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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 private foundations)

▶ Do not enter Social Security numbers on this form as it may be made public By law, the IRS generally cannot redact the information on the form

▶ Information about Form 990 and its instructions is at www.IRS.gov/form990

OMB No 1545-0047

2013

Open to Public Inspection

A For the 2013 calendar year, or tax year beginning 07-01-2013 , 2013, and ending 06-30-2014

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

C Name of organization
Pine Medical Center

Doing Business As
Essentia Health Sandstone

Number and street (or P O box if mail is not delivered to street address) | Room/suite
109 Court Avenue South
Suite

City or town, state or province, country, and ZIP or foreign postal code
Sandstone, MN 55072

D Employer identification number
41-1884597

E Telephone number
(320) 245-2212

G Gross receipts $ 17,888,085

F Name and address of principal officer
MICHAEL HEDRIX
109 COURT AVENUE SOUTH
SANDSTONE, MN 55072

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

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

H(c) Group exemption number ▶

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 1997

M State of legal domicile MN

Part I Summary

1 Briefly describe the organization's mission or most significant activities
We are called to make a healthy difference in people's lives

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

Activities & Governance

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	7
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	5
5	Total number of individuals employed in calendar year 2013 (Part V, line 2a)	**5**	265
6	Total number of volunteers (estimate if necessary)	**6**	117
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	5,663
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	-739

		Prior Year	Current Year
Revenue **8**	Contributions and grants (Part VIII, line 1h)	57,179	27,019
9	Program service revenue (Part VIII, line 2g)	16,669,174	17,791,535
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	21,422	-179,237
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	79,768	67,007
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	16,827,543	17,706,324
Expenses **13**	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	2,720	275
14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	10,514,473	11,222,165
16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b	Total fundraising expenses (Part IX, column (D), line 25) ▶0		
17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	6,936,868	6,067,945
18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	17,454,061	17,290,385
19	Revenue less expenses Subtract line 18 from line 12	-626,518	415,939

		Beginning of Current Year	End of Year
Net Assets or Fund Balances **20**	Total assets (Part X, line 16)	10,938,029	9,240,677
21	Total liabilities (Part X, line 26)	11,359,332	9,067,807
22	Net assets or fund balances Subtract line 21 from line 20	-421,303	172,870

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

****** | 2015-04-27
Signature of officer | Date

SCOTT NIGON CFO
Type or print name and title

Paid Preparer Use Only

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

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

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III . . . . . ☑

1 Briefly describe the organization's mission

WE ARE CALLED TO MAKE A HEALTHY DIFFERENCE IN PEOPLE'S LIVES

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 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 $ 13,108,084 including grants of $ 275) (Revenue $ 17,791,535)

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** ▶ 13,108,084

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1	Yes	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2		No
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		No
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		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? *If "Yes," complete Schedule D, Part I*	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? *If "Yes," complete Schedule D, Part II*	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III*	8		No
9	Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9	Yes	
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If "Yes," complete Schedule D, Part V*	10		No
11	If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? *If "Yes," complete Schedule D, Part VI.*	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII*	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII*	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX*	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X*	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X*	11f		No
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI and XII*	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? *If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional*	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? *If "Yes," complete Schedule E*	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If "Yes," complete Schedule F, Parts I and IV*	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or other assistance to or for any foreign organization? *If "Yes," complete Schedule F, Parts II and IV*	15		No
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or other assistance to or for foreign individuals? *If "Yes," complete Schedule F, Parts III and IV*	16		No
17	Did the organization report a total of more than $15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I (see instructions)*	17		No
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II*	18		No
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III*	19		No
20a	Did the organization operate one or more hospital facilities? *If "Yes," complete Schedule H*	20a	Yes	
b	If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?	20b	Yes	

Part IV Checklist of Required Schedules *(continued)*

21	Did the organization report more than $5,000 of grants or other assistance to any domestic organization or government on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II*	**21**		No
22	Did the organization report more than $5,000 of grants or other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	**23**	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a*	**24a**		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*	**25a**		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	**25b**		No
26	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? *If so, complete Schedule L, Part II*	**26**		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? *If "Yes," complete Schedule L, Part III*	**27**		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28b**		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? *If "Yes," complete Schedule L, Part IV*	**28c**		No
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**32**		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	**33**		No
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1*	**34**	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	**35a**	Yes	
b	If 'Yes' to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**	Yes	
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**36**		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b 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 or note to any line in this Part V . . . . . ☑

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a	0		
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		
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a	265		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)		2b	Yes	
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?		3a	Yes	
b	If "Yes," has it filed a Form 990-T for this year? *If "No" to line 3b, provide an explanation in Schedule O*		3b	Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		4a		No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?		5a		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		5b		No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?		5c		
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?		6a		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		6b		
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?		7a		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?		7b		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		7c		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?		7e		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?		7f		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?		7g		
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?		7h		
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?		8		
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?		9a		
b	Did the organization make a distribution to a donor, donor advisor, or related person?		9b		
10	**Section 501(c)(7) organizations.** Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?		12a		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** See the instructions for additional information the organization must report on Schedule O		13a		
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?		14a		No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O*		14b		

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

Check if Schedule O contains a response or note to any line in this Part VI . . . . . ☑

Section A. Governing Body and Management

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

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

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	**10a**		No
b	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?	**10b**		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	**11a**	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	**12a**	Yes	
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	**12b**	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? *If "Yes," describe in Schedule O how this was done*	**12c**	Yes	
13	Did the organization have a written whistleblower policy?	**13**	Yes	
14	Did the organization have a written document retention and destruction policy?	**14**	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	**15a**	Yes	
b	Other officers or key employees of the organization	**15b**	Yes	
	If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	**16a**	Yes	
b	If "Yes," 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?	**16b**	Yes	

Section C. Disclosure

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

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection Indicate how you made these available Check all that apply

☐ Own website ☐ Another's website ☑ Upon request ☐ Other (explain in Schedule O)

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 during the tax year

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization

▶ SCOTT NIGON 109 COURT AVENUE SOUTH
Sandstone, MN 55072 (320) 245-2212

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

Check if Schedule O contains a response or note to any line 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 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 organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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) James Garvey Board Director	1 0 59 0	X						0	349,833	71,450
(2) Bill Loew Board Chair	1 0 0 0	X		X				0	0	0
(3) Mary Thorvig Board Director	1 0 0 0	X						0	1,650	0
(4) Tim Schmutzer Board Vice Chair	1 0 0 0	X		X				0	0	0
(5) Erika Miles MD Board Director	1 0 59 0	X						0	371,559	53,566
(6) Ronald Osladil Board Director	1 0 0 0	X						0	0	0
(7) Donald Henkel Board Director	1 0 0 0	X						0	0	0
(8) SCOTT NIGON Chief Financial Officer	20 0 40 0			X				0	124,811	28,623
(9) MICHAEL HEDRIX Administrator	59 0 1 0			X				435,472	0	34,348
(10) GINA ROTH Pharmacist	60 0 0 0					X		109,766	0	37,015
(11) JOSEPH NEWTON Ambulance manager	60 0 0 0					X		119,647	0	2,528
(12) THOMAS PATNOE MD President & CMO Thru 4/12	0 0 60 0						X	0	550,295	55,129

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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			
1b **Sub-Total** ▶										
c **Total from continuation sheets to Part VII, Section A** ▶										
d **Total (add lines 1b and 1c)** ▶								664,885	1,398,148	282,659

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 ▶ 3

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

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization 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

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 ▶ 0

Part VIII Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII . . . . . ☐

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns . .	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations . . .	1d				
	e	Government grants (contributions)	1e	15,626			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	11,393			
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f . . . . . ▶		27,019			
Program Service Revenue			Business Code				
	2a	HOSPITAL PATIENT SERVICE REVENUE	621110	13,770,579	13,760,120	10,459	
	b	NURSING HOME REVENUE	623000	3,699,991	3,699,991		
	c	DISTRICT TAX SUBSIDY	900099	215,000	215,000		
	d	EQUITY SHARE IN CENTRAL MN DIAGNOSTICS	900099	105,965	105,965		
	e						
	f	All other program service revenue					
	g	**Total.** Add lines 2a–2f . . . . . ▶		17,791,535			
	3	Investment income (including dividends, interest, and other similar amounts) . . . . . ▶		4,168		-4,796	8,964
	4	Income from investment of tax-exempt bond proceeds . . ▶		0			
	5	Royalties . . . . . ▶		0			
			(i) Real / (ii) Personal				
	6a	Gross rents	48,677 /				
	b	Less rental expenses	/				
	c	Rental income or (loss)	48,677 / 0				
	d	Net rental income or (loss) . . . . . ▶		48,677			48,677
			(i) Securities / (ii) Other				
	7a	Gross amount from sales of assets other than inventory	-2,144 / 500				
	b	Less cost or other basis and sales expenses	/ 181,761				
	c	Gain or (loss)	-2,144 / -181,261				
	d	Net gain or (loss) . . . . . ▶		-183,405			-183,405
Other Revenue	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 REVENUE	900099	17,694			17,694
	b	RECYCLING REVENUE	900099	309			309
	c	VEDNING REVENUE	900099	220			220
	d	All other revenue		107			107
	e	**Total.** Add lines 11a–11d . . . . . ▶		18,330			
	12	**Total revenue.** See Instructions . . . . . ▶		17,706,324	17,781,076	5,663	-107,434

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)

Check if Schedule O contains a response or note to any line 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	275	275		
2 Grants and other assistance to individuals in the United States See Part IV, line 22	0	0		
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0	0		
4 Benefits paid to or for members	0	0		
5 Compensation of current officers, directors, trustees, and key employees	344,983	0	344,983	0
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	0	0	0
7 Other salaries and wages	8,309,720	7,161,044	1,148,676	0
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	282,463	257,400	25,063	0
9 Other employee benefits	1,672,678	1,321,477	351,201	0
10 Payroll taxes	612,321	477,550	134,771	0
11 Fees for services (non-employees)				
a Management	0	0	0	0
b Legal	39,699	0	39,699	0
c Accounting	33,764	0	33,764	0
d Lobbying	668	0	668	0
e Professional fundraising services See Part IV, line 17	0			0
f Investment management fees	541	0	541	0
g Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O)	745,960	605,441	140,519	0
12 Advertising and promotion	3,686	1,287	2,399	0
13 Office expenses	677,921	420,668	257,253	0
14 Information technology	181,875	17,704	164,171	0
15 Royalties . .	0	0	0	0
16 Occupancy	391,609	151,995	239,614	0
17 Travel	243,429	222,946	20,483	0
18 Payments of travel or entertainment expenses for any federal, state, or local public officials	0	0	0	0
19 Conferences, conventions, and meetings	24,714	13,328	11,386	0
20 Interest	-4,473	0	-4,473	0
21 Payments to affiliates	0	0	0	0
22 Depreciation, depletion, and amortization	613,215	326,849	286,366	0
23 Insurance	111,303	111,303	0	0
24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24e If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O)				
a AFFILIATE SUPPORT FEE	885,304	232,392	652,912	
b MEDICAL SUPPLIES	865,628	865,628		
c BAD DEBT EXPENSE	645,868	645,868		
d UNRELATED BUSINESS TAX	1,900	1,900		
e All other expenses	605,334	273,029	332,305	
25 **Total functional expenses.** Add lines 1 through 24e	17,290,385	13,108,084	4,182,301	0
26 **Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation Check here ▶ ☐ if following SOP 98-2 (ASC 958-720)				

Part X Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X . . . . . ☐

				(A) Beginning of year		(B) End of year
Assets	1	Cash–non-interest-bearing		222,671	1	731,199
	2	Savings and temporary cash investments		2,873,669	2	1,370,902
	3	Pledges and grants receivable, net		24,291	3	8,224
	4	Accounts receivable, net		3,296,156	4	3,249,979
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		0	5	0
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		768,560	7	471,919
	8	Inventories for sale or use		260,131	8	229,583
	9	Prepaid expenses and deferred charges		0	9	0
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 5,839,498			
	b	Less accumulated depreciation	10b 2,921,904	3,290,821	10c	2,917,594
	11	Investments—publicly traded securities		0	11	0
	12	Investments—other securities See Part IV, line 11		201,730	12	201,920
	13	Investments—program-related See Part IV, line 11		0	13	0
	14	Intangible assets		0	14	0
	15	Other assets See Part IV, line 11		0	15	59,357
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		10,938,029	16	9,240,677
Liabilities	17	Accounts payable and accrued expenses		1,475,724	17	1,254,566
	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		9,374	21	13,065
	22	Loans and other 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		0	23	0
	24	Unsecured notes and loans payable to unrelated third parties		5,008,434	24	5,008,434
	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		4,865,800	25	2,791,742
	26	**Total liabilities.** Add lines 17 through 25		11,359,332	26	9,067,807
Net Assets or Fund Balances		**Organizations that follow SFAS 117 (ASC 958), check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		-421,303	27	172,870
	28	Temporarily restricted net assets		0	28	0
	29	Permanently restricted net assets		0	29	0
		Organizations that do not follow SFAS 117 (ASC 958), 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		-421,303	33	172,870
	34	Total liabilities and net assets/fund balances		10,938,029	34	9,240,677

Part XI Reconcilliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI . . . . . ☑

1	Total revenue (must equal Part VIII, column (A), line 12)	1	17,706,324
2	Total expenses (must equal Part IX, column (A), line 25)	2	17,290,385
3	Revenue less expenses Subtract line 2 from line 1	3	415,939
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	-421,303
5	Net unrealized gains (losses) on investments	5	
6	Donated services and use of facilities	6	
7	Investment expenses	7	4,796
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	173,438
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	172,870

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII . . . . . ☑

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

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**
▶ **Information about Schedule A (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Pine Medical Center

Employer identification number
41-1884597

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

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

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

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

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

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

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

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

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

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

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

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

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

a ☐ Type I **b** ☐ Type II **c** ☐ Type III - Functionally integrated **d** ☐ Type III - Non-functionally integrated

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

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

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

	Yes	No
(i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization? **11g(i)**		
(ii) A family member of a person described in (i) above? **11g(ii)**		
(iii) A 35% controlled entity of a person described in (i) or (ii) above? **11g(iii)**		

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

(i) Name of supported organization	**(ii)** EIN	**(iii)** Type of organization (described on lines 1- 9 above or IRC section **(see instructions))**	**(iv)** Is the organization in col **(i)** listed in your governing document?		**(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 monetary support
			Yes	**No**	**Yes**	**No**	**Yes**	**No**	
Total									

Part II **Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 **Total support** (Add lines 7 through 10)						

12 Gross receipts from related activities, etc (see instructions) **12**

13 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** . . . . . ▶☐

Section C. Computation of Public Support Percentage

14 Public support percentage for 2013 (line 6, column (f) divided by line 11, column (f)) **14**

15 Public support percentage for 2012 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2013.** 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—2012.** If the organization did not check a 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—2013.** 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—2012.** If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶☐

18 **Private foundation.** If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ▶☐

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

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 2013 (line 8, column (f) divided by line 13, column (f))	15	
16	Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17	Investment income percentage for **2013** (line 10c, column (f) divided by line 13, column (f))	17	
18	Investment income percentage from **2012** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2013.** 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—2012.** 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.** Provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test		
Return Reference	Explanation	

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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. ▶ Information about Schedule C (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

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

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

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

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

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

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

Name of the organization	Employer identification number
Pine Medical Center	41-1884597

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

1 Provide a description of the organization's direct and indirect political campaign activities in Part IV

2 Political expenditures ▶ $ _____

3 Volunteer hours _____

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

1 Enter the amount of any excise tax incurred by the organization under section 4955 ▶ $ _____

2 Enter the amount of any excise tax incurred by organization managers under section 4955 ▶ $ _____

3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? ☐ Yes ☐ No

4a Was a correction made? ☐ Yes ☐ No

b If "Yes," describe in Part IV

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

1 Enter the amount directly expended by the filing organization for section 527 exempt function activities ▶ $ _____

2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function 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		
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-		

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

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) 2010	(b) 2011	(c) 2012	(d) 2013	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable 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)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(a) Yes	(a) No	(b) Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities?	Yes		668
j	Total Add lines 1c through 1i			668
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?		No	

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

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of $2,000 or less?	2		
3	Did the organization agree to carry over 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) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible 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

Provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1 Also, complete this part for any additional information

Return Reference	Explanation
Lobbying Activity Explanation	Essentia Health Sandstone pays dues to certain organizations related to the industry which have lobbying expenses The amount listed is the percentage of the dues paid that were used for lobbying

Part IV Supplemental Information *(continued)*

Return Reference	Explanation

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions. ▶ Information about Schedule D (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Pine Medical Center

Employer identification number
41-1884597

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 can 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 education) ☐ Preservation of an historically important land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

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

		Held at the End of the Year
a	Total number of conservation easements	2a
b	Total acreage restricted by conservation easements	2b
c	Number of conservation easements on a certified historic structure included in (a)	2c
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) relating to these items

a Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

b Assets included in Form 990, Part X ▶ $ _____

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

3 Using the organization's acquisition, 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 XIII

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 XIII and complete the following table

		Amount
c	Beginning balance	1c
d	Additions during the year	1d
e	Distributions during the year	1e
f	Ending balance	1f

2a Did the organization include an amount on Form 990, Part X, line 21? ☑ Yes ☐ No

b If "Yes," explain the arrangement in Part XIII Check here if the explanation has been provided in Part XIII . . . . . ☑

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	Net investment earnings, gains, and 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 current year end balance (line 1g, column (a)) held as

- a Board designated or quasi-endowment ▶
- b Permanent endowment ▶
- c Temporarily restricted endowment ▶

The percentages in lines 2a, 2b, and 2c should equal 100%

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 XIII the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. 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				
b Buildings				
c Leasehold improvements		1,850,146	1,182,953	667,193
d Equipment		3,797,974	1,738,951	2,059,023
e Other		191,378		191,378
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ▶				2,917,594

Part VII **Investments—Other Securities.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11b. See Form 990, Part X, line 12.

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

Part VIII **Investments—Program Related.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11c. See Form 990, Part X, line 13.

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

Part IX **Other Assets.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11d See Form 990, Part X, line 15

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

Part X **Other Liabilities.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11e or 11f. See Form 990, Part X, line 25.

1 (a) Description of liability	(b) Book value
Federal income taxes	0
PAYABLES TO RELATED TAX-EXEMPT ORGS	2,663,609
PAYABLE TO PMC GATEWAY, LLC	128,133
Total. *(Column (b) must equal Form 990, Part X, col (B) line 25)* ▶	2,791,742

2. Liability for uncertain tax positions In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740) Check here if the text of the footnote has been provided in Part XIII ☐

Part XI **Reconciliation of Revenue per Audited Financial Statements With Revenue per Return** Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

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 XIII)	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 XIII)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total revenue Add lines **3** and **4c.** (This must equal Form 990, Part I, line 12)			5	

Part XII **Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

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 XIII)	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 XIII)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total expenses Add lines **3** and **4c.** (This must equal Form 990, Part I, line 18)			5	

Part XIII **Supplemental Information**

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, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b Also complete this part to provide any additional information

Return Reference	Explanation
Schedule D, Part IV, Line 2B	Essentia Health Sandstone acts as custodian for the funds of the residents Resident trust funds totaled $13,065 at June 30, 2014

Part XIII Supplemental Information *(continued)*

Return Reference	Explanation

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 20.
▶ Attach to Form 990. ▶ See separate instructions.
▶ Information about Schedule H (Form 990) and its instructions is at *www.irs.gov/form990.*

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Pine Medical Center

Employer identification number
41-1884597

Part I Financial Assistance and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	1a	Yes	
b	If "Yes," was it a written policy?	1b	Yes	
2	If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year			
	☑ Applied uniformly to all hospital facilities ☐ Applied uniformly to most hospital facilities ☐ Generally tailored to individual hospital facilities			
3	Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing *free* care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for *free* care	3a	Yes	
	☐ 100% ☐ 150% ☐ 200% ☑ Other 160 %			
b	Did the organization use FPG as a factor in determining eligibility for providing *discounted* care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care	3b	Yes	
	☐ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☑ Other 310 %			
c	If the organization used factors other than FPG in determining eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization used an asset test or other threshold, regardless of income, as a factor in determining eligibility for free or discounted care			
4	Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	5b	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 eligibile for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit report during the tax year?	6a	Yes	
b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)			238,505		238,505	1 430 %
b Medicaid (from Worksheet 3, column a)			4,702,049	3,574,605	1,127,444	6 770 %
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d **Total** Financial Assistance and Means-Tested Government Programs			4,940,554	3,574,605	1,365,949	8 200 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,165		1,165	0 010 %
f Health professions education (from Worksheet 5)			17,256	6,700	10,557	0 060 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)						
j **Total.** Other Benefits			18,421	6,700	11,722	0 070 %
k **Total.** Add lines 7d and 7j			4,958,975	3,581,305	1,377,671	8 270 %

Part II Community Building Activities Complete this if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development						
3 Community support						
4 Environmental improvements						
5 Leadership development and training for community members						
6 Coalition building						
7 Community health improvement advocacy						
8 Workforce development			8,843		8,843	0 050 %
9 Other						
10 **Total**			8,843		8,843	0 050 %

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?		1	Yes	
2	Enter the amount of the organization's bad debt expense Explain in Part VI the methodology used by the organization to estimate this amount	2	645,868		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit	3			
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	4,274,323		
6	Enter Medicare allowable costs of care relating to payments on line 5	6	4,232,003		
7	Subtract line 6 from line 5 This is the surplus (or shortfall)	7	42,320		
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used				

☐ Cost accounting system ☐ Cost to charge ratio ☑ Other

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9a	Yes	
b	If "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 IV Management Companies and Joint Ventures (owned 10% or more by officers, directors, trustees, key employees, and physicians—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 PMC-GATEWAY IMAGING	RADIOLOGY SERVICES	62 000 %		
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)
How many hospital facilities did the organization operate during the tax year? 1

	Name, address, primary website address, and state license number	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
	See Additional Data Table										

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices

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

Name of hospital facility or facility reporting group Essentia Health Sandstone

If reporting on Part V, Section B for a single hospital facility only: line number of hospital facility (from Schedule H, Part V, Section A) 1

			Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years begining on or before March 23, 2012)				
1	During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9	**1**	Yes	
	If "Yes," indicate what the CHNA report 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 the community health 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)			
2	Indicate the tax year the hospital facility last conducted a CHNA 20 12			
3	In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health? 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**	Yes	
4	Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	**4**	Yes	
5	Did the hospital facility make its CHNA report widely available to the public?	**5**	Yes	
	If "Yes," indicate how the CHNA report was made widely available (check all that apply)			
a	☑ Hospital facility's website (list url) See Part V, Section C			
b	☐ Other website (list url)			
c	☑ Available upon request from the hospital facility			
d	☑ Other (describe in Part VI)			
6	If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply as of the end of the tax year)			
a	☑ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA			
b	☑ Execution of the implementation strategy			
c	☐ Participation in the development of a community-wide plan			
d	☐ Participation in the execution of a community-wide 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 its 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 CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	**7**		No
8a	Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	**8a**		No
b	If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	**8b**		
c	If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? $			

Part V Facility Information *(continued)*

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**9**	Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing *free* care?	**10**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 160 % If "No," explain in Part VI the criteria the hospital facility used			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care 310 % If "No," explain in Part VI the criteria the hospital facility used			
12 Explained the basis for calculating amounts charged to patients?	**12**	Yes	
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 ☑ Residency			
i ☐ Other (describe in Part VI)			
13 Explained the method for applying for financial assistance?	**13**	Yes	
14 Included measures to publicize the policy within the community served by the hospital facility?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☑ The policy was posted on the hospital facility's website			
b ☑ The policy was attached to 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 on admission to the hospital facility			
f ☑ The policy was available upon request			
g ☐ Other (describe in Part VI)			
Billing and Collections			
15 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?	**15**	Yes	
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Section C)			
17 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 individual's eligibility under the facility's FAP?	**17**		No
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 Section C)			

Part V Facility Information *(continued)*

18 Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)

- **a** ☑ Notified individuals of the financial assistance policy on admission
- **b** ☑ Notified individuals of the financial assistance policy prior to discharge
- **c** ☑ Notified individuals of the financial assistance policy in communications with the individuals regarding the individuals' bills
- **d** ☑ Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy
- **e** ☐ Other (describe in Section C)

Policy Relating to Emergency Medical Care

		Yes	No
19 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?	**19**	Yes	
If "No," indicate why			
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)			

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20 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 its 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)			
21 During the tax year, did the hospital facility charge any FAP-eligible individual 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?	**21**		No
If "Yes," explain in Part VI			
22 During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual?	**22**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

Form and Line Reference	Explanation
See Additional Data Table	

Part V Facility Information *(continued)*

Section D. Other Health Care 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 health care facilities did the organization operate during the tax year? 2

	Name and address	Type of Facility (describe)
1	ESSENTIA HEALTH SANDSTONE HEALTH CENTER 109 COURT AVENUE SOUTH SANDSTONE,MN 55072	Skilled Nursing Facility
2	ESSENTIA HEALTH SANDSTONE URGENT CARE 109 COURT AVENUE SOUTH SANDSTONE,MN 55072	URGENT CARE CLINIC
3		
4		
5		
6		
7		
8		
9		
10		

Part VI Supplemental Information

Provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II and Part III, lines 2, 3, 4, 8 and 9b

2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs 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

Form and Line Reference	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 2, 3, 4, 8, 9b Part 1, Line 3c Assets will be considered along with the patients income to determine eligibility for the Financial Assistance Program To be eligible, reportable assets may not exceed $15,000 for a household of one (1), or $25,000 for a household of two (2) or more Assets may include, but are not limited to, such items as checking and savings accounts, IRAs, 401(k)s, value of additional cars that exceed the number of working members in the household, equity in recreational vehicles and additional property, etc Part 1, Line 6a Essentia Health Sandstone'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 at http //www essentiahealth org/Main/Annual-Report aspx Essentia Health, headquartered in Duluth, Minn , is an integrated health system serving patients in Minnesota, Wisconsin, North Dakota and Idaho and is Essentia Health Sandstones parent corporation Part 1, Line 7g Not applicable Part 1, Line 7, Column (f) Bad debt expense that was subtracted from total expense to obtain the % of community benefit to total expense amounted to $645,868 Part 1, 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 The majority of the community building activities reported are physician recruitment expenses The hospital facility is located in a federally-designated medically underserved area and as such includes physician recruitment as a community building activity per the recommendation of the Catholic Health Association Community Benefit guide Part III, Line 2 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 3 Essentia Health Sandstone 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 patients 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 3 Essentia Health Sandstone provides both full and partial charity care through its traditional application process Full charity care is a complete write-off of eligible gross hospital and clinic charges while "partial" is a portion of eligible charges Each are determined respectively based on the patients income in relation to the Federal Poverty Guidelines Essentia Health also recognizes that it is not feasible, or sometimes necessary, for all patients to complete financial assistance applications and provide documentation required through the traditional process Essentia Health Sandstone implemented an alternative documentation and presumptive process using a tool that identifies accounts that automatically qualify for charity care and reclassified those accounts to charity care allowance As a result, we estimate $0 of patient accounts written off to bad debt would qualify for charity care Part III, Line 4 Page 12 of the audit contains the footnote describing the organizations bad debt expense

Form and Line Reference	Explanation
Part VI, Line 1 cont	Part III, Line 8 The methodology used in determining the reported Medicare Allowable Cost begins with the hospitals general ledger system The costs are obtained from the general ledger and then adjusted and reported in accordance with Centers for Medicare Services (CMS) "cost finding" guidelines as published in their Provider Reimbursement Manual Once the Medicare allowable costs are determined from the hospital's cost report, any costs attributed to subsidized health services, and Medical Education, are removed and reported separately 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 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 III, Line 8 Essentia Health Sandstone 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 communitys elderly and poor These underpayments represent a real cost of serving the community Part III, Line 9b The policies and procedures for internal and external collection practices take into account the extent to which the patient qualifies for the Financial Assistance Policy (FAP) and financial assistance, a patients good faith effort to apply for a governmental program or for financial assistance from Essentia Health Sandstone and the patients good faith effort to comply with his/her payment agreements Essentia Health Sandstone offers extended payment plans to eligible patients and will not impose liens on primary residences nor will we report patients to a credit rating agency for outstanding patient bills Essentia Health Sandstone will not charge a patient gross amount of charges for any uninsured treatment Uninsured discounts will be applied to the gross charges prior to any FAP or other discounts At any time Essentia Health Sandstone recognizes that a patient may be eligible for State or Federal programs, a representative will assist the patient in obtaining information about those programs or provide contact information for those programs Essentia Health Sandstone contracts with an outside patient advocacy agency, which may provide assistance to the uninsured patient in applying to certain State and Federal programs At any stage of the patient experience and up through the collection process, the patient may express a concern that they are unable to pay their bill in full or meet the payment plan requirements At that time, the patient will be given every opportunity to complete and submit an application for financial assistance Essentia Health Sandstone trains its outside debt collection agencies and attorneys about the Financial Assistance Policy and how a patient may obtain more information about the FAP or submit an application for financial assistance Essentia Health Sandstone requires its outside collection agencies and attorneys to refer patients who may be eligible for financial assistance to Essentia Health Sandstone If a patient has submitted an application for financial assistance after an account has been referred for collection activity, Essentia Health Sandstone and its outside debt collection agencies suspend all collection activity until the patients financial assistance application has been processed and Essentia Health Sandstone has notified the patient of its decision

Form and Line Reference	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 Essentia Health Sandstone is a 25 bed critical access hospital with a 45 bed skilled nursing facility located in Sandstone, MN Essentia Health Sandstone works with a local primary care physician group with clinics in Sandstone and Hinckley, MN for assessing the needs of the rural communities in our area These needs are determined on several different methods, but mostly based on what the physicians are actually seeing when they are working with their patients In 2014 Essentia Health Sandstone began offering the National Diabetes Prevention Program(NDPP) to formally satisfy the community needs assessment requirement Following this programs guidelines, participants work with a Lifestyle Coach in a group setting and receive 16 weekly core sessions followed up by six to eight monthly post-core sessions The classes are led by the clinical dietician and nursing home administrator who are trained and certified lifestyle coaches The first offering of the program was started January, 2014 and ended recently in December, 2014 A second offering of the NDPP began December, 2014 and is anticipated to be completed in November, 2015

Form and Line Reference	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 Essentia Health Sandstone makes information on its Financial Assistance Policy (FAP) readily available to the patient Information about financial assistance programs is available on the Essentia Health (parent company) website (www essentiahealth org) where the Information and application is easily accessible to be viewed, downloaded and printed at no charge to the patient Notices on the availability of financial assistance are conspicuously posted in emergency room departments Financial assistance information is available during the pre-admission financial screening, at the time of registration and prior to a hospital discharge Information about the FAP is in all collection letters and patient statements FAP information and/or applications are made available to appropriate community health services agencies and other organizations that assist people in need Essentia Health Sandstone educates staff members who work closely with patients providing direct patient treatment and who work in admissions, billing and collections, about the existence of the FAP and how a patient may obtain more information Annual education/awareness of the FAP is provided to ensure all employees with patient contact are aware of the program and how patients can obtain additional information Clinical and hospital staff who provide direct patient care have knowledge of the FAP and know to direct patients to a Registration Interviewer or Business Office Representative Registration staff have an understanding of the policy, knowledge of where the related documents are located and where to direct the patient for more information on the FAP Designated employees (Financial Counselors, Patient Accounts Representatives) have a thorough understanding of the FAP and offer the information on the FAP to those patients who make an inquiry about the program or are determined through a financial screening that the patient may be eligible for this program Patient advocacy services also inform the patient about the availability of assistance A request for financial assistance may be made by the patient, a patient's guarantor, a family member, close friend, or associate of the patient, subject to applicable privacy laws Essentia Health Sandstone responds to any oral or written requests for more general information on the FAP made by a patient or any interested party

Form and Line Reference	Explanation
Part VI, line 4	Community information Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves Essentia Health Sandstone is located in Sandstone, MN Essentia Health Sandstone is a part of the larger Essentia Health system, which is defined in Part VI, line 6 Essentia Health Sandstone operates 1 hospital, 1 urgent care clinic, and 1 skilled nursing facility that serves the Pine County area The overall community is classified as rural Essentia Health Sandstone covers a service region of approximately 27,000 people The service region age distribution is 20 4% under the age of 18, 62 8% between the ages of 18 and 65, and 16 8% over the age of 65 The racial makeup of the service region is 88 2% Caucasian, 3 6% Black or African American, 0 4% Asian, 2 6% Hispanic, and 5 2% other, predominantly Native American The gender split ratio is 43 9% women and 56 1% men The average income for the service area is approximately $52,000 Approximately 10 4% of the population falls below the federal poverty guidelines Essentia Health Sandstone, along with Essentia Health is committed to serve patients regardless of their ability to pay 5 1% gross revenue dollars were from self pay patients In addition, approximately 19 1% of their gross revenue dollars were Medicaid recipients As mentioned above, Essentia Health Sandstone 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 2 other hospitals outside of the Essentia Health umbrella that service the community

Form and Line Reference	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 Essentia Health Sandstone consists of a 7 member board with 5 members from the community of Sandstone and surrounding areas in Pine County and 2 members from Essentia Health - one provider and one administrator govern and guide the organization Essentia Health Sandstone continues to remain a non-profit healthcare provider with emphasis on primary care services Essentia Health Sandstone has an open Medical Staff, so any qualified physician in the community is allowed to apply All applicants that apply must meet the credentialing standards and be approved by our governing board in order to come and provide services in our system Surplus funds are invested into the operations and through capital improvements that are used to provide a variety of care in the acute and long-term care operations as highlighted in various sections of this informational return Essentia Health Sandstone is a part of the Essentia Health East Region The Essentia Health East Region's consolidated community benefits are summarized below Benefits for person living in poverty Charity care at cost $7,296,000 Cost-to-Charge Ratio Unreimbursed Medicaid 73,537,000 Cost-to-Charge Ratio Total Charity Care and Means-Tested Government Programs $80,833,000 Benefits for the broader community Community health improvement services and community benefit operations $2,901,000 Actual Costs Health professions education $2,132,000 Actual Costs Financial and in-kind contributions $623,000 Actual Costs Total Other Benefits $5,656,000 Unpaid cost of public programs, Medicare $99,345,000 Cost-to-Charge Ratio Other care provided without compensation (bad debt) $28,110,000 Cost-to-Charge Ratio Discounts offered to uninsured patients $2,907,000 Actual Costs Taxes and fees $2,495,000 Actual Costs Total Community Benefit $219,346,000 Essentia Health Sandstone is a part of Essentia Health, a fully integrated health system with facilities in Minnesota, Wisconsin, North Dakota and Idaho As a non-profit organization, Essentia Health reinvests surplus revenues into medical training, programs and technology that improve patient care Essentia provides services predominantly in rural communities and is committed to eliminating geographic barriers to care We strive to provide high-quality, patient-centered care close to home for the communities we serve We continue to upgrade facilities and technology, such as MRIs, CT scanners and surgery suites, to ensure patients in rural communities have nearby access to these services In addition, we have embarked on several major construction projects, which include a new $50 million wing for our Fargo hospital Essentia Health was one of the first Accountable Care Organizations in the country to receive the highest level of accreditation from the National Committee for Quality Assurance (NCQA) As an ACO, Essentia is committed to meeting the Triple Aim of improving care and population health, while reducing the overall costs for patients and society as a whole The formation of our ACO, along with ongoing management and process improvement, represents a significant investment for Essentia Since a majority of healthcare costs are directly related to caring for patients who have chronic conditions, Essentia has developed medical homes, which are designed to improve health outcomes for patients, especially those with chronic diseases Much of this work is not fully reimbursed by state or federal programs Essentia supports the health of our 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 Various Essentia Health organizations contributed approximately $4 25 million in support to the Institute during the past year The Essentia Institute of Rural Health also coordinates our community health needs assessment program Across our system, Essentia offers community members the opportunity to take part in a National Diabetes Prevention Program, which was designed by the Centers for Disease Control and Prevention Participants receive the year-long program at no cost, and learn valuable information and skills for making important lifestyle changes These new healthy habits help participants lose weight and become more active, which is vital in the prevention of diabetes and other chronic diseases

Form and Line Reference	Explanation
Part VI, Line 6	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 Essentia Health Sandstone is part of Essentia Health, an integrated health system with 16 hospitals, 66 clinics, eight long-term care facilities, two assisted living facilities, five independent living facilities, five ambulance services and one research institute 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 dont have to drive an hour or more to receive basic (and in some cases life-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 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 by 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 our electronic health record (EHR) The vast majority of Essentias hospitals and clinics are using a fully-integrated EHR for patient care Technology like the electronic health record and Essentias telehealth program 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 and 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 and our 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 healthcare delivery, particularly in rural areas, in the years to come

Form and Line Reference	Explanation
PART VI, LINE 7	If applicable, identify all states with which the organization, or a related organization files a community benefit report Essentia Health Sandstone files a community benefit report in Minnesota

Additional Data

Software ID:
Software Version:
EIN: 41-1884597
Name: Pine Medical Center

990 Schedule H, Supplemental Information

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

Form and Line Reference	Explanation
Part V, Line 1j	

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 23.**
▶ **Attach to Form 990.** ▶ **See separate instructions.**
▶ **Information about Schedule J (Form 990) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Pine Medical Center

Employer identification number
41-1884597

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items			
	☐ First-class or charter travel	☐ Housing allowance or residence for personal use		
	☐ Travel for companions	☐ Payments for business use of personal residence		
	☐ Tax idemnification and gross-up payments	☐ Health or social club dues or initiation fees		
	☐ Discretionary spending account	☐ Personal services (e g , maid, chauffeur, chef)		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain	**1b**		
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all directors, trustees, officers, including the CEO/Executive Director, regarding the items checked in line 1a?	**2**		
3	Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III			
	☑ 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?	**4a**		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement?	**4c**		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?	**5a**		No
b	Any related organization?	**5b**		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?	**6a**		No
b	Any related organization?	**6b**		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	**7**		No
8	Were any amounts reported in Form 990, Part VII, paid or accured pursuant to a contract that was subject to the initial contract exception described in Regulations section 53 4958-4(a)(3)? If "Yes," describe in Part III	**8**		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	**9**		

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

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

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual

(A) Name and Title		(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 as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1)THOMAS PATNOE MD President & CMO Thru 4/12	(i) (ii)	0 547,888	0 0	0 2,407	0 25,500	0 29,629	0 605,424	0 0
(2)SCOTT NIGON Chief Financial Officer	(i) (ii)	0 124,474	0 0	0 337	0 6,215	0 22,408	0 153,434	0 0
(3)MICHAEL HEDRIX Administrator	(i) (ii)	268,605 0	38,396 0	128,471 0	27,233 0	7,115 0	469,820 0	33,211 0
(4)James Garvey Board Director	(i) (ii)	0 309,627	0 17,575	0 22,631	0 59,198	0 12,252	0 421,283	0 0
(5)Erika Miles MD Board Director	(i) (ii)	0 371,284	0 0	0 275	0 25,500	0 28,066	0 425,125	0 0

Part III Supplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II
Also complete this part for any additional information

Return Reference	Explanation
Schedule J, Part I, Line 3	Establishing CEO's compensation ESSENTIA HEALTH SANDSTONE RELIED ON ESSENTIA HEALTH'S, SUPPORTING ORGANIZATION OF ESSENTIA HEALTH SANDSTONE, METHODS FOR ESTABLISHING ESSENTIA HEALTH SANDSTONE'S ADMINISTRATOR'S COMPENSATION A COMPENSATION COMMITTEE, INDEPENDENT COMPENSATION CONSULTANT, COMPENSATION SURVEY OR STUDY, AND APPROVAL BY THE BOARD OR cOMPENSATION COMMITTEE
Schedule J, Part I, Line 4b	Supplemental nonqualified retirement plan Essentia Healths nonqualified retirement plan is offered to designated Essentia Health executives There is a minimum two year vesting date, or vesting is automatic upon reaching retirement age, death, disability or involuntary termination without cause Benefits are subject to income taxes upon vesting and payable from Essentia Healths general assets Reported as Other Reportable Compensation in Schedule J, Part II, Column B (iii), the following individuals listed in Form 990, Part VII, Section A, Line 1a received payment of the vested benefit from the supplemental nonqualified retirement plan during the year Michael Hedrix $33,211 Reported as Retirement and Other Deferred Compensation in Schedule J, Part II, Column C, Essentia Health made contributions, subject to the vesting terms, during the year into the supplemental nonqualified retirement plan on behalf of the following individuals listed in Form 990, Part VII, Section A, Line 1a Daniel Nikcevich, MD $79,570 Michael Hedrix $11,933

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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.
▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Pine Medical Center

Employer identification number
41-1884597

Return Reference	Explanation
Form 990, Part III, Line 4	Program service accomplishments Pine Medical Center dba Essentia Health Sandstone is organized and operated exclusively for charitable, scientific and educational purposes In furtherance of its purposes, Essentia Health Sandstone provides health care services in Minnesota through its 25 bed acute care hospital, and 45 bed long term care facility in Sandstone, Minnesota The Essentia Health Sandstone provides services to all individuals, regardless of age, race, or ability to pay for services received in fulfillment of its tax-exempt mission Some of these services include emergency care, urgent care, surgery, rehab, physical therapy, occupational therapy, lab services, imaging services, and ambulance service The nursing home provides services to all individuals, regardless of age and/or race Essentia Health Sandstone employs over 160 full time equivalents The hospital provided for over 800 hospital patient days, over 3,100 emergency room visits, and over 2,900 ambulance runs The long term care facility provided over 16,500 resident days Essentia Health Sandstone provided over $238,000 in charity care as well as an additional $1,127,000 of costs incurred in excess of Medicaid payments received during the fiscal year ended June 30, 2014 Further community benefits provided during the fiscal year include continuing education programs for health care professionals of over $10,000

Return Reference	Explanation
Form 990, Part V, Line 1A	1099 REPORTING VENDOR PAYMENTS AND FORM 1099'S WERE PROCESSED THROUGH ESSENTIA HEALTH ON BEHALF OF CERTAIN LEGAL ENTITIES COMPRISING ESSENTIA HEALTH SYSTEM

Return Reference	Explanation
Form 990, Part VI, Line 2	BUSINESS RELATIONSHIP: RONALD OSLADIL AND TIM SCHMUTZER, BOARD DIRECTORS, HAVE A BUSINESS RELATIONSHIP IN PINE HABILITATION AND SUPPORTED EMPLOYMENT, INC

Return Reference	Explanation
Form 990, Part VI, Line 6	MEMBERS OF ORGANIZATION ESSENTIA HEALTH EAST IS THE SOLE MEMBER OF ESSENTIA HEALTH SANDSTONE. MEMBERS, NORTH PINE AREA HOSPITAL DISTRICT AND ESSENTIA HEALTH EAST, MAY ELECT ONE OR MORE MEMBERS OF THE GOVERNING BODY AS DESCRIBED IN SCHEDULE O PART VI LINE 7A MEMBERS, ESSENTIA HEALTH AND ESSENTIA HEALTH EAST, HAVE RESERVED POWERS WITH RESPECT TO ESSENTIA HEALTH SANDSTONE AS DESCRIBED IN SCHEDULE O PART VI LINE 7B

Return Reference	Explanation
Form 990, Part VI, Line 7a	MEMBER WITH RIGHT TO ELECT GOVERNING BODY NORTH PINE AREA HOSPITAL DISTRICT APPOINTS AND REMOVES ONE BOARD MEMBER ESSENTIA HEALTH EAST APPOINTS AND REMOVES ESSENTIA HEALTH SANDSTONE'S REMAINING GOVERNING BODY

Return Reference	Explanation
Form 990, Part VI, Line 7b	MEMBER WITH RIGHT TO APPROVE GOVERNING BODY DECISION ESSENTIA HEALTH SANDSTONE 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 (ERDS) 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 ERDS WOULD BE USED AT THE CATHOLIC ENTITIES OR MONEY GENERATED BY CATHOLIC ENTITIES WOULD BE USED IN THE PROVIDING OF SERVICES CONTRARY TO THE ERDS 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 APPROVAL OF PARENT BOARDS APPROVAL OF THE ELECTION AND REMOVAL, WITH OR WITHOUT CAUSE, OF 100% OF THE CAG AND SMDC BOARDS OF DIRECTORS (WHO SHALL BE ELECTED BY THE METHODS SET FORTH IN THE CAG AND SMDC GOVERNING DOCUMENTS, RESPECTIVELY, SUBJECT TO ESSENTIA'S APPROVAL) 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

Return Reference	Explanation
Form 990, Part VI, Line 7b Cont	ESSENTIA HEALTH EAST ALSO HAS CERTAIN RESERVED POWERS OVER ALL EAST FACILITIES WITHIN ESSENTIA HEALTH ESSENTIA HEALTH EAST'S RESERVED POWERS ARE AS FOLLOWS QUALITY, SAFETY AND SERVICE AUTHORITY TO RECOMMEND QUALITY AND SAFETY INITIATIVES AND TO REVIEW AND EXECUTE APPROVED QUALITY AND SAFETY PLANS FOR THE EAST REGION MISSION, VISION AND VALUES AUTHORITY TO CREATE A MISSION AND A VISION THAT SUPPORT THE MISSION AND VISION OF ESSENTIA HEALTH, RESPONSIBILITY TO OVERSEE THE MISSION PERFORMANCE, INCLUDING CHARITY CARE, OF ALL FACILITIES WITHIN THE EAST REGION, RESPONSIBILITY TO ADOPT THE VALUES OF ESSENTIA HEALTH OPERATING AND FINANCIAL PERFORMANCE RESPONSIBILITY TO OVERSEE THE OPERATING AND FINANCIAL PERFORMANCE OF THE EAST REGION DEVELOPMENT OF BUDGETS, STRATEGIC PLANS AND STRATEGY MAP AUTHORITY TO DEVELOP AND RECOMMEND, BASED ON ESSENTIA HEALTH TARGETS, CAPITAL AND OPERATING BUDGETS FOR THE EAST REGION AND ITS FACILITIES, AUTHORITY TO RECOMMEND, WITHIN THE ESSENTIA HEALTH CONTEXT, REGIONAL AND LOCAL STRATEGIC PLANS FOR THE EAST REGION, AUTHORITY TO DEVELOP EAST REGION GOVERNANCE STRATEGY MAP AND BALANCED SCORECARD WITHIN ESSENTIA HEALTH'S SYSTEM STRATEGY TO MEET SYSTEM GOALS EXECUTION OF APPROVED BUDGETS AND STRATEGIC PLANS RESPONSIBILITY TO EXECUTE THE APPROVED CAPITAL AND OPERATING BUDGETS AND STRATEGIC AND BUSINESS PLANS FOR THE EAST REGION NON-BUDGETED EXPENDITURES AUTHORITY TO APPROVE NON BUDGETED CAPITAL PURCHASES AND LEASES FOR EAST REGION FACILITIES WITHIN DOLLAR LIMITS DEFINED BY ESSENTIA HEALTH ACCREDITATION AND LICENSURE RESPONSIBILITY TO OVERSEE ACCREDITATION AND LICENSURE COMPLIANCE FOR THE FACILITIES OF THE EAST REGION AFFILIATIONS, ACQUISITIONS AND JOINT VENTURES AUTHORITY TO RECOMMEND PROPOSED AFFILIATIONS, ACQUISITIONS, JOINT VENTURES AND OTHER ALLIANCES, RESPONSIBILITY TO OVERSEE NEGOTIATION AND IMPLEMENTATION OF APPROVED ACQUISITIONS AND OPERATION OF ALL APPROVED AFFILIATIONS, JOINT VENTURES AND OTHER ALLIANCES WITH THIRD PARTIES WITHIN THE EAST REGION APPOINTMENT OF DIRECTORS AUTHORITY TO APPOINT OR ELECT DIRECTORS OF THE DIRECT SUBSIDIARIES, AND TO REMOVE SUCH DIRECTORS, WITH OR WITHOUT CAUSE PRESIDENT AUTHORITY TO ADVISE THE CEO OF ESSENTIA HEALTH REGARDING THE APPOINTMENT, REMOVAL AND PERIODIC EVALUATION OF THE PRESIDENT OF SMDC SATISFACTION RESPONSIBILITY TO EXECUTE, EVALUATE AND OVERSEE PATIENT, FAMILY AND CUSTOMER SATISFACTION WITH RESPECT TO SERVICES PROVIDED WITHIN THE EAST REGION AND TO ENSURE ESTABLISHED GOALS ARE MET JOB SATISFACTION RESPONSIBILITY TO OVERSEE JOB SATISFACTION AND STAFF MORALE WITHIN THE EAST REGION FACILITIES HUMAN RESOURCES RESPONSIBILITY TO OVERSEE IMPLEMENTATION OF ESSENTIA HEALTH HUMAN RESOURCE POLICIES AND PROCEDURES THROUGHOUT THE EAST REGION COMPLIANCE RESPONSIBILITY TO EXECUTE THE APPROVED ESSENTIA HEALTH CORPORATE COMPLIANCE AND RISK MANAGEMENT PLANS FOR THE EAST REGION CREDENTIALING RESPONSIBILITY TO PERFORM MEDICAL STAFF CREDENTIALING FOR THE EAST REGION FACILITIES NOMINATIONS AUTHORITY TO NOMINATE PERSONS FOR APPOINTMENT TO THE SMDC BOARD OF DIRECTORS BY BENEDICTINE SISTERS BENEVOLENT ASSOCIATION AND ESSENTIA HEALTH AMENDMENTS AUTHORITY TO SUGGEST PROPOSED AMENDMENTS TO THE ARTICLES OF INCORPORATION AND BYLAWS OF THIS CORPORATION, THE DIRECT SUBSIDIARIES, AND ANY SUBSIDIARIES THEREOF COMPENSATION PLANS RESPONSIBILITY TO REVIEW AND APPROVE COMPENSATION OF EAST REGION EXECUTIVES AND PHYSICIANS FOR REASONABLENESS AND CONSISTENCY WITH THE LAW AND ESSENTIA HEALTH'S COMPENSATION PHILOSOPHY PRESIDENT/CHIEF MEDICAL OFFICER BY ACTION OF THE PRESIDENT OF THIS CORPORATION, AUTHORITY TO APPOINT AND REMOVE, WITH OR WITHOUT CAUSE, THE PRESIDENT/CHIEF MEDICAL OFFICER OF ANY OF THE DIRECT SUBSIDIARIES PUBLIC POLICY RESPONSIBILITY TO SUPPORT ESSENTIA HEALTH PUBLIC POLICY AND ADVOCACY PLANS MARKETING RESPONSIBILITY TO COORDINATE REGIONAL MARKETING AND PROMOTIONAL ACTIVITIES CONSISTENT WITH ESSENTIA HEALTH MARKETING PLANS PHILANTHROPY RESPONSIBILITY TO COORDINATE PHILANTHROPY WITHIN THE EAST REGION CONSISTENT WITH ESSENTIA HEALTH FOUNDATION POLICIES PROFESSIONAL SERVICES RESPONSIBILITY TO OVERSEE EAST REGION MANAGEMENT'S COOPERATION WITH EXTERNAL AUDITORS AND GENERAL LEGAL COUNSEL SELECTED BY ESSENTIA HEALTH AND COORDINATION OF LEGAL SERVICES THROUGH THE ESSENTIA HEALTH OFFICE OF GENERAL COUNSEL CATHOLIC FACILITIES RESPONSIBILITY TO OVERSEE IMPLEMENTATION OF BSBA-APPROVED METHODS, POLICIES AND PROCEDURES PERTAINING TO ADHERENCE BY THE EAST REGION CATHOLIC FACILITIES WITH THE ETHICAL AND RELIGIOUS DIRECTIVES FOR CATHOLIC HEALTH CARE SERVICES AND USE OF RELIGIOUS SYMBOLS, DISTINGUISHING ELEMENTS AND PRAYERS PROJECTS INVOLVING REAL ESTATE AUTHORITY TO RECOMMEND FACILITY DEVELOPMENT PROJECTS, SUBJECT TO THE APPROVAL OF ESSENTIA HEALTH, RESPONSIBILITY TO OVERSEE EXECUTION OF APPROVED DEVELOPMENT PROJECTS ACCORDING TO ESSENTIA HEALTH POLICIES

Return Reference	Explanation
Form 990, Part VI, Line 11a	FORM 990 REVIEW PROCESS THE 2013 FORM 990, INCLUDING ALL SCHEDULES, WAS REVIEWED BY ESSENTIA HEALTH SANDSTONE'S MANAGEMENT AND GOVERNING BODY ON MARCH 4TH, 2015 PRIOR TO FILING WITH THE INTERNAL REVENUE SERVICE EACH CURRENT DIRECTOR OF THE GOVERNING BODY RECEIVED A FINAL COPY OF THE 2013 FORM 990 ESSENTIA HEALTH EAST'S CHIEF FINANCIAL OFFICER LED THE REVIEW OF THE FORM AND SCHEDULES AND ANY QUESTIONS WERE DISCUSSED

Return Reference	Explanation
Form 990, Part VI, Line 12c	Monitoring and enforcing Conflict of Interest policy Essentia Health's comprehensive conflict of interest program prevents, detects and resolves actual conflicts of interests or the actual or potential appearance of such Fiduciaries, defined as an Essentia Health board member/trustee, officer, board committee member, senior management employee, or any others considered to be in a position of influence, are covered under Essentia's conflict of interest program Upon initial appointment, each fiduciary must complete an initial conflict of interest statement and disclosure questionnaire At the conclusion of each fiscal year, each fiduciary must complete an annual conflict of interest statement and disclosure questionnaire As needed, a fiduciary will update his/her most recently completed questionnaire each time the fiduciary becomes aware of a financial interest, a potential conflict, or change to any information that the fiduciary previously reported Essentia Health's Chief Compliance Officer will collect the questionnaires and evaluate the disclosures If a fiduciary has a potential conflict of interest, the Chief Compliance Officer or designee may request additional information from the fiduciary, the management team, and others During the evaluation process, the Chief Compliance Officer may also consult with Essentia Health's Board and Audit Committee Chairs, senior management, legal department, or appropriate representatives from Essentia Health The Chief Compliance Officer reports to the Essentia Health Audit Committee and the Essentia Health Board of Directors any actual or potential conflicts of interest disclosed by the fiduciary, along with recommended actions The Essentia Health Board of Directors (or designee) will then determine whether to approve the situation or to implement special controls to manage the potential conflict of interest The Chief Compliance Officer will then officially notify the fiduciary in writing of the board's decision The decision of whether or not the disclosure constitutes a conflict will be at the Essentia Health Board of Director's (or designee) sole discretion, and its concern must be the welfare of Essentia Health and its affiliate(s) and the advancement of its purposes When the Essentia Health Board of Directors (or designee) considers a Fiduciary's disclosure as a Conflict of Interest, special controls will be identified to manage, eliminate or reduce the likelihood and/or appearance of a conflict arising Controls may include, but are not limited to A If the conflict involves an on-going matter or relationship, the Fiduciary must not participate in Board, Board committee or management discussions related to the conflict and must recuse themselves and if appropriate, withdraw, from any Board meeting or portion thereof where the matter is being discussed and during the vote on the potential Conflict of Interest The Fiduciary may answer questions at the Board's or the Board Committee's request B If the conflict involves a specific transaction or decision, the Fiduciary will fully disclose their interest and all related material facts The Board or committee of the Board will determine whether the contemplated transaction may be authorized as just, fair, and reasonable to Essentia Health or its affiliate (s) If the Board determines a conflict does not exist, the Fiduciary may proceed with the transaction, however, he or she will not be eligible to vote on related issues should they arise If the Board determines a conflict does exist, the Fiduciary will be notified of the decision regarding whether the contemplated transaction will be authorized as just, fair, and reasonable

Return Reference	Explanation
Form 990, Part VI, Line 15 A & B	PROCESS FOR DETERMINING COMPENSATION The Executive Compensation Committee of Essentia Health's board of directors is authorized to fulfill the board's responsibilities regarding executive compensation consistent with Essentia's mission, values and tax-exempt status, and the Executive Compensation Committee's Charter The Executive Compensation Committee meets at least twice annually to carry out its responsibilities, which include, but are not limited to, establishing, reviewing and modifying, as appropriate, reasonable compensation and benefits for designated Essentia executives who are officers or key employees of Essentia or any of its affiliates which may be paid by related organizations The Executive Compensation Committee engages qualified independent compensation advisors to provide objective and impartial comparative data and to express opinions on total compensation reasonableness The Executive Compensation Committee may request its independent advisors to monitor comparability data and marketplace trends, make appropriate recommendations regarding salary ranges, and periodically review the market competitiveness of Essentia executive compensation packages Prior to establishing or adjusting executive compensation, the Executive Compensation Committee will obtain and rely upon appropriate data as to comparability of the proposed compensation or adjustments The Executive Compensation Committee will adequately document the basis for its determination concurrently with making those determinations The Executive Compensation Committee minutes will include the terms of the approved compensation and the date approved, the Executive Compensation Committee members present during the review, discussion and approval of the proposed compensation and those who voted on the proposed compensation, identification of the comparability data obtained and relied upon by the Executive Compensation Committee and how the data was obtained, any actions by a member of the Executive Compensation Committee having a conflict of interest, and documentation of the basis for the determination The year this process was last undertaken for Essentia Health Sandstone's Administrator was 2013 The Essentia Health East Region Executive Compensation Committee of the Region's board of directors is authorized to fulfill the board's responsibilities regarding executive compensation consistent with Essentia's mission, values and tax-exempt status, and the Executive Compensation Committee's Charter The Executive Compensation Committee meets annually to carry out its responsibilities, which include, but are not limited to, establishing, reviewing and modifying, as appropriate, reasonable compensation and benefits for designated Essentia executives who are officers or key employees of Essentia or any of its affiliates which may be paid by related organizations The Executive Compensation Committee engages qualified independent compensation advisors to provide objective and impartial comparative data and to express opinions on total compensation reasonableness The Executive Compensation Committee may request its independent advisors to monitor comparability data and marketplace trends, make appropriate recommendations regarding salary ranges, and periodically review the market competitiveness of Essentia executive compensation packages Prior to establishing or adjusting executive compensation, the Executive Compensation Committee will obtain and rely upon appropriate data as to comparability of the proposed compensation or adjustments The Executive Compensation Committee will adequately document the basis for its determination concurrently with making those determinations The Executive Compensation Committee minutes will include the terms of the approved compensation and the date approved, the Executive Compensation Committee members present during the review, discussion and approval of the proposed compensation and those who voted on the proposed compensation, identification of the comparability data obtained and relied upon by the Executive Compensation Committee and how the data was obtained, any actions by a member of the Executive Compensation Committee having a conflict of interest, and documentation of the basis for the determination The year this process was last undertaken for Essentia Health Sandstone's Chief Financial Officer was 2013

Return Reference	Explanation
Form 990, Part VI, Line 19	Availability of governing documents, conflict of interest policy, and financial statements to the public Governing documents, conflict of interest policy, and financial statements are made available to the public upon request The organization 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

Return Reference	Explanation
Form 990, Part XI, Line 9	Other Changes in Net Assets The total amount of other changes in net assets includes NET ASSET TRANSFER OF NET DISTRIBUTIONS WITH PMC GATEWAY IMAGING, LLC $265,005 Net Asset transfer with related organization, reallocated Balance Sheet items transferred to align with organizational structure ($37,152) Net Asset transfer with related organization, reallocated Income Statement item transferred to align with organizational structure ($54,415) Total $173,438

Return Reference	Explanation
Form 990, Part XII, Line 3	Consolidated A-133 Essentia Health Sandstone, 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

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SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.
▶ Information about Schedule R (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Pine Medical Center

Employer identification number
41-1884597

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

(a) Name, address, and EIN (if applicable) 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 entity? Yes	(g) No
See Additional Data Table							

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income(related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations? Yes	(h) No	(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership
(1) PMC-Gateway Imaging LLC 109 Court Ave S Sandstone, MN 55072 26-1634764	Imaging Services	MN	na	Related	311,998	62,121		No	0	Yes		62 000 %

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	(i) Section 512 (b)(13) controlled entity? Yes	(i) No
(1) East Range Clinics Ltd 910 6th Ave N Virginia, MN 55792 41-0909915	Clinics	MN	na	C corp	0	0		Yes	
(2) Essentia Health Insurance Services SPC 94 Solaris Ave PO Box 69 Grand Cayman CJ 000000000	Self Indemnity	CJ	na	Foreign Corp	0	0		Yes	

Part V Transactions With Related Organizations Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35b, or 36.

		Yes	No
Note. Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule			
1 During the tax year, did the orgranization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?			
a Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties or **(iv)** rent from a controlled entity	1a		No
b Gift, grant, or capital contribution to related organization(s)	1b		No
c Gift, grant, or capital contribution from related organization(s)	1c		No
d Loans or loan guarantees to or for related organization(s)	1d		No
e Loans or loan guarantees by related organization(s)	1e		No
f Dividends from related organization(s)	1f		
g Sale of assets to related organization(s)	1g		No
h Purchase of assets from related organization(s)	1h		No
i Exchange of assets with related organization(s)	1i	Yes	
j Lease of facilities, equipment, or other assets to related organization(s)	1j		No
k Lease of facilities, equipment, or other assets from related organization(s)	1k		No
l Performance of services or membership or fundraising solicitations for related organization(s)	1l		No
m Performance of services or membership or fundraising solicitations by related organization(s)	1m	Yes	
n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1n		No
o Sharing of paid employees with related organization(s)	1o	Yes	
p Reimbursement paid to related organization(s) for expenses	1p	Yes	
q Reimbursement paid by related organization(s) for expenses	1q	Yes	
r Other transfer of cash or property to related organization(s)	1r	Yes	
s Other transfer of cash or property from related organization(s)	1s	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 related organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
See Additional Data Table			

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

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate 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		Yes	No	

Part VII Supplemental Information

Provide additional information for responses to questions on Schedule R (see instructions)

Return Reference	Explanation
SCHEDULE R, PART II, COLUMN (A), Name	The following Essentia Health entities have a doing business as name 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 Deer River Healthcare Center, Inc , Essentia Health Deer River First Care Medical Services, Essentia Health Fosston Graceville Health Center, Essentia Health Holy Trinity Hospital Innovis Health, LLC, Essentia Health West Midwest Medical Equipment and Supplies, 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 EMS, Essentia Health St Mary's Emergency Medical Services-Detroit Lakes 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

Additional Data

Software ID:
Software Version:
EIN: 41-1884597
Name: Pine Medical Center

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled entity?	
						Yes	No
(1) Brainerd Lakes Integrated Health System 2024 S 6th St Brainerd, MN 56401 37-1532145	Support Org	MN	501(c)(3)	11 Type II	Essentia	Yes	
(1) Brainerd Medical Center Inc 2024 S 6th St Brainerd, MN 56401 37-1532148	Clinic	MN	501(c)(3)	3	BLIHS	Yes	
(2) Bridges Medical Center 503 E 3rd st suite 400 Duluth, MN 55805 20-0479568	Clinic/Hosp	MN	501(c)(3)	3	Innovis	Yes	
(3) Clearwater Valley Hospital & Clinics Inc 301 Cedar Ave Orofino, ID 83544 82-0497771	Clinic/Hosp	ID	501(c)(3)	3	CAG	Yes	
(4) Critical Access Group 503 E 3rd St Suite 400 Duluth, MN 55805 26-1219624	Support Org	MN	501(c)(3)	11 Type II	Essentia	Yes	
(5) First Care Medical Services 900 Hilligoss Blvd SE Fosston, MN 56542 41-0706143	Clinic/Hosp	MN	501(c)(3)	3	Innovis	Yes	
(6) Minnesota Valley Health Center Inc 621 S 4th St Le Sueur, MN 56058 41-0837659	Hospital/Nurs	MN	501(c)(3)	3	CAG	Yes	
(7) St Joseph's Medical Center 523 N 3RD St Brainerd, MN 56401 41-0695602	Clinic/Hosp	MN	501(c)(3)	3	BLIHS	Yes	
(8) St Mary's EMS 1027 Washington Ave Detroit Lakes, MN 56501 41-1805811	Emerg Svcs	MN	501(c)(3)	9	SMRHC	Yes	
(9) St Mary's Hospital Inc PO Box 137 Cottonwood, ID 83522 82-0226453	Clinic/Hosp	ID	501(c)(3)	3	CAG	Yes	
(10) St Mary's Innovis Health 1027 Washington Ave Detroit Lakes, MN 56501 26-2861321	Pharmacy	MN	501(c)(3)	3	Innovis	Yes	
(11) St Mary's Regional Health Center 1027 Washington Ave Detroit Lakes, MN 56501 41-1620386	Clinic/Hosp	MN	501(c)(3)	3	Innovis	Yes	
(12) Essentia Health 502 E 2nd St Duluth, MN 55805 20-0360007	Support Org	MN	501(c)(3)	11TypeIIIFI	na		No
(13) Essentia Institute of Rural Health 502 E 2nd St Duluth, MN 55805 27-1291124	Research	MN	501(c)(3)	4	Essentia	Yes	
(14) Innovis Health LLC 3000 32ND AVENUE S FARGO, ND 58103 26-1175213	Clinic/Hosp	DE	501(c)(3)	3	Essentia	Yes	
(15) Essentia Health Foundation 502 E 2nd St Duluth, MN 55805 27-1984704	Foundation	MN	501(c)(3)	7	ESSENTIA	Yes	
(16) Midwest Medical Equip and Supplies Inc 4418 Haines Rd Hermantown, MN 55811 41-1674021	Medical Equip	MN	501(c)(3)	9	SMMC	Yes	
(17) Polinsky Medical Rehabilitation Center 530 E 2nd St Duluth, MN 55805 41-0691275	Rehab Service	MN	501(c)(3)	3	SMMC	Yes	
(18) SMDC Medical Center 502 E 2nd St Duluth, MN 55805 41-1878730	Clinic/Hosp	MN	501(c)(3)	3	SMDCHS	Yes	
(19) St Mary's Duluth Clinic Health System 407 E 3rd St Duluth, MN 55805 41-1836633	Support Org	MN	501(c)(3)	11 Type II	Essentia	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 section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
(21) St Mary's Hospital of Superior 3500 Tower Ave Superior, WI 54880 41-1811073	Clinic/Hosp	MN	501(c)(3)	3	SMMC	Yes	
(1) St Mary's Medical Center 407 E 3rd St Duluth, MN 55805 41-0695604	Hospital	MN	501(c)(3)	3	SMDCHS	Yes	
(2) The Duluth Clinic Ltd 400 E 3rd St Duluth, MN 55805 41-0883623	Clinic	MN	501(c)(3)	3	SMDCHS	Yes	
(3) Northern Pines Medical Center 5211 Hwy 110 Aurora, MN 55705 41-0841441	Hospital/Nurs	MN	501(c)(3)	3	SMDCHS	Yes	
(4) GRACEVILLE HEALTH CENTER 115 West Second St Graceville, MN 56240 41-0726173	Clinic/Hosp	MN	501(c)(3)	3	Innovis	Yes	
(5) DEER RIVER HEALTHCARE CENTER INC 115 10TH AVE NE DEER RIVER, MN 56636 41-0844574	HOSP/CLIN/NH	MN	501(c)(3)	3	SMDCHS	Yes	

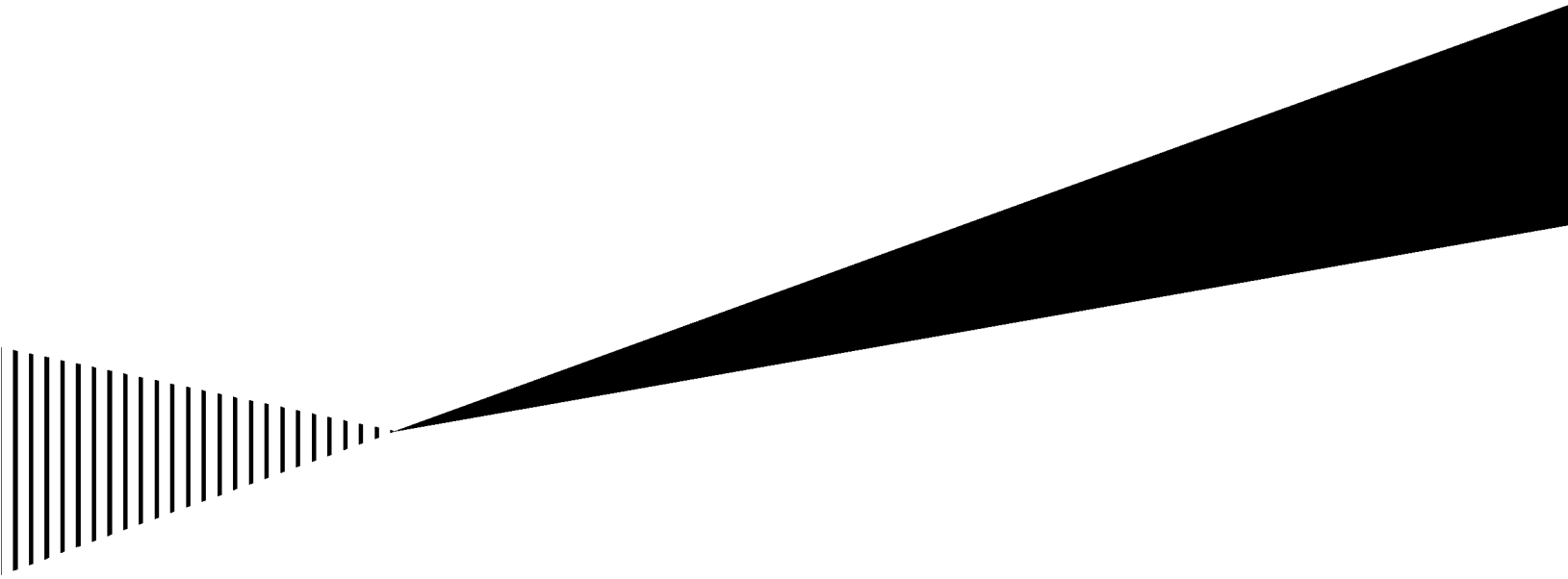
Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-s)	(c) Amount Involved	(d) Method of determining amount involved
The Duluth Clinic Ltd	P	201,266	ACTUAL COSTS
The Duluth Clinic Ltd	Q	66,126	Actual Costs
ESSENTIA HEALTH	M	885,304	ACTUAL COSTS
ESSENTIA HEALTH	P	164,217	ACTUAL COSTS
Essentia Health	Q	71,661	Actual Costs
PMC-Gateway Imaging LLC	R	265,005	Actual Costs
SMDC MEDICAL CENTER	P	1,635,512	ACTUAL COSTS
SMDC MEDICAL CENTER	Q	81,403	ACTUAL COSTS
ST MARY'S MEDICAL CENTER	P	345,343	ACTUAL COSTS

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Essentia Health
Years Ended June 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better working world

Essentia Health

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2014 and 2013

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Building a better working world

Report of Independent Auditors

The Board of Directors
Essentia Health

We have audited the accompanying consolidated financial statements of Essentia Health, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control Accordingly, we express no such opinion An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

A member firm of Ernst & Young Global Limited

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, 2014 and 2013, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with U S generally accepted accounting principles

Ernst + Young LLP

October 1, 2014

Essentia Health

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30 2014	2013
Assets		
Current assets		
Cash and cash equivalents	**$ 96,191**	$ 99,387
Short-term investments	**19,689**	17,821
Current portion of assets whose use is limited	**14,076**	16,249
Patient accounts receivable, less allowances for uncollectible accounts of $67,180 and $62,026 at June 30, 2014 and 2013, respectively *(Note 4)*	**209,683**	216,140
Prepaid expenses and other receivables	**31,969**	34,523
Inventories	**39,597**	34,825
Total current assets	**411,205**	418,945
Assets whose use is limited, less current portion *(Note 5)*		
Funds designated by Board	**689,476**	550,880
Funds held by trustee	**3,004**	3,951
Funds held under self-insurance program	**32,859**	35,655
Other	**77,476**	64,119
	802,815	654,605
Property and equipment, net *(Note 7)*	**641,436**	619,867
Investments and other non-current assets, net *(Note 8)*	**113,057**	121,942
Total assets	**$ 1,968,513**	$ 1,815,359

	June 30	
	2014	**2013**
Liabilities and net assets		
Current liabilities		
Accounts payable	**$ 41,339**	$ 39,466
Payable to third-party payors	**13,364**	12,823
Accrued liabilities		
Salaries, wages, and benefits	**147,569**	143,721
Interest	**9,290**	9,118
Current portion of long-term debt *(Note 9)*	**21,346**	16,410
Other	**11,361**	13,654
Total current liabilities	**244,269**	235,192
Long-term debt *(Note 9)*	**560,526**	562,535
Professional, pension, and other non-current liabilities *(Notes 11 and 12)*	**238,527**	216,290
Total liabilities	**1,043,322**	1,014,017
Net assets		
Unrestricted	**913,610**	788,171
Temporarily restricted	**9,870**	11,694
Permanently restricted	**1,711**	1,477
Total net assets	**925,191**	801,342
Total liabilities and net assets	**$ 1,968,513**	$ 1,815,359

See accompanying notes.

Essentia Health

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

	Year Ended June 30	
	2014	**2013**
Unrestricted revenue		
Patient service revenue *(Note 4)*	**$ 1,784,748**	$ 1,658,319
Provision for bad debts *(Note 4)*	**(99,746)**	(81,546)
Net patient service revenue	**1,685,002**	1,576,773
Other operating revenue	**69,278**	71,678
Total unrestricted revenue	**1,754,280**	1,648,451
Expenses *(Note 14)*		
Salaries, wages, and related benefits	**1,066,577**	1,015,296
Professional fees	**31,662**	31,580
Supplies	**263,633**	244,086
Purchased services	**65,398**	63,067
Professional liability and general insurance	**18,833**	16,656
Utilities	**21,139**	19,304
Repairs and maintenance	**38,356**	35,070
Depreciation and amortization	**76,341**	75,520
Interest	**25,652**	22,731
Other	**100,460**	94,393
Total expenses	**1,708,051**	1,617,703
Income from operations before nonrecurring costs	**46,229**	30,748
Nonrecurring costs	**–**	1,338
Income from operations	**46,229**	29,410
Non-operating gains (losses), net		
Investment income on funds designated by Board	**9,910**	6,962
Net realized gains	**30,927**	23,436
Net change in unrealized gains and losses on trading securities	**40,540**	14,114
(Loss) gain on disposal of property, net	**(2,574)**	133
(Loss) gain on swap agreements	**(2,405)**	3,949
Gain on affiliation	**–**	10,767
Other, net	**6,036**	4,510
Total non-operating gains, net	**82,434**	63,871
Excess of revenue and gains over expenses and losses	**128,663**	93,281

	Year Ended June 30	
	2014	**2013**
Unrestricted net assets		
Excess of revenue and gains over expenses and losses	**$ 128,663**	$ 93,281
Net change in unrealized gains and losses on other-than-trading securities	**(39)**	(1)
Pension and other postretirement liability adjustments	**(6,061)**	9,167
Other, net	**2,876**	3,906
Increase in unrestricted net assets	**125,439**	106,353
Temporarily restricted net assets		
Contributions	**2,189**	1,892
Net assets released from restrictions and other changes, net	**(4,013)**	(5,703)
Decrease in temporarily restricted net assets	**(1,824)**	(3,811)
Permanently restricted net assets		
Contributions and other changes, net	**234**	601
Total increase in net assets	**123,849**	103,143
Net assets at beginning of year	**801,342**	698,199
Net assets at end of year	**$ 925,191**	$ 801,342

See accompanying notes.

Essentia Health

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended June 30 2014	2013
Operating activities		
Increase in net assets	$ **123,849**	$ 103,143
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	**76,341**	75,520
Provision for bad debts	**99,746**	81,546
Loss (gain) on swap agreements	**2,405**	(3,949)
Share of joint ventures and related organizations' net income, net	**(5,251)**	(5,674)
Net change in unrealized gains and losses on other-than-trading securities	**39**	1
Net change in unrealized gains and losses on trading securities	**(40,540)**	(14,114)
Pension and other postretirement liability adjustments	**6,061**	(9,167)
Restricted contributions and investment income	**(2,228)**	(1,892)
Gain on affiliation	**–**	(5,144)
Changes in assets and liabilities		
Patient accounts receivable	**(93,289)**	(62,202)
Accounts payable and accrued liabilities	**6,434**	13,975
Professional, pension, and other non-current liabilities	**14,692**	10,175
Other	**(3,341)**	(10,618)
Net cash provided by operating activities	**184,918**	171,600
Investing activities		
Purchase of property and equipment, net	**(96,975)**	(86,987)
Change in investments in joint ventures and related organizations, net	**11,110**	4,461
Purchase of trading securities, net	**(88,896)**	(117,253)
Purchase of securities and assets whose use is limited classified as other-than-trading, net	**(20,255)**	(480)
Net cash used in investing activities	**(195,016)**	(200,259)
Financing activities		
Proceeds from issuance and borrowings of long-term debt	**17,632**	173,265
Principal payments on long-term debt	**(14,705)**	(122,422)
Decrease (increase) in funds held by trustee	**1,747**	(385)
Restricted contributions and investment income	**2,228**	1,892
Net cash provided by financing activities	**6,902**	52,350
Net (decrease) increase in cash and cash equivalents	**(3,196)**	23,691
Cash and cash equivalents at beginning of year	**99,387**	75,696
Cash and cash equivalents at end of year	$ **96,191**	$ 99,387
Supplemental disclosure of cash flow information		
Interest paid, net of capitalized interest	$ **26,208**	$ 21,298

See accompanying notes

1. Organization

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

Essentia is the parent company of the following entities

- St Mary's Duluth Clinic Health System (operating as Essentia Health East (EH East)) in Duluth, Minnesota
- Brainerd Lakes Integrated Health System (operating as Essentia Health Central (EH Central)) in Brainerd, Minnesota
- Innovis Health LLC (operating as Essentia Health West (EH West)) in Fargo, North Dakota
- Critical Access Group (CAG), formerly known as Essentia Community Hospitals & Clinics (ECHC)
- Essentia Institute of Rural Health (EIRH)
- Essentia Health Insurance Services (EHIS), a Cayman-based captive insurance company
- Essentia Health Foundation (EHF), a merger of Innovis Health Foundation, SMDC Foundation, and ECHC Foundation, effective July 1, 2011

Many Essentia entities have 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 health care Essentia provides integrated health care delivery through its physician group practices, ambulatory and out-patient centers, acute care hospitals (including tertiary referral centers), and community, rural, and critical access hospitals

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

1. Organization (continued)

EH East 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	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
Deer River Healthcare Center, Inc (since September 2012)	Essentia Health – Deer River	Deer River, Minnesota
Essentia Health Virginia, LLC (since January 2013)	Essentia Health – Virginia	Virginia, Minnesota

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	Essentia Health Holy Trinity Hospital	Graceville, Minnesota

1. Organization (continued)

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

Operating Name	Location
Minnesota Valley Health Center	Le Sueur, Minnesota
Clearwater Valley Hospital and Clinics	Orofino, Idaho
St Mary's Hospital	Cottonwood, Idaho

In September 2012, Essentia affiliated with Deer River Healthcare Center, Inc (Deer River), a nonprofit health care system located in Deer River, Minnesota Included in Essentia's 2013 consolidated statement of operations and changes in net assets is the gain on affiliation (reported as a non-operating gain) and Deer River's results of operations subsequent to the date of affiliation Deer River's assets and liabilities are included at fair value as of the date of affiliation in Essentia's consolidated balance sheet

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 as follows

	June 30	
	2014	**2013**
Benedictine Health System	**$ 58,533**	$ 58,533
St Francis Regional Medical Center	**27,292**	32,044
Brainerd Lakes Surgery Center	**1,182**	1,225
Other joint ventures	**657**	1,725
	$ 87,664	$ 93,527

1. Organization (continued)

Essentia's share of net income (loss) on its investments in joint ventures and related organizations is included in excess of revenue and gains over expenses and losses in the accompanying consolidated statements of operations and changes in net assets as follows

	Year Ended June 30	
	2014	**2013**
Other operating revenue	**$ 1,503**	$ 1,084
Non-operating gains, net	**3,748**	4,590
	$ 5,251	$ 5,674

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, 2014 and 2013

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

	2014	**2013**
Total revenue	**$ 437,492**	$ 420,554
Excess of revenue and gains over expenses	**18,002**	18,081
Total assets	**568,380**	547,945
Net assets	**218,592**	214,110

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

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U S generally accepted accounting principles (GAAP) 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 certain mutual funds Short-term investments are available to meet Essentia's operating cash requirements

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 health care 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

2. Summary of Significant Accounting Policies (continued)

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 The allowance for uncollectible accounts as a percentage of accounts receivable has increased from 29% for the year ended June 30, 2013, to 32% for the year ended June 30, 2014, consistent with industry trends

Inventories

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

Assets Whose Use Is Limited

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

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

2. Summary of Significant Accounting Policies (continued)

Essentia reviews its other-than-trading securities for impairment conditions, which could indicate that an other-than-temporary decline in market value has occurred In conducting this review, management considers numerous factors, 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 Gross unrealized gains from other-than-trading securities at June 30, 2014, were $112, and gross unrealized losses were $45 At June 30, 2013, gross unrealized gains from other-than-trading securities were $122, and there were no gross unrealized losses Based on management's analysis, no other-than-temporary loss was recognized for the years ended June 30, 2014 and 2013

Net unrealized gains on trading securities held at June 30, 2014 and 2013, were $72,228 and $31,829, respectively

Derivative Financial Instruments

Essentia uses 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

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

2. Summary of Significant Accounting Policies (continued)

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

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, 2014 and 2013, capitalized interest totaled $721 and $224, respectively

2. Summary of Significant Accounting Policies (continued)

Charity and Uncompensated Care

Essentia provides health care 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 Essentia adopted the gain contingency model to recognize Medicare and Medicaid EHR incentive payments as revenue 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 completed and fully demonstrated

Essentia recognized EHR revenue of $15,142 (consisting of Medicare revenue of $8,771 and Medicaid revenue of $6,371) and $14,337 (consisting of Medicare revenue of $10,036 and Medicaid revenue of $4,301) for the years ended June 30, 2014 and 2013, respectively, of which $1,575 and $1,076 was receivable at June 30, 2014 and 2013, respectively

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

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, and pension and other postretirement liability adjustments

2. Summary of Significant Accounting Policies (continued)

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 is fulfilled, temporarily restricted net assets are reclassified to other operating income or to an increase in unrestricted net assets in the consolidated statements of operations and changes in net assets depending on whether the donor's restriction was for the purchase of property and equipment or for research and education, respectively Donor-restricted contributions whose restrictions are met within the same year as received are included directly in operating income or in increase in unrestricted net assets in the accompanying consolidated financial statements

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 2014 presentation These reclassifications had no effect on the change in net assets or net assets as previously reported

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 health care 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 Charity care provided was approximately $13,349 and $13,358 for years ended June 30, 2014 and 2013, respectively

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

4. Net Patient Revenue (continued)

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 has negotiated "total cost-of-care" payor contracts with various health plan payors Under these agreements, Essentia receives a portion of the savings achieved in providing care to enrollees who are attributed to Essentia Attribution to Essentia is based on receiving the majority of care from Essentia providers Some of the contracts also have incentives related to the quality of care delivered

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, 2014 and 2013, additional revenue due to successful appeals and cost report settlements amounted to approximately $9,600 and $10,100, 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

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

	2014	%	2013	%
Medicare	**$ 608,481**	**34%**	$ 572,180	34%
Medicaid	**196,380**	**11**	194,016	12
BCBS	**425,123**	**24**	411,433	25
Private-pay, managed care, commercial insurance, and other payors	**554,764**	**31**	480,690	29
	$ 1,784,748	**100%**	$ 1,658,319	100%

Net patient revenue is presented net of Medicare, Medicaid, managed care, and other third-party contractual adjustments of $1,654,749 and $1,542,294 for the years ended June 30, 2014 and 2013, 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

	2014	2013
Medicare	**$ 59,976**	$ 59,744
Medicaid	**22,075**	22,778
BCBS	**41,146**	42,277
Private-pay, managed care, commercial insurance, and other payors	**86,486**	91,341
	$ 209,683	$ 216,140

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

	2014	2013
Cash and cash equivalents	**$ 54,305**	$ 34,550
Domestic equity securities	**187,473**	131,772
International equity securities	**96,939**	32,609
Equity mutual funds	**137,852**	91,718
Debt security mutual funds	**128,413**	131,214
Corporate debt securities	**13,019**	15,352
Hedged funds	**190,555**	219,979
Other	**8,335**	13,660
	$ 816,891	$ 670,854
Funds designated by Board	**$ 689,476**	$ 551,253
Funds held by trustee	**5,263**	7,010
Funds held under self-insurance program	**39,700**	42,918
Other	**82,452**	69,673
	816,891	670,854
Less current portion	**14,076**	16,249
Total non-current assets whose use is limited	**$ 802,815**	$ 654,605

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, 2014 and 2013, Essentia's ownership percentage of alternative investments ranged from 0 13% to 6 67% and from 0 03% to 9 00%, respectively 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

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

	2014	2013
Dividends and interest	**$ 14,674**	$ 10,450
Net realized gains	**31,005**	23,454
Net change in unrealized gains and losses on trading investments	**40,540**	14,114
Net change in unrealized gains and losses on other-than-trading investments	**(39)**	(1)
	86,180	48,017
Less investment expenses related to investment return	**4,685**	3,292
	$ 81,495	$ 44,725
Other operating revenue	**$ 40**	$ 196
Non-operating gains	**81,377**	44,512
Other changes in unrestricted net assets	**(39)**	(1)
Other changes in temporarily restricted net assets	**117**	18
	$ 81,495	$ 44,725

6. Fair Value of Financial Instruments

Financial instruments carried at fair value as of June 30, 2014, 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	$ 96,191	$ –	$ –	$ 96,191
Short-term investments				
Cash and cash equivalents	19,245	–	–	19,245
Other	370	74	–	444
Current assets whose use is limited, excluding alternative investments (hedged funds), which are accounted for on the equity method				
Cash and cash equivalents	8,302	–	–	8,302
Other	2,990	–	–	2,990
Assets whose use is limited, excluding alternative investments (hedged funds), which are accounted for on the equity method				
Cash and cash equivalents	46,003	–	–	46,003
Domestic equity securities	186,528	–	–	186,528
International equity securities	96,411	–	–	96,411
Equity mutual funds	137,012	–	–	137,012
Debt security mutual funds	127,736	–	–	127,736
Corporate debt securities	–	13,019	–	13,019
Other	–	8,335	–	8,335
Total assets valued at fair value	$ 720,788	$ 21,428	$ –	$ 742,216
Liabilities				
Swap liabilities	$ –	$ –	$ 17,312	$ 17,312

6. Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value as of June 30, 2013, 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	$ 99,387	$ –	$ –	$ 99,387
Short-term investments				
Cash and cash equivalents	17,103	–	–	17,103
Other	610	108	–	718
Current assets whose use is limited, excluding alternative investments (hedged funds), which are accounted for on the equity method				
Cash and cash equivalents	10,642	–	–	10,642
Other	1,511	–	–	1,511
Assets whose use is limited, excluding alternative investments (hedged funds), which are accounted for on the equity method				
Cash and cash equivalents	23,907	–	–	23,907
Domestic equity securities	130,945	–	–	130,945
International equity securities	32,194	–	–	32,194
Equity mutual funds	91,564	–	–	91,564
Debt security mutual funds	131,100	–	–	131,100
Corporate debt securities	–	15,352	–	15,352
Other	7,304	6,356	–	13,660
Total assets valued at fair value	$ 546,267	$ 21,816	$ –	$ 568,083
Liabilities				
Swap liabilities	$ –	$ –	$ 15,828	$ 15,828

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

6. Fair Value of Financial Instruments (continued)

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, 2014 and 2013, Essentia's fair value of swaps included a CVA of $1,827 and $1,703, 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

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

	Swap Liabilities, Net
Fair value at June 30, 2012	$ (23,876)
Realized and unrealized gain, net on swap agreements included in excess of revenue and gains over expenses and losses	3,949
Settlements	4,099
Fair value at June 30, 2013	(15,828)
Realized and unrealized losses, net on swap agreements included in excess of revenue and gains over expenses and losses	**(2,405)**
Settlements	**921**
Fair value at June 30, 2014	**$ (17,312)**

Carrying amounts of cash and cash equivalents, patient accounts receivable, accounts payable, payable to third-party payors and accrued liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments

Fair value of fixed rate long-term debt (Level 2) is completed by a third party and 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 At June 30, 2014 and 2013, the fair value of Essentia's long-term debt was approximately $619,334 and $605,800, respectively, compared with its carrying value of $581,872 and $578,945, respectively Fair value of variable rate long-term debt (Level 2) approximated its carrying value at both June 30, 2014 and 2013

7. Property and Equipment

Property and equipment at June 30 are summarized as follows

	2014	2013
Land and land improvements	**$ 40,276**	$ 38,384
Buildings and building improvements	**744,899**	724,444
Furniture and equipment	**543,238**	537,486
	1,328,413	1,300,314
Accumulated depreciation and amortization	**(725,321)**	(701,043)
	603,092	599,271
Construction-in-progress	**38,344**	20,596
	$ 641,436	$ 619,867

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, 2014 and 2013, and the related other long-term liability of $8,009 and $8,432 at June 30, 2014 and 2013, 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

	2014	2013
Notes receivable	**$ 5,040**	$ 6,454
Investment in joint ventures and related organizations	**87,664**	93,527
Deferred financing costs, less accumulated amortization of $5,675 in 2014 and $5,072 in 2013	**9,510**	10,274
Intangible assets, less accumulated amortization of $759 in 2014 and $654 in 2013	**1,501**	1,606
Other	**9,342**	10,081
	$ 113,057	$ 121,942

9. Long-Term Debt

Long-term debt at June 30 consists of the following

	Annual Interest Rate	2014	2013
Essentia Obligated Group Revenue Bonds			
Series 2014, due through 2019	Variable rate	**$ 11,521**	$ –
Senior Secured Notes, due through 2035	3 99%	**159,525**	159,525
Series 2011, due through 2015	4 75%	**25,209**	25,296
Series 2008, due through 2037	3 00% to 5 50%	**221,754**	231,211
Series 2008, due through 2040	4 90% to 5 10%	**105,651**	105,605
Other revenue bonds	3 40% to 5 25%	**7,118**	7,410
Line of credit	Variable rate	**463**	–
Other, primarily capital leases and mortgages payable with annual principal payments through 2051	Various	**50,631**	49,898
Total debt		**581,872**	578,945
Less current portion		**21,346**	16,410
		$ 560,526	$ 562,535

Essentia's Obligated Group consists of Essentia, CAG, EH East, Essentia Health St Mary's Medical Center, Essentia Health Duluth, The Duluth Clinic, Ltd , Essentia Health Polinsky Medical Rehabilitation Center, Essentia Health St Mary's Hospital – Superior, EH Central, Essentia Health St Joseph's Medical Center, Essentia Health Brainerd Specialty Clinic, Essentia Health St Mary's – Detroit Lakes, St Mary's Innovis Health, and EH West

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

9. Long-Term Debt (continued)

All Obligated Group members have pledged certain unrestricted receivables and certain pass-through obligations for payment of long-term indebtedness issued under the MTI No pass-through obligations were subject to the pledge as of June 30, 2014 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 June 2014, Essentia issued Variable Rate Revenue Bonds, Series 2014 – ND, in the amount of $11,521 The total amount of the issuance is $45,000 and will be disbursed as project funds are needed during fiscal year 2015 The bonds are subject to a mandatory tender following an initial period, which ends in July 2019, at which time outstanding principal plus accrued interest becomes due

In February 2013, Essentia issued non-rated, taxable Senior Secured Notes in the amount of $159,525 The outstanding Variable Rate Revenue Bonds, Series 2010, in the amount of $101,305 and certain other revenue bonds totaling $7,087 were refinanced As a result of the refinancing, Essentia recorded a non-operating loss of $454

In June 2011, Essentia entered into a long-term master revolving line of credit with a bank under which it may borrow up to an aggregate of $60,000 The annual interest rate is based on LIBOR plus an applicable margin (1 05% at June 30, 2014) The line of credit terminates in June 2017, with the option of extension upon mutual consent of the bank and Essentia The line of credit is secured by a note issued under the MTI and is an obligation of the Essentia Obligated Group There was $463 outstanding on the line of credit as of June 30, 2014

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

9. Long-Term Debt (continued)

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, which will be sufficient to pay the principal and interest on refunded bonds

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, 2014 and 2013

The aggregate annual maturities of long-term debt, excluding the line of credit, for each of the five years subsequent to June 30, 2014, are as follows

2015	$ 21,346
2016	17,890
2017	22,405
2018	17,533
2019	24,862

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

	2014	2013
Bond interest, principal, and construction funds	**$ 2,259**	$ 3,108
Debt service reserve funds	**3,004**	3,902
	5,263	7,010
Less current portion	**2,259**	3,059
Total long-term portion	**$ 3,004**	$ 3,951

9. Long-Term Debt (continued)

At June 30, 2014, the following is a summary of the outstanding positions under swap arrangements

Instrument Type	Notional Amount	Maturity Date	Rate Paid	Rate Received
Fixed-payer swaps	$ 50,875	2032 to 2037	3 30% to 3 373%	68% of 1-month LIBOR
Basis swaps	$ 267,495	2030 to 2040	SIFMA	68% of 1-month LIBOR, 3-month LIBOR plus 0 105% to 0 605%, 91 25% of 3-month LIBOR

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 liabilities are reported in professional, pension, and other non-current liabilities in the consolidated financial statements, as follows

	Notional Amount	Liabilities		Non-Operating Gain (Loss)	
		2014	2013	2014	2013
Interest rate swaps	$ –	$ –	$ –	$ –	$ (322)
Constant maturity swap	–	–	–	–	721
Fixed-payer swaps	**50,875**	**9,502**	8,647	**(2,499)**	3,152
Basis swaps	**267,495**	**7,810**	7,181	**94**	398
Total swaps	$ **318,370**	$ **17,312**	$ 15,828	$ **(2,405)**	$ 3,949

Certain Essentia derivative instruments contain provisions that require Essentia to post collateral when the net liability of the derivative instruments is greater than predetermined thresholds ranging from $10,000 to $20,000 No collateral was required at June 30, 2014 or 2013

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, 2014 and 2013, the counterparty with fair values due to Essentia had a Standard & Poor's credit quality rating ranging from A- to A

10. Income Taxes

Deferred tax assets at June 30, 2014 and 2013, relate primarily to depreciation along with federal and state net operating loss (NOL) carryovers As of June 30, 2014, Essentia had federal NOLs of $4,630 and state NOLs of $4,630, expiring in varying amounts through 2034 Due to the operating performance of Essentia's taxable subsidiaries, a full valuation allowance of $2,028 and $1,894 has been established at June 30, 2014 and 2013, respectively, since it is more likely than not that any of the deferred tax assets will be realized

The statute of limitations for tax years ended June 30, 2011 through June 30, 2014, 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, 2011, generating an NOL, tax authorities have the right to adjust the amount of the NOL

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

11. Employee Benefit Plans (continued)

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	
	2014	**2013**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 230,005**	$ 223,819
Service cost	**2,457**	2,770
Interest cost	**10,648**	10,323
Actuarial loss (gain)	**17,657**	(160)
Benefits paid	**(7,846)**	(6,747)
Benefit obligation at end of year	**252,921**	230,005
Change in plan assets		
Fair value of plan assets at beginning of year	**139,701**	123,066
Actual return on plan assets	**18,261**	15,336
Contributions	**8,895**	8,346
Benefits paid	**(7,845)**	(6,747)
Expenses paid	**(300)**	(300)
Fair value of plan assets at end of year	**158,712**	139,701
Net liability recognized (underfunded plan)	**$ (94,209)**	$ (90,304)

Accumulated benefit obligation was $215,104 and $193,825 at June 30, 2014 and 2013, respectively

Effective July 1, 2012, Essentia elected to change the amortization period for unrecognized actuarial gains and losses from the average remaining working period to the average future lifetime of plan participants Since over 90% of plan participants are inactive, Essentia believes that the average future lifetime of plan participants provides a better estimate of the amortization expense The change in amortization period, which is considered to be a change in accounting method, had no impact on Essentia's consolidated balance sheet but resulted in a decrease in future pension expense ($1,909 for the year ended June 30, 2013)

11. Employee Benefit Plans (continued)

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

	2014	2013
Current year actuarial loss (gain)	**$ 10,113**	$ (5,954)
Amortization of actuarial gain	**(3,273)**	(3,981)
Total	**$ 6,840**	$ (9,935)

Actuarial losses included in unrestricted net assets that have not been recognized in net periodic pension cost at June 30, 2014 and 2013, were $90,333 and $83,493, respectively It is expected that actuarial losses recognized in net periodic pension cost during the year ending June 30, 2015, will be $3,498 Unrecognized actuarial losses are amortized on a straight-line basis

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

	2014	2013
Service cost	**$ 2,517**	$ 2,770
Interest cost	**10,648**	10,323
Expected return on plan assets	**(10,776)**	(9,542)
Amortization of unrecognized net actuarial loss	**3,273**	3,981
Expenses paid	**300**	300
Benefit cost	**$ 5,962**	$ 7,832

	2014	2013
Weighted average assumptions		
Discount rate at end of year (used to determine benefit obligation)	**4.02% to 4.29%**	4 54% to 4 76%
Discount rate at beginning of year (used to determine net periodic benefit cost)	**4.54% to 4.76%**	4 20% to 4 64%
Expected annual return on plan assets	**7.75%**	7 75%
Rate of annual compensation increase	**1.40% to 2.30%**	1 60% to 2 40%
Health care cost annual trend rate	**8.00%**	8 50%

11. Employee Benefit Plans (continued)

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

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, annually reviews 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	2014	2013
Equity securities	30%–90%	**41%**	40%
Debt securities	15%–50%	**21**	11
Cash and cash equivalents	0%–55%	**2**	8
Other (primarily alternative investments)	0%–40%	**36**	41
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, 2014

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	**$ 2,699**	**$ –**	**$ –**	**$ 2,699**
Domestic equity securities	**35,920**	**–**	**–**	**35,920**
International equity securities	**11,424**	**–**	**–**	**11,424**
Equity mutual funds	**17,775**	**–**	**–**	**17,775**
Debt security mutual funds	**33,539**	**–**	**–**	**33,539**
Alternative investments	**–**	**–**	**48,821**	**48,821**
Immediate Participation Guarantee Contracts	**–**	**–**	**8,534**	**8,534**
	$ 101,357	**$ –**	**$ 57,355**	**$ 158,712**

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, 2013

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 11,647	$ –	$ –	$ 11,647
Domestic equity securities	32,566	–	–	32,566
International equity securities	9,061	–	–	9,061
Equity mutual funds	14,461	–	–	14,461
Debt security mutual funds	13,843	–	–	13,843
Alternative investments	–	–	48,406	48,406
Immediate Participation Guarantee Contracts	–	–	8,464	8,464
Other	1,253	–	–	1,253
	$ 82,831	$ –	$ 56,870	$ 139,701

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

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, 2012	$ 45,812	$ 8,715	$ 54,527
Purchases, issuances, and settlements, net	(2,742)	(374)	(3,116)
Actual return on plan assets	5,336	123	5,459
Fair value at June 30, 2013	48,406	8,464	56,870
Purchases, issuances, and settlements, net	**(4,549)**	**(299)**	**(4,848)**
Actual return on plan assets	**4,964**	**369**	**5,333**
Fair value at June 30, 2014	**$ 48,821**	**$ 8,534**	**$ 57,355**
Change in unrealized gains on investments held at June 30, 2014	**$ 4,663**	**$ 131**	**$ 4,794**

During 2015, Essentia expects to make pension contributions of $8,394 to the Defined Benefit Plans

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

2015	$ 10,063
2016	9,375
2017	10,384
2018	11,635
2019	12,454
2020–2024	73,389

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 differ from those of 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 years ended June 30, 2014 and 2013, 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 2014 and 2013 is for the plan's year-end at December 31, 2013 and 2012, 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 2014	Pension Protection Act Zone Status 2013	FIP/ RP Status Pending/ Implemented	Contributions of Essentia 2014	Contributions of Essentia 2013	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
Steelworkers Pension Trust	23-6648508 499	**Green**	**Green**	N A	**$ 3,742**	$ 3.669	No	June 30. 2014 to December 31. 2016

11. Employee Benefit Plans (continued)

The union-sponsored multiemployer plan was at least 80% funded at December 31, 2013 and 2012 Total amounts expensed under the union-sponsored multiemployer plan were $3,755 and $3,682 for the years ended December 31, 2013 and 2012, respectively Essentia is required to make contributions ranging from 3% to 5% of covered employees' gross earnings for the year ending December 31, 2014

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, 2013

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 $42,386 and $44,726 for the years ended June 30, 2014 and 2013, 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 $29,026 and $26,461 at June 30, 2014 and 2013, 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 is self-insured for workers' compensation claims, employee health care 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 $12,096 and $14,120 at June 30, 2014 and 2013, respectively Essentia has entered into a surety bond agreement to comply with this requirement

13. Commitments and Contingencies

During 2013, Essentia began work on various remodeling projects, construction of a parking structure, and an overall EH West expansion and remodeling project The total cost of the projects is anticipated to be $111,368, most of which will be debt-financed Construction-in-progress was approximately $23,813 as of June 30, 2014

Essentia has leases for equipment and satellite office facilities, which are classified as operating leases Rental expense under these operating leases totaled $20,190 and $21,578 for the years ended June 30, 2014 and 2013, respectively

Future minimum lease payments on operating leases in effect on June 30, 2014, for each of the five subsequent years and thereafter are as follows

2015	$ 12,887
2016	12,001
2017	10,539
2018	8,578
2019	5,784
Thereafter	44,308
	$ 94,097

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 $30,513 over the remaining lease period, adjusted for inflation Lease payments were $843 and $822 for the years ended June 30, 2014 and 2013, respectively

Essentia has guaranteed amounts totaling $7,448 and $7,825 as of June 30, 2014 and 2013, respectively No liability is recorded related to these guarantees

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

At June 30, 2014, 39% of employees are represented by 38 collective bargaining agreements, of which 16 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 health care services to residents in communities that it serves

15. Nonrecurring Costs

During 2013, Essentia restructured its operations and incurred nonrecurring costs of $1,338 related to staff reductions, which were recorded as nonrecurring operating expenses

16. Subsequent Events

Essentia's management evaluated events and transactions occurring subsequent to June 30, 2014, through October 1, 2014, the date of issuance of the consolidated financial statements

In July 2014, Essentia issued Variable Rate Revenue Bonds, Series 2014 – MN, in the amount of $29,480 The outstanding balance on the Series 2011 Revenue Bonds in the amount of $25,155 was refinanced The bonds are subject to a mandatory tender following an initial period, which ends July 2024, at which time the outstanding principal plus accrued interest becomes due

There were no other subsequent events requiring recognition or disclosure in the consolidated financial statements

Supplementary Information

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Building a better working world

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 The information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements, and accordingly, we express no opinion on it

Ernst + Young LLP

October 1, 2014

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Essentia Health

Schedule of Community Service and Charity Care Provided (Unaudited)

(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, 2014 and 2013

	Year Ended June 30	
	2014	**2013**
Cost of providing charity care	**$ 13,349**	$ 13,358
Costs in excess of Medicaid payments	**73,606**	68,346
Medicaid surcharge and MinnesotaCare tax	**22,705**	21,084
Community services	**4,196**	5,334
Education and work force development	**3,655**	3,623
Research	**2,114**	3,477
Cash and in-kind donations	**932**	929
Total cost of community benefits*	**120,557**	116,151
Cost in excess of Medicare payments	**139,936**	123,337
Other care provided without compensation (bad debt, at cost)	**46,819**	39,944
Discounts offered to uninsured patients	**7,105**	5,663
Taxes and fees	**3,490**	3,547
Total value of community contributions	**$ 317,907**	$ 288,642
Cost of community benefits as a percent of total operating expenses	**7.1%**	7 2%
Value of community contributions as a percent of total operating expenses	**18.6%**	17 8%

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

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