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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

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012

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

F Name and address of principal officer

LENNE BONNER
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																																		
	<table><tr><td>3</td><td>Number of voting members of the governing body (Part VI, line 1a)</td><td>12</td></tr><tr><td>4</td><td>Number of independent voting members of the governing body (Part VI, line 1b)</td><td>8</td></tr><tr><td>5</td><td>Total number of individuals employed in calendar year 2011 (Part V, line 2a)</td><td>269</td></tr><tr><td>6</td><td>Total number of volunteers (estimate if necessary)</td><td>63</td></tr><tr><td>7a</td><td>Total unrelated business revenue from Part VIII, column (C), line 12</td><td>0</td></tr><tr><td>7b</td><td>Net unrelated business taxable income from Form 990-T, line 34</td><td></td></tr></table>	3	Number of voting members of the governing body (Part VI, line 1a)	12	4	Number of independent voting members of the governing body (Part VI, line 1b)	8	5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	269	6	Total number of volunteers (estimate if necessary)	63	7a	Total unrelated business revenue from Part VIII, column (C), line 12	0	7b	Net unrelated business taxable income from Form 990-T, line 34																	
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Net Assets or Fund Balances		Beginning of Current Year	End of Year																																
	20	Total assets (Part X, line 16)	16,884,472	17,301,674																															
	21	Total liabilities (Part X, line 26)	2,368,234	2,313,464																															
	22	Net assets or fund balances Subtract line 21 from line 20	14,516,238	14,988,210																															

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

Lenne Bonner Interim Pres/CFO

Date

2013-05-08

Paid Preparer's Use Only

Preparer's signature

Firm's name (or yours if self-employed), address, and ZIP + 4

Date

Check if self-employed

☐

Preparer's taxpayer identification number (see instructions)

EIN

Phone no

May the IRS discuss this return with the preparer shown above? (see instructions)

☐ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2011)

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III ☐ Yes ☒ No

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 organization's program service accomplishments for each of its three largest program services, as measured 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 \$ 15,105,613 including grants of \$ 1,250) (Revenue \$ 18,530,282)

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 \$ 15,105,613

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)? <i>If "Yes," complete Schedule A.</i> 	1	Yes	
2	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? 	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? <i>If "Yes," complete Schedule C, Part I.</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? <i>If "Yes," complete Schedule C, Part II.</i> 	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? <i>If "Yes," complete Schedule C, Part III.</i> 	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</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? <i>If "Yes," complete Schedule D, Part II.</i> 	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> 	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? <i>If "Yes," complete Schedule D, Part IV.</i> 	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	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, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> 	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? <i>If "Yes," complete Schedule D, Part VII.</i> 	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? <i>If "Yes," complete Schedule D, Part VIII.</i> 	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? <i>If "Yes," complete Schedule D, Part IX.</i> 	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> 	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)? <i>If "Yes," complete Schedule D, Part X.</i> 	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> 	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> 	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>	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, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Part I.</i>	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 ? <i>If "Yes," complete Schedule F, Part II and IV.</i>	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 ? <i>If "Yes," complete Schedule F, Part III and IV.</i>	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? <i>If "Yes," complete Schedule G, Part I.</i>	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? <i>If "Yes," complete Schedule G, Part II.</i>	18		No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i>	19		No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> 	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. All Form 990 filers that operated one or more hospitals must attach audited financial statements 	20b	Yes	

Part IV

Checklist of Required Schedules (continued)

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

Part V Statements Regarding Other IRS Filings and Tax Compliance			
Check if Schedule O contains a response to any question in this Part V ☐			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. .	1a	31
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.	2a	269
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	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 or securities 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. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	13a	
b	Enter the aggregate 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 aggregate 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		
1b	Enter the number of voting members included in line 1a, above, who are independent		
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?	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?		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?		No
6	Did the organization have members or stockholders?	Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	Yes	
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	Yes	
8b	Each committee with authority to act on behalf of the governing body?	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		No

Section B. Policies

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

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?		No
10b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	Yes	
11b	Describe in Schedule O the process, if any, used by the organization to review the Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	Yes	
12b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	Yes	
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	Yes	
13	Did the organization have a written whistleblower policy?	Yes	
14	Did the organization have a written document retention and destruction policy?	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?		
15a	The organization's CEO, Executive Director, or top management official	Yes	
15b	Other officers or key employees of the organization		No
15c	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?		No
16b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?		

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 made 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 made 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 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, or 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 organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Gordon Harman Board DIRECTOR thru 12/11	1 0	X						0	0	0
(2) Margorie Kuchynka Board SECRETARY/TREASURER	1 0	X		X				0	0	0
(3) Larry Coonts Board Director	1 0	X						0	0	0
(4) Maurice Masar MD Board Director	1 0	X						0	0	0
(5) Gary Rehder Board VICE CHAIR	1 0	X		X				0	0	0
(6) Dan Davis Board CHAIR	1 0	X		X				0	0	0
(7) Sister Mary Rochefort Board Director	1 0	X						0	0	0
(8) Sister Barbara Jean Glodowski Board Director	1 0	X						0	0	0
(9) Bryan Higgins Board Director	1 0	X						0	0	0
(10) Lee Pippenger Board Director	1 0	X						0	0	0
(11) Michael Hedrix Board Director	60 0	X						0	353,852	88,322
(12) Andrew Gilbert MD Board Director thru 9/11	1 0	X						221,321	0	21,056
(13) Kelly McGrath MD Board Director	40 0	X						0	213,704	33,279
(14) HENRY CLAY BOARD DIRECTOR thru 9/11	1 0	X						0	0	0
(15) Alvin Secrest III MD Board Director	40 0	X						240,307	0	35,347
(16) Lonnie Simpson Board Director	1 0	X						0	0	0
(17) Colleen Meza President	50 0			X				0	298,625	67,718

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 (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) Lenne Bonner Chief Financial Officer	50 0			X				0	135,865	32,036
(19) Andrew Jones MD Physician	40 0					X		402,812	0	24,306
(20) Ronald Sigler MD Physician	40 0					X		292,966	0	32,796
(21) Jeremy Ostrander MD Physician	40 0					X		245,777	0	34,322
(22) Jack Casteel Bruner II MD Physician	40 0					X		255,880	0	33,388
(23) Dennis Tracy CRNA	40 0					X		153,736	0	27,475
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								1,812,799	1,002,046	430,045

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of 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? <i>If "Yes," complete Schedule J for such individual</i>		No
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>		No

Section B. Independent Contractors

1

Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
Palouse Imaging Consultants PO Box 9583 MOSCOW, ID 83843	Radiology Services	217,586
Gritman Medical Center 700 S Main St MOSCOW, ID 83843	Radiology Services	191,303

2

Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶2

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	12,500			
	e	Government grants (contributions)	1e	108,993			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	70,134			
	g	Noncash contributions included in lines 1a-1f \$ _____					
	h	Total. Add lines 1a-1f		191,627			
Program Service Revenue	2a	HOSPITAL & CLINIC SERVICES	Business Code 621110	18,530,282	18,530,282		
	b						
	c						
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f		18,530,282			
	Other Revenue	3	Investment income (including dividends, interest and other similar amounts)		125,973		
4		Income from investment of tax-exempt bond proceeds . .		0			
5		Royalties		0			
6a		Gross rents	(i) Real (ii) Personal				
b		Less rental expenses					
c		Rental income or (loss)					
d		Net rental income or (loss)					
7a		Gross amount from sales of assets other than inventory	(i) Securities (ii) Other	8,019			
b		Less cost or other basis and sales expenses					
c		Gain or (loss)	8,019				
d		Net gain or (loss)		8,019			8,019
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	32,542			32,542
b		FITNESS DUES & WEIGHT LOSS PROGRAM	713940	14,613			14,613
c	MEDICAL RECORD COPIES	561439	3,744			3,744	
d	All other revenue		1,038			1,038	
e	Total. Add lines 11a-11d		51,937				
12	Total revenue. See Instructions		18,907,838	18,530,282		185,929	

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

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 United States See Part IV, line 21	1,250	1,250		
2	Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the United States 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	599,901	281,966	317,935	
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	9,311,040	8,257,015	994,924	59,101
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	324,114	287,911	34,133	2,070
9	Other employee benefits	1,066,579	938,804	121,134	6,641
10	Payroll taxes	651,350	570,979	76,407	3,964
11	Fees for services (non-employees)				
a	Management	0			
b	Legal	1,008		1,008	
c	Accounting	12,550		12,550	
d	Lobbying	1,060		1,060	
e	Professional fundraising See Part IV, line 17	0			
f	Investment management fees	42,774		42,774	
g	Other	1,365,927	1,172,564	192,563	800
12	Advertising and promotion	43,950	402	43,548	
13	Office expenses	1,903,119	1,650,546	250,197	2,376
14	Information technology	105,276		105,276	
15	Royalties	0			
16	Occupancy	202,505	143,629	58,591	285
17	Travel	95,435	65,814	28,856	765
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	76,098	59,806	15,665	627
20	Interest	13,972	8,613	5,359	
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	635,794	431,364	202,753	1,677
23	Insurance	198,711	189,968	8,743	
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 DEBT EXPENSE	395,409	395,409		
b	MEDICAL SUPPLIES	484,058	484,058		
c	AFFILIATE SUPPORT FEE	420,170		420,170	
d	DUES & SUBSCRIPTIONS	158,098	37,372	120,631	95
e					
f	All other expenses	128,143	128,143		
25	Total functional expenses. Add lines 1 through 24f	18,238,291	15,105,613	3,054,277	78,401
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)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			625	1	940
	2	Savings and temporary cash investments			1,460,553	2	2,677,085
	3	Pledges and grants receivable, net			76,524	3	59,756
	4	Accounts receivable, net			3,196,281	4	3,398,791
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L			0	5	0
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L			0	6	0
	7	Notes and loans receivable, net			0	7	0
	8	Inventories for sale or use			505,389	8	466,707
	9	Prepaid expenses and deferred charges			47,853	9	86,697
	10a	Land, buildings, and equipment, cost or other basis. Complete Part VI of Schedule D	10a	12,663,513			
	b	Less: accumulated depreciation	10b	6,927,296	5,470,663	10c	5,736,217
	11	Investments—publicly traded securities			0	11	0
	12	Investments—other securities. See Part IV, line 11			5,760,985	12	4,533,356
	13	Investments—program-related. See Part IV, line 11			365,599	13	0
	14	Intangible assets			0	14	0
	15	Other assets. See Part IV, line 11			0	15	342,125
	16	Total assets. Add lines 1 through 15 (must equal line 34)			16,884,472	16	17,301,674
Liabilities	17	Accounts payable and accrued expenses			2,068,021	17	2,049,012
	18	Grants payable			0	18	0
	19	Deferred revenue			0	19	0
	20	Tax-exempt bond liabilities			0	20	0
	21	Escrow or custodial account liability. Complete Part IV of Schedule D			0	21	0
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L			0	22	0
	23	Secured mortgages and notes payable to unrelated third parties			285,672	23	249,075
	24	Unsecured notes and loans payable to unrelated third parties			0	24	0
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D			14,541	25	15,377
	26	Total liabilities. Add lines 17 through 25			2,368,234	26	2,313,464
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			14,516,238	27	14,988,210
	28	Temporarily restricted net assets			0	28	0
	29	Permanently restricted net assets			0	29	0
	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			14,516,238	33	14,988,210
	34	Total liabilities and net assets/fund balances			16,884,472	34	17,301,674

Part XI Reconciliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	18,907,838
2	Total expenses (must equal Part IX, column (A), line 25)	2	18,238,291
3	Revenue less expenses Subtract line 2 from line 1	3	669,547
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	14,516,238
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-197,575
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	14,988,210

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?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both ☐ 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?	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	Yes	

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

2011

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 **section 170(b)(1)(A)(i).**

2

☐

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

3

☒

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

4

☐

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

5

☐

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

6

☐

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

7

☐

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

8

☐

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

9

☐

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

10

☐

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

11

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

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

f

☐

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

g

☐

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

(i)

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

(ii)

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

(iii)

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

h

☐

Provide the following information about the supported organization(s)

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

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

Part II

Support Schedule for Organizations Described in IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
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 2011 (line 6 column (f) divided by line 11 column (f))	14	
15	Public Support Percentage for 2010 Schedule A, Part II, line 14	15	
16a	33 1/3% support test—2011. 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—2010. 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—2011. 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—2010. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization		
18	Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions		

Part IIIPart III

Support Schedule for Organizations Described in IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2011. 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—2010. 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 explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

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

2011

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, line 35c (Proxy Tax), then

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

Name of the organization St Mary's Hospital & Clinics Inc	Employer identification number 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 on behalf of or in opposition to candidates for public office 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 (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B
- Check
- ☐
- if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a	Total lobbying expenditures to influence public opinion (grass roots lobbying)														
b	Total lobbying expenditures to influence a legislative body (direct lobbying)														
c	Total lobbying expenditures (add lines 1a and 1b)														
d	Other exempt purpose expenditures														
e	Total exempt purpose expenditures (add lines 1c and 1d)														
f	Lobbying nontaxable amount. Enter the amount from the following table in both columns.														
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g	Grassroots nontaxable amount (enter 25% of line 1f)														
h	Subtract line 1g from line 1a. If zero or less, enter -0-														
i	Subtract line 1f from line 1c. If zero or less, enter -0-														
j	If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		☐ 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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

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

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
	a Volunteers?		No	
	b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
	c Media advertisements?		No	
	d Mailings to members, legislators, or the public?		No	
	e Publications, or published or broadcast statements?		No	
	f Grants to other organizations for lobbying purposes?		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		1,060
	j Total lines 1c through 1i			1,060
	2a Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b If "Yes," enter the amount of any tax incurred under section 4912				
c If "Yes," enter the amount of any tax incurred by organization managers under section 4912				
d If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?				

Part III-A

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

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

Part III-B

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

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

Part IV

Supplemental Information

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

Identifier	Return Reference	Explanation
Schedule 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, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2011

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

3

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

4

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

5

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

☐ Yes ☐ No

6

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

7

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

8

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

☐ Yes ☐ No

9

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

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

1a

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

b

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

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

► \$ _____

(ii) Assets included in Form 990, Part X

► \$ _____

2

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

a

Revenues included in Form 990, Part VIII, line 1

► \$ _____

b

Assets included in Form 990, Part X

► \$ _____

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

Cat No 52283D

Schedule D (Form 990) 2011

Part III

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

3

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

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

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

5

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

☐ Yes

☐ No

Part IV

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

1a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

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

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

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

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance				
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

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

Description of property	(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		3,994,456	1,767,824	2,226,632
c Leasehold improvements				
d Equipment		7,856,527	5,157,524	2,699,003
e Other		299,757	1,948	297,809
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				5,736,217

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, 2012, no longer includes an ASC 740 footnote.

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

2011

Open to Public Inspection

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

Employer identification number
82-0226453

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals ☒ Applied uniformly to all hospitals ☐ Generally tailored to individual hospitals ☐ Applied uniformly to most hospitals			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care ☒ 100%☐ 150%☐ 200%☐ Other _____% b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care ☒ 200%☐ 250%☐ 300%☐ 350%☐ 400%☐ Other _____% c If the organization did 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	3a	Yes	
4	Did the organization's policy provide 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 charity care expenses exceed the budgeted amount?	5b	Yes	
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 eligible for free or discounted care?	5c		No
6a	Did 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 Charity Care and Certain Other Community Benefits at Cost						
Charity Care 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 Charity care at cost (from Worksheet 1)		205	166,813	0	166,813	0 930 %
b Medicaid (from Worksheet 3, column a)		5,906	2,009,086	1,432,091	576,995	3 230 %
c Costs of other means-tested government programs (from Worksheet 3, column b)		0	0	0	0	0 %
d Total Charity Care and Means-Tested Government Programs		6,111	2,175,899	1,432,091	743,808	4 160 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	7	8,169	82,456	0	82,456	0 460 %
f Health professions education (from Worksheet 5)	2	34	73,750	0	73,750	0 410 %
g Subsidized health services (from Worksheet 6)		0	0	0	0	0 %
h Research (from Worksheet 7)		0	0	0	0	0 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)	7	2,872	42,529	0	42,529	0 240 %
j Total Other Benefits	16	11,075	198,735	0	198,735	1 110 %
k Total. Add lines 7d and 7j	16	17,186	2,374,634	1,432,091	942,543	5 270 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing		0	0	0	0	0 %
2Economic development	1	10	87	0	87	0 %
3Community support		0	0	0	0	0 %
4Environmental improvements		0	0	0	0	0 %
5Leadership development and training for community members		0	0	0	0	0 %
6Coalition building		0	0	0	0	0 %
7Community health improvement advocacy		0	0	0	0	0 %
8Workforce development		0	0	0	0	0 %
9Other		0	0	0	0	0 %
10Total	1	10	87	0	87	0 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1	Yes	
2Enter the amount of the organization's bad debt expense	2395,409		
3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	33,823		
4Provide 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

5Enter total revenue received from Medicare (including DSH and IME)	57,716,774		
6Enter Medicare allowable costs of care relating to payments on line 5	67,640,370		
7Subtract line 6 from line 5. This is the surplus or (shortfall)	776,404		
8Describe 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

9aDid the organization have a written debt collection policy during the tax year?	9a	Yes	
bIf "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.	9b	Yes	

Part IVManagement Companies and Joint Ventures (see instructions)

(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				
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11				
12				
13				

Section A. Hospital Facilities

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

Name and address

Schedule H (Form 990) 2011

Part V Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

St Mary's Hospital & Clinics Inc

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):1

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 If "Yes," indicate what the Needs Assessment describes (check all that apply) a ☐ A definition of the community served by the hospital facility b ☐ Demographics of the community c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community d ☐ How data was obtained e ☐ The health needs of the community f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g ☐ The process for identifying and prioritizing community health needs and services to meet those needs h ☐ The process for consulting with persons representing the community's interests i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs j ☐ Other (describe in Part VI)	1	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	
5 Did the hospital facility make its Needs Assessment widely available to the public? If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a ☐ Hospital facility's website b ☐ Available upon request from the hospital facility c ☐ Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community b ☐ Execution of the implementation strategy c ☐ Development of a community-wide community benefit plan for the facility d ☐ Participation in community-wide community benefit plan e ☐ Inclusion of a community benefit section in operational plans f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA g ☐ Prioritization of health needs in the community h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community i ☐ Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7	
Financial Assistance Policy		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? If "Yes," indicate the FPG family income limit for eligibility for free care 100% If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>200</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply) a ☒ Income level b ☒ Asset level c ☒ Medical indigency d ☒ Insurance status e ☐ Uninsured discount f ☒ Medicaid/Medicare g ☐ State regulation h ☐ Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance?	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a ☐ The policy was posted at all times on the hospital facility's web site b ☐ The policy was attached to all billing invoices c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms d ☐ The policy was posted in the hospital facility's admissions offices e ☐ The policy was provided, in writing, to patients upon admission to the hospital facility f ☐ The policy was available upon request g ☐ Other (describe in Part VI)	13		No

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a ☐ Reporting to credit agency b ☐ Lawsuits c ☐ Liens on residences d ☐ Body attachments or arrests e ☐ Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged a ☐ Reporting to credit agency b ☐ Lawsuits c ☐ Liens on residences d ☐ Body attachments e ☐ Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a ☐ Notified patients of the financial assistance policy upon admission b ☐ Notified patients of the financial assistance policy prior to discharge c ☐ Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d ☐ Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e ☐ Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? If "No," indicate why	Yes	
a	☐ The hospital facility did not provide care for any emergency medical conditions		
b	☐ The hospital facility's policy was not in writing		
c	☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	☐ Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	☐ The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	☐ Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI		No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? If "Yes," explain in Part VI		No

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 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	CRAIGMONT MEDICAL CLINIC 320 NORTH DIVISION CRAIGMONT, ID 83523	PROVIDER BASED CLINIC
3	GRANGEVILLE PHYSICAL THERAPY CLINIC 617 WEST NORTH GRANGEVILLE, ID 83530	Physical Therapy CLINIC
4	KAMIAH MEDICAL CLINIC 518 OAK STREET KAMIAH, ID 83536	PROVIDER BASED CLINIC
5	NEZ PIERCE MEDICAL CLINIC 501 OAK STREET NEX PIERCE, ID 83543	PROVIDER BASED CLINIC
6	KAMIAH PHYSICAL THERAPY CLINIC 619 4TH STREET KAMIAH, ID 83536	PHYSICAL THERAPY CLINIC
7	COTTONWOOD PHYSICAL THERAPY CLINIC 701 LEWISTON STREET LEWISTON, ID 83522	PHYSICAL THERAPY CLINIC
8		
9		
10		

Part VI Supplemental Information

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the descriptions 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, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health 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 annual report The annual report is made available to the public via the website at www.essentiahealth.org Essentia Health, headquartered in Duluth, Minn , is an integrated health system serving patients in Minnesota, Wisconsin, North Dakota and Idaho and is St Mary's Hospital & 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 community benefit to total expense amounted to \$395,409 Part I, line 7 The cost to charge ratio derived from Worksheet 2, Ratio of Patient Care Cost-to-Charges was used to calculate 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 - Describe how the organization's community building activities, as reported in Part II, promote 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 the economic development of our community Part III, line 4 Discounts, charity care, and bad debt expense are accounted for as reductions to revenue 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, during the collection process, it becomes known that the patient qualifies for charity care, the amounts included within bad debt expense would be reclassified to charity care 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 documentation The denial totaled \$3,800 Part III, Line 4 St Mary's Hospital & Clinics, Inc is a part of a larger organization, Essentia Health Essentia Health and its member organizations incorporate the cost of bad debt as a community benefit As a tax exempt hospital, we must provide the necessary services regardless of the patient's ability to pay for that care In doing so, Essentia Health makes quality patient care available to all in our community, regardless of their economic means Part III, line 4 (Excerpt from the parent company's audit) Accounts receivable are stated at net realizable value The allowance for uncollectible accounts is based upon management's ongoing assessment of historical and expected net collections for each major payor source considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators For receivables associated with private-pay patients, Essentia records a significant provision for uncollectible accounts in the period of service on the basis of its historical experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible Part III, line 8 The costing methodology used in determining the Medicare Allowable 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 allowable costs, any costs attributable to subsidized health 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 shortfall as a community benefit The rationale for the organization's opinion is providing care for the elderly and serving Medicare patients is an essential part of the community benefit standard Medicare, like Medicaid, does not pay the full cost of care and it is likely to get worse Many Medicare beneficiaries are poor and are eligible for Medicaid in addition to Medicare Medicare 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 community 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 with information that is used to determine utilization and spending trends but also is used to

Identifier	ReturnReference	Explanation
Schedule H, Part VI, Line 1		o 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 will 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 and final payment factors for Disproportionate Share, Bad Debts, or Indirect Medical Education for non-CAH hospitals. An estimate for these settlements is recorded at the close of the 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 I II, line 9b At any stage of the patient experience, including collections, a determination 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 eligibility (or lack of eligibility) is determined, amounts still owed by patients will be collected in the same manner as all other patient bills.

Identifier	ReturnReference	Explanation
Part V, line 11h		not applicable Part V, Line 13 St Mary's Hospital & Clinics did not have language in their financial assistance policy stating how the policy was to be publicized as of year-end Since year end, the policy has been revised to add language stating how the policy was to be publicized Part VI, line 3 describes how St Mary's Hospital & Clinics informed patients of the financial assistance policy Part V, Line 13g not applicable Part V, Line 15e not applicable Part V, Line 16e not applicable Part V, Line 17e not applicable Part V, Line 18c not applicable Part V, Line 18d not applicable Part V, Line 19d For patients known to qualify for the financial assistance program, discounts will be applied to billed amounts if the patient qualifies for discounted care and the billed amount will be fully discounted if the patient qualifies for free care Part V, Line 20 not applicable Part V, Line 21 not applicable

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 We also have meetings every other month with community partners to assess specific population health indicators St Mary's Hospital & Clinics, Inc 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. Notification of Financial Information including 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. St Mary's Hospital & Clinics reviews the facilities and equipment and develops an attrition process to replace aging plant operations & equipment. St Mary's also looks for opportunities to bring new services to the communities via investing in new skills and technology where appropriate.

Identifier	ReturnReference	Explanation
Part VI, Line 6		St Mary's Hospital & Clinics, Inc is part of Essentia Health, an integrated health system of 16 hospitals, 65 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 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 rural communities through 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 the use of the Epic electronic health record (EHR) The vast majority of Essentia's hospitals and clinics were using a fully-integrated EHR for patient care Technology like the electronic health record and telehealth allows health clinicians 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)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

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

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

▶ Attach to Form 990. ▶ See separate instructions.

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

Employer identification number
82-0226453

Part I

Questions Regarding Compensation

		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
	☐ 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 or provision of all the expenses described above? If "No," complete Part III to explain		
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?		
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
	☒ 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?		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement?		No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a	The organization?		No
b	Any related organization?		No
	If "Yes," to line 5a or 5b, describe in Part III		
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a	The organization?		No
b	Any related organization?		No
	If "Yes," to line 6a or 6b, describe in Part III		
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III		No
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space 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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(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)	257,782	60,355	35,715	44,545	43,777	442,174	32,949
(2) Colleen Meza	(i)	0	0	0	0	0	0	0
	(ii)	204,670	53,834	40,121	60,607	7,111	366,343	39,792
(3) Lenne Bonner	(i)	0	0	0	0	0	0	0
	(ii)	117,345	18,520	0	8,660	23,376	167,901	0
(4) Andrew Jones MD	(i)	268,804	134,008	0	11,125	13,181	427,118	0
	(ii)	0	0	0	0	0	0	0
(5) Ronald Sigler MD	(i)	229,107	63,859	0	13,651	19,145	325,762	0
	(ii)	0	0	0	0	0	0	0
(6) Jeremy Ostrander MD	(i)	194,136	51,641	0	14,271	20,051	280,099	0
	(ii)	0	0	0	0	0	0	0
(7) Jack Casteel Bruner II MD	(i)	205,811	50,069	0	14,267	19,121	289,268	0
	(ii)	0	0	0	0	0	0	0
(8) Dennis Tracy	(i)	153,706	30	0	9,271	18,204	181,211	0
	(ii)	0	0	0	0	0	0	0
(9) Andrew Gilbert MD	(i)	129,683	91,638	0	9,973	11,083	242,377	0
	(ii)	0	0	0	0	0	0	0
(10) Kelly McGrath MD	(i)	0	0	0	0	0	0	0
	(ii)	156,586	57,118	0	12,663	20,616	246,983	0
(11) Alvin Secrest III MD	(i)	207,411	32,896	0	14,073	21,274	275,654	0
	(ii)	0	0	0	0	0	0	0

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 President'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. Amounts related to participating in a supplemental nonqualified retirement plan are reported in Schedule J, Part II, Column C, and amounts related to receiving payment from a supplemental nonqualified retirement plan are reported in Schedule J, Part II, Column B (iii). 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) \$39,792; Michael Hedrix (Critical Access Group) \$32,949. 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.

Schedule L
(Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2011

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?		(c)Original principal amount	(d)Balance due	(e) In default?		(f) Approved by board or committee?		(g)Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
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	64,038	See Part V		No
(2) Haley Minnehan	See Part V	61,167	See Part V		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 L, Part VI, Column B		Relationship between interested person and the organization Related to Alvin Secrest III, MD
Schedule L, Part VI, Column D		Description of transaction Compensation of family member of board member

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

2011

**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 2012, St Mary's had 921 admissions involving 3,152 hospital patient days and 39,968 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 \$167,000 in charity care as well as an additional \$576,000 of costs incurred in excess of Medicaid payments received during the fiscal year ended June 30, 2012 Further community benefits provided during the fiscal year include education and workforce development of over \$73,000 community services of over \$82,000 and cash & in-kind donations of over \$42,000

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 2		Family relationship Lenne Bonner, current officer, and Bryan Hggins, 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 with right to approve governing body decisions St Mary's Hospital & Clinics, Inc is a subsidiary of Essentia Health, whose Board of Directors has reserved powers with respect to this corporation and its subsidiaries, and all of the other direct and indirect subsidiaries of Essentia Health (collectively, the "System") Essentia Health's reserved powers are as follows Strategic and Business Plans Authority to create, and to approve, the 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 incurrence 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 annual aggregate dollar limits prescribed in writing by the Essentia Health board of directors, and the authority to cause all entities in the System to participate in System borrowing Governing Instruments Authority to cause, and to approve, amendments of the articles of incorporation and bylaws of all entities in the System Mergers and Acquisitions Authority 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 affiliations, joint ventures and other alliances with third parties of all entities in the System Transfer of Assets Within the System Authority to transfer assets, including cash, between and among entities within the System, provided, however, that Essentia Health shall not have authority to require any entity in the System to transfer assets (a) that would cause such entity to be in default of its covenants or obligations under any bond or other 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 would cause the Catholic entities to be in violation of the Ethical and Religious Directives for Catholic Health Care Services in the judgment of the local ordinary, or (c) such that money generated by services at secular facilities within the System by procedures that are contrary to the Ethical and Religious Directives for Catholic Health Care Services would be used at the Catholic entities or money generated by Catholic entities would be used in the providing of services contrary to the Ethical and Religious Directives for Catholic Health Care Services at secular facilities within the System Transfer of Assets Outside the System Authority to cause, and to approve, the sale, lease or other transfer of assets of all entities in the System to parties outside of the System when the asset's value exceeds the single or annual aggregate dollar limits prescribed in writing 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 within all entities 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 auditors of all entities in the System Acquisitions Authority to cause, and to approve, all acquisitions by and formations of entities in the System Marketing Authority to implement System-wide marketing and promotional activities Compliance Plans Authority to create, and to approve, corporate compliance, safety and risk management plans for entities within the System Quality Plan Authority to create, and to approve, the System's quality plan Non-Budgeted Purchases Approval of non-budgeted capital purchases and leases in excess of the single or annual aggregate dollar limits prescribed in writing by Essentia Health for entities within the System Human Resources Authority to create human resource policies and procedures within the System Reserved Powers Authority to create additional Essentia Health reserved powers by the affirmative vote of at least 80% of the Essentia Health board of directors (excluding the Essentia Health CEO), provided, however, that any additional Essentia Health reserved powers shall not contravene or hinder the reserved powers of Benedictine Sisters Benevolent Association The Benedictine Sisters Benevolent Association ("BSBA") also has certain reserved powers over all Catholic facilities within Essentia Health BSBA's reserved powers are as follows Mission Authority to approve the mission, purpose and vision statements for Catholic facilities and entities within the System Adherence to Ethical Religious Directives (ERDs) Authority to approve the methods, policies and procedures pertaining to the adherence of Catholic facilities and entities within the System 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 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 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 2011 Form 990 including all schedules was reviewed by St Mary's Hospital & Clinics, Inc 's management and governing body on May 7, 2013 prior to filing with the Internal Revenue Service Each current director of the governing body received a final copy of the 2011 Form 990 St Mary's Hospital & Clinics, Inc 's Interim President/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 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 is 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 will bring the matter to the attention of the board or an appropriate committee of the board Disclosure involving board or committee members should be made to the board chair (or if she/he is the one with the conflict, then to the board vice chair), who will bring these matters to the board or an appropriate committee of the board The board or committee of the board will 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 President's compensation As an employee of Critical Access Group, St Mary's Hospital & Clinics, Inc 's President'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 will 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 will 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 President 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 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 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 Lonnie Simpson 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 related organizations 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 Alvin Secrest III, 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 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 Colleen Meza is employed by Critical Access Group as Clearwater Valley Hospital and Clinics, Inc 's and St Mary's Hospital & Clinics, Inc 's President 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 loss on trading securities (\$197,575)

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

2011

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) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) PMC-Gateway Imaging LLC 109 Court Ave S Sandstone, MN 55072 26-1634764	Imaging ServiCES	MN	NA	N/A	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 0000000000	Insurance	CJ	NA	Foreign Corp	0	0	0 %
(2) East Range Clinics LTD 910 6th Ave N Virginia, MN 55792 41-0909915	Clinics	MN	NA	C CORP	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

1

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

a

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

b

Gift, grant, or capital contribution to related organization(s)

c

Gift, grant, or capital contribution from related organization(s)

d

Loans or loan guarantees to or for related organization(s)

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

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

j

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

k

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

l

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

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

Other transfer of cash or property to related organization(s)

r

Other transfer of cash or property from related organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

Yes

Yes

No

No

No

No

No

No

No

Yes

No

Yes

Yes

No

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) See Additional Data Table			
(2)			
(3)			
(4)			
(5)			
(6)			

Schedule R (Form 990) 2011

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

[illegible]

Part VII

Supplemental Information

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

Identifier	Return Reference	Explanation
Schedule R, Part II, Column (a)		Name In 2011, many Essentia entities adopted a doing business as name as part of a system-wide rebranding strategy using the Essentia brand Legal Name, Doing Business As Name Brainerd Lakes Integrated Health System, Essentia Health Central Brainerd Medical Center, Inc , Essentia Health Brainerd Specialty Clinic Bridges Medical Center, Essentia Health Ada First Care Medical Services, Essentia Health Fosston Graceville Health Center, Essentia Health Holy Trinity Hospital Innovis Health, LLC, Essentia Health West Midwest Medical Equipment & Supply Inc , Essentia Health Medical Equipment and Supplies Northern Pines Medical Center, Essentia Health Northern Pines Pine Medical Center, Essentia Health Sandstone Polinsky Medical Rehabilitation Center, Essentia Health Polinsky Medical Rehabilitation Center SMDC Medical Center, Essentia Health Duluth St Joseph's Medical Center, Essentia Health St Joseph's Medical Center St Mary's Duluth Clinic Health System, Essentia Health East St Mary's Hospital of Superior, Essentia Health St Mary's Hospital-Superior St Mary's Medical Center, Essentia Health St Mary's Medical Center St Mary's Regional Health Center, Essentia Health St Mary's-Detroit Lakes

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 501(c) (3))	(f) Direct Controlling Entity	(g) Section 512 (b)(13) controlled organization	
Brainerd Lakes Integrated Health System 2024 S 6th St Brainerd, MN 56401 37-1532145	SUPPORT ORG	MN	501(C) (3)	11 II	ESSENTIA	Yes	
Brainerd Medical Center Inc 2024 S 6th St Brainerd, MN 56401 37-1532148	Clinic	MN	501(C) (3)	3	BLIHS	Yes	
Bridges Medical Center 201 9th St W Ada, MN 56510 20-0479568	Clinic/Hosp	MN	501(C) (3)	3	INNOVIS	Yes	
Clearwater Valley Hospital & Clinics Inc 301 Cedar Orofino, ID 83544 82-0497771	Clinic/Hosp	ID	501(C) (3)	3	CAG	Yes	
Divine Medical Services THRU 10111 709 N Lincoln Jerome, ID 83338 20-2773717	Emerg SrvCS	ID	501(C) (3)	3	SBFMC	Yes	
DL Surgery Center 1027 Washington Ave Detroit Lakes, MN 56501 26-3837203	ASC	MN	501(C) (3)	3	CAG	Yes	
CRITICAL ACCESS GROUP 503 E 3rd St Ste 400 Duluth, MN 55805 26-1219624	SUPPORT ORG	MN	501(C) (3)	11 II	Essentia	Yes	
St Benedict's Fam Med CNTR THRU 10111 709 N Lincoln Jerome, ID 83338 82-0227163	Clinic/Hosp	ID	501(C) (3)	3	CAG	Yes	
St Joseph's Medical Center 523 N 3rd St Brainerd, MN 56401 41-0695602	CLINIC/HOSP	MN	501(C) (3)	3	BLIHS	Yes	
St Mary's EMS 1027 Washington Ave Detroit Lakes, MN 56501 41-1805811	Emerg SRVCS	MN	501(C) (3)	9	SMRHC	Yes	
St Mary's Innovis Health 1027 Washington Ave Detroit Lakes, MN 56501 26-2861321	Clinic	MN	501(C) (3)	3	INNOVIS	Yes	
St Mary's Regional Health Center 1027 Washington Ave Detroit Lakes, MN 56501 41-1620386	Clinic/Hosp	MN	501(C) (3)	3	INNOVIS	Yes	
Essentia Health 502 E 2nd St Duluth, MN 55805 20-0360007	SUPPORT ORG	MN	501(C) (3)	11 III-FI	NA		No
Innovis Health LLC 3000 32nd Ave Fargo, ND 58103 26-1175213	Clinic/Hosp	DE	501(C) (3)	3	Essentia	Yes	
Midwest Medical Equipment & Supply Inc 4418 Haines Rd Duluth, MN 55811 41-1674021	Medical Equip	MN	501(C) (3)	9	SMMC	Yes	
SMDC Medical Center 502 E 2nd St Duluth, MN 55811 41-1878730	Clinic/Hosp	MN	501(C) (3)	3	SMDCHS	Yes	
Pine Medical Center 109 Court Ave S Sandstone, MN 55072 41-1884597	HOSPITAL/NURS	MN	501(C) (3)	3	SMDCHS	Yes	
Polinsky Medical Rehabilitation Center 530 E 2nd St Duluth, MN 55805 41-0691275	CLINIC	MN	501(C) (3)	3	SMMC	Yes	
St Mary's Duluth Clinic Health System 407 E 3rd St Duluth, MN 55805 41-1836633	SUPPORT ORG	MN	501(C) (3)	11 II	Essentia	Yes	
St Mary's Hospital of Superior 3500 Tower Ave Superior, WI 54880 41-1811073	Clinic/Hosp	WI	501(C) (3)	3	SMMC	Yes	

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 501(c) (3))	(f) Direct Controlling Entity	(g) Section 512 (b)(13) controlled organization	
St Mary's Medical Center 407 E 3rd St Duluth, MN 55805 41-0695604	HOSPITAL	MN	501(C) (3)	3	SMDCHS	Yes	
The Duluth Clinic Ltd 400 E 3rd St Duluth, MN 55805 41-0883623	CLINIC	MN	501(C) (3)	3	SMDCHS	Yes	
First Care Medical Services 900 Hillgross Blvd SE Fosston, MN 56542 41-0706143	Clinic/Hosp	MN	501(C) (3)	3	INNOVIS	Yes	
Minnesota Valley Health Center 621 S 4th St Le Sueur, MN 56058 41-0837659	Hospital/NURS	MN	501(C) (3)	3	CAG	Yes	
Essentia Institute of Rural Health 502 E 2nd St Duluth, MN 55805 27-1291124	Research	MN	501(C) (3)	4	Essentia	Yes	
ESSENTIA Health Foundation 502 E 2nd St Duluth, MN 55805 27-1984704	Foundation	MN	501(C) (3)	7	ESSENTIA	Yes	
NORTHERN PINES MEDICAL CENTER 5211 HWY 110 AURORA, MN 55705 41-0841441	HOSPITAL/NURS	MN	501(C) (3)	3	SMDCHS	Yes	
GRACEVILLE HEALTH CENTER 115 WEST SECOND STREET GRACEVILLE, MN 56240 41-0726173	CLINIC/HOSP	MN	501(C) (3)	3	INNOVIS	Yes	

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	1,338,822	ACTUAL COSTS
(2) Clearwater Valley Hospital and Clinics Inc	o	1,049,910	ACTUAL COSTS
(3) Clearwater Valley Hospital and Clinics Inc	P	1,016,482	ACTUAL COSTS
(4) Clearwater Valley Hospital and Clinics Inc	D	500,000	ACTUAL COSTS
(5) Clearwater Valley Hospital and Clinics Inc	R	500,000	ACTUAL COSTS
(6) Critical Access Group	L	420,072	ACTUAL COSTS
(7) Critical Access Group	O	1,109,932	ACTUAL COSTS
(8) Essentia Health	O	254,809	ACTUAL COSTS

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Essentia Health
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP



Essentia Health

**Consolidated Financial Statements
and Supplementary Information**

Years Ended June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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

September 25, 2012

Essentia Health

Consolidated Balance Sheets (Dollars in Thousands)

	June 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 75,696	\$ 74,478
Short-term investments	11,231	7,302
Current portion of assets whose use is limited	26,142	33,265
Patient accounts receivable, less allowances for uncollectible accounts of \$50,702 and \$56,720 at June 30, 2012 and 2011, respectively (Note 4)	225,979	239,578
Prepaid expenses and other receivables	30,149	29,129
Inventories	28,354	24,641
Total current assets	397,551	408,393
Assets whose use is limited, less current portion (Note 5):		
Funds designated by Board	422,695	421,956
Funds held by trustee	3,566	3,754
Funds held under self-insurance program	36,508	36,558
Other	51,523	50,319
	514,292	512,587
Property and equipment, net (Note 7)	591,094	584,453
Investments and other non-current assets, net (Note 8)	120,664	119,633
Total assets	<u>\$ 1,623,601</u>	<u>\$ 1,625,066</u>

	June 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 39,559	\$ 36,332
Payable to third-party payors	12,822	15,719
Accrued liabilities:		
Salaries, wages, and benefits	113,248	127,567
Interest	7,265	7,217
Current portion of long-term debt <i>(Note 9)</i>	17,052	14,260
Other	22,513	22,387
Total current liabilities	212,459	223,482
Long-term debt <i>(Note 9)</i>	502,072	517,160
Professional, pension, and other non-current liabilities <i>(Notes 11 and 12)</i>	210,871	150,160
Total liabilities	925,402	890,802
Net assets:		
Unrestricted	681,818	717,719
Temporarily restricted	15,505	15,836
Permanently restricted	876	709
Total net assets	698,199	734,264
Total liabilities and net assets	\$ 1,623,601	\$ 1,625,066

See accompanying notes.

Essentia Health

Consolidated Statements of Operations and Changes in Net Assets (Dollars in Thousands)

	Year Ended June 30	
	2012	2011
Unrestricted revenue:		
Patient service revenue (Note 4)	\$ 1,543,349	\$ 1,550,648
Provision for bad debts (Note 4)	(72,192)	(68,006)
Net patient service revenue	1,471,157	1,482,642
Other operating revenue	73,929	42,806
Total unrestricted revenue	1,545,086	1,525,448
Expenses (Note 14):		
Salaries, wages, and related benefits	952,962	935,994
Professional fees	25,504	26,658
Supplies	235,273	228,201
Purchased services	64,927	56,872
Professional liability and general insurance	8,545	4,898
Utilities	17,518	17,398
Repairs and maintenance	30,057	32,123
Depreciation and amortization	67,571	65,535
Interest	21,341	20,726
Other	89,662	86,156
Total expenses	1,513,360	1,474,561
Income from operations	31,726	50,887
Non-operating gains (losses), net:		
Investment income on funds designated by Board	5,931	6,867
Net realized gains	8	23,466
Net change in unrealized gains and losses on trading securities	(18,534)	38,069
Loss on disposal of property, net	(520)	(742)
(Loss) gain on swap agreements	(11,770)	3,106
Other, net	7,425	1,861
Total non-operating (losses) gains, net	(17,460)	72,627
Excess of revenue and gains over expenses and losses	14,266	123,514

	Year Ended June 30	
	2012	2011
Unrestricted net assets:		
Excess of revenue and gains over expenses and losses	\$ 14,266	\$ 123,514
Net change in unrealized gains and losses on other-than-trading securities	(46)	220
Contribution of long-lived assets, net	—	3,672
Pension and other postretirement liability adjustments	(46,350)	20,643
Other, net	2,068	3,642
	<u>(30,062)</u>	<u>151,691</u>
Discontinued operations:		
Decrease in net assets of discontinued operations	(1,400)	—
Loss on disposal of discontinued operations	(4,439)	—
	<u>(5,839)</u>	<u>—</u>
(Decrease) increase in unrestricted net assets	<u>(35,901)</u>	<u>151,691</u>
Temporarily restricted net assets:		
Contributions	2,515	1,355
Net assets released from restrictions and other changes, net	(2,846)	548
(Decrease) increase in temporarily restricted net assets	<u>(331)</u>	<u>1,903</u>
Permanently restricted net assets:		
Contributions and other changes, net	<u>167</u>	<u>58</u>
Total (decrease) increase in net assets	(36,065)	153,652
Net assets at beginning of year	734,264	580,612
Net assets at end of year	<u>\$ 698,199</u>	<u>\$ 734,264</u>

See accompanying notes.

Essentia Health

Consolidated Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30	
	2012	2011
Operating activities		
(Decrease) increase in net assets	\$ (36,065)	\$ 153,652
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	67,571	65,535
Provision for uncollectible accounts	72,192	68,489
Loss (gain) on swap agreements	11,770	(3,106)
Share of joint ventures and related organizations' net income, net	(6,177)	(3,375)
Net change in unrealized gains and losses on other-than-trading securities	46	(1,562)
Net change in unrealized gains and losses on trading securities	18,534	(38,069)
Pension and other postretirement liability adjustments	46,350	(20,643)
Restricted contributions and investment income	(2,515)	(2,032)
Contribution of long-lived assets, net	—	(3,107)
Loss on disposal of discontinued operations	4,478	—
Changes in assets and liabilities:		
Patient accounts receivable	(61,056)	(111,360)
Accounts payable and accrued liabilities	(12,336)	17,450
Professional, pension, and other non-current liabilities	5,882	6,642
Other	(7,715)	(10,404)
Net cash provided by operating activities	100,959	118,110
Investing activities		
Purchase of property and equipment, net	(77,291)	(97,105)
Change in investments in joint ventures and related organizations, net	4,417	2,214
Purchase of trading securities, net	(12,159)	(45,195)
Purchase of securities and assets whose use is limited classified as other-than-trading, net	(5,242)	(4,891)
Net cash used in investing activities	(90,275)	(144,977)
Financing activities		
Proceeds from issuance and borrowings of long-term debt	10,010	46,136
Principal payments on long-term debt	(22,179)	(44,020)
Increase in funds held by trustee	188	157
Restricted contributions and investment income	2,515	2,032
Net cash (used in) provided by financing activities	(9,466)	4,305
Net increase (decrease) in cash and cash equivalents	1,218	(22,562)
Cash and cash equivalents at beginning of year	74,478	97,040
Cash and cash equivalents at end of year	\$ 75,696	\$ 74,478
Supplemental disclosure of cash flow information		
Interest paid, net of capitalized interest	\$ 22,523	\$ 20,795

See accompanying notes

Essentia Health

Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2012

1. Organization

Essentia Health (Essentia), a Minnesota nonprofit corporation headquartered in Duluth, Minnesota, 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 (EHC)
- Essentia Institute of Rural Health (EIRH)
- Essentia Health Insurance Services (EHIS), a Cayman-based captive insurance company
- Essentia Health Foundation (EHF), a merger of Innovis Health Foundation, SMDC Foundation, and EHC Foundation, effective July 1, 2011

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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization (continued)

EH East directly or indirectly controls 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
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

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization (continued)

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

<u>Operating Name</u>	<u>Location</u>
Detroit Lakes Surgery Center	Detroit Lakes, 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 (through October 1, 2011)	Jerome, Idaho

Effective October 1, 2011, Essentia Health agreed to transfer ownership of St. Benedict's Family Medical Center (SBFMC) to St. Luke's Health System, an unrelated entity. For the year ended June 30, 2012, the loss on disposal of SBFMC of \$4,439 and SBFMC's loss prior to its transfer of \$1,400 are included in discontinued operations. Prior year amounts have not been reclassified due to immateriality.

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:

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization (continued)

	Investment Recorded in Consolidated Balance Sheet June 30		Share of Net Income (Loss) Year Ended June 30	
	2012	2011	2012	2011
Benedictine Health System	\$ 58,533	\$ 58,533	\$ —	\$ —
St. Francis Regional Medical Center	30,203	28,556	4,348	2,861
Rainy Lake Medical Center	1,166	906	300	(710)
Brainerd Lakes Surgery Center	1,143	1,180	881	911
Other joint ventures	2,075	2,185	648	313
	<u>\$ 93,120</u>	<u>\$ 91,360</u>	<u>\$ 6,177</u>	<u>\$ 3,375</u>

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 BHS' net asset value as of December 31, 2007. As a result, Essentia has recorded a \$58,533 investment in BHS at June 30, 2012 and 2011.

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:

	2012	2011
Total revenue	\$ 449,899	\$ 424,179
Excess of revenue and gains over expenses	28,000	46,509
Total assets	574,637	559,473
Net assets	246,543	233,602

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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.

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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are stated at net realizable value. The allowance for uncollectible accounts is based upon management's ongoing assessment of historical and expected net collections for each major payor source considering historical business and economic conditions, trends in healthcare coverage, and other collection indicators. For receivables associated with services provided to patients who have third-party insurance coverage (including copayment and deductible amounts from patients), Essentia analyzes contractually due amounts and provides an allowance for contractual adjustments and a provision for uncollectible accounts. For receivables associated with private-pay patients, Essentia records a significant provision for uncollectible accounts in the period of service on the basis of its historical experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

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. Accounts are written off when all reasonable internal and external collection efforts have been performed. These adjustments are accrued on an estimated basis and are revised as needed in future periods. Overall, the allowance for uncollectible accounts as a percentage of accounts receivable has not changed significantly for the year ended June 30, 2012.

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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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, 2012, were \$4 and \$71, respectively, and at June 30, 2011, were \$247 and \$11, respectively. Based on management's analysis, no other-than-temporary loss was recognized during the years ended June 30, 2012 and 2011.

Net unrealized gains on trading securities held at June 30, 2012 and 2011, were \$17,715 and \$36,256, respectively.

Derivative Financial Instruments

Essentia uses interest rate, constant maturity, fixed payer, and basis 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. 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 in the consolidated statements of operations and changes in net assets.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 the estimated liability is discounted.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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, 2012 and 2011, capitalized interest totaled \$1,060 and \$781, respectively.

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.

EHR Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. For Medicare and Medicaid EHR incentive payments, Essentia adopted the gain contingency model to recognize these payments as revenue. Under this accounting policy, EHR incentive payments are recognized as other operating revenue when attestation that the EHR meaningful use criteria for the required period of time has been fully demonstrated and payments are recognized as other operating revenue after the period of attestation is completed. Accordingly, Essentia recognized \$19,917 of EHR revenues during the year ended June 30, 2012, of which \$7,591 is receivable as of year-end. EHR revenue consists of Medicare revenue of \$15,466 and Medicaid revenue of \$4,451.

Essentia's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payment amounts were determined.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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 2012 presentation. These reclassifications had no effect on the change in net assets or net assets as previously reported.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In July 1, 2011, Essentia adopted 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.

In July 2011, Essentia adopted new accounting guidance requiring the reclassification of the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue in the statement of operations. In addition, the guidance requires enhanced disclosure about policies for recognizing revenue, assessing uncollectible accounts, and qualitative and quantitative information about changes in the allowance for uncollectible accounts. Essentia opted to early adopt this guidance. The change in presentation and additional disclosures are reflected in Essentia's consolidated statements of operations and changes in net assets and in Note 4.

On July 1, 2011, Essentia adopted new accounting guidance requiring additional and enhanced disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans in which Essentia participates. Adoption of this guidance did not have a material impact on the consolidated financial statements.

Effective July 1, 2011, Essentia adopted 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. In addition, the amount of the claim liability should be determined without consideration of insurance recoveries. The new guidance did not have a material effect on Essentia's consolidated financial statements.

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. In addition, 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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Effective March 31, 2010, Essentia adopted new accounting guidance that 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 provided 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.

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 and (b) services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors. The cost of providing charity care is measured by applying an overall cost to charge ratio to the charges incurred. Total cost includes salaries, wages and related benefits, professional fees, supplies, purchased services, repairs and maintenance, and general and administrative expenses. The amount of charity care provided was approximately \$10,600 and \$12,900 for the years ended June 30, 2012 and 2011, respectively.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Net Patient Revenue

Patient service revenue, net of contractual allowances and discounts (but before bad debt), is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. 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 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.

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, 2012 and 2011, additional revenue due to successful appeals and cost report settlements amounted to approximately \$8,300 and \$7,600, 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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Net Patient Revenue (continued)

The mix of patient revenue from patients and third-party payors, net of contractual expense (but before bad debt), for the years ended June 30 is summarized below:

	2012	%	2011	%
Medicare	\$ 493,562	32%	\$ 534,222	34%
Medicaid	162,371	11	209,579	14
BCBS	403,341	26	335,134	22
Private-pay, managed care, commercial insurance, and other payors	484,075	31	471,713	30
	\$ 1,543,349	100%	\$ 1,550,648	100%

Net patient revenue is presented net of Medicare, Medicaid, managed care, and other third-party contractual adjustments of \$1,457,687 and \$1,350,838 for the years ended June 30, 2012 and 2011, 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:

	2012	2011
Medicare	\$ 63,347	\$ 69,907
Medicaid	24,168	32,648
BCBS	49,171	45,674
Private-pay, managed care, commercial insurance, and other payors	89,293	91,349
	\$ 225,979	\$ 239,578

Essentia Health

Notes to Consolidated Financial Statements (continued) (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:

	2012	2011
Cash and cash equivalents	\$ 65,062	\$ 50,309
Domestic equity securities	105,421	132,563
International equity securities	41,676	46,268
Equity mutual funds	36,437	50,707
Debt security mutual funds	79,680	61,079
Corporate debt securities	19,726	24,131
Hedged funds	178,981	171,741
Other	13,451	9,054
	<u>\$ 540,434</u>	<u>\$ 545,852</u>
Funds designated by Board	\$ 423,141	\$ 422,718
Funds held by trustee	9,630	22,209
Funds held under self-insurance program	42,207	42,836
Other	65,456	58,089
	<u>540,434</u>	<u>545,852</u>
Less current portion	<u>26,142</u>	<u>33,265</u>
Total non-current assets whose use is limited	<u>\$ 514,292</u>	<u>\$ 512,587</u>

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, 2012, Essentia's ownership percentage of alternative investments ranged from 0.03% to 10.62%. 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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (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:

	<u>2012</u>	<u>2011</u>
Dividends and interest	\$ 9,778	\$ 9,990
Net realized gains	8	23,754
Net change in unrealized gains and losses on trading investments	(18,534)	38,069
Net change in unrealized gains and losses on other-than-trading investments	(46)	1,562
	<u>(8,794)</u>	<u>73,375</u>
Less investment expenses related to investment return	3,677	2,278
	<u>\$ (12,471)</u>	<u>\$ 71,097</u>
Other operating revenue	\$ 170	\$ 168
Non-operating (losses) gains	(12,595)	68,402
Other changes in unrestricted net assets	(46)	220
Other changes in temporarily restricted net assets	—	2,307
	<u>\$ (12,471)</u>	<u>\$ 71,097</u>

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value of Financial Instruments

Financial instruments carried at fair value as of June 30, 2012, for each caption on the consolidated balance sheet, are analyzed by the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	\$ 75,696	\$ —	\$ —	\$ 75,696
Short-term investments:				
Cash and cash equivalents	10,501	—	—	10,501
Other	520	210	—	730
Current assets whose use is limited, excluding alternative investments, which are accounted for on the equity method:				
Cash and cash equivalents	21,194	—	—	21,194
Other	1,300	422	—	1,722
Assets whose use is limited, excluding alternative investments, which are accounted for on the equity method:				
Cash and cash equivalents	43,868	—	—	43,868
Domestic equity securities	104,652	—	—	104,652
International equity securities	41,256	—	—	41,256
Equity mutual funds	36,437	—	—	36,437
Debt security mutual funds	79,569	—	—	79,569
Corporate debt securities	—	19,562	—	19,562
Other	5,638	7,555	—	13,193
Swap assets	—	—	3,278	3,278
Total assets valued at fair value	<u>\$ 420,631</u>	<u>\$ 27,749</u>	<u>\$ 3,278</u>	<u>\$ 451,658</u>
Liabilities				
Swap liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 27,154</u>	<u>\$ 27,154</u>

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value as of June 30, 2011, for each caption on the consolidated balance sheet, are analyzed by the fair value hierarchy (as defined on page 25) 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

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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, 2012 and 2011, Essentia's fair value of swaps included a CVA of \$3,338 and \$2,700, 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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value of Financial Instruments (continued)

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

	<u>Swap Assets and Liabilities, Net</u>
Fair value at June 30, 2010	\$ (21,206)
Realized and unrealized gains, net 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	<u>(13,083)</u>
Realized and unrealized losses, net on swap agreements included in excess of revenue and gains over expenses and losses	(11,770)
Settlements	977
Fair value at June 30, 2012	<u><u>\$ (23,876)</u></u>

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, 2012 and 2011, the fair value of Essentia's long-term debt (excluding the effect of third-party credit enhancements) is estimated to be approximately \$551,300 and \$535,600, respectively.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Property and Equipment

Property and equipment at June 30 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 35,388	\$ 33,147
Buildings and building improvements	694,309	653,987
Furniture and equipment	546,392	531,973
	<u>1,276,089</u>	<u>1,219,107</u>
Accumulated depreciation and amortization	(704,640)	(692,220)
	<u>571,449</u>	<u>526,887</u>
Construction-in-progress	19,645	57,566
	<u>\$ 591,094</u>	<u>\$ 584,453</u>

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, 2012 and 2011, and the related other long-term liability of \$8,849 and \$9,262 at June 30, 2012 and 2011, 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:

	<u>2012</u>	<u>2011</u>
Notes receivable	\$ 8,672	\$ 6,133
Investment in joint ventures and related organizations	93,120	91,360
Deferred financing costs, less accumulated amortization of \$4,362 in 2012 and \$3,655 in 2011	10,787	11,179
Intangible assets, less accumulated amortization of \$550 in 2012 and \$445 in 2011	1,710	1,815
Fair value of swap asset (Note 9)	3,278	5,079
Other	3,097	4,067
	<u>\$ 120,664</u>	<u>\$ 119,633</u>

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Long-Term Debt

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

	Annual Interest Rate	2012	2011
Essentia Obligated Group Revenue Bonds:			
Series 2011, due through 2015	4.75%	\$ 25,383	\$ 25,469
Series 2010, due through 2035	Variable rate	103,855	106,370
Series 2008, due through 2037	3.00% to 5.50%	231,457	236,309
Series 2008, due through 2040	4.90% to 5.10%	105,559	105,513
Other revenue bonds	2.00% to 5.25%	19,632	24,609
Line of credit	Variable rate	–	5,235
Other, primarily mortgages payable with annual principal payments through 2051	Various	33,238	27,915
Total debt		519,124	531,420
Less current portion		17,052	14,260
		<u>\$ 502,072</u>	<u>\$ 517,160</u>

At June 30, 2012, 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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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, 2012.

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 2015, 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.

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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (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 the London Interbank Offered Rate (LIBOR) plus an applicable margin (1.15% at June 30, 2012). 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. As of June 30, 2012, there were no amounts outstanding under the line of credit. There was \$5,235 outstanding as of June 30, 2011.

Essentia has a revolving line of credit with a bank under which it may borrow up to an aggregate of \$30,000. There were no outstanding borrowings at June 30, 2012 and 2011.

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, 2012, are as follows:

2013	\$ 17,052
2014	14,294
2015	39,926
2016	8,062
2017	18,945

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

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:

	<u>2012</u>	<u>2011</u>
Bond interest, principal, and construction funds	\$ 6,426	\$ 18,425
Debt service reserve funds	3,204	3,784
	<u>9,630</u>	<u>22,209</u>
Less current portion	6,064	18,455
Total long-term portion	<u>\$ 3,566</u>	<u>\$ 3,754</u>

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Long-Term Debt (continued)

Essentia enters into interest rate, constant maturity, fixed payer, and basis 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, 2012:

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Interest rate swaps	\$ 23,090	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	\$ 80,383	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 LIBOR, the Securities Industry and Financial Markets Association (SIFMA), and the International Swaps and Derivatives Association (ISDA).

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		Liabilities		(Loss) Gain Recorded as Non-Operating	
		2012	2011	2012	2011	2012	2011
Interest rate swaps	\$ 23,090	\$ —	\$ —	\$ 3,283	\$ 2,878	\$ (1,317)	\$ (574)
Constant maturity swap	50,000	3,278	5,079	—	—	(811)	2,528
Fixed payer swaps	80,383	—	—	16,910	7,541	(11,113)	(3,706)
Basis swaps	217,495	—	—	6,961	7,743	1,471	4,490
Fixed receiver swap	—	—	—	—	—	—	368
Total swaps	<u>\$ 370,968</u>	<u>\$ 3,278</u>	<u>\$ 5,079</u>	<u>\$ 27,154</u>	<u>\$ 18,162</u>	<u>\$ (11,770)</u>	<u>\$ 3,106</u>

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Long-Term Debt (continued)

In order to reduce the effective interest rate on its fixed rate debt, Essentia has entered into fixed-payer, fixed-receiver, total-return 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. None of the swaps has been designated as a hedging instrument.

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, 2012 or 2011.

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, 2012 and 2011, 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, 2012 and 2011, relate primarily to depreciation along with federal and state net operating loss (NOL) carryovers. As of June 30, 2012, Essentia had federal NOLs of \$4,240 and state NOLs of \$4,203, expiring in varying amounts through 2032. Due to the operating performance of Essentia's taxable subsidiaries, a full valuation allowance of \$1,853 and \$1,866 has been established at June 30, 2012 and 2011, respectively, since it is more likely than not that none of the deferred tax asset will not be realized.

The statute of limitations for tax years ending June 30, 2007 through June 30, 2012, 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 an NOL, tax authorities have the right to adjust the amount of the NOL.

Essentia Health

Notes to Consolidated Financial Statements (continued) (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	
	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 186,234	\$ 180,471
Service cost	2,358	2,364
Interest cost	10,529	10,030
Actuarial loss (gain)	30,587	(1,533)
Benefits paid	(5,889)	(5,098)
Benefit obligation at end of year	<u>223,819</u>	<u>186,234</u>
Change in plan assets		
Fair value of plan assets at beginning of year	129,391	105,606
Actual return on plan assets	(8,614)	22,136
Contributions	8,478	7,247
Benefits paid	(5,889)	(5,098)
Expenses paid	(300)	(500)
Fair value of plan assets at end of year	<u>123,066</u>	<u>129,391</u>
Net liability recognized (underfunded plan)	<u>\$ (100,753)</u>	<u>\$ (56,843)</u>

Accumulated benefit obligation was \$195,326 and \$160,469 at June 30, 2012 and 2011, respectively.

Essentia Health

Notes to Consolidated Financial Statements (continued) (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:

	2012	2011
Current year actuarial loss (gain)	\$ 49,237	\$ (15,468)
Amortization of actuarial loss	(2,887)	(5,175)
Total	<u>\$ 46,350</u>	<u>\$ (20,643)</u>

Actuarial losses included in unrestricted net assets that have not been recognized in net periodic pension cost at June 30, 2012 and 2011, were \$93,428 and \$47,078, respectively. Actuarial losses expected to be recognized in net periodic pension cost during the year ending June 30, 2013, are \$3,738. 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:

	2012	2011
Service cost	\$ 2,358	\$ 2,364
Interest cost	10,529	10,030
Expected return on plan assets	(10,036)	(8,201)
Amortization of unrecognized net actuarial loss	2,887	5,175
Expenses paid	300	500
Benefit cost	<u>\$ 6,038</u>	<u>\$ 9,868</u>

Weighted average assumptions

Discount rate at end of year (used to determine benefit obligation)	4.20% to 4.64%	5.29% to 5.80%
Discount rate at beginning of year (used to determine net periodic benefit cost)	5.29% to 5.80%	5.51% to 5.60%
Expected annual return on plan assets	7.75%	7.75%
Rate of annual compensation increase	2.00% to 2.60%	3.20% to 4.00%
Healthcare cost annual trend rate	8.50%	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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (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	2012	2011
Equity securities	30%–90%	38%	52%
Debt securities	15%–50%	18	12
Cash and cash equivalents	0%–55%	7	6
Other (primarily alternative investments)	0%–40%	37	30
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, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 8,728	\$ —	\$ —	\$ 8,728
Domestic equity securities	28,473	—	—	28,473
International equity securities	9,280	—	—	9,280
Equity mutual funds	8,586	—	—	8,586
Debt security mutual funds	13,472	—	—	13,472
Alternative investments	—	—	45,812	45,812
Immediate Participation Guarantee Contracts	—	—	8,715	8,715
	\$ 68,539	\$ —	\$ 54,527	\$ 123,066

Essentia Health

Notes to Consolidated Financial Statements (continued) (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, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 7,998	\$ —	\$ —	\$ 7,998
Domestic equity securities	26,812	—	—	26,812
International equity securities	14,763	—	—	14,763
Equity mutual funds	24,786	—	—	24,786
Debt security mutual funds	3,415	—	—	3,415
Alternative investments	—	—	39,439	39,439
Immediate Participation Guarantee				
Contracts	—	—	8,856	8,856
Other	—	3,322	—	3,322
	<u>\$ 77,774</u>	<u>\$ 3,322</u>	<u>\$ 48,295</u>	<u>\$ 129,391</u>

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.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Benefit Plans (continued)

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

	Alternative Investments	Immediate Participation Guarantee Contracts	Total
Fair value at June 30, 2010	\$ 41,826	\$ 8,735	\$ 50,561
Purchases, issuances, and settlements, net	(6,592)	(479)	(7,071)
Actual return on plan assets	4,205	600	4,805
Fair value at June 30, 2011	39,439	8,856	48,295
Purchases, issuances, and settlements, net	9,341	(449)	8,892
Actual return on plan assets	(2,968)	308	(2,660)
Fair value at June 30, 2012	<u>\$ 45,812</u>	<u>\$ 8,715</u>	<u>\$ 54,527</u>
Change in unrealized gains on investments held at June 30, 2012	<u>\$ (950)</u>	<u>\$ 3</u>	<u>\$ (947)</u>

During 2013, Essentia expects to make pension contributions of \$7,970 to the Defined Benefit Plans.

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

2013	\$ 7,283
2014	8,524
2015	8,973
2016	9,445
2017	11,046
2018–2022	65,710

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Benefit Plans (continued)

Other Plans

Under a collective bargaining agreement, Essentia contributes to a union-sponsored multiemployer retirement plan. The risks of participation in these multiemployer plans are different from single-employer plans in the following aspects: a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and c) if Essentia chooses to stop participating in its multiemployer plan and if the plan is underfunded, Essentia may be required to pay those plans an amount based on the underfunded status of the plan, referred to as the withdrawal liability.

Essentia's participation in the multiemployer plan for the year ended June 30, 2012, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2012 and 2011 is for the plan's year-end at December 31, 2011 and 2010, respectively. The zone status is based on information that Essentia received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the range of expiration dates of various collective-bargaining agreements to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/ RP Status Pending/ Implemented	Contributions of Company		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2012	2011		2012	2011		
Steelworkers Pension Trust	23-6648508/499	Green	Green	N/A	\$ 3,638	\$ 3,540	No	June 30, 2012 to June 30, 2014

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Employee Benefit Plans (continued)

The union-sponsored multiemployer plan was at least 80% funded at December 31, 2011 and 2010. Total amounts expensed under the union-sponsored multiemployer plan were \$3,652 and \$3,590 for 2012 and 2011, respectively. Essentia is required to make contributions ranging from 3% to 5% of covered employees' gross earnings for the year ending December 31, 2012.

At the date Essentia's consolidated financial statements were issued, Form 5500 was not available for the union-sponsored multiemployer plan's year ended December 31, 2011.

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 \$43,209 and \$44,280 for the years ended June 30, 2012 and 2011, 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 \$12,000 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 a \$25 deductible and limits of \$2,000 per claim and \$6,000 in the aggregate per policy year on a claims-made basis for both professional liability and general liability risks.

Essentia has self-funded the estimated value of professional and general liability claims, which amounted to \$22,063 and \$20,447 at June 30, 2012 and 2011, respectively, based on historical data, and includes IBNR claims.

Essentia has purchased excess professional and general liability insurances from the commercial insurance market with limits totaling \$35,000 per claim and in the aggregate per policy year.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Insurance (continued)

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 as of both June 30, 2012 and 2011. Essentia has entered into a surety bond agreement to comply with this requirement.

13. Commitments and Contingencies

During 2012, Essentia entered into an agreement to construct a clinic. The total cost of the project is anticipated to be \$934, most of which will be debt financed. Construction-in-progress was approximately \$81 as of June 30, 2012.

Essentia has leases for equipment and satellite office facilities, which are classified as operating leases. Rental expense under these operating leases totaled \$20,192 and \$19,961 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments on operating leases in effect on June 30, 2012, for each of the five subsequent years and thereafter are as follows:

2013	\$ 12,456
2014	10,553
2015	8,108
2016	7,215
2017	5,880
Thereafter	46,437
	<u>\$ 90,649</u>

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 \$32,266 over the remaining lease period, adjusted for inflation. Lease payments were \$798 and \$786 for the years ended June 30, 2012 and 2011, respectively.

Essentia has guaranteed amounts totaling \$8,177 and \$8,505 as of June 30, 2012 and 2011, respectively. No liability is recorded related to these guarantees.

Essentia Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

13. Commitments and Contingencies (continued)

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, 2012, approximately 37% of employees are represented by 33 collective bargaining agreements, of which 13 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, 2012, through September 25, 2012, 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.

Supplementary Information

Report of Independent Auditors on Supplementary Information

The Board of Directors
Essentia Health

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

September 25, 2012

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, 2012 and 2011:

	Year Ended June 30	
	2012	2011
Cost of providing charity care	\$ 10,664	\$ 12,948
Costs in excess of Medicaid payments	50,577	70,549
Medicaid surcharge and MinnesotaCare tax	19,756	18,554
Community services	1,747	2,065
Subsidized health services	22	57
Education and work force development	7,300	6,815
Research	4,218	3,679
Cash and in-kind donations	421	985
Total cost of community benefits*	<u>94,705</u>	<u>115,652</u>
Cost in excess of Medicare payments	121,921	139,157
Other care provided without compensation (bad debt)	72,192	68,006
Discounts offered to uninsured patients	11,558	7,301
Taxes and fees	3,116	3,409
Total value of community contributions	<u>\$ 303,492</u>	<u>\$ 333,525</u>
Cost of community benefits as a percent of total operating expenses	<u>6.3%</u>	<u>7.8%</u>
Value of community contributions as a percent of total operating expenses	<u>20.1%</u>	<u>22.6%</u>

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

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