals and cost report settlements amounted to approximately $7,600 and $6,300, respectively

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation While management believes that Essentia is in material compliance with fraud and abuse laws and regulations as well as other applicable government laws and regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term Changes in reimbursement from the Medicare program, including reduction of funding levels, could have an adverse effect on Essentia

The provision for uncollectible accounts is based upon management's ongoing assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators The results of this assessment are used to make modifications to the provision for uncollectible accounts, if necessary Essentia follows established guidelines for placing certain past-due patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by Essentia

2. Summary of Significant Accounting Policies (continued)

Charity and Uncompensated Care

Essentia provides healthcare services to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates Since Essentia does not pursue collection of these amounts, they are not reported as revenue

Excess of Revenue and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenue and gains over expenses and losses Changes in unrestricted net assets, which are excluded from excess of revenue and gains over expenses and losses, include unrealized gains and losses on other-than-trading securities that are determined to be temporary, contributions of long-lived assets, and pension and other postretirement liability adjustments

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Essentia are reported at fair value at the date the promise is received Conditional promises and indications of intentions to give are reported at fair value at the date the conditions are met

Gifts are reported as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as other operating income Donor-restricted contributions whose restrictions are met within the same year as received are included in operating income in the accompanying consolidated financial statements Temporarily restricted net assets are restricted for the purchase of property and equipment and for research and education Permanently restricted net assets are held in perpetuity

2. Summary of Significant Accounting Policies (continued)

Deferred Taxes

Essentia records a valuation allowance for deferred tax assets when it is more likely than not that some portion of the deferred tax assets will not be realized The ultimate realization of these deferred tax assets depends on the ability of the taxable affiliates to generate sufficient taxable income in the future

Reclassifications

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the 2011 presentation These reclassifications had no effect on the change in net assets or net assets as previously reported

Adoption of New Accounting Standards

Effective July 1, 2011, Essentia will adopt new accounting guidance regarding the presentation and disclosure of patient service revenue, the provision for bad debts, and the allowance for doubtful accounts The guidance requires healthcare entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts) Additionally, enhanced disclosures will be required surrounding the entity's policies for recognizing revenue and assessing bad debts. Essentia is evaluating the new guidance and will make any additional required disclosures

Effective July 1, 2011, Essentia will adopt new accounting guidance with respect to the disclosure of charity care The guidance requires that cost be used as the measurement basis for charity care disclosure and that the disclosure include the direct and indirect cost of providing charity care The guidance also requires disclosure of the method used to identify or determine such costs. Essentia is evaluating the new guidance and will make any additional required disclosures

2. Summary of Significant Accounting Policies (continued)

Effective July 1, 2011, Essentia will adopt new guidance on accounting by healthcare entities for medical malpractice and similar liabilities and their related anticipated insurance recoveries The guidance clarifies that a healthcare entity should not net insurance recoveries against a related claim liability Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries Essentia is currently evaluating the new guidance and will adopt the provisions, as required

Effective July 1, 2010, Essentia adopted new accounting guidance that changed the accounting for mergers and acquisitions entered into by not-for-profit organizations Under the guidance, more combinations are being accounted for under the acquisition method The acquired organization's assets and liabilities are revalued to their fair values when recorded in the acquirer's financial statements Additionally, goodwill and indefinite-lived assets are no longer amortized but are evaluated for potential impairment, as is the case with for-profit entities The new guidance did not have a material effect on Essentia's consolidated financial statements

Effective March 31, 2010, Essentia adopted new accounting guidance, which amended the disclosures regarding fair value measurements (see Note 6) The guidance requires disclosure of the amount of any significant transfers between Level 1 and Level 2 in the fair value hierarchy and the reasons for these transfers and the reason for any transfers in or out of Level 3 Effective July 1, 2011, Essentia also will be required to provide information within the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis as well as clarification on previously required reporting requirements.

3. Service to the Community

In the furtherance of its charitable purpose, Essentia provides a wide variety of benefits to the communities it serves, including offering various community-based social service programs, such as free clinics, health screenings, in-home caregiver services, social service and support counseling for patients and families, pastoral care, crisis intervention, transportation to and from the healthcare campuses, and the donation of space for use by community groups

3. Service to the Community (continued)

In addition, a large number of health-related educational programs are provided for the benefit of the community, including health enhancements and wellness, classes on specific medical conditions, unreimbursed costs of medical education, telephone information services, and costs related to programs designed to improve the general health status of the community

Essentia also provides medical care without charge or at a reduced cost primarily through (a) services provided at no charge to the uninsured, (b) the difference between public program payments (primarily Medicaid and Medicare) and the related costs of providing such services, and (c) services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors The amount of charity care provided, based on internal cost data, was approximately $12,900 and $8,600 for the years ended June 30, 2011 and 2010, respectively.

4. Net Patient Revenue

Essentia derives patient revenue primarily from patients covered under the Medicare and Medicaid programs and agreements with commercial insurers and managed care organizations as well as from private-pay patients The basis for payment under agreements with commercial insurers and managed care organizations includes prospectively determined rates, discounts from established charges, and allowable cost

Essentia provides care to patients under the Medicare and Medicaid programs and contractual arrangements with other third-party payors The Medicare and Medicaid programs pay for inpatient and most outpatient services at predetermined rates under a prospective payment system

Essentia has contracted with Blue Cross and Blue Shield of Minnesota, Wisconsin, and North Dakota (collectively, BCBS) to provide patient care to its members and is reimbursed based on negotiated rates.

(Dollars in Thousands)

5. Investments and Assets Whose Use Is Limited

At June 30, assets whose use is limited consisted of and were limited for the following purposes.

	2011	2010
Cash and cash equivalents	**$ 50,309**	$ 87,696
Domestic equity securities	**132,563**	93,018
International equity securities	**46,268**	31,870
Equity mutual funds	**50,707**	53,013
Debt security mutual funds	**61,079**	39,474
Corporate debt securities	**24,131**	19,200
Hedged funds	**171,741**	107,451
Other	**9,054**	7,643
	$ 545,852	$ 439,365
Funds designated by Board	**$ 422,718**	$ 329,052
Funds held by trustee	**22,209**	28,571
Funds held under self-insurance program	**42,836**	34,761
Other	**58,089**	46,981
	545,852	439,365
Less current portion	**33,265**	41,982
Total non-current assets whose use is limited	**$ 512,587**	$ 397,383

Essentia invests in certain alternative investments, principally hedge funds and funds of hedge funds These investments are accounted for using the equity method At June 30, 2011, Essentia's ownership percentage of the alternative investments ranged from 0 08% to 22 31% Through these investments, Essentia may be indirectly involved in investment activities such as securities lending, short sales of securities, options, warrants, trading in futures and forward contracts, swap contracts, and other derivative products Derivatives are used to maintain asset mix or adjust portfolio risk exposure While these financial instruments may contain varying degrees of risk and have varying degrees of liquidity, mostly ranging from 60 days to 365 days, Essentia's risk is limited to its capital balance in each investment

(Dollars in Thousands)

5. Investments and Assets Whose Use Is Limited (continued)

Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements subsequent to year-end

Investment return for the years ended June 30 consists of and was reported in the consolidated statements of operations and changes in net assets as follows

	2011	2010
Dividends and interest	**$ 9,990**	$ 8,535
Net realized gains	**23,754**	8,693
Net change in unrealized gains and losses on trading investments	**38,069**	5,683
Net change in unrealized gains and losses on other-than-trading investments	**1,562**	1,018
	73,375	23,929
Less investment expenses related to investment return	**2,278**	1,502
	$ 71,097	$ 22,427
Other operating revenue	**$ 168**	$ 573
Non-operating gains	**68,402**	20,690
Other changes in unrestricted net assets	**220**	442
Temporarily restricted net assets	**2,307**	722
	$ 71,097	$ 22,427

(Dollars in Thousands)

6. Fair Value of Financial Instruments

Financial instruments carried at fair value as of June 30, 2011, for each caption on the balance sheet, are analyzed by the fair value hierarchy (as defined on page 24) as follows

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	$ 74,478	$ –	$ –	$ 74,478
Short-term investments				
Cash and cash equivalents	6,815	–	–	6,815
Other	258	229	–	487
Current assets whose use is limited, excluding alternative investments, which are accounted for on the equity method				
Cash and cash equivalents	28,832	–	–	28,832
Other	1,673	453	–	2,126
Assets whose use is limited, excluding alternative investments, which are accounted for on the equity method				
Cash and cash equivalents	21,477	–	–	21,477
Domestic equity securities	131,481	–	–	131,481
International equity securities	45,801	–	–	45,801
Equity mutual funds	50,707		–	50,707
Debt security mutual funds	60,955	–	–	60,955
Corporate debt securities	–	24,131	–	24,131
Other	–	8,601	–	8,601
Swap assets	–	–	5,079	5,079
Total assets valued at fair value	$ 422,477	$ 33,414	$ 5,079	$ 460,970
Liabilities				
Swap liabilities	$ –	$ –	$ (18,162)	$ (18,162)

(Dollars in Thousands)

6. Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value as of June 30, 2010, for each caption on the balance sheet, are analyzed by the fair value hierarchy (as defined on page 24) as follows

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	$ 97,040	$ –	$ –	$ 97,040
Short-term investments				
Cash and cash equivalents	14,930	–	–	14,930
Other	7,831	205	–	8,036
Current assets whose use is limited, excluding alternative investments, which are accounted for on the equity method				
Cash and cash equivalents	32,538	–	–	32,538
Other	4,303	990	–	5,293
Assets whose use is limited, excluding alternative investments, which are accounted for on the equity method				
Cash and cash equivalents	55,158	–	–	55,158
Domestic equity securities	90,882	–	–	90,882
International equity securities	31,369	–	–	31,369
Equity mutual funds	51,911	–	–	51,911
Debt security mutual funds	38,910	–	–	38,910
Corporate debt securities	–	18,914	–	18,914
Other	–	6,939	–	6,939
Swap assets	–	–	6,430	6,430
Total assets valued at fair value	$ 424,872	$ 27,048	$ 6,430	$ 458,350
Liabilities				
Swap liabilities	$ –	$ –	$ (27,636)	$ (27,636)

6. Fair Value of Financial Instruments (continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants The disclosure framework consists of a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement

Essentia's valuation methodologies for assets and liabilities measured at fair value is as follows.

Fair value for Level 1 is based upon quoted market prices

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers

Fair value for Level 3 is based on unobservable market data, primarily credit valuation adjustments (CVAs) for derivative financial instruments The fair value is determined by an independent third party utilizing a discounted cash flow methodology for valuing derivative financial instruments The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) swap curve in order to reflect CVAs for non-performance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market As of June 30, 2011 and 2010, Essentia's fair value of swaps included a CVA of $2,700 and $6,575, respectively

The methods described above may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values Furthermore, while Essentia believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date

(Dollars in Thousands)

6. Fair Value of Financial Instruments (continued)

The following table is a rollforward of the balance sheet amounts for financial instruments classified by Essentia in Level 3 of the valuation hierarchy

	Swap Assets and Liabilities, Net
Fair value at July 1, 2009	$ (15,837)
Realized and unrealized losses on swap agreements included in excess of revenue and gains over expenses and losses	(9,386)
Settlements	4,017
Fair value at June 30, 2010	(21,206)
Realized and unrealized gains on swap agreements included in excess of revenue and gains over expenses and losses	**3,106**
Settlements	**5,017**
Fair value at June 30, 2011	**$ (13,083)**

Carrying amounts of cash and cash equivalents, patient accounts receivable, accounts payable, and payable to third-party payors approximate fair value due to the short-term nature of these instruments

Fair value of fixed rate long-term debt is based on quoted market prices for these issues or, where such prices are not available, the estimated present value of future cash flows, discounted at interest rates available at the reporting date to Essentia for new debt of similar type and remaining maturity For all other debt obligations that bear interest at floating rates, cost is assumed to equal fair value because of the nature of these obligations At June 30, 2011 and 2010, the fair value of Essentia's long-term debt (excluding the effect of third-party credit enhancements) is estimated to be approximately $535,579 and $536,928, respectively

(Dollars in Thousands)

7. Property and Equipment

Property and equipment at June 30 are summarized as follows.

	2011	2010
Land and land improvements	**$ 33,147**	$ 31,794
Buildings and building improvements	**653,987**	629,584
Furniture and equipment	**531,973**	479,360
	1,219,107	1,140,738
Accumulated depreciation and amortization	**(692,220)**	(619,734)
	526,887	521,004
Construction-in-progress	**57,566**	22,608
	$ 584,453	$ 543,612

In January 2009, Essentia incurred a financing obligation relating to a building completed and placed into service, resulting from agreements to lease a portion of a medical office building Since the transaction did not qualify for sale-leaseback treatment, the building is treated as a financing transaction The completed building cost of $10,272 at June 30, 2011 and 2010, and the related other long-term liability of $9,262 and $9,670 at June 30, 2011 and 2010, respectively, are included in the accompanying consolidated balance sheets

8. Investments and Other Non-Current Assets

Investments and other non-current assets at June 30 are summarized as follows

	2011	2010
Notes receivable	**$ 6,133**	$ 7,622
Investment in joint ventures and related organizations	**91,360**	90,199
Deferred financing costs, less accumulated amortization of $3,655 in 2011 and $2,879 in 2010	**11,179**	11,536
Intangible assets, less accumulated amortization of $445 in 2011 and $340 in 2010	**1,815**	1,920
Fair value of swap asset *(Note 9)*	**5,079**	6,430
Other	**4,067**	4,123
	$ 119,633	$ 121,830

(Dollars in Thousands)

9. Long-Term Debt

Long-term debt at June 30 consists of the following.

	Annual Interest Rate	2011	2010
Essentia Obligated Group Revenue Bonds			
Series 2011, due through 2015	4 75%	$ **25,469**	$ –
Series 2010, due through 2035	Variable rate	**106,370**	109,535
Series 2008, due through 2037	3 00% to 5.50%	**236,309**	238,061
Series 2008, due through 2040	4 90% to 5.10%	**105,513**	105,466
Other revenue bonds	2 00% to 5.25%	**24,609**	32,306
Line of credit	Variable rate	**5,235**	–
Commercial paper, net	Variable rate	**–**	29,450
Other, primarily mortgages payable with annual principal payments through 2034	Various	**27,915**	13,671
Total debt		**531,420**	528,489
Less current portion		**14,260**	13,054
		$ **517,160**	$ 515,435

At June 30, 2011, Essentia's Obligated Group consisted of Essentia, CAG, EH East, Essentia Health St Mary's Medical Center, Essentia Health Duluth, The Duluth Clinic, Ltd , Essentia Health Polinsky Medical Rehabilitation Center, Essentia Health St Mary's Hospital-Superior, EH Central, Essentia Health St. Joseph's Medical Center, Essentia Health Brainerd Specialty Clinic, Essentia Health St Mary's-Detroit Lakes, St Mary's Innovis Health, and EH West

Certain indebtedness of members of the Obligated Group and related entities is secured by notes issued under the Amended and Restated Master Trust Indenture, dated as of April 1, 1999 (the Master Trust Indenture (MTI)), and related documents, which require Obligated Group members to be jointly and severally obligated for the debt service on all obligations issued thereunder

9. Long-Term Debt (continued)

All Obligated Group members have pledged certain unrestricted receivables and certain pass-through obligations for payment of long-term indebtedness issued under the MTI No pass-through obligations were subject to the pledge as of June 30, 2011

Most of the non-Obligated Group's debt is secured by certain assets of the entity that have borrowed the proceeds from the debt issue

In March 2011, Essentia issued Revenue Bonds, Series 2011, in the amount of $25,155. The bonds are subject to semi-annual interest-only payments until February 2015, at which time the outstanding principal balance becomes due

In June 2010, Essentia issued Variable Rate Revenue Bonds, Series 2010, in the amount of $109,535 The outstanding balances on the Series 1993 Bonds in the amount of $32,270 and on the Series 2008C-3 and Series 2008C-4 Bonds in the total amount of $55,900 were refinanced The bonds are subject to a mandatory tender following an initial period, which ends in June 2014, at which time outstanding principal plus accrued interest becomes due

In February 2010, Essentia restructured a portion of the outstanding Variable Rate Demand Revenue Bonds, Series 2008, which included converting $234,195 of Series 2008A, Series 2008B, and Series 2008C-1 Variable Rate Demand Bonds to fixed rate bonds with annual interest rates ranging from 3 00% to 5 50% Prior to the restructuring, the variable rate demand bonds were subject to tender at the option of the bondholders. Prior to February 2010, liquidity facilities were in place in the form of standby bond purchase agreements, which were terminated as a result of the restructuring to fixed rate debt

As a result of the refinancing in June 2010 and the restructuring in February 2010, Essentia recorded a non-operating loss of $2,472

A portion of the proceeds of various bond issuances and funds available under prior bond indentures that are deemed to be legally defeased have been deposited into escrow accounts and invested in certain U S government obligations, the maturing principal of and interest paid on which will be sufficient to pay when due the principal of and interest on the refunded bonds

(Dollars in Thousands)

9. Long-Term Debt (continued)

In June 2011, Essentia entered into a long-term master revolving line of credit with a bank under which it may borrow up to an aggregate of $60,000 The annual interest rate is based on LIBOR plus an applicable margin (1 15% at June 30, 2011) The line of credit terminates in June 2014, at the option of the bank The line of credit is secured by a note issued under the MTI and is an obligation of the Essentia Obligated Group There was $5,235 outstanding of June 30, 2011

In June 2011, Essentia terminated its $60,000 commercial paper program and letter of credit under which notes payable were issued to members of Essentia. As of June 30, 2011, there were no commercial paper notes outstanding As of June 30, 2010, commercial paper notes outstanding totaled $29,450, which were supported by a letter of credit of the same amount

Essentia has a revolving line of credit with a bank under which it may borrow up to an aggregate of $20,000 There were no outstanding borrowings at June 30, 2011 and 2010

The aggregate annual maturities of long-term debt, excluding the commercial paper notes and line of credit, for each of the five years subsequent to June 30, 2011, are as follows:

2012	$ 14,260
2013	16,906
2014	118,292
2015	37,066
2016	5,055

The MTI contains various covenants, including the requirement for Essentia Obligated Group to maintain certain financial ratios, limit the incurrence of significant additional indebtedness, and limit transfers to non-Obligated Group members

(Dollars in Thousands)

9. Long-Term Debt (continued)

The proceeds of bonds, which were placed in various trust funds to be used in accordance with the applicable indenture provisions, are as follows at June 30

	2011	2010
Bond interest, principal, and construction funds	**$ 18,425**	$ 24,336
Debt service reserve funds	**3,784**	4,235
	22,209	28,571
Less current portion	**18,455**	24,660
Total long-term portion	**$ 3,754**	$ 3,911

Essentia enters into interest rate, total return, constant maturity, fixed payer, basis, and fixed receiver swaps to manage its exposure to changes in interest rates From time to time, Essentia may enter into collar options as part of its investment strategy to minimize exposure to risk within the equity markets These collar options may have a margin requirement, which places restrictions on cash or investments

The following is a summary of the outstanding positions under these interest rate, constant maturity, fixed payer, and basis swaps at June 30, 2011

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Interest rate swaps	$ 25,085	2020	3 69% to 3 82%	70% 1-month LIBOR
Constant maturity swap	$ 50,000	2018	3-month LIBOR	87 94% 10-year ISDA swap rate
Fixed payer swaps	$ 82,685	2017 to 2037	1 775% to 3 432%	68% of 1-month or 3-month LIBOR
Basis swaps	$ 217,495	2030 to 2040	SIFMA	68% of 1-month or 3-month LIBOR plus 0 105% to 0 605%

Interest paid and received is based on swap rates, which are derived from the LIBOR, Securities Industry and Financial Markets Association (SIFMA), and International Swaps and Derivatives Association (ISDA)

(Dollars in Thousands)

9. Long-Term Debt (continued)

Swap assets are reported in investments and other non-current assets and swap liabilities in professional, pension, and other non-current liabilities in the consolidated financial statements, as follows:

	Notional Amount	Assets 2011	Assets 2010	Liabilities 2011	Liabilities 2010	(Loss) Gain Recorded as Non-Operating 2011	(Loss) Gain Recorded as Non-Operating 2010
Interest rate swaps	$ 25,085	$ –	$ –	$ **2,878**	$ 3,275	$ **(574)**	$ (1,643)
Total return swaps	–	–	–	–	–	–	(126)
Constant maturity swap	50,000	**5,079**	3,796	–	–	**2,528**	2,525
Fixed payer swaps	82,685	–	–	**7,541**	12,542	**(3,706)**	(2,848)
Basis swaps	217,495	–	–	**7,743**	11,819	**4,490**	(9,765)
Fixed receiver swap	–	–	2,634	–	–	**368**	2,471
Total swaps	$ 375,265	$ **5,079**	$ 6,430	$ **18,162**	$ 27,636	$ **3,106**	$ (9,386)

In order to reduce the effective interest rate on the Series 2008 debt, Essentia Obligated Group has entered into a fixed payer swap, fixed receiver swap, and basis swap agreements Essentia has entered into a constant maturity swap agreement to protect its short-term investments from a decline in short-term rates and to enhance non-operating gains In order to reduce the effective interest rate on fixed rate debt (Reference Debt), Essentia Obligated Group has entered into interest rate swap and total return swap agreements None of the swaps has been designated as a hedging instrument

Under the terms of the total return swaps, either Essentia Obligated Group or the counterparty to the swap can terminate the swaps at any time, which would result in a termination payment based on the difference in the fair value of the Reference Debt and its face amount Essentia Obligated Group terminated these swaps in 2010

Certain of Essentia's derivative instruments contain provisions that require Essentia to post collateral when the net liability of the derivative instruments is greater than the predetermined threshold of $10,000 No collateral was required at June 30, 2011 or 2010

(Dollars in Thousands)

9. Long-Term Debt (continued)

Derivative transactions contain credit risk in the event the parties are unable to meet the terms of the contract, which is generally limited to the fair value due from counterparties on outstanding contracts At June 30, 2011 and 2010, the counterparty with fair values due to Essentia had a Standard & Poor's credit quality rating of A

10. Income Taxes

Deferred tax assets at June 30, 2011 and 2010, relate primarily to depreciation along with federal and state net operating loss (NOL) carryovers As of June 30, 2011, Essentia had federal NOLs of $4,269 and state NOLs of $4,234, expiring in varying amounts through 2031 Due to the operating performance of Essentia's taxable subsidiaries, a valuation allowance has been established since it is more likely than not that the deferred tax assets will not be realized There was no significant change in the net deferred tax assets for the year ended June 30, 2011.

Deferred tax assets consist of the following.

	Year Ended June 30	
	2011	**2010**
Deferred tax assets, gross	**$ 1,866**	$ 1,890
Valuation allowance	**(1,866)**	(1,890)
Deferred tax assets, net	**$ –**	$ –

The statute of limitations for tax years ending June 30, 2007 through June 30, 2011, remains open to examination by the major U S taxing jurisdictions to which Essentia is subject In addition, for all tax years prior to June 30, 2007, generating a NOL, tax authorities have the right to adjust the amount of the NOL.

(Dollars in Thousands)

11. Employee Benefit Plans

Essentia sponsors two defined benefit retirement plans (Defined Benefit Plans), which cover certain groups of Essentia's employees Although the Defined Benefit Plans are closed to new participants, certain plan participants continue to accrue benefits Essentia also provides other postemployment benefits to certain eligible participants, including a partial subsidy for health insurance coverage

A summary of the change in the benefit obligation, the change in plan assets and the resulting funded status, the amounts recognized in the consolidated balance sheets, and the components of net periodic benefit of the Defined Benefit Plans as of June 30 (measurement date) are as follows:

	Year Ended June 30	
	2011	**2010**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 180,471**	$ 156,900
Service cost	**2,364**	2,147
Interest cost	**10,030**	9,803
Actuarial (gain) loss	**(1,533)**	15,979
Benefits paid	**(5,098)**	(4,358)
Benefit obligation at end of year	**186,234**	180,471
Change in plan assets		
Fair value of plan assets at beginning of year	**105,606**	92,570
Actual return on plan assets	**22,136**	10,745
Contributions	**7,247**	7,149
Benefits paid	**(5,098)**	(3,572)
Assumed expenses paid	**(500)**	(1,286)
Fair value of plan assets at end of year	**129,391**	105,606
Net amount recognized (underfunded plan)	**$ (56,843)**	$ (74,865)

Accumulated benefit obligation was $160,469 and $171,312 at June 30, 2011 and 2010, respectively

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during the year ended June 30 consist of

	2011	2010
Current year actuarial (gain) loss	**$ (15,467)**	$ 12,447
Amortization of actuarial loss	**(5,175)**	(4,311)
Total	**$ (20,642)**	$ 8,136

Actuarial losses included in unrestricted net assets that have not been recognized in net periodic pension cost at June 30, 2011 and 2010 were $47,078 and $67,720, respectively Actuarial losses expected to be recognized in net periodic pension cost during the year ending June 30, 2012, are $2,889 Unrecognized actuarial losses are amortized on a straight-line basis

Components of net periodic pension cost for the year ended June 30 are as follows.

	2011	2010
Service cost	**$ 2,864**	$ 2,647
Interest cost	**10,030**	9,803
Expected return on plan assets	**(8,201)**	(7,212)
Amortization of unrecognized net actuarial loss	**5,175**	4,311
Benefit cost	**$ 9,868**	$ 9,549
Weighted average assumptions		
Discount rate at end of year (used to determine benefit obligation)	5 29% to 5 80%	
Discount rate at beginning of year (used to determine net periodic benefit cost)	5 51% to 5 60%	
Expected return on plan assets	7.75%	
Rate of compensation increase	3 20% to 4 00%	
Healthcare cost trend rate	9.25%	

The overall weighted average return on plan assets is determined by applying management's judgment to the results of computer modeling, historical trends, and benchmarking data

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The Investment Committee of the Defined Benefit Plans, which consists of at least two members of the Board of Directors and a minimum of four staff members, reviews annually and approves the investment policy and asset allocation targets The Investment Committee activities are supported by an independent investment consulting firm The investment policy covers responsibilities of the investment managers, investment objectives, asset allocation targets and ranges, asset guidelines, and manager review criteria The Investment Committee reviews asset allocation quarterly to determine if the current structure is appropriate and whether any changes are necessary. All assets are invested with outside managers.

The current target allocation and the actual asset allocation as of June 30 are as follows.

	Asset Allocation Target	**2011**	**2010**
Equity securities	30%–90%	**52%**	40%
Debt securities	0%–50%	**12**	16
Cash and cash equivalents	0%–55%	**6**	4
Other (primarily alternative investments)	0%–75%	**30**	40
Total		**100%**	100%

The fair value of the Defined Benefit Plans' pension plan assets was determined using the fair value hierarchy, as defined in Note 6, at June 30, 2011.

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 7,998	$ –	$ –	$ 7,998
Domestic equity securities	27,142	–	–	27,142
International equity securities	14,763	–	–	14,763
Equity mutual funds	24,786	–	–	24,786
Debt security mutual funds	3,427	–	–	3,427
Corporate debt securities	–	5,611	–	5,611
Alternative investments	–	–	39,439	39,439
Other	–	6,225	–	6,225
	$ 78,116	$ 11,836	$ 39,439	$ 129,391

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

The fair value of the Defined Benefit Plans' pension plan assets was determined using the fair value hierarchy, as defined in Note 6, at June 30, 2010

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 3.924	$ –	$ –	$ 3.924
Domestic equity securities	23.422	–	–	23.422
International equity securities	13.289	–	–	13.289
Equity mutual funds	5.969	–	–	5.969
Debt security mutual funds	8.723	–	–	8.723
Corporate debt securities	–	5,525	–	5.525
Alternative investments	–	–	41.826	41.826
Other	–	2,928	–	2.928
	$ 55.327	$ 8.453	$ 41.826	$ 105.606

Fair value methodologies for Level 1 and Level 2 investments are consistent with the inputs described in Note 6 Fair value for Level 3 alternative investments is based on the fair value of the underlying assets as estimated in an unquoted market, which approximates the equity method of accounting Fair values of alternative investments are determined by the investment managers or general partners Fair values may be based on estimates that require varying degrees of judgment The fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses The financial statements of the investees are audited annually by independent auditors

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy defined above

Fair value at July 1, 2009	$ 30,119
Purchases, issuances, and settlements, net	8,469
Actual return on plan assets	3,238
Fair value at July 1, 2010	41,826
Purchases, issuances, and settlements, net	**(6,592)**
Actual return on plan assets	**4,205**
Fair value at June 30, 2011	**$ 39,439**
Change in unrealized gains on investments held at June 30, 2011	**$ 4,006**

(Dollars in Thousands)

11. Employee Benefit Plans (continued)

During 2012, Essentia expects to make pension contributions of $7,299 to the Defined Benefit Plans

The following benefits, which reflect expected future service, are expected to be paid

2012	$	6,650
2013		6,894
2014		7,537
2015		8,677
2016		9,534
2017–2021		63,172

Other Plans

Under a collective bargaining agreement, Essentia contributes to a union-sponsored multiemployer retirement plan Substantially all of Essentia's entities have individual defined contribution plans covering most of their employees. Contributions are based on a percentage of eligible employees' salaries Total pension expense relating to the union-sponsored multiemployer retirement plan and defined contribution pension plans was $44,280 and $41,478 for the years ended June 30, 2011 and 2010, respectively

12. Insurance

EHIS provides insurance coverage to most of Essentia's members (except the critical access hospitals) on a claims-made basis with limits of $5,000 per claim and $10,000 in the aggregate per policy year for professional liabilities and $3,000 per claim and $6,000 in the aggregate for each policy year for general liabilities Premiums are based on claims experience

Essentia's rural critical access hospitals are insured by a commercial insurance policy with limits of $1,000 per claim and $3,000 in the aggregate per policy year on a claims-made basis for both professional liability and general liability risks

(Dollars in Thousands)

12. Insurance (continued)

Essentia has self funded the estimated value of professional and general liability claims, which amounted to $20,447 and $22,768 at June 30, 2011 and 2010, respectively, based on historical data, and includes IBNR claims

Essentia has purchased excess professional and general liability insurance from the commercial insurance market with limits of $25,000 per claim and in the aggregate per policy year

Essentia is self insured for workers' compensation claims, employee healthcare claims, and unemployment compensation risks, with stop loss coverage above certain limits Essentia is required to post security under its self insured workers' compensation program, which was $12,189 and $11,180 as of June 30, 2011 and 2010, respectively. Essentia has entered into a surety bond agreement to comply with this requirement

13. Commitments and Contingencies

During 2011 and 2010, Essentia entered into agreements to renovate a hospital and construct two medical office buildings and three clinics The total cost of the projects is anticipated to be $42,105, most of which will be debt financed Construction-in-progress was approximately $19,581 as of June 30, 2011

Essentia has leases for equipment and satellite office facilities, which are classified as operating leases. Rental expense under these operating leases totaled $19,961 and $17,774 for the years ended June 30, 2011 and 2010, respectively

Future minimum lease payments on operating leases in effect on June 30, 2011, for each of the five subsequent years and thereafter are as follows

2012	$ 11,586
2013	9,893
2014	8,587
2015	6,543
2016	5,764
Thereafter	47,770
	$ 90,143

13. Commitments and Contingencies (continued)

In connection with a corporate reorganization of BSBA, assets and liabilities of certain facilities were transferred to Essentia in 1985 BSBA retains title to the land occupied by these facilities and has leased the land to the facilities through June 30, 2040 Minimum annual lease payments are $32,605 over the remaining lease period, adjusted for inflation Lease payments were $786 and $766 for the years ended June 30, 2011 and 2010, respectively

Essentia or its Obligated Group has guaranteed amounts totaling $8,505 and $8,900 as of June 30, 2011 and 2010, respectively. No liability is recorded related to these guarantees.

Essentia is a defendant in legal proceedings arising in the ordinary course of business Although the outcome of these proceedings cannot be determined, in the opinion of management, they will not have a material adverse effect on Essentia's financial position or its results of operations However, there can be no assurance that this will be the case

At June 30, 2011, approximately 38% of employees are represented by 35 collective bargaining agreements, of which 9 will expire within one year

14. Functional Expenses

Essentia does not report expense information by functional classification because its resources and activities are directed primarily to providing healthcare services to residents in communities that it serves.

15. Subsequent Events

Essentia's management evaluated events and transactions occurring subsequent to June 30, 2011 through October 4, 2011, the date of issuance of the financial statements During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements

Other Financial Information

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Report of Independent Auditors on Other Financial Information

The Board of Directors
Essentia Health

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole The schedule of community service and charity care provided is presented for purposes of additional analysis and is not a required part of the basic financial statements Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

Ernst + Young LLP

October 4, 2011

1105-1254856

Essentia Health

Schedule of Community Service and Charity Care Provided

(Dollars in Thousands)

Essentia maintains records to identify and monitor the level of community service and charity care provided These records include management's estimate of the cost of services and supplies furnished for community service programs, the cost to provide charity care, and the cost in excess of reimbursement from public programs, which were estimated as follows for the years ended June 30, 2011 and 2010.

	Year Ended June 30	
	2011	**2010**
Cost of providing charity care	**$ 12,948**	$ 8,552
Costs in excess of Medicaid payments	**76,459**	62,447
Medicaid surcharge and MinnesotaCare tax	**18,554**	18,464
Community services	**985**	884
Subsidized health services	**57**	154
Education and work force development	**6,815**	6,981
Research	**3,679**	1,934
Cash and in-kind donations	**985**	723
Total cost of community benefits*	**120,482**	100,139
Cost in excess of Medicare payments	**139,157**	149,502
Other care provided without compensation (bad debt)	**67,997**	65,033
Discounts offered to uninsured patients	**7,301**	5,333
Taxes and fees	**3,409**	3,464
Total value of community contributions	**$ 338,346**	$ 323,471
Cost of community benefits as a percent of total operating expenses	**7.8%**	6 9%
Value of community contributions as a percent of total operating expenses	**21.9%**	22 3%

*As defined in the Catholic Health Association/VHA Inc guidelines

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