



CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Essentia Health  
Years Ended June 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Essentia Health

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2013 and 2012

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## 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, 2013 and 2012, 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.

## **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, 2013 and 2012, 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 2, 2013

## Essentia Health

### Consolidated Balance Sheets (Dollars in Thousands)

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 99,387	\$ 75,696
Short-term investments	17,821	11,231
Current portion of assets whose use is limited	16,249	26,142
Patient accounts receivable, less allowances for uncollectible accounts of \$62,026 and \$50,702 at June 30, 2013 and 2012, respectively ( <i>Note 4</i> )	216,140	225,979
Prepaid expenses and other receivables	34,523	30,262
Inventories	34,825	28,354
Total current assets	418,945	397,664
Assets whose use is limited, less current portion ( <i>Note 5</i> ):		
Funds designated by Board	550,880	422,695
Funds held by trustee	3,951	3,566
Funds held under self-insurance program	35,655	36,508
Other	64,119	51,523
	654,605	514,292
Property and equipment, net ( <i>Note 7</i> )	619,867	591,094
Investments and other non-current assets, net ( <i>Note 8</i> )	121,942	126,735
Total assets	\$ 1,815,359	\$ 1,629,785

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 39,466	\$ 39,559
Payable to third-party payors	12,823	12,822
Accrued liabilities:		
Salaries, wages, and benefits	143,721	123,336
Interest	9,118	7,265
Current portion of long-term debt ( <i>Note 9</i> )	16,410	17,052
Other	13,654	14,424
Total current liabilities	<u>235,192</u>	214,458
Long-term debt ( <i>Note 9</i> )	562,535	502,072
Professional, pension, and other non-current liabilities ( <i>Notes 11 and 12</i> )	216,290	215,056
Total liabilities	<u>1,014,017</u>	931,586
Net assets:		
Unrestricted	788,171	681,818
Temporarily restricted	11,694	15,505
Permanently restricted	1,477	876
Total net assets	<u>801,342</u>	698,199
Total liabilities and net assets	<u><u>\$ 1,815,359</u></u>	<u><u>\$ 1,629,785</u></u>

*See accompanying notes.*

## Essentia Health

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

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted revenue:		
Patient service revenue <i>(Note 4)</i>	<b>\$ 1,658,319</b>	\$ 1,543,349
Provision for bad debts <i>(Note 4)</i>	<b>(81,546)</b>	(72,192)
Net patient service revenue	<b>1,576,773</b>	1,471,157
Other operating revenue	<b>71,678</b>	75,082
Total unrestricted revenue	<b>1,648,451</b>	1,546,239
Expenses <i>(Note 14)</i> :		
Salaries, wages, and related benefits	<b>1,015,296</b>	952,962
Professional fees	<b>31,580</b>	25,504
Supplies	<b>244,086</b>	235,273
Purchased services	<b>63,067</b>	64,927
Professional liability and general insurance	<b>16,656</b>	8,545
Utilities	<b>19,304</b>	17,518
Repairs and maintenance	<b>35,070</b>	30,057
Depreciation and amortization	<b>75,520</b>	67,571
Interest	<b>22,731</b>	21,341
Other	<b>94,393</b>	89,662
Total expenses	<b>1,617,703</b>	1,513,360
Income from operations before nonrecurring costs	<b>30,748</b>	32,879
Nonrecurring costs	<b>1,338</b>	-
Income from operations	<b>29,410</b>	32,879
Non-operating gains (losses), net:		
Investment income on funds designated by Board	<b>6,962</b>	5,931
Net realized gains	<b>23,436</b>	8
Net change in unrealized gains and losses on trading securities	<b>14,114</b>	(18,534)
Gain (loss) on disposal of property, net	<b>133</b>	(520)
Gain (loss) on swap agreements	<b>3,949</b>	(11,770)
Gain on affiliation	<b>10,767</b>	-
Other, net	<b>4,510</b>	6,272
Total non-operating gains (losses), net	<b>63,871</b>	(18,613)
Excess of revenue and gains over expenses and losses	<b>93,281</b>	14,266

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted net assets:		
Excess of revenue and gains over expenses and losses	\$ 93,281	\$ 14,266
Net change in unrealized gains and losses on other-than-trading securities	(1)	(46)
Pension and other postretirement liability adjustments	9,167	(46,350)
Other, net	3,906	2,068
	<b>106,353</b>	<b>(30,062)</b>
Discontinued operations:		
Decrease in net assets of discontinued operations	–	(1,400)
Loss on disposal of discontinued operations	–	(4,439)
	–	(5,839)
Increase (decrease) in unrestricted net assets	<b>106,353</b>	<b>(35,901)</b>
Temporarily restricted net assets:		
Contributions	1,892	2,515
Net assets released from restrictions and other changes, net	(5,703)	(2,846)
Decrease in temporarily restricted net assets	<b>(3,811)</b>	<b>(331)</b>
Permanently restricted net assets:		
Contributions and other changes, net	<b>601</b>	<b>167</b>
Total increase (decrease) in net assets	<b>103,143</b>	<b>(36,065)</b>
Net assets at beginning of year	<b>698,199</b>	734,264
Net assets at end of year	<b>\$ 801,342</b>	<b>\$ 698,199</b>

*See accompanying notes.*



# Essentia Health

## Consolidated Statements of Cash Flows (Dollars in Thousands)

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 103,143	\$ (36,065)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	75,520	67,571
Provision for uncollectible accounts	81,546	72,192
(Gain) loss on swap agreements	(3,949)	11,770
Share of joint ventures and related organizations' net income, net	(5,674)	(5,501)
Net change in unrealized gains and losses on other-than-trading securities	1	46
Net change in unrealized gains and losses on trading securities	(14,114)	18,534
Pension and other postretirement liability adjustments	(9,167)	46,350
Restricted contributions and investment income	(1,892)	(2,515)
Gain on affiliation	(5,144)	-
Loss on disposal of discontinued operations	-	4,478
Changes in assets and liabilities:		
Patient accounts receivable	(62,202)	(61,056)
Accounts payable and accrued liabilities	13,975	(12,336)
Professional, pension, and other non-current liabilities	10,175	5,882
Other	(10,618)	(8,391)
Net cash provided by operating activities	<b>171,600</b>	100,959
<b>Investing activities</b>		
Purchase of property and equipment, net	(86,987)	(77,291)
Change in investments in joint ventures and related organizations, net	4,461	4,417
Purchase of trading securities, net	(117,253)	(12,159)
Purchase of securities and assets whose use is limited classified as other-than-trading, net	(480)	(5,242)
Net cash used in investing activities	<b>(200,259)</b>	(90,275)
<b>Financing activities</b>		
Proceeds from issuance and borrowings of long-term debt	173,265	10,010
Principal payments on long-term debt	(122,422)	(22,179)
(Decrease) increase in funds held by trustee	(385)	188
Restricted contributions and investment income	1,892	2,515
Net cash provided by (used in) financing activities	<b>52,350</b>	(9,466)
Net increase in cash and cash equivalents	<b>23,691</b>	1,218
Cash and cash equivalents at beginning of year	<b>75,696</b>	74,478
Cash and cash equivalents at end of year	<b>\$ 99,387</b>	\$ 75,696
<b>Supplemental disclosure of cash flow information</b>		
Interest paid, net of capitalized interest	<b>\$ 21,298</b>	\$ 22,523

*See accompanying notes.*

# Essentia Health

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

June 30, 2013

### 1. Organization

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

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

- St. Mary's Duluth Clinic Health System (operating as Essentia Health East (EH East)) in Duluth, Minnesota
- Brainerd Lakes Integrated Health System (operating as Essentia Health Central (EH Central)) in Brainerd, Minnesota
- Innovis Health LLC (operating as Essentia Health West (EH West)) in Fargo, North Dakota
- Critical Access Group (CAG), formerly known as Essentia Community Hospitals & Clinics (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.

## Essentia Health

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

#### 1. Organization (continued)

EH East directly or indirectly controls the following tax-exempt entities:

Legal Entity	Operating Name, If Applicable	Location
St. Mary's Medical Center	Essentia Health St. Mary's Medical Center	Duluth, Minnesota
The Duluth Clinic, Ltd.	N/A	Duluth, Minnesota
SMDC Medical Center	Essentia Health Duluth	Duluth, Minnesota
Nat G. Polinsky Memorial Rehabilitation Center, Inc.	Essentia Health Polinsky Medical Rehabilitation Center	Duluth, Minnesota
Midwest Medical Equipment and Supplies, Inc.	Essentia Health Medical Equipment & Supplies	Duluth, Minnesota
Northern Pines Medical Center	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 Bridges Medical Center	N/A	Detroit Lakes, Minnesota
First Care Medical Services	Essentia Health Ada	Ada, Minnesota
Graceville Health Center	Essentia Health Fosston	Fosston, Minnesota
	Essentia Health Holy Trinity Hospital	Graceville, Minnesota

# Essentia Health

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

### 1. Organization (continued)

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

Operating Name	Location
Minnesota Valley Health Center	Le Sueur, Minnesota
Clearwater Valley Hospital and Clinics	Orofino, Idaho
St. Mary's Hospital	Cottonwood, Idaho
St. Benedict's Family Medical Center (through October 1, 2011)	Jerome, Idaho

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.

Effective October 1, 2011, Essentia Health agreed to transfer ownership of St. Benedict's Family Medical Center (SBFMC) to St. Luke's Health System, an unrelated entity. For the year ended June 30, 2012, the loss on disposal of SBFMC of \$4,439 and SBFMC's loss prior to its transfer of \$1,400 are included in discontinued operations.

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	
	2013	2012
Benedictine Health System	\$ 58,533	\$ 58,533
St. Francis Regional Medical Center	32,044	30,203
Rainy Lake Medical Center	832	1,166
Brainerd Lakes Surgery Center	1,225	1,143
Other joint ventures	893	905
	<b>\$ 93,527</b>	<b>\$ 91,950</b>

# Essentia Health

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

### 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	
	2013	2012
Other operating revenue	\$ 1,084	\$ 1,153
Non-operating gains, net	4,590	4,348
	<u>\$ 5,674</u>	<u>\$ 5,501</u>

In accordance with a reorganization agreement between Benedictine Health System (BHS) and Essentia effective December 31, 2007, upon any subsequent dissolution or sale of BHS or any of BHS' subsidiaries, Essentia would be entitled to receive the net proceeds of the dissolved or sold entity up to BHS' net asset value as of December 31, 2007. As a result, Essentia has recorded a \$58,533 investment in BHS at June 30, 2013 and 2012.

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:

	2013	2012
Total revenue	\$ 420,554	\$ 403,209
Excess of revenue and gains over expenses	18,081	16,010
Total assets	547,945	516,517
Net assets	214,110	205,632

### 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.

# Essentia Health

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

### **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.

## Essentia Health

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

#### **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 22% for the year ended June 30, 2012 to 29% for the year ended June 30, 2013, 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.

## Essentia Health

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

#### **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. The gross unrealized gains from other-than-trading securities at June 30, 2013, were \$122. There were no unrealized losses. At June 30, 2012, gross unrealized gains and losses from other-than-trading securities were \$4 and \$71, respectively. Based on management's analysis, no other-than-temporary loss was recognized during the years ended June 30, 2013 and 2012.

Net unrealized gains on trading securities held at June 30, 2013 and 2012, were \$31,829 and \$17,715, respectively.

#### **Derivative Financial Instruments**

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

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

#### **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.



## Essentia Health

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

#### **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, 2013 and 2012, capitalized interest totaled \$224 and \$1,060, respectively.

## Essentia Health

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

#### **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 \$14,337 (consisting of Medicare revenue of \$10,036 and Medicaid revenue of \$4,301) and \$19,917 (consisting of Medicare revenue of \$15,466 and Medicaid revenue of \$4,451) during the years ended June 30, 2013 and 2012, respectively, of which \$1,076 and \$7,591 was receivable at June 30, 2013 and 2012, 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.

## Essentia Health

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

#### **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 2013 presentation. These reclassifications had no effect on the change in net assets or net assets as previously reported.

## Essentia Health

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

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Adoption of New Accounting Standard**

Effective July 1, 2012, Essentia adopted Accounting Standards Updated (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which was issued by the Financial Accounting Standards Board in May 2011. The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRSs). The guidance also changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of this guidance did not have a material impact on the consolidated financial statements.

##### **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 \$13,400 and \$10,600 for the years ended June 30, 2013 and 2012, respectively.

## Essentia Health

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

#### 4. Net Patient Revenue

Patient service revenue, net of contractual allowances and discounts (but before bad debt), is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Differences between amounts originally recorded and finally settled are included in operations in the year in which the differences become known. Certain reimbursement arrangements are subject to retroactive audits and adjustments.

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

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

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

Essentia 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, 2013 and 2012, additional revenue due to successful appeals and cost report settlements amounted to approximately \$10,100 and \$8,300, respectively.

## Essentia Health

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

#### 4. Net Patient Revenue (continued)

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

The 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:

	<b>2013</b>	<b>%</b>	<b>2012</b>	<b>%</b>
Medicare	\$ 572,180	34%	\$ 493,562	32%
Medicaid	194,016	12	162,371	11
BCBS	411,433	25	403,341	26
Private-pay, managed care, commercial insurance, and other payors	480,690	29	484,075	31
	<b>\$ 1,658,319</b>	<b>100%</b>	<b>\$ 1,543,349</b>	<b>100%</b>

Net patient revenue is presented net of Medicare, Medicaid, managed care, and other third-party contractual adjustments of \$1,542,294 and \$1,457,687 for the years ended June 30, 2013 and 2012, 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:

	<b>2013</b>	<b>2012</b>
Medicare	\$ 59,744	\$ 63,347
Medicaid	22,778	24,168
BCBS	42,277	49,171
Private-pay, managed care, commercial insurance, and other payors	91,341	89,293
	<b>\$ 216,140</b>	<b>\$ 225,979</b>

## Essentia Health

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

#### 5. Investments and Assets Whose Use Is Limited

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

	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 34,550	\$ 65,062
Domestic equity securities	131,772	105,421
International equity securities	32,609	41,676
Equity mutual funds	91,718	36,437
Debt security mutual funds	131,214	79,680
Corporate debt securities	15,352	19,726
Hedged funds	219,979	178,981
Other	13,660	13,451
	<b>\$ 670,854</b>	<b>\$ 540,434</b>
Funds designated by Board	\$ 551,253	\$ 423,141
Funds held by trustee	7,010	9,630
Funds held under self-insurance program	42,918	42,207
Other	69,673	65,456
	<b>670,854</b>	<b>540,434</b>
Less current portion	16,249	26,142
Total non-current assets whose use is limited	<b>\$ 654,605</b>	<b>\$ 514,292</b>

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, 2013 and 2012, Essentia's ownership percentage of alternative investments ranged from 0.03% to 9% and from 0.03% to 11%, 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.

## Essentia Health

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

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

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

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

	<b>2013</b>	<b>2012</b>
Dividends and interest	\$ <b>10,450</b>	\$ 9,778
Net realized gains	<b>23,454</b>	8
Net change in unrealized gains and losses on trading investments	<b>14,114</b>	(18,534)
Net change in unrealized gains and losses on other-than-trading investments	<b>(1)</b>	(46)
	<b>48,017</b>	(8,794)
Less investment expenses related to investment return	<b>3,292</b>	3,677
	<b>\$ 44,725</b>	\$ (12,471)
Other operating revenue	\$ <b>196</b>	\$ 170
Non-operating gains (losses)	<b>44,512</b>	(12,595)
Other changes in unrestricted net assets	<b>(1)</b>	(46)
Other changes in temporarily restricted net assets	<b>18</b>	-
	<b>\$ 44,725</b>	\$ (12,471)



## Essentia Health

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

#### 6. Fair Value of Financial Instruments

Financial instruments carried at fair value as of June 30, 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
<b>Assets</b>				
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
<b>Liabilities</b>				
Swap liabilities	\$ –	\$ –	\$ 15,828	\$ 15,828

## Essentia Health

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

#### 6. Fair Value of Financial Instruments (continued)

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

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

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

## Essentia Health

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

#### **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, 2013 and 2012, Essentia's fair value of swaps included a CVA of \$1,703 and \$3,338, respectively.

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

## Essentia Health

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

#### 6. Fair Value of Financial Instruments (continued)

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

	<u>Swap Assets and Liabilities, Net</u>
Fair value at June 30, 2011	\$ (13,083)
Realized and unrealized losses, net on swap agreements included in excess of revenue and gains over expenses and losses	(11,770)
Settlements	977
Fair value at June 30, 2012	<u>(23,876)</u>
Realized and unrealized losses, net on swap agreements included in excess of revenue and gains over expenses and losses	<b>3,949</b>
Settlements	<b>4,099</b>
Fair value at June 30, 2013	<u><u>\$ (15,828)</u></u>

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, 2013 and 2012, the fair value of Essentia's long-term debt was approximately \$605,800 and \$551,300, respectively, compared with its carrying value of \$578,945 and \$519,123. Fair value of variable rate long-term debt (Level 2) approximated its carrying value at both June 30, 2013 and 2012.

## Essentia Health

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

#### 7. Property and Equipment

Property and equipment at June 30 are summarized as follows:

	<b>2013</b>	<b>2012</b>
Land and land improvements	\$ <b>38,384</b>	\$ 35,388
Buildings and building improvements	<b>724,444</b>	694,309
Furniture and equipment	<b>537,486</b>	546,392
	<b>1,300,314</b>	1,276,089
Accumulated depreciation and amortization	<b>(701,043)</b>	(704,640)
	<b>599,271</b>	571,449
Construction-in-progress	<b>20,596</b>	19,645
	<b>\$ 619,867</b>	\$ 591,094

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, 2013 and 2012, and the related other long-term liability of \$8,432 and \$8,849 at June 30, 2013 and 2012, 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:

	<b>2013</b>	<b>2012</b>
Notes receivable	\$ <b>6,454</b>	\$ 8,672
Investment in joint ventures and related organizations	<b>93,527</b>	93,120
Deferred financing costs, less accumulated amortization of \$5,072 in 2013 and \$4,362 in 2012	<b>10,274</b>	10,787
Intangible assets, less accumulated amortization of \$654 in 2013 and \$550 in 2012	<b>1,606</b>	1,710
Fair value of swap asset (Note 9)	—	3,278
Other	<b>10,081</b>	9,168
	<b>\$ 121,942</b>	\$ 126,735

## Essentia Health

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

#### 9. Long-Term Debt

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

	<b>Annual Interest Rate</b>	<b>2013</b>	<b>2012</b>
Essentia Obligated Group Revenue Bonds:			
Senior Secured Notes, due through 2035	3.99%	\$ <b>159,525</b>	\$ –
Series 2011, due through 2015	4.75%	<b>25,296</b>	25,383
Series 2010, due through 2035	Variable rate	–	103,855
Series 2008, due through 2037	3.00% to 5.50%	<b>231,211</b>	231,457
Series 2008, due through 2040	4.90% to 5.10%	<b>105,605</b>	105,559
Other revenue bonds	2.00% to 5.57%	<b>7,410</b>	19,632
Other, primarily mortgages payable with annual principal payments through 2051	Various	<b>49,898</b>	33,238
Total debt		<b>578,945</b>	519,124
Less current portion		<b>16,410</b>	17,052
		<b>\$ 562,535</b>	\$ 502,072

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.

## Essentia Health

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

#### **9. Long-Term Debt (continued)**

All Obligated Group members have pledged certain unrestricted receivables and certain pass-through obligations for payment of long-term indebtedness issued under the MTI. No pass-through obligations were subject to the pledge as of June 30, 2013. 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 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 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%.

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.

In June 2011, Essentia entered into a long-term master revolving line of credit with a bank under which it may borrow up to an aggregate of \$60,000. The annual interest rate is based on LIBOR plus an applicable margin (1.15% at June 30, 2013). The line of credit terminates in June 2014, at the option of the bank. The line of credit is secured by a note issued under the MTI and is an obligation of the Essentia Obligated Group. As of June 30, 2013 and 2012, there were no amounts outstanding under the line of credit.

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, 2013 and 2012.

## Essentia Health

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

#### 9. Long-Term Debt (continued)

The aggregate annual maturities of long-term debt, excluding the line of credit, for each of the five years subsequent to June 30, 2013, are as follows:

2014	\$ 16,410
2015	41,810
2016	8,800
2017	26,279
2018	15,016

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:

	2013	2012
Bond interest, principal, and construction funds	\$ 3,108	\$ 6,426
Debt service reserve funds	3,902	3,204
	7,010	9,630
Less current portion	3,059	6,064
Total long-term portion	\$ 3,951	\$ 3,566

At June 30, 2013, 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	\$ 217,495	2030 to 2040	SIFMA	68% of 1-month or 3-month LIBOR plus 0.105% to 0.605%



## Essentia Health

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

#### 9. Long-Term Debt (continued)

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

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

	Notional Amount	Assets		Liabilities		Non-Operating Gain (Loss)	
		2013	2012	2013	2012	2013	2012
Interest rate swaps	\$ -	\$ -	\$ -	\$ -	\$ 3,283	\$ (322)	\$ (1,317)
Constant maturity swap	-	-	3,278	-	-	721	(811)
Fixed-payer swaps	50,875	-	-	8,647	16,910	3,152	(11,113)
Basis swaps	217,495	-	-	7,181	6,961	398	1,471
Total swaps	<u>\$ 268,370</u>	<u>\$ -</u>	<u>\$ 3,278</u>	<u>\$ 15,828</u>	<u>\$ 27,154</u>	<u>\$ 3,949</u>	<u>\$ (11,770)</u>

Certain of Essentia's derivative instruments contain provisions that require Essentia to post collateral when the net liability of the derivative instruments is greater than predetermined thresholds ranging from \$10,000 to \$20,000. No collateral was required at June 30, 2013 or 2012.

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, 2013 and 2012, the counterparty with fair values due to Essentia had a Standard & Poor's credit quality rating of A-.

#### 10. Income Taxes

Deferred tax assets at June 30, 2013 and 2012, relate primarily to depreciation along with federal and state net operating loss (NOL) carryovers. As of June 30, 2013, Essentia had federal NOLs of \$4,332 and state NOLs of \$4,296, expiring in varying amounts through 2033. Due to the operating performance of Essentia's taxable subsidiaries, a full valuation allowance of \$1,894 and \$1,853 has been established at June 30, 2013 and 2012, respectively, since it is more likely than not that none of the deferred tax asset will be realized.

## Essentia Health

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

#### 10. Income Taxes (continued)

The statute of limitations for tax years ended June 30, 2010 through June 30, 2013, 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, 2010, 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.

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:

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 223,819	\$ 186,234
Service cost	2,770	2,358
Interest cost	10,323	10,529
Actuarial (gain) loss	(160)	30,587
Benefits paid	(6,747)	(5,889)
Benefit obligation at end of year	<b>230,005</b>	223,819
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	123,066	129,391
Actual return (loss) on plan assets	15,336	(8,614)
Contributions	8,346	8,478
Benefits paid	(6,747)	(5,889)
Expenses paid	(300)	(300)
Fair value of plan assets at end of year	<b>139,701</b>	123,066
Net liability recognized (underfunded plan)	<b>\$ (90,304)</b>	\$ (100,753)

## Essentia Health

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

#### 11. Employee Benefit Plans (continued)

Accumulated benefit obligation was \$193,825 and \$195,326 at June 30, 2013 and 2012, 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, has no impact on Essentia's consolidated balance sheet but results in a decrease in future pension expense (\$1,909 for the year ended June 30, 2013).

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

	<b>2013</b>	<b>2012</b>
Current year actuarial (gain) loss	\$ (5,954)	\$ 49,237
Amortization of actuarial loss	<b>(3,981)</b>	(2,887)
Total	<b>\$ (9,935)</b>	\$ 46,350

Actuarial losses included in unrestricted net assets that have not been recognized in net periodic pension cost at June 30, 2013 and 2012, were \$83,493 and \$93,428, respectively. It is expected that actuarial losses recognized in net periodic pension cost during the year ending June 30, 2014, will be \$3,300. 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:

	<b>2013</b>	<b>2012</b>
Service cost	\$ 2,770	\$ 2,358
Interest cost	<b>10,323</b>	10,529
Expected return on plan assets	<b>(9,542)</b>	(10,036)
Amortization of unrecognized net actuarial loss	<b>3,981</b>	2,887
Expenses paid	<b>300</b>	300
Benefit cost	<b>\$ 7,832</b>	\$ 6,038

## Essentia Health

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

#### 11. Employee Benefit Plans (continued)

	<b>2013</b>	<b>2012</b>
<b>Weighted average assumptions</b>		
Discount rate at end of year (used to determine benefit obligation)	<b>4.54% to 4.76%</b>	4.20% to 4.64%
Discount rate at beginning of year (used to determine net periodic benefit cost)	<b>4.20% to 4.64%</b>	5.29% to 5.80%
Expected annual return on plan assets	<b>7.75%</b>	7.75%
Rate of annual compensation increase	<b>1.60% to 2.40%</b>	2.00% to 2.60%
Health care cost annual trend rate	<b>8.50%</b>	8.50%

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:

	<b>Asset Allocation</b>		
	<b>Target</b>	<b>2013</b>	<b>2012</b>
Equity securities	30%–90%	<b>40%</b>	38%
Debt securities	15%–50%	<b>11</b>	18
Cash and cash equivalents	0%–55%	<b>8</b>	7
Other (primarily alternative investments)	0%–40%	<b>41</b>	37
Total		<b>100%</b>	100%

## Essentia Health

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

#### 11. Employee Benefit Plans (continued)

The fair value of the Defined Benefit Plans' pension plan assets was determined using the fair value hierarchy, as defined in Note 6, at June 30, 2013:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
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
	<u>\$ 82,831</u>	<u>\$ —</u>	<u>\$ 56,870</u>	<u>\$ 139,701</u>

The fair value of the Defined Benefit Plans' pension plan assets was determined using the fair value hierarchy, as defined in Note 6, at June 30, 2012:

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

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

## Essentia Health

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

#### 11. Employee Benefit Plans (continued)

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

	<b>Alternative Investments</b>	<b>Immediate Participation Guarantee Contracts</b>	<b>Total</b>
Fair value at June 30, 2011	\$ 39,439	\$ 8,856	\$ 48,295
Purchases, issuances, and settlements, net	9,341	(449)	8,892
Actual return on plan assets	(2,968)	308	(2,660)
Fair value at June 30, 2012	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	<u>\$ 48,406</u>	<u>\$ 8,464</u>	<u>\$ 56,870</u>
 Change in unrealized gains on investments held at June 30, 2013	 <u>\$ 4,028</u>	 <u>\$ (148)</u>	 <u>\$ 3,880</u>

During 2014, Essentia expects to make pension contributions of \$7,997 to the Defined Benefit Plans.

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

2014	\$ 8,572
2015	8,839
2016	9,341
2017	9,687
2018	11,463
2019–2022	67,882

## Essentia Health

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

#### 11. Employee Benefit Plans (continued)

##### Other Plans

Under a collective bargaining agreement, Essentia contributes to a union-sponsored multiemployer retirement plan. The risks of participation in these multiemployer plans 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, 2013 and 2012, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2013 and 2012 is for the plan's year-end at December 31, 2012 and 2011, respectively. The zone status is based on information that Essentia received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the range of expiration dates of various collective-bargaining agreements to which the plans are subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions of Essentia		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2013	2012		2013	2012		
Steelworkers Pension Trust	23-6648508/499	Green	Green	N/A	\$ 3,669	\$ 3,638	No	June 30, 2013 to September 30, 2015

## Essentia Health

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

#### **11. Employee Benefit Plans (continued)**

The union-sponsored multiemployer plan was at least 80% funded at December 31, 2012 and 2011. Total amounts expensed under the union-sponsored multiemployer plan were \$3,682 and \$3,652 for the years ended December 31, 2012 and 2011, respectively. Essentia is required to make contributions ranging from 3% to 5% of covered employees' gross earnings for the year ending December 31, 2013.

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, 2012.

Substantially all of Essentia's entities have individual defined contribution plans covering most of their employees. Contributions are based on a percentage of eligible employees' salaries. Total pension expense relating to the union-sponsored multiemployer retirement plan and defined contribution pension plans was \$44,726 and \$43,209 for the years ended June 30, 2013 and 2012, 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 \$26,461 and \$22,063 at June 30, 2013 and 2012, 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 \$14,120 and \$12,189 at June 30, 2013 and 2012, respectively. Essentia has entered into a surety bond agreement to comply with this requirement.



## Essentia Health

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

#### 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 \$109,980, most of which will be debt-financed. Construction-in-progress was approximately \$1,035 as of June 30, 2013.

Essentia has leases for equipment and satellite office facilities, which are classified as operating leases. Rental expense under these operating leases totaled \$21,578 and \$20,192 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease payments on operating leases in effect on June 30, 2013, for each of the five subsequent years and thereafter are as follows:

2014	\$	14,644
2015		11,668
2016		10,586
2017		9,162
2018		7,368
Thereafter		46,461
	\$	<u>99,889</u>

In connection with a corporate reorganization of BSBA, assets and liabilities of certain facilities were transferred to Essentia in 1985. BSBA retains title to the land occupied by these facilities and has leased the land to the facilities through June 30, 2040. Minimum annual lease payments are \$31,658 over the remaining lease period, adjusted for inflation. Lease payments were \$822 and \$798 for the years ended June 30, 2013 and 2012, respectively.

Essentia has guaranteed amounts totaling \$7,825 and \$8,177 as of June 30, 2013 and 2012, respectively. No liability is recorded related to these guarantees.

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

At June 30, 2013, 39% of employees are represented by 38 collective bargaining agreements, of which 14 will expire within one year.

## Essentia Health

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

#### **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**

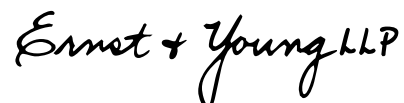
Essentia's management evaluated events and transactions occurring subsequent to June 30, 2013, through October 2, 2013, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

# Supplementary Information

## Report of Independent Auditors on Supplementary Information

The Board of Directors  
Essentia Health

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of community service and charity care provided, consolidating balance sheet, and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information, except for that portion marked “unaudited,” has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portion marked “unaudited,” on which we express no opinion, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

October 2, 2013

## 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, 2013 and 2012:

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Cost of providing charity care	\$ 13,358	\$ 10,664
Costs in excess of Medicaid payments	<b>68,346</b>	51,960
Medicaid surcharge and MinnesotaCare tax	<b>21,084</b>	19,756
Community services	<b>5,334</b>	5,401
Subsidized health services	–	22
Education and work force development	<b>3,623</b>	2,858
Research	<b>3,477</b>	3,376
Cash and in-kind donations	<b>929</b>	583
Total cost of community benefits*	<b>116,151</b>	94,620
Cost in excess of Medicare payments	<b>123,337</b>	121,921
Other care provided without compensation (bad debt, at cost)	<b>39,944</b>	35,289
Discounts offered to uninsured patients	<b>5,663</b>	5,246
Taxes and fees	<b>3,547</b>	3,116
Total value of community contributions	<b>\$ 288,642</b>	\$ 260,192
Cost of community benefits as a percent of total operating expenses	<b>7.2%</b>	6.3%
Value of community contributions as a percent of total operating expenses	<b>17.8%</b>	17.2%

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

# Essentia Health

## Consolidating Balance Sheet

June 30, 2013

	<b>EH East Obligated Group Consolidated</b>	<b>EH Sandstone</b>	<b>EH Deer River</b>	<b>EH Virginia</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 35,193,641	\$ (1,278,326)	\$ 2,544,913	\$ 9,826,998
Short-term investments	3,055,010	2,139,663	–	403,630
Current portion of assets whose use is limited	580,012	–	–	1,192,744
Patient accounts receivable, less allowances for uncollectible accounts	110,544,038	3,018,802	2,851,356	8,280,653
Amounts due from affiliates	2,438,877	–	–	–
Prepaid expenses and other receivables	22,204,120	301,634	116,058	964,677
Inventories	14,365,024	260,131	310,128	1,622,937
Total current assets	188,380,722	4,441,904	5,822,455	22,291,639
Assets whose use is limited, less current portion:				
Funds designated by Board	330,541,533	201,729	–	2,409,456
Funds held by trustee	2,187,081	–	–	–
Funds held under self-insurance program	–	–	–	–
Other	6,093,837	9,374	811,757	–
Total assets whose use is limited	338,822,451	211,103	811,757	2,409,456
Property and equipment, net	292,267,295	3,364,883	12,821,530	2,954,333
Investments and other non-current assets, net	8,566,641	768,560	772,059	125,000
Total assets	<u>\$ 828,037,109</u>	<u>\$ 8,786,450</u>	<u>\$ 20,227,801</u>	<u>\$ 27,780,428</u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable	\$ 23,562,538	\$ 664,057	\$ 601,627	\$ 1,241,419
Payable to third-party payors	5,837,148	136,000	138,731	108,241
Accrued liabilities:				
Salaries, wages, and benefits	67,260,738	662,898	1,018,946	4,630,231
Interest	3,540,901	–	8,598	–
Amounts due to affiliates	–	2,438,877	–	–
Current portion of long-term debt	6,045,188	–	870,774	384,225
Other	4,248,329	12,767	58,359	814,344
Total current liabilities	110,494,842	3,914,599	2,697,035	7,178,460
Long-term debt	208,211,803	8,000	7,162,807	655,411
Professional, pension, and other non-current liabilities	109,289,203	–	266,000	7,427,331
Total liabilities	427,995,848	3,922,599	10,125,842	15,261,202
Net assets:				
Unrestricted	399,984,739	4,854,478	9,788,786	12,498,864
Temporarily restricted	22,522	9,373	313,173	20,362
Permanently restricted	34,000	–	–	–
Total net assets	400,041,261	4,863,851	10,101,959	12,519,226
Total liabilities and net assets	<u>\$ 828,037,109</u>	<u>\$ 8,786,450</u>	<u>\$ 20,227,801</u>	<u>\$ 27,780,428</u>

Amounts may differ slightly from corresponding amounts on pages 3 and 4 due to rounding differences.

<b>EH East Other Non-Obligated Group</b>	<b>EH West</b>	<b>EH St. Mary's – Detroit Lakes</b>	<b>EH Fosston</b>	<b>EH Ada</b>	<b>EH Holy Trinity Hospital</b>	<b>EH Central Consolidated</b>
\$ 1,851,581	\$ 253,803	\$ 2,473,173	\$ 3,930,716	\$ 1,217,208	\$ 60,138	\$ 5,445,496
–	–	743,277	452,654	–	–	768,534
77,495	380,226	584,581	715,609	–	–	77,624
4,525,193	43,456,304	9,724,375	4,349,112	919,014	1,027,049	18,781,953
–	1,052,467	–	–	–	–	–
180,991	2,436,850	371,010	828,233	123,782	–	1,030,847
1,207,602	9,234,382	2,457,599	357,651	110,268	82,847	3,925,589
7,842,862	56,814,032	16,354,015	10,633,975	2,370,272	1,170,034	30,030,043
1,093,056	2,186,992	23,418,307	392,281	1,427,283	–	70,661,746
563,300	–	307,934	287,982	–	–	555,500
–	–	–	–	–	–	–
1,866	–	–	–	–	–	–
1,658,222	2,186,992	23,726,241	680,263	1,427,283	–	71,217,246
11,698,843	134,752,287	61,749,570	12,589,698	566,534	1,315,055	65,043,726
635,086	8,861,315	821,781	64,042	198,457	–	2,508,082
\$ 21,835,013	\$ 202,614,626	\$ 102,651,607	\$ 23,967,978	\$ 4,562,546	\$ 2,485,089	\$ 168,799,097
\$ 420,115	\$ 5,145,455	\$ 1,822,491	\$ 456,501	\$ –	\$ 19,135	\$ 3,200,804
79,400	1,735,352	885,453	365,763	642,446	16,494	1,547,710
1,336,601	20,415,406	2,732,323	1,040,650	451,134	245,004	10,458,979
–	2,557,783	957,480	145,386	–	–	524,517
–	18,872,709	538,613	4,454,227	114,645	32,406	–
230,718	3,011,622	1,223,924	267,814	84,463	101,124	402,419
217,947	440,380	75,238	5,685	–	–	448,418
2,284,781	52,178,707	8,235,522	6,736,026	1,292,688	414,163	16,582,847
8,868,848	149,808,781	57,155,142	8,579,896	255,415	315,778	31,876,156
5,008,434	13,584,344	1,114,885	154,725	–	–	272,985
16,162,063	215,571,832	66,505,549	15,470,647	1,548,103	729,941	48,731,988
5,671,085	(12,979,279)	36,146,058	8,433,289	3,014,443	1,750,472	120,044,961
1,865	22,073	–	64,042	–	4,676	22,148
–	–	–	–	–	–	–
5,672,950	(12,957,206)	36,146,058	8,497,331	3,014,443	1,755,148	120,067,109
\$ 21,835,013	\$ 202,614,626	\$ 102,651,607	\$ 23,967,978	\$ 4,562,546	\$ 2,485,089	\$ 168,799,097

# Essentia Health

## Consolidating Balance Sheet (continued)

June 30, 2013

	St. Mary's Hospital	Clearwater Valley Hospital and Clinics	Minnesota Valley Health Center	DL Surgery Center
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 2,140,049	\$ 1,259,664	\$ 2,791,004	\$ —
Short-term investments	374	—	39,509	—
Current portion of assets whose use is limited	—	—	261,952	—
Patient accounts receivable, less allowances for uncollectible accounts	2,920,192	3,891,624	1,850,136	—
Amounts due from affiliates	219,057	—	—	—
Prepaid expenses and other receivables	650,142	349,141	582,376	—
Inventories	383,673	408,479	98,651	—
<b>Total current assets</b>	<b>6,313,487</b>	<b>5,908,908</b>	<b>5,623,628</b>	<b>—</b>
Assets whose use is limited, less current portion:				
Funds designated by Board	6,473,113	1,488,905	121,918	—
Funds held by trustee	—	—	—	—
Funds held under self-insurance program	—	—	—	—
Other	—	—	—	—
<b>Total assets whose use is limited</b>	<b>6,473,113</b>	<b>1,488,905</b>	<b>121,918</b>	<b>—</b>
Property and equipment, net	6,140,512	3,854,621	7,125,513	—
Investments and other non-current assets, net	—	—	652,465	—
<b>Total assets</b>	<b>\$ 18,927,112</b>	<b>\$ 11,252,434</b>	<b>\$ 13,523,524</b>	<b>\$ —</b>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable	\$ 386,117	\$ 459,958	\$ 601,314	\$ —
Payable to third-party payors	600,000	600,000	130,000	—
Accrued liabilities:				
Salaries, wages, and benefits	1,008,099	870,991	435,567	—
Interest	—	—	11,558	—
Amounts due to affiliates	—	219,057	—	—
Current portion of long-term debt	297,255	261,592	317,000	—
Other	—	—	149,901	—
<b>Total current liabilities</b>	<b>2,291,471</b>	<b>2,411,598</b>	<b>1,645,340</b>	<b>—</b>
Long-term debt	693,200	642,430	6,505,324	—
Professional, pension, and other non-current liabilities	18,695	819,278	—	—
<b>Total liabilities</b>	<b>3,003,366</b>	<b>3,873,306</b>	<b>8,150,664</b>	<b>—</b>
Net assets:				
Unrestricted	15,923,746	7,379,128	4,244,238	—
Temporarily restricted	—	—	476,157	—
Permanently restricted	—	—	652,465	—
<b>Total net assets</b>	<b>15,923,746</b>	<b>7,379,128</b>	<b>5,372,860</b>	<b>—</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,927,112</b>	<b>\$ 11,252,434</b>	<b>\$ 13,523,524</b>	<b>\$ —</b>

*Amounts may differ slightly from corresponding amounts on pages 3 and 4 due to rounding differences.*



Critical Access Group	Essentia Health Insurance Services	Essentia Institute of Rural Health	Essentia Health Foundation	Essentia Health Corporate	Eliminations	Essentia Health Consolidated
\$ 2,723,116	\$ —	\$ 832,370	\$ 2,181,553	\$ 25,940,153	\$ —	\$ 99,387,250
1,684,428	—	285,259	104,977	8,143,270	—	17,820,585
4,550,923	7,264,066	—	360,166	203,928	—	16,249,326
—	—	—	—	—	—	216,139,801
31,352	—	—	—	25,215,638	(28,957,391)	—
194,118	13,972	677,729	1,826,298	1,784,058	(112,661)	34,523,375
—	—	—	—	—	—	34,824,961
9,183,937	7,278,038	1,795,358	4,472,994	61,287,047	(29,070,052)	418,945,298
15,800,767	—	2,058,720	—	92,603,834	—	550,879,640
49,054	—	—	—	—	—	3,950,851
—	35,654,801	—	—	—	—	35,654,801
—	—	—	21,167,141	36,035,372	—	64,119,347
15,849,821	35,654,801	2,058,720	21,167,141	128,639,206	—	654,604,639
1,704,912	—	991,780	28,726	897,187	—	619,867,005
32,043,550	—	—	—	66,375,306	(450,640)	121,941,704
\$ 58,782,220	\$ 42,932,839	\$ 4,845,858	\$ 25,668,861	\$ 257,198,746	\$ (29,520,692)	\$ 1,815,358,646
\$ 8,304	\$ 244,218	\$ 50,776	\$ 67,879	\$ 1,462,975	\$ (949,571)	\$ 39,466,112
—	—	—	—	—	—	12,822,738
635,992	—	869,716	110,652	29,537,280	—	143,721,207
—	—	—	—	1,371,821	—	9,118,044
—	—	1,221,131	116,155	—	(28,007,820)	—
—	—	—	—	3,023,970	(112,661)	16,409,427
12	6,922,501	129,469	49,679	80,881	—	13,653,910
644,308	7,166,719	2,271,092	344,365	35,476,927	(29,070,052)	235,191,438
—	—	—	—	82,247,005	(450,640)	562,535,356
—	9,963,618	—	370,954	67,999,758	—	216,290,210
644,308	17,130,337	2,271,092	715,319	185,723,690	(29,520,692)	1,014,017,004
58,137,912	25,802,502	2,574,766	13,425,356	71,475,056	—	788,170,600
—	—	—	10,737,237	—	—	11,693,628
—	—	—	790,949	—	—	1,477,414
58,137,912	25,802,502	2,574,766	24,953,542	71,475,056	—	801,341,642
\$ 58,782,220	\$ 42,932,839	\$ 4,845,858	\$ 25,668,861	\$ 257,198,746	\$ (29,520,692)	\$ 1,815,358,646

# Essentia Health

## Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2013

	<b>EH East Obligated Group Consolidated</b>	<b>EH Sandstone</b>	<b>EH Deer River</b>	<b>EH Virginia</b>	<b>EH East Other Non-Obligated Group</b>
<b>Unrestricted revenue:</b>					
Patient service revenue	\$ 945,191,651	\$ 17,541,495	\$ 17,936,773	\$ 29,970,483	\$ 24,319,969
Provision for bad debts	(44,799,156)	(866,579)	(696,338)	(552,781)	(250,560)
Net patient service revenue	900,392,495	16,674,916	17,240,435	29,417,702	24,069,409
Other operating revenue	39,710,545	834,551	1,194,705	694,209	1,097,966
<b>Total unrestricted revenue</b>	<b>940,103,040</b>	<b>17,509,467</b>	<b>18,435,140</b>	<b>30,111,911</b>	<b>25,167,375</b>
<b>Expenses:</b>					
Salaries, wages, and related benefits	556,758,305	10,490,350	9,734,332	17,078,763	13,210,928
Professional fees	7,710,773	1,450,337	1,249,263	1,189,792	65,055
Supplies	140,580,264	1,229,653	1,870,153	4,495,814	5,637,739
Purchased services	70,089,118	1,476,603	1,717,360	2,701,080	1,534,322
Professional liability and general insurance	8,011,505	81,366	171,602	111,334	93,467
Utilities	9,960,457	263,647	278,475	737,801	339,615
Repairs and maintenance	17,881,243	866,545	259,997	648,530	144,703
Depreciation and amortization	36,938,176	421,312	1,334,425	242,581	1,091,509
Interest	8,568,005	(1,000)	302,330	26,602	512,960
Other	48,374,521	1,398,511	966,153	1,780,254	2,684,659
<b>Total expenses</b>	<b>904,872,367</b>	<b>17,677,324</b>	<b>17,884,090</b>	<b>29,012,551</b>	<b>25,314,957</b>
<b>Income (loss) from operations before nonrecurring costs</b>	<b>35,230,673</b>	<b>(167,857)</b>	<b>551,050</b>	<b>1,099,360</b>	<b>(147,582)</b>
<b>Nonrecurring costs</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Income (loss) from operations</b>	<b>35,230,673</b>	<b>(167,857)</b>	<b>551,050</b>	<b>1,099,360</b>	<b>(147,582)</b>
<b>Non-operating gains (losses), net:</b>					
Investment income (loss) on funds designated by Board	3,658,571	5,649	(5,075)	(38,574)	13,082
Net realized gains (losses)	12,317,829	(684)	—	118,302	33,187
Net change in unrealized gains and losses on trading securities	9,189,814	—	—	(19,725)	33,033
Gain (loss) on disposal of property	(39,506)	476	1,200	—	(4,886)
Gain (loss) on swap agreements	4,321,070	—	—	—	—
Gain on affiliation	—	—	9,273,693	—	1,493,404
Other, net	414,733	92,913	(25,194)	4,344,296	(5,008,434)
<b>Total non-operating gains (losses)</b>	<b>29,862,511</b>	<b>98,354</b>	<b>9,244,624</b>	<b>4,404,299</b>	<b>(3,440,614)</b>
<b>Excess (deficit) of revenue and gains over expenses and losses</b>	<b>65,093,184</b>	<b>(69,503)</b>	<b>9,795,674</b>	<b>5,503,659</b>	<b>(3,588,196)</b>

	<b>EH East Obligated Group Consolidated</b>	<b>EH Sandstone</b>	<b>EH Deer River</b>	<b>EH Virginia</b>	<b>EH East Other Non-Obligated Group</b>
Unrestricted net assets:					
Excess (deficit) of revenue and gains over expenses and losses	\$ 65,093,184	\$ (69,503)	\$ 9,795,674	\$ 5,503,659	\$ (3,588,196)
Net change in unrealized gains and losses on other-than-trading securities	(3,184)	-	-	-	-
Pension and other postretirement liability adjustments	9,167,052	-	-	-	-
Other, net	(12,316,675)	(100,332)	(4,221)	7,000,000	(208,810)
Increase (decrease) in unrestricted net assets	61,940,377	(169,835)	9,791,453	12,503,659	(3,797,006)
Temporarily restricted net assets:					
Contributions	(62,766)	4,926	-	-	9,991
Net assets released from restrictions and other changes, net	16,345	(6,826)	310,506	15,567	(1,461)
Increase (decrease) in temporarily restricted net assets	(46,421)	(1,900)	310,506	15,567	8,530
Permanently restricted net assets:					
Contributions and other changes, net	-	-	-	-	-
Increase (decrease) in net assets	61,893,956	(171,735)	10,101,959	12,519,226	(3,788,476)
Net assets at beginning of year	338,147,305	5,035,586	-	-	9,461,426
Net assets at end of year	<u>\$ 400,041,261</u>	<u>\$ 4,863,851</u>	<u>\$ 10,101,959</u>	<u>\$ 12,519,226</u>	<u>\$ 5,672,950</u>

*Amounts may differ slightly from corresponding amounts on pages 5 and 6 due to rounding differences.*

## Essentia Health

### Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended June 30, 2013

	EH EH West	EH St. Mary's – Detroit Lakes	EH Fosston	EH EH Ada	EH Holy Trinity Hospital
Unrestricted revenue:					
Patient service revenue	\$ 292,108,130	\$ 79,125,391	\$ 22,584,731	\$ 6,363,164	\$ 7,861,721
Provision for bad debts	(18,553,214)	(2,490,438)	(917,246)	(292,953)	(91,243)
Net patient service revenue	273,554,916	76,634,953	21,667,485	6,070,211	7,770,478
Other operating revenue	8,298,645	3,632,613	1,509,386	1,087,260	187,495
Total unrestricted revenue	281,853,561	80,267,566	23,176,871	7,157,471	7,957,973
Expenses:					
Salaries, wages, and related benefits	157,411,243	45,514,175	14,997,568	4,294,539	4,318,102
Professional fees	7,210,317	1,275,251	362,764	914,337	532,192
Supplies	45,705,887	10,983,253	2,045,679	441,631	453,623
Purchased services	22,763,699	6,620,539	764,506	336,127	321,359
Professional liability and general insurance	2,977,510	859,698	113,553	72,837	120,261
Utilities	2,996,110	1,129,277	355,059	236,659	222,621
Repairs and maintenance	6,877,381	859,905	328,738	109,376	114,845
Depreciation and amortization	16,787,818	4,824,217	1,396,835	161,440	308,347
Interest	6,589,599	2,331,554	393,185	12,441	29,694
Other	13,921,168	4,476,030	1,595,092	274,043	1,440,012
Total expenses	283,240,732	78,873,899	22,352,979	6,853,430	7,861,056
Income (loss) from operations before nonrecurring costs	(1,387,171)	1,393,667	823,892	304,041	96,917
Nonrecurring costs	–	–	–	–	–
Income (loss) from operations	(1,387,171)	1,393,667	823,892	304,041	96,917
Non-operating gains (losses), net:					
Investment income (loss) on funds designated by Board	26,173	284,651	–	35,341	–
Net realized gains (losses)	89,774	947,276	–	59,713	–
Net change in unrealized gains and losses on trading securities	66,151	698,903	21,911	43,210	–
Gain (loss) on disposal of property	(45,694)	783	–	–	1,075
Gain (loss) on swap agreements	3,183,393	1,179,003	–	–	–
Gain on affiliation	–	–	–	–	–
Other, net	(198,417)	(92,625)	58,985	27,931	6,150
Total non-operating gains (losses)	3,121,380	3,017,991	80,896	166,195	7,225
Excess (deficit) of revenue and gains over expenses and losses	1,734,209	4,411,658	904,788	470,236	104,142

	EH EH West	EH St. Mary's – Detroit Lakes	EH Fosston	EH EH Ada	EH Holy Trinity Hospital
Unrestricted net assets:					
Excess (deficit) of revenue and gains over expenses and losses	\$ 1,734,209	\$ 4,411,658	\$ 904,788	\$ 470,236	\$ 104,142
Net change in unrealized gains and losses on other-than-trading securities	-	-	-	-	-
Pension and other postretirement liability adjustments	-	-	-	-	-
Other, net	(3,982,974)	(489,722)	(200,001)	(17,463)	(16,565)
Increase (decrease) in unrestricted net assets	(2,248,765)	3,921,936	704,787	452,773	87,577
Temporarily restricted net assets:					
Contributions	-	-	-	-	-
Net assets released from restrictions and other changes, net	-	-	1,655	-	-
Increase (decrease) in temporarily restricted net assets	-	-	1,655	-	-
Permanently restricted net assets:					
Contributions and other changes, net	-	-	-	-	-
Increase (decrease) in net assets	(2,248,765)	3,921,936	706,442	452,773	87,577
Net assets at beginning of year	(10,708,441)	32,224,122	7,790,889	2,561,670	1,667,571
Net assets at end of year	<u>\$ (12,957,206)</u>	<u>\$ 36,146,058</u>	<u>\$ 8,497,331</u>	<u>\$ 3,014,443</u>	<u>\$ 1,755,148</u>

Amounts may differ slightly from corresponding amounts on pages 5 and 6 due to rounding differences.

## Essentia Health

### Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended June 30, 2013

	<b>EH Central Consolidated</b>	<b>St. Mary's Hospital</b>	<b>Clearwater Valley Hospital and Clinics</b>	<b>Minnesota Valley Health Center</b>
Unrestricted revenue:				
Patient service revenue	\$ 164,969,726	\$ 19,039,024	\$ 20,226,808	\$ 11,574,950
Provision for bad debts	(9,968,496)	(504,757)	(1,235,790)	(335,000)
Net patient service revenue	155,001,230	18,534,267	18,991,018	11,239,950
Other operating revenue	6,846,740	447,876	412,148	479,181
Total unrestricted revenue	161,847,970	18,982,143	19,403,166	11,719,131
Expenses:				
Salaries, wages, and related benefits	91,191,665	12,150,626	11,549,942	6,080,392
Professional fees	6,656,710	614,227	1,551,054	1,678,814
Supplies	26,213,423	1,642,633	1,610,701	1,110,905
Purchased services	13,958,728	1,544,720	1,424,112	648,298
Professional liability and general insurance	928,682	297,207	281,953	112,402
Utilities	1,600,176	531,362	386,984	250,515
Repairs and maintenance	4,480,330	177,682	202,407	194,284
Depreciation and amortization	9,519,449	860,545	725,139	705,450
Interest	1,397,038	18,519	18,121	400,163
Other	7,954,206	662,070	1,003,545	529,146
Total expenses	163,900,407	18,499,591	18,753,958	11,710,369
Income (loss) from operations before nonrecurring costs	(2,052,437)	482,552	649,208	8,762
Nonrecurring costs	1,049,078	-	-	-
Income (loss) from operations	(3,101,515)	482,552	649,208	8,762
Non-operating gains (losses), net:				
Investment income (loss) on funds designated by Board	850,673	83,024	12,852	1,429
Net realized gains (losses)	2,895,666	233,810	37,293	4,985
Net change in unrealized gains and losses on trading securities	2,133,634	140,872	(673)	3,586
Gain (loss) on disposal of property	(3,379)	(5,823)	(60,036)	(1,610)
Gain (loss) on swap agreements	512,339	-	-	-
Gain on affiliation	-	-	-	-
Other, net	38,673	27,633	35,673	-
Total non-operating gains (losses)	6,427,606	479,516	25,109	8,390
Excess (deficit) of revenue and gains over expenses and losses	3,326,091	962,068	674,317	17,152

	<b>EH Central Consolidated</b>	<b>St. Mary's Hospital</b>	<b>Clearwater Valley Hospital and Clinics</b>	<b>Minnesota Valley Health Center</b>
Unrestricted net assets:				
Excess (deficit) of revenue and gains over expenses and losses	\$ 3,326,091	\$ 962,068	\$ 674,317	\$ 17,152
Net change in unrealized gains and losses on other-than-trading securities	-	-	-	-
Pension and other postretirement liability adjustments	-	-	-	-
Other, net	(1,201,012)	(26,532)	(26,748)	-
Increase (decrease) in unrestricted net assets	<u>2,125,079</u>	<u>935,536</u>	<u>647,569</u>	<u>17,152</u>
Temporarily restricted net assets:				
Contributions	27,744	-	-	68,327
Net assets released from restrictions and other changes, net	(5,596)	-	-	307,970
Increase (decrease) in temporarily restricted net assets	<u>22,148</u>	<u>-</u>	<u>-</u>	<u>376,297</u>
Permanently restricted net assets:				
Contributions and other changes, net	-	-	-	35,085
Increase (decrease) in net assets	2,147,227	935,536	647,569	428,534
Net assets at beginning of year	117,919,882	14,988,210	6,731,559	4,944,326
Net assets at end of year	<u>\$ 120,067,109</u>	<u>\$ 15,923,746</u>	<u>\$ 7,379,128</u>	<u>\$ 5,372,860</u>

*Amounts may differ slightly from corresponding amounts on pages 5 and 6 due to rounding differences.*

## Essentia Health

### Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended June 30, 2013

	DL Surgery Center	Critical Access Group	Essentia Health Insurance Services	Essentia Institute of Rural Health
Unrestricted revenue:				
Patient service revenue	\$ (29,016)	\$ —	\$ —	\$ —
Provision for bad debts	8,711	—	—	—
Net patient service revenue	(20,305)	—	—	—
Other operating revenue	—	11,450,010	5,174,744	5,302,075
<b>Total unrestricted revenue</b>	<b>(20,305)</b>	<b>11,450,010</b>	<b>5,174,744</b>	<b>5,302,075</b>
Expenses:				
Salaries, wages, and related benefits	1,823	10,104,189	—	8,687,944
Professional fees	—	18,593	—	13,657
Supplies	(258)	458	—	44,307
Purchased services	50	622,716	634,595	1,025,233
Professional liability and general insurance	—	—	12,531,310	—
Utilities	—	7,746	—	578
Repairs and maintenance	3,563	325	—	9,207
Depreciation and amortization	—	18,685	—	85,155
Interest	—	—	—	—
Other	515	486,990	—	1,060,787
<b>Total expenses</b>	<b>5,693</b>	<b>11,259,702</b>	<b>13,165,905</b>	<b>10,926,868</b>
Income (loss) from operations before nonrecurring costs	(25,998)	190,308	(7,991,161)	(5,624,793)
Nonrecurring costs	—	—	—	—
<b>Income (loss) from operations</b>	<b>(25,998)</b>	<b>190,308</b>	<b>(7,991,161)</b>	<b>(5,624,793)</b>
Non-operating gains (losses), net:				
Investment income (loss) on funds designated by Board	—	201,041	122,419	26,171
Net realized gains (losses)	—	644,320	3,684,699	79,233
Net change in unrealized gains and losses on trading securities	—	474,156	839,802	58,627
Gain (loss) on disposal of property	—	289,940	—	—
Gain (loss) on swap agreements	—	—	—	—
Gain on affiliation	—	—	—	—
Other, net	(40)	4,590,439	—	—
<b>Total non-operating gains (losses)</b>	<b>(40)</b>	<b>6,199,896</b>	<b>4,646,920</b>	<b>164,031</b>
<b>Excess (deficit) of revenue and gains over expenses and losses</b>	<b>(26,038)</b>	<b>6,390,204</b>	<b>(3,344,241)</b>	<b>(5,460,762)</b>



	<b>DL Surgery Center</b>	<b>Critical Access Group</b>	<b>Essentia Health Insurance Services</b>	<b>Essentia Institute of Rural Health</b>
Unrestricted net assets:				
Excess (deficit) of revenue and gains over expenses and losses	\$ (26,038)	\$ 6,390,204	\$ (3,344,241)	\$ (5,460,762)
Net change in unrealized gains and losses on other-than-trading securities	-	972	-	-
Pension and other postretirement liability adjustments	-	-	-	-
Other, net	(107,819)	(2,750,000)	-	4,750,000
Increase (decrease) in unrestricted net assets	(133,857)	3,641,176	(3,344,241)	(710,762)
Temporarily restricted net assets:				
Contributions	-	-	-	-
Net assets released from restrictions and other changes, net	-	-	-	-
Increase (decrease) in temporarily restricted net assets	-	-	-	-
Permanently restricted net assets:				
Contributions and other changes, net	-	-	-	-
Increase (decrease) in net assets	(133,857)	3,641,176	(3,344,241)	(710,762)
Net assets at beginning of year	133,857	54,496,736	29,146,743	3,285,528
Net assets at end of year	\$ -	\$ 58,137,912	\$ 25,802,502	\$ 2,574,766

*Amounts may differ slightly from corresponding amounts on pages 5 and 6 due to rounding differences.*

## Essentia Health

### Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended June 30, 2013

	<b>Essentia Health Foundation</b>	<b>Essentia Health Corporate</b>	<b>Eliminations</b>	<b>Essentia Health Consolidated</b>
Unrestricted revenue:				
Patient service revenue	\$       –	\$       –	\$   (466,466)	\$ 1,658,318,534
Provision for bad debts	–	–	–	(81,545,840)
Net patient service revenue	–	–	(466,466)	1,576,772,694
Other operating revenue	2,224,536	99,900,487	(118,806,910)	71,678,262
Total unrestricted revenue	2,224,536	99,900,487	(119,273,376)	1,648,450,956
Expenses:				
Salaries, wages, and related benefits	1,225,654	65,386,830	(24,890,959)	1,015,296,411
Professional fees	1,865	1,081,266	(1,996,584)	31,579,683
Supplies	38,081	(18,206)	–	244,085,740
Purchased services	236,063	7,150,274	(72,502,891)	63,066,611
Professional liability and general insurance	100	8,469,932	(18,578,461)	16,656,258
Utilities	970	6,446	–	19,304,498
Repairs and maintenance	–	1,910,665	–	35,069,726
Depreciation and amortization	4,490	94,092	–	75,519,665
Interest	–	2,132,341	–	22,731,552
Other	1,682,658	5,407,001	(1,304,481)	94,392,880
Total expenses	3,189,881	91,620,641	(119,273,376)	1,617,703,024
Income (loss) from operations before nonrecurring costs	(965,345)	8,279,846	–	30,747,932
Nonrecurring costs	–	288,685	–	1,337,763
Income (loss) from operations	(965,345)	7,991,161	–	29,410,169
Non-operating gains (losses), net:				
Investment income (loss) on funds designated by Board	236,678	1,448,055	–	6,962,160
Net realized gains (losses)	841,714	1,449,413	–	23,436,530
Net change in unrealized gains and losses on trading securities	685,860	(255,586)	–	14,113,575
Gain (loss) on disposal of property	–	–	–	132,540
Gain (loss) on swap agreements	–	(5,246,737)	–	3,949,068
Gain on affiliation	–	–	–	10,767,097
Other, net	152,275	45,058	–	4,510,049
Total non-operating gains (losses)	1,916,527	(2,559,797)	–	63,871,019
Excess (deficit) of revenue and gains over expenses and losses	951,182	5,431,364	–	93,281,188

	<b>Essentia Health Foundation</b>	<b>Essentia Health Corporate</b>	<b>Eliminations</b>	<b>Essentia Health Consolidated</b>
Unrestricted net assets:				
Excess (deficit) of revenue and gains over expenses and losses	\$ 951,182	\$ 5,431,364	\$ –	\$ 93,281,188
Net change in unrealized gains and losses on other-than-trading securities	1,030	–	–	(1,182)
Pension and other postretirement liability adjustments	–	–	–	9,167,052
Other, net	5,602,089	8,001,873	–	3,905,088
Increase (decrease) in unrestricted net assets	6,554,301	13,433,237	–	106,352,146
Temporarily restricted net assets:				
Contributions	1,843,104	–	–	1,891,326
Net assets released from restrictions and other changes, net	(6,340,583)	–	–	(5,702,423)
Increase (decrease) in temporarily restricted net assets	(4,497,479)	–	–	(3,811,097)
Permanently restricted net assets:				
Contributions and other changes, net	566,796	–	–	601,881
Increase (decrease) in net assets	2,623,618	13,433,237	–	103,142,930
Net assets at beginning of year	22,329,924	58,041,819	–	698,198,712
Net assets at end of year	\$ 24,953,542	\$ 71,475,056	\$ –	\$ 801,341,642

*Amounts may differ slightly from corresponding amounts on pages 5 and 6 due to rounding differences.*

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