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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

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

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

OMB No 1545-0047

2011

Open to Public Inspection

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

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

C Name of organization
Bayhealth Medical Center Inc

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
640 South State Street

City or town, state or country, and ZIP + 4
Dover, DE 19901

D Employer identification number
51-0064318

E Telephone number
(302)744-7162

G Gross receipts $ 830,735,195

F Name and address of principal officer
Terry Murphy
640 South State Street
Dover, DE 19901

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

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

H(c) Group exemption number ▶

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

J Website: ▶ N/A

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation 1943

M State of legal domicile DE

Part I Summary

1 Briefly describe the organization's mission or most significant activities
To improve the health status of all members of the community within Bayhealth's service area

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

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	12
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	3
5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	**5**	3,525
6	Total number of volunteers (estimate if necessary)	**6**	500
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	13,195
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	

		Prior Year	Current Year
Revenue	**8** Contributions and grants (Part VIII, line 1h)	756,836	1,197,537
	9 Program service revenue (Part VIII, line 2g)	441,738,574	488,929,454
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	15,392,747	32,180,456
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	1,230,971	1,265,153
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	459,119,128	523,572,600
Expenses	**13** Grants and similar amounts paid (Part IX, column (A), lines 1–3)		0
	14 Benefits paid to or for members (Part IX, column (A), line 4)		0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	219,580,983	238,283,551
	16a Professional fundraising fees (Part IX, column (A), line 11e)		0
	b Total fundraising expenses (Part IX, column (D), line 25) ▶0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	181,707,724	214,752,127
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	401,288,707	453,035,678
	19 Revenue less expenses Subtract line 18 from line 12	57,830,421	70,536,922

		Beginning of Current Year	End of Year
Net Assets or Fund Balances	**20** Total assets (Part X, line 16)	768,043,419	810,989,924
	21 Total liabilities (Part X, line 26)	350,806,814	370,894,574
	22 Net assets or fund balances Subtract line 21 from line 20	417,236,605	440,095,350

Part II Signature Block

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

Sign Here

****** 2013-05-10
Signature of officer Date

Earl P Tanis Sr VP/CFO
Type or print name and title

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ☐	Preparer's taxpayer identification number (see instructions)
Firm's name (or yours if self-employed), address, and ZIP + 4			EIN ▶
			Phone no ▶

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

Part III Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission

To improve the health status of all members of the community within Bayhealth's service area

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

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

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

If "Yes," describe these changes on Schedule O

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

4a (Code) (Expenses $ 336,702,415 including grants of $) (Revenue $ 488,929,454)

Bayhealth Medical Center, Inc provides a full range of patient care, emergency services, and wellness services Bayhealth Medical Center is comprised of a total of 402 beds in two acute-care hospitals, Kent General Hospital in Dover (234 beds) and Milford Memorial Hospital (168 beds) Bayhealth also has outpatient sites throughout the service area Both hospitals have Level III trauma centers They provide a full range of surgical and medical care, radiation and medical oncology and chemotherapy, infusion therapy, cardiovascular services, endovascular surgery, electrophysiology, ambulatory surgery, wound care, perinatology services, and a Level II NICU and PICU During the twelve months ending June 30, 2012, Bayhealth recorded 77,309 Emergency Room visits, 163,106 non-emergency outpatient visits, 2,236 births, and 17,151 patients admitted Bayhealth has affiliations with the University of Pennsylvania's Penn Health in cardiology, oncology, and orthopaedics It provides physician and medical clinical rotations, housing, and meals for interns and residents from surrounding states In FY 2012, Bayhealth hosted over 1,762 students from vocational schools, community colleges, and universities for clinical rotations in nursing and other health professions Because the service area is deemed to be medically underserved, with a shortage of health professionals, Bayhealth actively recruits physicians to the area In addition, it owns and operates 18 physician practices in Central and Southern Delaware Bayhealth has an active education program, including health-related classes, support groups, free public screenings, free speakers for community groups, and representation at community events Bayhealth Medical Center, Inc provides care to all patients regardless of their ability to pay for the services rendered

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

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

4d Other program services (Describe in Schedule O)

(Expenses $ including grants of $) (Revenue $)

4e **Total program service expenses** ▶ $ 336,702,415

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1	Yes	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2		No
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		No
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4		No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If "Yes," complete Schedule D, Part I*	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? *If "Yes," complete Schedule D, Part II*	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III*	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If "Yes," complete Schedule D, Part V*	10	Yes	
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line10? *If "Yes," complete Schedule D, Part VI.*	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII.*	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII.*	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX.*	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X.*	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X.*	11f		No
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI, XII, and XIII*	12a	Yes	
b	Was the organization included in consolidated, independent audited financial statements for the tax year? *If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional*	12b		No
13	Is the organization a school described in section 170(b)(1)(A)(ii)? *If "Yes," complete Schedule E*	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If "Yes," complete Schedule F, Part I*	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the U S ? *If "Yes," complete Schedule F, Part II and IV*	15		No
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the U S ? *If "Yes," complete Schedule F, Part III and IV*	16		No
17	Did the organization report a total of more than $15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I*	17		No
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II*	18		No
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III*	19		No
20a	Did the organization operate one or more hospitals? *If "Yes," complete Schedule H*	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements	20b	Yes	

Part IV Checklist of Required Schedules *(continued)*

21	Did the organization report more than $5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II*	**21**		No
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	**23**	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25*	**24a**	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		No
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*	**25a**		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	**25b**		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If "Yes," complete Schedule L, Part II*	**26**		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? *If "Yes," complete Schedule L, Part III*	**27**		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28b**		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? *If "Yes," complete Schedule L, Part IV*	**28c**		No
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**32**		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	**33**		No
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1*	**34**	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	**35a**		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**		No
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**36**		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O	**38**	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . ☐

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a	356		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c			No
2a	Enter the number of employees reported on Form W-3, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return	2a	3,525		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?	2b		Yes	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)				
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?	3a		Yes	
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*	3b		Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	4a			No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .	5a			No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b			No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c			No
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible?	6a			No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b			No
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?	7a			No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b			No
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c			No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d	0		
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e			No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .	7f			No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g			No
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h			No
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8			No
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?	9a			No
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b			No
10	**Section 501(c)(7) organizations.** Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?	12a			No
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state	13a			No
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the aggregate amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a			No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .	14b			No

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

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

Section A. Governing Body and Management

				Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	12		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	3		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? .		3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? .		5		No
6	Did the organization have members or stockholders?		6		No
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		7a		No
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		7b		No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following				
a	The governing body?		8a	Yes	
b	Each committee with authority to act on behalf of the governing body?		8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		9		No

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

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

Section C. Disclosure

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

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

☐ Own website ☑ Another's website ☑ Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public See Additional Data Table

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

Earl P Tanis
640 S State Street
Dover, DE 19901
(302) 744-7162

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

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

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

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

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

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

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

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) John S Brebbia MD Ex Officio Dire	1 00	X						0	0	0
(2) Ralph Caccese MD Ex Officio Dire	1 00	X						0	0	0
(3) Gary Siegelman MD CMO/Ex Officio	40 00	X						488,478	0	34,118
(4) Bonnie Perratto Dir of Nurs/ExO	40 00	X						326,717	0	25,761
(5) Wendy S Newell MD Ex Officio Dire	1 00	X						0	0	0
(6) Michel R Samaha MD Ex Officio/Dire	1 00	X						0	0	0
(7) Michael S Ashton Admin/Ex Offici	40 00	X						55,832	0	4,481
(8) Mary Jane McClements MD Ex Officio Dire	40 00	X						342,313	0	29,251
(9) Terry Feinour Director	40 00	X						311,187	0	265,148
(10) Deborah Watson Vice Chair-COO/	40 00			X				309,544	0	34,118
(11) Earl P Tanis Treas-CFO/Ex Of	40 00			X				471,066	0	124,749
(12) Terry Murphy Chair-CEO/Ex Of	40 00			X				867,061	0	34,118
(13) Bradley Kirkes VP, Ancillary & Clinical Services	40 00				X			157,970	0	16,607
(14) Mike Metzing VP, Corporate Support Services	40 00				X			165,604	0	28,935
(15) David Walczak Asst VP, Technology	40 00				X			203,434	0	127,423
(16) Eric Gloss DO VP, Medical Affairs & Med Staff Ser	40 00				X			262,666	0	29,899
(17) John Van Gorp Sr VP, Planning & Business Developm	40 00				X			217,809	0	34,118

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

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) Jon C McDowell VP, Human Resources	40 00				X			225,419	0	74,204
(19) John D Mannion MD Physician	40 00					X		963,393	0	34,118
(20) Rishi Sawhney MD Physician	40 00					X		504,540	0	34,118
(21) Iftekhar A Khan MD Physician	40 00					X		530,743	0	34,118
(22) John E Lahaniatis MD Physician	40 00					X		599,618	0	21,743
(23) Daniel Marelli MD Physician	40 00					X		504,526	0	34,118
(24) Harjinder Grewal MD Former Ex Officio Board Member	40 00						X	487,296	0	30,384
(25) Dennis J Klima President, Bayhealth, Inc	0 00						X	1,850,009	0	153,736
(26) Gerald L White Pres Bayhealth Development Corp	40 00						X	247,554	0	194,165
1b Sub-Total . . . . . ▶										
c Total from continuation sheets to Part VII, Section A . . . . ▶										
d Total (add lines 1b and 1c) . . . . . ▶								10,092,779		1,399,430

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ▶ 227

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

Section B. Independent Contractors

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

(A) Name and business address	(B) Description of services	(C) Compensation
Rehabcare Group Inc PO Box 502096 St Louis, MO 631052096	Therapy -- PT & OT	2,798,888
Quest Diagnostics Clinical Lab Inc PO Box 828669 Philadelphia, PA 191828669	Medical Lab Testing	1,560,144
Bayhealth Hospitalists LLC PO Box 824425 Philadelphia, PA 191824425	Hospitalists	1,600,375
Bay Anesthesia Group LLC 640 South State Street Dover, DE 19901	Anesthesiologists	3,693,515
Aramark Services Inc PO Box 8018 Philadelphia, PA 191018018	Food Svc & Environ	4,002,769

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 of compensation from the organization ▶ 245

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e	1,192,372			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	5,165			
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f		1,197,537			
Program Service Revenue			Business Code				
	2a	Premier Ptnr K-1	541900	989,687	989,687		
	b	Patient Charges, Net	900099	479,659,191	479,659,191		
	c	Outpatient Pharmacy Gross	900099	4,215,720			4,215,720
	d	Occupational Health & WI	621990	2,145,563	2,145,563		
	e	Gift/Sandwich Shop	900099	1,089,040			1,089,040
	f	All other program service revenue		830,253	817,058	13,195	
	g	**Total.** Add lines 2a–2f		488,929,454			
	3	Investment income (including dividends, interest and other similar amounts)		6,995,328			6,995,328
	4	Income from investment of tax-exempt bond proceeds		0			
	5	Royalties		0			
			(i) Real / (ii) Personal				
	6a	Gross rents	653,493 /				
	b	Less rental expenses	/				
	c	Rental income or (loss)	653,493 /				
	d	Net rental income or (loss)		653,493			653,493
			(i) Securities / (ii) Other				
	7a	Gross amount from sales of assets other than inventory	332,223,874 / 123,849				
	b	Less cost or other basis and sales expenses	307,162,595 /				
	c	Gain or (loss)	25,061,279 / 123,849				
	d	Net gain or (loss)		25,185,128			25,185,128
Other Revenue	8a	Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events		0			
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities		0			
	10a	Gross sales of inventory, less returns and allowances	a				
	b	Less cost of goods sold	b				
	c	Net income or (loss) from sales of inventory		0			
		Miscellaneous Revenue	Business Code				
	11a	Childcare Revenue	624410	611,660			611,660
	b						
	c						
	d	All other revenue					
	e	**Total.** Add lines 11a–11d		611,660			
	12	**Total revenue.** See Instructions		523,572,600	483,611,499	13,195	38,750,369

Part IX Statement of Functional Expenses

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

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

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

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	0			
2	Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees	5,268,030		5,268,030	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	2,963,143		2,963,143	
7	Other salaries and wages	160,193,715	130,243,484	29,950,231	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	10,494,724	3,507,667	6,987,057	
9	Other employee benefits	47,588,822	15,905,681	31,683,141	
10	Payroll taxes	11,775,117	3,935,614	7,839,503	
11	Fees for services (non-employees)				
a	Management	0			
b	Legal	390,489	390,489		
c	Accounting	179,322	179,322		
d	Lobbying	0			
e	Professional fundraising *See Part IV, line 17* . .	0			
f	Investment management fees	0			
g	Other	0			
12	Advertising and promotion	761,022	761,022		
13	Office expenses	2,277,314	1,398,344	878,970	
14	Information technology	0			
15	Royalties . .	0			
16	Occupancy	9,964,443	9,964,443		
17	Travel	977,154	977,154		
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	0			
20	Interest	5,883,265	5,883,265		
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	23,348,992	22,571,307	777,685	
23	Insurance	3,230,849	984,856	2,245,993	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	Repairs & Maintenance, Equipme	10,440,158	10,440,158		
b	Other Purchased Services	23,559,770	23,559,770		
c	Provision for Bad Debt	39,315,789	39,315,789		
d	Departmental Supplies	77,732,417	49,992,907	27,739,510	
e					
f	All other expenses	16,691,143	16,691,143		
25	**Total functional expenses.** Add lines 1 through 24f	453,035,678	336,702,415	116,333,263	0
26	**Joint costs.** Check here ▶ ☐ if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X Balance Sheet

			(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		1	0
	2	Savings and temporary cash investments	19,573,234	2	27,653,773
	3	Pledges and grants receivable, net		3	0
	4	Accounts receivable, net	50,652,116	4	51,487,127
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		5	0
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L		6	0
	7	Notes and loans receivable, net		7	0
	8	Inventories for sale or use	6,429,591	8	7,366,731
	9	Prepaid expenses and deferred charges	10,124,535	9	11,473,284
	10a	Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D* — 10a: 500,152,888			
	b	Less accumulated depreciation — 10b: 191,837,920	270,298,970	10c	308,314,968
	11	Investments—publicly traded securities	394,733,079	11	388,568,246
	12	Investments—other securities See Part IV, line 11		12	0
	13	Investments—program-related See Part IV, line 11		13	0
	14	Intangible assets		14	0
	15	Other assets See Part IV, line 11	16,231,894	15	16,125,795
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)	768,043,419	16	810,989,924
Liabilities	17	Accounts payable and accrued expenses	78,026,485	17	84,480,939
	18	Grants payable		18	
	19	Deferred revenue		19	
	20	Tax-exempt bond liabilities	208,917,460	20	206,871,248
	21	Escrow or custodial account liability *Complete Part IV of Schedule D*		21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons *Complete Part II of Schedule L*		22	
	23	Secured mortgages and notes payable to unrelated third parties		23	
	24	Unsecured notes and loans payable to unrelated third parties		24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D	63,862,869	25	79,542,387
	26	**Total liabilities.** Add lines 17 through 25	350,806,814	26	370,894,574
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**			
	27	Unrestricted net assets	406,583,524	27	429,743,994
	28	Temporarily restricted net assets	4,580,261	28	4,584,571
	29	Permanently restricted net assets	6,072,820	29	5,766,785
		Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 30 through 34.			
	30	Capital stock or trust principal, or current funds		30	
	31	Paid-in or capital surplus, or land, building or equipment fund		31	
	32	Retained earnings, endowment, accumulated income, or other funds		32	
	33	Total net assets or fund balances	417,236,605	33	440,095,350
	34	Total liabilities and net assets/fund balances	768,043,419	34	810,989,924

Part XI Reconcilliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	523,572,600
2	Total expenses (must equal Part IX, column (A), line 25)	2	453,035,678
3	Revenue less expenses Subtract line 2 from line 1	3	70,536,922
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	417,236,605
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-47,678,177
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	440,095,350

Part XII Financial Statements and Reporting

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

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

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

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

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

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

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

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

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

_____

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 **Total.** Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 **Public Support.** Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 **Total support** (Add lines 7 through 10)						

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

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

Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f)) **14**

15 Public Support Percentage for 2010 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2011.** If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization

b **33 1/3% support test—2010.** If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization

17a **10%-facts-and-circumstances test—2011.** If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

b **10%-facts-and-circumstances test—2010.** If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

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

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

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 **Total.** Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 **Public Support** (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 **Total support** (Add lines 9, 10c, 11 and 12)						

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

Section C. Computation of Public Support Percentage

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

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2011** (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from **2010** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2011.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

b **33 1/3% support tests—2010.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

20 **Private Foundation** If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions ▶☐

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

Facts And Circumstances Test

Explanation

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

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

		(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year		
2	Aggregate contributions to (during year)		
3	Aggregate grants from (during year)		
4	Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit ☐ Yes ☐ No

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

1 Purpose(s) of conservation easements held by the organization (check all that apply)
☐ Preservation of land for public use (e g , recreation or pleasure)
☐ Preservation of an historically importantly land area
☐ Protection of natural habitat
☐ Preservation of a certified historic structure
☐ Preservation of open space

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

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

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

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

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

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

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

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? ☐ Yes ☐ No

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

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

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

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

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

(ii) Assets included in Form 990, Part X ▶ $ _____

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

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

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

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

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

- a ☐ Public exhibition
- b ☐ Scholarly research
- c ☐ Preservation for future generations
- d ☐ Loan or exchange programs
- e ☐ Other

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

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

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

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

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

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

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

b If "Yes," explain the arrangement in Part XIV

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

	(a) Current Year	(b) Prior Year	(c) Two Years Back	(d) Three Years Back	(e) Four Years Back
1a Beginning of year balance	6,072,820	5,398,802	5,031,093		
b Contributions					
c Investment earnings or losses	-306,035	674,018	367,709		
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance	5,766,785	6,072,820	5,398,802		

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ▶
- b Permanent endowment ▶
- c Term endowment ▶

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

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

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

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

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		12,317,767		12,317,767
b Buildings		241,532,525	51,560,394	189,972,131
c Leasehold improvements		3,330,720	2,516,685	814,035
d Equipment		52,444,442	22,053,961	30,390,481
e Other		190,527,434	115,706,880	74,820,554
Total. Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶				308,314,968

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

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

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

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

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

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

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

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	
Fair Value of Interest Rate Swap	3,960,330
Estimated Workers' Comp Cost, Long-Term	4,126,000
Estimated Professional Liability, Long-T	10,992,393
Accrued Post-Retirement benefit	60,463,664
Total. *(Column (b) should equal Form 990, Part X, col (B) line 25)* ▶	79,542,387

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

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

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	523,572,600
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	453,035,678
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	70,536,922
4	Net unrealized gains (losses) on investments	4	-26,181,856
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	-21,496,321
9	Total adjustments (net) Add lines 4 - 8	9	-47,678,177
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	22,858,745

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements			1	522,402,016
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12				
a	Net unrealized gains on investments	2a			
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	522,402,016
4	Amounts included on Form 990, Part VIII, line 12, but not on line **1**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b	1,170,584		
c	Add lines **4a** and **4b**			4c	1,170,584
5	Total Revenue Add lines **3** and **4c.** (This should equal Form 990, Part I, line 12)			5	523,572,600

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements			1	451,865,094
2	Amounts included on line 1 but not on Form 990, Part IX, line 25				
a	Donated services and use of facilities	2a			
b	Prior year adjustments	2b			
c	Other losses	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	451,865,094
4	Amounts included on Form 990, Part IX, line 25, but not on line **1:**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b	1,170,584		
c	Add lines **4a** and **4b**			4c	1,170,584
5	Total expenses Add lines **3** and **4c.** (This should equal Form 990, Part I, line 18)			5	453,035,678

Part XIV Supplemental Information

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

Identifier	Return Reference	Explanation
Part XIII, Line 4b	Part XIII, Line 4b Other revenue amounts included on 990 but not included in F/S	Reclass Premier Purchasing K-1 distribut $1006138 Reclass Premier K-1 Charity $7 Reclass K-1 Premier Portfolio Expense $1 Reclass Dover Surgicenter Distributions $56759 Reclass Eden Hill K-1 Other Income $107405 Reclass Eden Hill K-1 depreciation $199 Reclass Eden Hill K-1 Contributions $75
Part XII, Line 4b	Part XII, Line 4b Other revenue amounts included on 990 but not included in F/S	Reclass Ord Income, Premier $989687 Reclass Ord Income Dover Surgicenter $55585 Reclass K-1 UBTI Income $13195 Reclass K-1 Interest & Dividends $3253 Reclass K-1 Dover Surgicenter Interest $235 Reclass Premier Investment Expense $0 Reclass Premier K-1 Capital Gain $11 Reclass Dover Surgicenter Ord Loss $939 Reclass Eden Hill K-1 Ord Income $107679
Part XI, Line 8	Part XI, Line 8 Other Changes in Net Assets or Fund Balances	Deferred Acquisition Cost (from MMH) $0 Transfers to Affiliate $0 Change in Benefit Obligation $0 Change in Beneficial Int in Fdn $0 Other-Temp Restricted $43391 Increase in beneficial interest in perpetual trusts $0 Interest rate swap valuation adjustment $0 Rounding $0 Other, net $0 Change-Fair Value of Interest Rate Swap $ -1083527 Change in Beneficial interest in BHF $ -0 Change in intererest in perpetual trust $ -306035 Change in Benefit Obligations $ -20111069 Rounding $ -0 Temp Restr Change in Int in BHF $ -39081 Other, net $ -0
Part V, Line 4	Part V, Line 4 Intended uses of the endowment fund	The Endowment Funds are to be held in perpetuity The investment income from the funds is not restricted

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Part I Charity Care and Certain Other Community Benefits at Cost

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

7 Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charity care at cost (from Worksheet 1)			5,510,808		5,510,808	1 220 %
b Medicaid (from Worksheet 3, column a)						
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d **Total** Charity Care and Means-Tested Government Programs			5,510,808		5,510,808	1 220 %
Other Benefits						
e Community health improvement services and community benefit operations (from (Worksheet 4)			219,296		219,296	0 050 %
f Health professions education (from Worksheet 5)			1,786,537		1,786,537	0 390 %
g Subsidized health services (from Worksheet 6)			27,085,378	20,250,813	6,834,565	1 510 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			1,806,498		1,806,498	0 400 %
j **Total** Other Benefits			30,897,709	20,250,813	10,646,896	2 350 %
k **Total.** Add lines 7d and 7j			36,408,517	20,250,813	16,157,704	3 570 %

Part II Community Building Activities Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development			2,489		2,489	
3 Community support			1,036,396		1,036,396	0 230 %
4 Environmental improvements						
5 Leadership development and training for community members						
6 Coalition building			1,635		1,635	
7 Community health improvement advocacy			173,761		173,761	0 040 %
8 Workforce development			1,032,272		1,032,272	0 230 %
9 Other						
10 **Total**			2,246,553		2,246,553	0 500 %

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?		1		No
2	Enter the amount of the organization's bad debt expense	2	15,189,968		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3	2,783,627		
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	443,239,904
6	Enter Medicare allowable costs of care relating to payments on line 5	6	172,959,194
7	Subtract line 6 from line 5 This is the surplus or (shortfall)	7	270,280,710
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used		

☐ Cost accounting system ☑ Cost to charge ratio ☐ Other

Section C. Collection Practices

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

Part IV Management Companies and Joint Ventures (see instructions)

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1 Eden Hill Express Care LLC	Walk-in Urgent Care	16 667 %		
2 Premier Purchasing PtnrsLP	Group Purchasing	0 313 %		
3 Dover Surgicenter LLC	Outpatient Surgery Center	27 079 %		
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 2

	Name and address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
2	Milford Memorial Hospital 21 West Clarke Ave Milford, DE 19963	X	X					X		
1	Kent General Hospital 640 South State Street Dover, DE 19901	X	X					X		

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices.

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

Name of Hospital Facility: Milford Memorial Hospital

Line Number of Hospital Facility (from Schedule H, Part V, Section A): 2

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	1		No
If "Yes," indicate what the Needs Assessment describes (check all that apply)			
a ☐ A definition of the community served by the hospital facility			
b ☐ Demographics of the community			
c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d ☐ How data was obtained			
e ☐ The health needs of the community			
f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g ☐ The process for identifying and prioritizing community health needs and services to meet those needs			
h ☐ The process for consulting with persons representing the community's interests			
i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j ☐ Other (describe in Part VI)			
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ___			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3		
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4		
5 Did the hospital facility make its Needs Assessment widely available to the public?	5		
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)			
a ☐ Hospital facility's website			
b ☐ Available upon request from the hospital facility			
c ☐ Other (describe in Part VI)			
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)			
a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community			
b ☐ Execution of the implementation strategy			
c ☐ Development of a community-wide community benefit plan for the facility			
d ☐ Participation in community-wide community benefit plan			
e ☐ Inclusion of a community benefit section in operational plans			
f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g ☐ Prioritization of health needs in the community			
h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i ☐ Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7		
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	9	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 100.0000%			
If "No," explain in Part VI the criteria the hospital facility used			

Part V Facility Information *(continued)*

		Yes	No
10 Used FPG to determine eligibility for providing discounted care?	10	Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care 200 0000% If "No," explain in Part VI the criteria the hospital facility used			
11 Explained the basis for calculating amounts charged to patients?	11		No
If "Yes," indicate the factors used in determining such amounts (check all that apply)			
a ☐ Income level			
b ☐ Asset level			
c ☐ Medical indigency			
d ☐ Insurance status			
e ☐ Uninsured discount			
f ☐ Medicaid/Medicare			
g ☐ State regulation			
h ☐ Other (describe in Part VI)			
12 Explained the method for applying for financial assistance?	12		No
13 Included measures to publicize the policy within the community served by the hospital facility?	13		No
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☐ The policy was posted at all times on the hospital facility's web site			
b ☐ The policy was attached to all billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☐ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients upon admission to the hospital facility			
f ☐ The policy was available upon request			
g ☐ Other (describe in Part VI)			

Billing and Collections

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

Part V Facility Information *(continued)*

Policy Relating to Emergency Medical Care

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

Individuals Eligible for Financial Assistance

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

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices.

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

Name of Hospital Facility: Kent General Hospital

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

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	**1**		
If "Yes," indicate what the Needs Assessment describes (check all that apply)			
a ☐ A definition of the community served by the hospital facility			
b ☐ Demographics of the community			
c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d ☐ How data was obtained			
e ☐ The health needs of the community			
f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g ☐ The process for identifying and prioritizing community health needs and services to meet those needs			
h ☐ The process for consulting with persons representing the community's interests			
i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j ☐ Other (describe in Part VI)			
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ___			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	**3**		
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	**4**		
5 Did the hospital facility make its Needs Assessment widely available to the public?	**5**		
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)			
a ☐ Hospital facility's website			
b ☐ Available upon request from the hospital facility			
c ☐ Other (describe in Part VI)			
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)			
a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community			
b ☐ Execution of the implementation strategy			
c ☐ Development of a community-wide community benefit plan for the facility			
d ☐ Participation in community-wide community benefit plan			
e ☐ Inclusion of a community benefit section in operational plans			
f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g ☐ Prioritization of health needs in the community			
h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i ☐ Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	**7**		
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**8**	Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	**9**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 100 0000%			
If "No," explain in Part VI the criteria the hospital facility used			

Part V Facility Information *(continued)*

		Yes	No
10 Used FPG to determine eligibility for providing discounted care?	10	Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care 200 0000% If "No," explain in Part VI the criteria the hospital facility used			
11 Explained the basis for calculating amounts charged to patients?	11		No
If "Yes," indicate the factors used in determining such amounts (check all that apply)			
a ☐ Income level			
b ☐ Asset level			
c ☐ Medical indigency			
d ☐ Insurance status			
e ☐ Uninsured discount			
f ☐ Medicaid/Medicare			
g ☐ State regulation			
h ☐ Other (describe in Part VI)			
12 Explained the method for applying for financial assistance?	12		No
13 Included measures to publicize the policy within the community served by the hospital facility?	13		No
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☐ The policy was posted at all times on the hospital facility's web site			
b ☐ The policy was attached to all billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☐ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients upon admission to the hospital facility			
f ☐ The policy was available upon request			
g ☐ Other (describe in Part VI)			

Billing and Collections

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

Part V Facility Information *(continued)*

Policy Relating to Emergency Medical Care

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

Individuals Eligible for Financial Assistance

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

Part V Facility Information *(continued)*

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? **39**

	Name and address	Type of Facility (Describe)
1	See Additional Data Table	
2		
3		
4		
5		
6		
7		
8		
9		
10		

Part VI Supplemental Information

Complete this part to provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21

2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B

3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy

4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves

5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)

6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served

7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
	Part VI - Additional Information	Medicaid payments received in FY 2012 were $177,317,522 Medicaid accounted for 17% of the Medical Center's net patient revenue for the year ending June 30, 2012

Identifier	ReturnReference	Explanation
	Part V - Explanation of Number of Facility Type	Dover Surgicenter, LLC is licensed by the State, and would qualify as a "general medical and surgical" facility except that it provides services only on an outpatient, rather than an inpatient, basis Bayhealth Medical Center is a limited partner

Identifier	ReturnReference	Explanation
	Part VI - Affilated Health Care System Roles and Promotion	Bayhealth is a member of the University of Pennsylvania Cancer Network, University of Pennsylvania Health System's Penn Cardiac Care, and Penn Orthopaedics of Penn Medicine These alliances provide direct access to the latest medical research, clinical trials, and specialty care

Identifier	ReturnReference	Explanation
	Part VI - Explanation Of How Organization Furthers Its Exempt Purpose	Bayhealth is investing heavily in expanding and upgrading its facilities and equipment Bayhealth Kent General is nearing completion of a major building project, which added a new and expanded Emergency Department and integrated Cancer Center Plans are under development for a new building at Bayhealth Milford Memorial Bayhealth's medical staff of 400+ physicians is open to any qualified physician in its service area Bayhealth hosts students for residencies, internships and clinical studies and assists some students with room and board during the host period Bayhealth's Education Department offers free blood pressure, diabetes, and osteoporosis screenings, and free or discounted mammograms, prostate, skin, and colorectal screenings to under-insured or uninsured individuals They also host a wide variety of free monthly support groups, classes, and information sessions at both hospitals Bayhealth operates and subsidizes 7 high school wellness centers in Kent and Sussex counties, under an agreement with the State of Delaware To encourage interest in health-related careers, Bayhealth contributes monies and equipment to nearby colleges and universities Bayhealth staff members deliver lectures and presentations, mentor healthcare students, and work as members of committees to develop healthcare curricula Bayhealth hosts an Explorer Troop which focuses on medical careers Bayhealth Kent General supplies operating rooms, medical supplies and health-related staff for the Voluntary Ambulatory Surgical Access Program (VASAP), which provides ambulatory surgical procedures for indigent patients Bayhealth is an active member of the Kent Economic Partnership, the Downtown Dover Partnership, and six Chambers of Commerce As Bayhealth representatives, staff members are active in community Rotary Clubs and other service organizations

Identifier	ReturnReference	Explanation
	Part VI - Community Building Activities	Bayhealth has invested heavily in recruiting primary care and certain specialty physicians to this medically underserved area To encourage physicians to relocate to its service area, Bayhealth has formed a number of wholly-owned physician practices, currently employing more than 55 physicians Additionally, a hospitalist program was established in 2009 Bayhealth staff members serve on various professional, educational, and community boards throughout Delaware Examples include the Delaware Chapter of March of Dimes, Delaware Health Mother and Infant Consortium, Brain Injury Association of Delaware, Delaware Cancer Consortium Advisory Board, Delaware Breast Cancer Coalition, and the Hope Medical Clinic, Delaware's only 100% free medical facility

Identifier	ReturnReference	Explanation
	Part VI - Community Information	Bayhealth's service area is designated as a "Medically Underserved Area" and a "Health Professional Shortage Area" by the federal and state governments The population of Bayhealth's service area is growing rapidly becaus of an influx of retirees arriving from higher-cost-of-living areas in neighboring states, and because of retired military families attracted by the proximity of Dover Air Force Base Kent and Sussex Counties also have a growing population of residents who do not speak English fluently Teen pregnancy, school drop-out, infant mortality, and cancer rates are relatively high compared to national averages In recent years, Delaware housing values have increased faster than those in most of the U S Since 2000, housing values have increased faster than the rate of inflation Housing prices are well over 3 times the median household income Employment growth is fastest in low-paying sectors, with most of the growth in job sectors paying less than $26,000 annually The fastest growing job sector in Sussex County averages $16,000 annual salary In 2011, Kent County's median household income was $51,485 and Sussex County's was $50,729

Identifier	ReturnReference	Explanation
	Part VI - Patient Education of Eligibility for Assistance	All patients or family members who inquire about financial assistance are directed to the Financial Counselor Team of the Patient Access Department (Admissions) Self-pay patients are directed to PATHS, a service contracted by Bayhealth, that screens them for Medicaid and helps them with financial application papers Bayhealth's invoices state, "If you are not able to pay please contact our Billing Support Department to make suitable arrangements " The Patient Billing Guide is distributed by the Patient Finance and Admissions Departments The booklet describes types of bills, understanding your bill, privacy policy, collection policy, dispute resolution, payment methods, and has a glossary of financial and insurance terms The Billing Support / Self Pay / Financial Counselor Department's local telephone number and a direct toll-free telephone number is available by calling the main hospital telephone number and is also listed on brochures and on other informational material EMTALA and Patient Rights information is conspicuously placed for all patients and visitors to see

Identifier	ReturnReference	Explanation
	Part VI - Needs Assessment	Bayhealth does service-specific needs assessments periodically by using patient surveys Bayhealth also surveys other not-for-profits, health organizations, attendees at classes, support groups and screenings to assess the strengths and weaknesses of the programs that Bayhealth offers Bayhealth has on-going communications with the State of Delaware and with national not-for-profit health organizations Plans for a full-scale state-wide needs assessment are progressing on schedule

Identifier	ReturnReference	Explanation
	Part III, Line 9b - Provisions On Collection Practices For Qualified Patients	Bayhealth Medical Center does not pursue collection of amounts determined to qualify for charity care

Identifier	ReturnReference	Explanation
	Part III, Line 8 - Explanation Of Shortfall As Community Benefit	Bayhealth's service area is experiencing an influx of people from areas with a higher cost of living Many of these people are senior citizens and are Medicare recipients Bayhealth provides services to them as part of its mission to care for the entire community The Medicare losses sustained by Bayhealth are a result of Medicare reimbursing at less than operating costs The IRS community benefit standard for hospitals indicates that if a hospital serves patients convered by governmental health benefits (including Medicare), it is promoting the health of the community Therefore, Medicare losses should be counted as a community benefit Net revenue from the Medicare program accounted for approximately 33% of Bayhealth's net patient revenue for the year ended 6/30/2012

Identifier	ReturnReference	Explanation
	Part III, Line 4 - Bad Debt Expense	Footnote to the Audited Financial Statements The Medical Center provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of patients to make payments for services The allowance is determined by analyzing specific accounts and historical data and trends Patient accounts receivable are charged off against the allowance fo doubtful accounts when management determines that recovery is unlikely and the Medical Center ceases collection efforts Explanation of lines 2 and 3 Bad debt is shown at cost, as determined by applying the Medicare RCC Many patients do not complete the application for Charity Care, even if they are encouraged to do so There are many reasons for their refusal Bayhealth counted the number of patients who had certain verifiable reasons for non-payment, and estimated the amount that was posted to Bad Debt Then that amount was reduced to cost, using the Medicare RCC

Identifier	ReturnReference	Explanation
	Part I, Line 7g - Costs Associated With Physicans Clinics	Bayhealth has established a number of physicians' practices in order to provide necessary medical care in underserved areas The physicians and the staffs are all Bayhealth employees The practices frequently operate at a loss, especially in the early years Adjustments have been made for Medicaid revenue and for Bad Debt, reported elsewhere on this form

Identifier	ReturnReference	Explanation
	Part I, Line 7, Column F - Explanation of Bad Debt Expense	Bad debt is reported elsewhere on Form 990, but is subtracted for purposes of calculating the Medicare ratio of costs to charges (RCC) The Provision for Bad Debt is the result of an estimate by management It is reviewed frequently in the light of historical and expected collections, and is based on the historical percentage collected in each category

Identifier	ReturnReference	Explanation
	Part I, Line 7 - Explanation of Costing Methodology	A variety of methods were used in order to obtain the most accurate results Medicare costs were calculated using the data from the Medicare Cost Report, and its Ratio of Cost to Charges The RCC was also applied to Bad Debt after allowable Medicare Bad Debt was excluded Other data was determined to be most accurate when pulled from a cost accounting system

Identifier	ReturnReference	Explanation
	Part I, Line 6a - Related Organization Community Benefit Report	The Medical Center provides its community benefit information to the Delaware Healthcare Association, Inc for use in a state-wide Community Benefit report

Additional Data

Software ID: 11000144
Software Version: 2011v1.5
EIN: 51-0064318
Name: Bayhealth Medical Center Inc

Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility (list in order of size from largest to smallest) How many non-hospital facilities did the organization operate during the tax year? **39** Name and address	Type of Facility (Describe)
Wellness Center at Lake Forest High School 5407 Killens Pond Road Felton, DE 19943	School-based Wellness Center
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Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees
▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Part I Questions Regarding Compensation

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

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

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

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

(A) Name		**(B)** Breakdown of W-2 and/or 1099-MISC compensation			**(C)** Retirement and other deferred compensation	**(D)** Nontaxable benefits	**(E)** Total of columns (B)(i)-(D)	**(F)** Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	**(ii)** Bonus & incentive compensation	**(iii)** Other reportable compensation				
See Additional Data Table								

Part III Supplemental Information

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

Identifier	Return Reference	Explanation
Sch J, Part I, Line 1a	Part I, Line 1a Relevant information in regards to selections on 1a	Under terms of their Employment Agreements, certain senior executives participate in a Flexible Benefit Plan They receive a predetermined amount of additional compensation per quarter, which is intended to be used for automobile expenses, estate planning, legal assistance, tuition, supplemental life & disability insurance, or other expenses

Additional Data

Return to Form

Software ID: 11000144
Software Version: 2011v1.5
EIN: 51-0064318
Name: Bayhealth Medical Center Inc

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
Terry Murphy	(I) (II)	534,246	291,955	40,860	14,700	19,418	901,179	
Terry Feinour	(I) (II)	169,446	62,270	79,471	258,763	6,385	576,335	
Rishi Sawhney MD	(I) (II)	394,154	100,606	9,780	14,700	19,418	538,658	
Mike Metzing	(I) (II)	158,537	5,931	1,136	9,517	19,418	194,539	
Mary Jane McClements MD	(I) (II)	337,230	600	4,483	14,700	14,551	371,564	
Jon C McDowell	(I) (II)	208,749		16,670	67,161	7,043	299,623	
John Van Gorp	(I) (II)	192,653	20,621	4,535	14,700	19,418	251,927	
John E Lahaniatis MD	(I) (II)	467,216	95,000	37,402	14,700	7,043	621,361	
John D Mannion MD	(I) (II)	747,121	102,120	114,152	14,700	19,418	997,511	
Iftekhar A Khan MD	(I) (II)	438,296	73,584	18,863	14,700	19,418	564,861	
Harjinder Grewal MD	(I) (II)	242,323	244,849	124	14,700	15,684	517,680	
Gerald L White	(I) (II)	199,557	32,112	15,885	174,747	19,418	441,719	
Gary Siegelman MD	(I) (II)	422,570	59,926	5,982	14,700	19,418	522,596	
Eric Gloss DO	(I) (II)	249,195	12,098	1,373	14,700	15,199	292,565	
Earl P Tanis	(I) (II)	338,467	112,166	20,433	117,531	7,218	595,815	
Dennis J Klima	(I) (II)	280,335	1,446,423	123,251	146,240	7,496	2,003,745	
Deborah Watson	(I) (II)	273,733	29,033	6,778	14,700	19,418	343,662	
David Walczak	(I) (II)	187,046	12,532	3,856	114,573	12,850	330,857	

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		**(B)** Breakdown of W-2 and/or 1099-MISC compensation			**(C)** Deferred compensation	**(D)** Nontaxable benefits	**(E)** Total of columns (B)(i)-(D)	**(F)** Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	**(ii)** Bonus & incentive compensation	**(iii)** Other compensation				
Daniel Marelli MD	(I) (II)	491,248		13,278	14,700	19,418	538,644	
Bradley Kirkes	(I) (II)	153,360	3,980	630	9,564	7,043	174,577	
Bonnie Perratto	(I) (II)	273,645	39,061	14,011	12,911	12,850	352,478	

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Schedule K (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Part I Bond Issues

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
A	Delaware Health Facilities Authority		246388QA3	10-31-2009	35,600,000	Replace 2009 B&C Bonds PNCBank						
B	Delaware Health Facilities Authority		246388PZ9	10-31-2009	35,600,000	Replace 2009 B&C Bonds PNCBank						
C	Delaware Health Facilities Authority		246388xxx	10-31-2009	138,490,000	Construction Project						

Part II Proceeds

		A	B	C	D
1	Amount of bonds retired				
2	Amount of bonds defeased				
3	Total proceeds of issue	37,789,270	37,745,725	136,526,503	
4	Gross proceeds in reserve funds				
5	Capitalized interest from proceeds				
6	Proceeds in refunding escrow	37,475,081	37,431,536	18,320,647	
7	Issuance costs from proceeds	424,189	424,189	611,817	
8	Credit enhancement from proceeds				
9	Working capital expenditures from proceeds				
10	Capital expenditures from proceeds			117,594,038	
11	Other spent proceeds			18,320,647	
12	Other unspent proceeds				
13	Year of substantial completion			2012	

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X		X			X		
15	Were the bonds issued as part of an advance refunding issue?		X		X		X		
16	Has the final allocation of proceeds been made?	X		X		X			
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X		X			

Part III Private Business Use

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X		X		
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X		X		X		

Part III Private Business Use *(Continued)*

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?		X		X		X		
b	If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?		X		X		X		
d	If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶								
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶								
6	Total of lines 4 and 5								
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X		X			

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X		X		X		
2	Is the bond issue a variable rate issue?	X		X			X		
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X		X		X		
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								
4a	Were gross proceeds invested in a GIC?		X		X		X		
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X		X		X		
6	Did the bond issue qualify for an exception to rebate?		X		X		X		

Part V Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations . . . . . ☑ Yes ☐ No

Part VI Supplemental Information

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

Identifier	Return Reference	Explanation

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SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Identifier	Return Reference	Explanation
	Form 990, Schedule K, Part I, Lines B & C	In June 2012, the Medical Center replaced the 2009B and 2009C bonds with Series 2012 $72,250,000 Variable Rate Refunding Bonds (Series 2012), that are Direct Bank Purchase Bonds with a national bank. The Servies 2012 bonds were used to extinguish the Series 2009B and 2009C bonds QUISIP numbers did not change in this transaction
	Form 990, Schedule K, Part I, line A	Issue Price Delaware Health Facilities Authority Bond Issue A was issued under 24 CUSIP numbers, which are not listed separately on Schedule K Their total was $138,490,000
	Form 990, Part VIII, line 2a	Patient Charges, Net consists of Gross patient charges $997,420,114 Contractual Allowance $511,522,598 Charity Care $6,238,325
Form 990, Part VI, Line 19	Form 990, Part VI, Line 19 Other Organization Documents Publicly Available	Form 990 is available on www Guidestar org Form 990-T, governing documents, policies, and financial statements are available upon request
Form 990, Part VI, Line 15b	Form 990, Part VI, Line 15b Compensation Review and Approval Process for Officers and Key Employees	For officers and key employees other than the CEO, CFO, COO, and Chief Medical Officer referred to in the previous question, a variety of techniques are used to determine compensation The Human Resources Department and an independent consultant provide information and recommendations, using a variety of compensation surveys and studies Written employment contracts are utilized for some positions The Board of Directors and its compensation committee is kept informed of events
Form 990, Part VI, Line 12c	Form 990, Part VI, Line 12c Explanation of Monitoring and Enforcement of Conflicts	A questionnaire is distributed annually Any conflicts of interest that might be revealed on the form are investigated further by Bayhealth's executive team
Form 990, Part VI, Line 11	Form 990, Part VI, Line 11 Form 990 Review Process	The entire Form 990 is reviewed by the CFO and the CEO Schedule J is reviewed by the entire Board of Directors Upon confirmation of a successful e-filing from the IRS, a copy of the final e-filed return is made available to any interested members of the governing body After filing, a copy is also sent to Bayhealth's outside audit firm for review

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SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

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

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

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

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

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) Bayhealth Foundation Inc 640 South State Street Dover, DE 19901 22-2559843	Fundraising for Bayhealth Medical Center	DE	501(c)(3)	7	N/A		No

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

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

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Bayhealth Development Corp 640 South State Street Dover, DE 19901 51-0281107	Real Estate	DE	N/A	C Corp			

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

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

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

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) Bayhealth Foundation Inc	p	452,155	Invoice-Monthly
(2)			
(3)			
(4)			
(5)			
(6)			

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

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income(related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
				Yes	No			Yes	No		Yes	No	

Schedule R (Form 990) 2011

Part VII Supplemental Information

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

Identifier	Return Reference	Explanation	

Financial Statements and Report of Independent Certified Public Accountants

Bayhealth Medical Center, Inc.

June 30, 2012 and 2011

Contents

Audit • Tax • Advisory
Grant Thornton LLP
2001 Market Street, Suite 3100
Philadelphia, PA 19103-7080
T 215 561 4200
F 215 561 1066
www GrantThornton com

Report of Independent Certified Public Accountants

Board of Directors
Bayhealth Medical Center, Inc.

We have audited the accompanying balance sheets of Bayhealth Medical Center, Inc. (the Medical Center) as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. 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 of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bayhealth Medical Center, Inc. as of June 30, 2012 and 2011, and the results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 8, 2012

Bayhealth Medical Center, Inc

BALANCE SHEETS

June 30,

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 27,653,766	$ 19,573,234
Assets limited as to use, held by trustees	4,471,873	12,599,027
Patient accounts receivable, less allowance for uncollectibles of $25,102,800 in 2012 and $20,061,500 in 2011	51,487,127	50,652,116
Supplies	7,366,736	6,429,591
Prepaid expenses and other assets	7,014,595	5,977,548
Total current assets	97,994,097	95,231,516
Assets limited as to use		
Internally designated	171,994,240	105,513,973
Held by trustees	12,537,243	28,472,574
	184,531,483	133,986,547
Other investments	199,564,890	248,147,505
Prepaid expenses and other assets	2,043,144	1,673,266
Property and equipment, net	308,314,968	270,298,970
Deferred financing costs, net	2,415,545	2,521,506
Beneficial interest in net assets of Bayhealth Foundation	10,359,012	10,111,289
Beneficial interest in perpetual trusts	5,766,785	6,072,820
TOTAL	$ 810,989,924	$ 768,043,419
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other accrued expenses	$ 27,142,045	$ 23,325,369
Construction and retainage payable	6,414,910	5,904,732
Accrued salaries, wages and benefits	33,688,524	32,691,450
Current portion of long-term debt	1,791,883	1,712,713
Accrued interest payable	3,445,666	3,471,631
Estimated settlements due to third-party payors	11,997,911	10,920,590
Total current liabilities	84,480,939	78,026,485
Interest rate swap	3,960,330	2,876,803
Accrued postretirement benefit costs	60,463,664	41,632,398
Estimated professional liability costs	10,992,393	11,746,091
Estimated workers' compensation costs	4,126,000	3,857,000
Other liabilities	-	3,750,577
Long-term debt, net of current portion	206,871,248	208,917,460
Total liabilities	370,894,574	350,806,814
NET ASSETS		
Unrestricted	429,743,994	406,583,524
Temporarily restricted	4,584,571	4,580,261
Permanently restricted	5,766,785	6,072,820
Total net assets	440,095,350	417,236,605
TOTAL	$ 810,989,924	$ 768,043,419

The accompanying notes are an integral part of these statements

Bayhealth Medical Center, Inc

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended June 30,

	2012	2011
UNRESTRICTED NET ASSETS		
Revenues		
Net patient service revenue	$ 479,659,196	$ 434,398,938
Other revenue	10,679,149	8,378,364
Total revenues	490,338,345	442,777,302
Expenses		
Salaries and benefits	238,283,549	219,580,978
Supplies and other expenses	145,151,617	126,282,048
Interest	5,883,265	3,526,403
Depreciation and amortization	23,348,786	19,803,198
Provision for bad debts	39,310,218	31,151,899
Total expenses	451,977,435	400,344,526
Operating income	38,360,910	42,432,776
Other income (expense)		
Investment return, net	5,196,658	46,666,994
Interest rate swap valuation adjustment	(1,083,527)	506,191
Change in beneficial interest in net assets of Bayhealth Foundation	286,804	3,031,608
Other, net	510,694	333,765
Total other income, net	4,910,629	50,538,558
Excess of revenues over expenses	43,271,539	92,971,334
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Transfer from affiliate - Medical Alternative Care, Inc	-	912,140
Cumulative effect of the adoption of the requirements related to deferred acquisition credit	-	1,762,681
Change in benefit obligations	(20,111,069)	11,626,911
Increase in unrestricted net assets	23,160,470	107,273,066
TEMPORARILY RESTRICTED NET ASSETS		
Other	43,391	117,822
Change in beneficial interest in net assets of Bayhealth Foundation	(39,081)	336
Increase in temporarily restricted net assets	4,310	118,158
PERMANENTLY RESTRICTED NET ASSETS		
Change in beneficial interest in perpetual trusts	(306,035)	674,018
(Decrease) increase in permanently restricted net assets	(306,035)	674,018
INCREASE IN NET ASSETS	22,858,745	108,065,242
NET ASSETS, beginning of year	417,236,605	309,171,363
NET ASSETS, end of year	$ 440,095,350	$ 417,236,605

The accompanying notes are an integral part of these statements

Bayhealth Medical Center, Inc

STATEMENTS OF CASH FLOWS

For the year ended June 30,

	2012	2011
OPERATING ACTIVITIES		
Increase in net assets	$ 22,858,745	$ 108,065,242
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in benefit obligations	20,111,069	(11,626,911)
Cumulative effect of the adoption of the requirements related to deferred acquisition credit	-	(1,762,681)
Interest rate swap valuation adjustment	1,083,527	(506,191)
Net transfers from affiliate	-	(912,140)
Net realized and unrealized losses (gains) on investments	3,907,678	(37,724,958)
Depreciation and amortization	23,348,786	19,803,198
Provision for bad debts	39,310,218	31,151,899
Change in beneficial interest in perpetual trusts	306,035	(674,018)
Change in beneficial interest in net assets of Bayhealth Foundation	(247,723)	(3,031,944)
Changes in assets and liabilities		
Patient accounts receivable - net	(40,145,228)	(37,357,091)
Supplies	(937,145)	(1,312,565)
Prepaid expenses and other assets	(1,406,925)	(846,276)
Accounts payable and other accrued expenses	2,146,162	2,488,379
Accrued salaries, wages, and benefits	997,074	5,464,147
Accrued interest payable	(25,965)	(84,725)
Estimated settlements due to third-party payors	1,077,321	(1,768,006)
Accrued postretirement benefit costs	(1,279,803)	3,833,357
Estimated professional liability costs	(242,154)	(1,781,488)
Estimated workers' compensation costs	(66,000)	(285,000)
Asset retirement obligation	-	(98,494)
Net cash provided by operating activities before trading securities	70,795,672	71,033,734
Change in investments - trading securities	(13,678,177)	(31,566,828)
Net cash provided by operating activities	57,117,495	39,466,906
INVESTING ACTIVITIES		
Capital expenditures, net	(62,100,528)	(76,756,715)
Change in investments - other-than-trading securities	15,935,331	53,656,470
Net cash used in investing activities	(46,165,197)	(23,100,245)
FINANCING ACTIVITIES		
Net transfers from affiliate	-	142,363
Proceeds from issuance of long-term debt	71,200,000	-
Financing costs incurred	(220,000)	-
Repayment of long-term debt	(73,851,766)	(3,205,871)
Net cash used in financing activities	(2,871,766)	(3,063,508)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,080,532	13,303,153
CASH AND CASH EQUIVALENTS - beginning of year	19,573,234	6,270,081
CASH AND CASH EQUIVALENTS - end of year	$ 27,653,766	$ 19,573,234
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$ 5,689,230	$ 3,611,128
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES		
(Decrease) increase in accrual for the purchase of property and equipment	$ (1,493,969)	$ 156,396
Capital lease obligation incurred in exchange for equipment	$ 894,973	$ -

The accompanying notes are an integral part of these statements

NOTE A - DESCRIPTION OF ORGANIZATION

Organization

Bayhealth Medical Center, Inc. (the Medical Center) is a not-for-profit, tax-exempt corporation under the control of its parent, Bayhealth, Inc., a not-for-profit Delaware corporation whose primary activities are to provide development and planning support to the Medical Center's two acute care hospitals: Kent General Hospital, Dover, Delaware, and Milford Memorial Hospital, Inc., Milford, Delaware. The Medical Center's primary service area includes Kent County and portions of Sussex County in Delaware. Other entities affiliated with the Medical Center through common control by Bayhealth, Inc. are Bayhealth Foundation (the Foundation) and Bayhealth Development Corporation. Medical Alternative Care, Inc. was merged into the Medical Center effective January 1, 2011.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowance for doubtful accounts and contractual allowances for patient accounts receivable, estimated settlements with third-party payors, fair value of the interest rate swap, useful lives of property and equipment, actuarial estimates for the postretirement benefit plans, professional liability and workers' compensations costs and the assets retirement obligation and the reported fair values of certain of the Medical Center's assets and liabilities. Actual results could differ from those estimates.

2. Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, patient accounts receivable, investments and assets limited as to use, beneficial interest in perpetual trusts, accounts payable and accrued expenses, interest rate swap agreements and long-term debt. The carrying amounts reported in the balance sheets for cash equivalents, patient accounts receivable, investments and assets limited as to use, beneficial interest in perpetual trusts, accounts payable and accrued expenses and the interest rate swap agreement approximate fair value. Management's estimate of the fair value of other financial instruments is described elsewhere in the notes to the financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents include short-term investments purchased with original maturities of three months or less and are stated at fair value.

The Medical Center routinely invests its surplus funds in repurchase agreements and money market funds. These funds generally are collateralized by, or invested in, highly liquid U.S. Government and agency obligations.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Allowance for Doubtful Accounts

The Medical Center provides an allowance for doubtful accounts for estimated losses resulting from the unwillingness or inability of patients to make payments for services. The allowance is determined by analyzing specific accounts and historical data and trends. Patient accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and the Medical Center ceases collection efforts.

5. Supplies

Supplies are stated at the lower of cost or market. Cost is determined by using the first-in, first-out method of accounting.

6. Investments and Assets Limited as to Use

Investments in debt and equity securities are measured at fair value based on quoted market prices, if available, or estimated quoted market prices for similar securities. A limited partnership is carried at its net asset value per share, as a practical expedient, as provided by the investment managers. The limited partnership is an alternative investment, in which the underlying investments are in limited partnerships, limited liability companies, offshore corporations and other foreign investment vehicles, private equity funds, real estate funds and direct investments in marketable securities and derivative instruments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. The Medical Center's investments are designated as trading securities, except for assets limited as to use under bond indentures - held by trustee, which are considered other-than-trading securities.

Alternative investments may contain elements of both credit risk and market risk. Such risks include, but are not limited to: limited liquidity, absence of oversight, dependence on key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition. The Medical Center reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investment. The Medical Center requested, received and reviewed the interim financial information at June 30, 2012 and 2011 from the investment manager.

Investment income includes dividend and interest income; realized gains and losses and unrealized gains and losses on trading securities are included in other income (expense) as a component of excess of revenues over expenses unless such earnings are subject to donor-imposed restrictions; and unrealized gains and losses on other-than-trading securities are recorded as other changes in unrestricted net assets. Realized gains and losses for all investments are determined by the average cost method.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets limited as to use include internally designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture agreements and assets held by a trustee under a malpractice funding arrangement. Amounts required to meet current liabilities have been classified as current assets in the accompanying balance sheets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

7. Beneficial Interest in Perpetual Trusts

The Medical Center is an irrevocable income beneficiary of certain perpetual trusts administered by independent trustees. Because the trusts are perpetual and the original corpus cannot be violated, these funds are reported at fair value based on the Medical Center's interest in the trusts, as permanently restricted net assets.

8. Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated assets are recorded at their fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease is amortized by the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs that do not improve or extend the life of the respective assets are expensed when incurred. The Medical Center removes the cost and the related accumulated depreciation from the accounts for assets sold or retired, and resulting gains or losses are included in the accompanying statements of operations and changes in net assets.

Gifts of long-lived assets such as land, building or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and unspent gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

9. Deferred Financing Costs

Deferred financing costs are amortized over the life of the related bond issue. The accumulated amortization totaled $284,169 and $178,208 at June 30, 2012 and 2011, respectively.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Derivative Financial Instruments

The Medical Center recognizes its interest rate swap agreement in the balance sheets at fair value. Management has determined that the interest rate swap agreement does not qualify as a hedge for financial reporting purposes. Consequently, the change in the fair value of the Medical Center's interest rate swap agreement is included in other income (expense) as a component of excess of revenues over expenses in the statements of operations and changes in net assets.

The interest rate swap agreement is used by the Medical Center to manage interest rate exposures and to hedge the changes in cash flows on variable rate revenue bonds. Derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from interest rate movements is expected to offset the market risk of the liability being hedged.

11. Estimated Professional Liability Costs

The reserve for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

12. Deferred Acquisition Credit

A deferred acquisition credit (negative goodwill) was recorded in connection with the 1997 merger with Milford Memorial Hospital. The Medical Center was amortizing this deferred acquisition credit into income over a period of 15 years, which management believed was the approximate life of the long-term assets acquired. As of July 1, 2010, the Medical Center adopted new guidance related to deferred acquisition credits, writing off the remaining balance of $1,762,681 as a cumulative effect of change in accounting standards into unrestricted net assets.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose and amounted to $1,019,134 and $975,743 as of June 30, 2012 and 2011, respectively. In addition, a portion of the beneficial interest in the net assets of Bayhealth Foundation is included in temporarily restricted net assets based on the donors' intention. The temporarily restricted net assets are primarily restricted for capital acquisitions.

Permanently restricted net assets represent the Medical Center's beneficial interest in perpetual trusts. Income received from these trusts is unrestricted.

14. Excess of Revenues over Expenses

The statements of operations and changes in net assets include the excess of revenues over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses, consistent with industry practice, are permanent transfers of assets to and from affiliates for other than goods and services, changes in benefit obligations and the cumulative effect of adoption of new accounting standards.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

15. Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires - that is, when a stipulated time restriction ends or purpose restriction is accomplished - temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions, including amounts received and held by Bayhealth Foundation for the benefit of the Medical Center in the accompanying financial statements.

16. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

17. Charity Care and Community Service

The Medical Center provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than its established rates. Criteria for charity care include the patient's family income and net worth. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue.

The Medical Center maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and supplies furnished under its charity care and community service policies and the number of patients receiving services under these policies. The Medical Center provided $5,510,808 and $9,372,169 for the years ended June 30, 2012 and 2011, respectively, of charity care at full cost including direct and indirect costs, based on the actual charity population using a cost accounting system.

Additionally, the Medical Center provides a wide range of community services to the general public. These include but are not limited to the following: free health screenings for breast cancer, prostate cancer, skin cancer, diabetes, high blood pressure, high blood cholesterol, hearing loss and glaucoma; free educational programs on a variety of health care topics; health fairs and demonstrations; and networking and coordination of services for the needy, elderly, and disabled. These community services are offered at the Medical Center and at schools, businesses, and other locations throughout the Medical Center's service area.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Medical Center also participates in the Medicaid program, which makes payment for services provided to financially needy patients at rates which are less than the established charges for such services.

18. Tax Status

The Medical Center is a Delaware nonprofit corporation and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Medical Center follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Medical Center does not believe its financial statements include any material uncertain tax positions.

19. Recently Adopted Accounting Pronouncement

In August 2010, the Financial Accounting Standards Board (FASB) issued amended authoritative guidance to reduce the diversity in practice regarding the measurement basis used in the identification and disclosure of charity care by health care entities. The amendments in this guidance require that cost be used as the measurement for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing the care. The guidance also requires entities to disclose their method used to identify or determine such costs. This authoritative guidance is effective for financial statements issued for fiscal years beginning after December 15, 2010 and should be applied retrospectively to all prior fiscal years presented. Early application is permitted. The Medical Center adopted this guidance for the year ended June 30, 2012. The new guidance did not affect the results of operations or financial position. See Note B17 for required disclosure.

20. Pending Accounting Pronouncement

In July 2011, the FASB issued authoritative guidance to provide amendments to the presentation of the statement of operations for certain health care entities and enhanced disclosure about net patient service revenue and the related allowance for doubtful accounts. These amendments require certain health care entities to present their provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts). These amendments also require disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. Additionally, health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. This guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this update should be provided for the period of adoption and subsequent reporting periods. The Medical Center is evaluating the impact of adopting this guidance on its results of operations and financial position.

NOTE C - NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid - Inpatient acute care services provided to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by Medicare. Medicare reimburses for most outpatient services on the Outpatient Prospective Payment System (OPPS). Medicaid outpatient services are paid based on a fee schedule. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007. The Medical Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2007.

Blue Cross of Delaware - Inpatient and outpatient services rendered to Blue Cross of Delaware subscribers are reimbursed primarily on a discount from established charge basis.

Net revenue from the Medicare and Medicaid programs accounted for approximately 33% and 18%, and 33% and 17%, respectively, of the Medical Center's net patient service revenue for the years ended June 30, 2012 and 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. For the years ended June 30, 2012 and 2011, net patient service revenue reflects a net increase of approximately $4,458,000 and $5,358,500, respectively, due to final settlements or changes in estimates.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment to the Medical Center under these agreements is primarily on a discount from established charges basis but also includes prospectively determined daily rates and prospectively determined fee schedules.

NOTE D - ASSETS LIMITED AS TO USE AND OTHER INVESTMENTS

Assets Limited as to Use

As of June 30, assets limited as to use consisted of the following:

	2012	2011
Internally designated		
Cash and cash equivalents	$ 19,354,263	$ 4,470,225
Government securities and corporate bonds	101,021,323	92,154,863
Equity securities	50,591,895	3,044,429
Limited partnership	-	5,066,664
Accrued interest receivable	1,026,759	777,792
	$ 171,994,240	$ 105,513,973

(Continued)

NOTE D - ASSETS LIMITED AS TO USE AND OTHER INVESTMENTS - Continued

	2012	2011
Held by trustees		
Under bond indenture agreements		
Cash and cash equivalents	$ 4,923,331	$ 19,116,541
Government securities and corporate bonds	-	9,458,065
	4,923,331	28,574,606
Under malpractice funding arrangement		
Cash and cash equivalents	627,126	2,482,984
Government securities and corporate bonds	5,483,356	5,068,549
Equity securities	5,975,303	4,945,462
	12,085,785	12,496,995
Total held by trustees	17,009,116	41,071,601
Less amounts required for current liabilities	4,471,873	12,599,027
	$ 12,537,243	$ 28,472,574

Other Investments

Other investments at June 30 consisted of:

Cash and cash equivalents	$ 12,770,855	$ 12,442,844
Government securities and corporate bonds	31,000,185	30,122,057
Equity securities	150,992,602	205,379,736
Limited partnership	4,797,959	-
Accrued interest receivable	3,289	202,868
	$ 199,564,890	$ 248,147,505

Investment Return

The following schedule summarizes the Medical Center's investment return on assets limited as to use and other investments in other income (expense) on the statements of operations and changes in net assets for the years ended June 30:

	2012	2011
Investment return, net		
Interest and dividend income	$ 9,104,336	$ 8,942,036
Net realized gains on sales of securities	22,274,178	3,090,243
Change in net unrealized gains and losses on trading securities	(26,181,856)	34,634,715
	$ 5,196,658	$ 46,666,994

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of:

	Estimated useful life	2012	2011
Land		$ 12,317,767	$ 11,777,125
Land improvements	5 to 40 years	3,330,720	3,226,990
Buildings	10 to 40 years	241,532,525	132,466,835
Major movable and fixed equipment	2 to 25 years	221,767,606	166,140,808
Construction in progress		21,204,270	127,210,136
		500,152,888	440,821,894
Less accumulated depreciation and amortization		191,837,920	170,522,924
		$ 308,314,968	$ 270,298,970

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 totaled $23,233,073 and $19,684,928, respectively.

The Medical Center has commitments relating to construction and renovation projects for approximately $9,358,854 at June 30, 2012.

The net amount of assets under capital leases included in major movable and fixed equipment amounted to $730,895 and $85,400 at June 30, 2012 and 2011, respectively.

NOTE F - LONG-TERM DEBT

Long-term debt as of June 30, consisted of:

	2012	2011
Project Revenue Bonds, Series 2009A, net of unamortized discount of $612,789 and $622,540 at June 30, 2012 and 2011, respectively, and interest rates ranging from 2.00% to 5.09%	$ 136,677,211	$ 137,152,460
Variable Rate Refunding Revenue Bonds, Series 2009B, variable rate of interest, 1.5% at June 30, 2012 and 2011	-	36,735,000
Variable Rate Refunding Revenue Bonds, Series 2009C, variable rate of interest, 1.5% at June 30, 2012 and 2011	-	36,735,000
Variable Rate Refunding Revenue Bonds, Series 2012, variable rate of interest, 0.77% at June 30, 2012	71,200,000	-
Capital leases at various interest rates	785,920	7,713
	208,663,131	210,630,173
Less current portion	1,791,883	1,712,713
	$ 206,871,248	$ 208,917,460

(Continued)

NOTE F - LONG-TERM DEBT - Continued

Fair Value

The Medical Center uses quoted market prices in estimating the fair value of the revenue bonds. The fair value of the Medical Center's long-term debt, excluding capital leases, was $210,955,000 and $198,993,000 at June 30, 2012 and 2011, respectively.

Bonds

Series 2012 Bonds

In June 2012, the Medical Center replaced the 2009B and 2009C bonds with Series 2012 $72,250,000 Variable Rate Refunding Bonds (Series 2012), that are Direct Bank Purchase Bonds with a national bank. The Series 2012 bonds were used to extinguish the Series 2009B and 2009C bonds.

The Series 2012 bonds have annual sinking fund (principal) payments on July 1 through 2039 ranging from $1,710,000 to $3,835,000 and bear interest based on a daily LIBOR rate (as defined), payable monthly until July 1, 2019, at which time the Direct Bank Purchase Agreement expires and can either be extended or the bonds may be repurchased by the Medical Center.

Series 2009 Bonds

In October 2009, the Medical Center entered into a financing arrangement with the Delaware Health Facilities Authority (the Authority) to issue $138,490,000 Revenue Bonds, Bayhealth Medical Center Project, Series 2009A (Series 2009A); $37,865,000 Variable Rate Refunding Revenue Bonds, Bayhealth Medical Center Project, Series 2009B (Series 2009B); and $37,865,000 Variable Rate Refunding Revenue Bonds, Bayhealth Medical Center Project, Series 2009C (Series 2009C). The Series 2009A bonds proceeds were used to extinguish the Series 1999 bonds and finance construction projects and renovations to the Medical Center.

The Series 2009A bonds include serial bonds bearing interest at rates ranging from 2.00% to 4.30%, with maturities annually on July 1 through 2024, with principal payment ranging from $250,000 to $2,515,000. Term bonds, bearing interest at rates ranging from 4.57% to 5.09%, with maturities occurring on July 1, 2026 thru July 1, 2044, are subject to mandatory sinking fund (principal) payments beginning July 1, 2025, ranging from $2,625,000 to $12,215,000 as set forth in the bond indenture agreements. The Series 2009A interest is payable semiannually on each January 1 and July 1.

Under the terms of the Loan Agreement, the Medical Center has granted the Authority a mortgage lien on certain Medical Center facilities and has pledged its gross revenues, to the extent permitted by law, to the Authority. The Loan Agreement requires the Medical Center to maintain certain financial covenants, including a debt service coverage ratio and days cash on hand, as defined.

(Continued)

NOTE F - LONG-TERM DEBT - Continued

As of June 30, 2012, the principal payments on the Medical Center's long-term debt are as follows:

2013	$ 1,791,883
2014	3,390,000
2015	3,480,000
2016	3,580,000
2017	3,685,000
Thereafter	193,349,037
	$ 209,275,920

Capitalized Interest

A summary of interest cost and investment income (loss) on borrowed funds held by the trustee under the Series 2009A bonds for the year ended June 30, is as follows:

	2012	2011
Interest cost		
Capitalized	$ 2,913,486	$ 5,035,484
Charged to operations	3,530,882	1,418,584
Total	$ 6,444,368	$ 6,454,068
Investment income (loss)		
Capitalized	$ -	$ (18,893)
Credited to investment return	49,873	350,403
Total	$ 49,873	$ 331,510

Other interest expense capitalized for the year ended June 30, 2011 was $146,210.

Interest Rate Swap

The Medical Center entered into an interest rate swap agreement in April 2003 to manage its exposure to fluctuations in interest rates relating to the Series 2003 bonds. The interest rate swap does not qualify for hedge accounting. The Series 2003 bonds were extinguished in October 2009; however, the interest rate swap agreement remains in place. The notional amount declines annually until the termination of the agreement on July 1, 2023. As of June 30, 2012 and 2011, the notional amount was $26,865,000 and $28,790,000, respectively. Under the agreement, the Medical Center receives a floating rate based on 68% of the 30-day U.S. dollar LIBOR rate and pays a fixed rate of 3.53% each month. The Medical Center recorded a noncash (loss) gain on the fair value of the swap of $(1,083,527) and $506,191 for the years ended June 30, 2012 and 2011, respectively, with such amounts recorded as other income (expense) in the accompanying statements of operations and changes in net assets. The Medical Center has recorded the fair value of the interest rate swap as a liability of $3,960,330 and $2,876,803 at June 30, 2012 and 2011, respectively.

(Continued)

NOTE F - LONG-TERM DEBT - Continued

The Medical Center has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. As a matter of practice, the Medical Center will enter into transactions only with counterparties whose obligations are rated "A-" or above as rated by Standard & Poor's, or "A3" or above as rated by Moody's.

The Medical Center's exposure to credit risk, associated with its derivative financial instruments, is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. As of October 8, 2012, the Medical Center was not exposed to any risk of loss.

NOTE G - POSTRETIREMENT BENEFIT PLANS

The Medical Center sponsors a noncontributory defined benefit pension plan (Pension Plan), covering substantially all employees, which was frozen for all participants effective January 1, 2008, except those whose age and years of vesting service total 65 or more as of December 31, 2007. These grandfathered participants will continue to add to the Pension Plan benefits in the future based on current plan provisions. For all other employees, Pension Plan benefits will not increase after December 31, 2007. Effective January 1, 2008, employees who are not grandfathered in the Pension Plan benefits will be eligible to receive a 3 percent annual retirement saving contribution and an improved matching contribution of 50 percent up to the first 6 percent of eligible compensation for the Bayhealth Medical Center, Inc. 401(k) Savings Plan. The Medical Center's policy is to fund benefit costs accrued subject to limitations under the Employee Retirement Income Security Act of 1974. The actuarial cost method used to compute funding levels is the Projected Unit Credit Method.

In addition, the Medical Center provides certain reimbursement for health care benefits for eligible retirees (Other benefits). Certain employees who retire at age 65, or at age 55 with 10 consecutive years of service, and who are insured under the Medical Center's health insurance plan while an active employee, are eligible for coverage. Effective June 30, 2012, the Medical Center revised its assumption related to the percentage of future retirees that elect coverage and continue to elect coverage post-age 65 based on the updated historical experience.

The following table summarizes information about the benefit plans:

	Pension benefits		Other benefits	
	June 30,			
	2012	2011	2012	2011
Accumulated benefit obligation	$ 158,795,687	$ 131,900,942	$ N/A	$ N/A
Change in benefit obligation				
Benefit obligation at beginning of year	$ 138,513,336	$ 133,260,997	$ 17,145,490	$ 14,056,404
Service cost	2,125,685	2,271,357	1,006,220	949,007
Interest cost	7,839,730	7,273,634	956,145	839,023
Actuarial (gain) loss	22,324,708	(351,144)	(5,877,080)	1,817,451
Benefits paid	(4,554,727)	(3,941,508)	(735,913)	(516,395)
Benefit obligation at end of year	166,248,732	138,513,336	12,494,862	17,145,490

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

	Pension benefits		Other benefits	
	June 30,			
	2012	2011	2012	2011
Change in plan assets				
Fair value of the plan assets at beginning of year	$ 113,326,428	$ 97,191,449	$ -	$ -
Actual return on plan assets	3,139,236	17,339,964	-	-
Contributions by the Medical Center	5,668,993	2,736,523	735,913	516,395
Benefits paid	(4,554,727)	(3,941,508)	(735,913)	(516,395)
Fair value of the plan assets at end of year	117,579,930	113,326,428	-	-
Funded status at year end	$ (48,668,802)	$ (25,186,908)	$ (12,494,862)	$ (17,145,490)
Net amounts recognized in the balance sheets consist of				
Current liabilities, as accrued salaries, wages and benefits	$ -	$ -	$ (700,000)	$ (700,000)
Noncurrent liabilities	(48,668,802)	(25,186,908)	(11,794,862)	(16,445,490)
Accrued retirement benefits	$ (48,668,802)	$ (25,186,908)	$ (12,494,862)	$ (17,145,490)
Amounts recognized in unrestricted net assets but not yet recognized in net periodic benefit costs consist of				
Net actuarial loss (gain)	$ 68,172,762	$ 41,876,111	$ (201,060)	$ 5,967,172
Prior service cost	60,448	77,798	-	-
	$ 68,233,210	$ 41,953,909	$ (201,060)	$ 5,967,172
Components of net periodic benefit cost				
Service cost	$ 2,125,685	$ 2,271,357	$ 1,006,220	$ 949,007
Interest cost	7,839,730	7,273,634	956,145	839,023
Expected return on plan assets	(9,481,015)	(7,996,783)	-	-
Amortization of prior service cost	17,350	17,350	-	-
Amortization of actuarial loss	2,369,836	3,437,276	291,152	295,411
	2,871,586	5,002,834	2,253,517	2,083,441

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

	Pension benefits		Other benefits	
	June 30,			
	2012	2011	2012	2011
Other changes in benefit obligations recognized in other changes in unrestricted net assets				
Prior service cost	$ 17,350	$ 17,350	$ -	$ -
Net loss (gain)	26,261,951	13,131,601	(6,168,232)	1,522,040
	26,279,301	13,148,951	(6,168,232)	1,522,040
Total recognized in net benefit cost and unrestricted net assets	$ 29,150,887	$ 18,151,785	$ (3,914,715)	$ 3,605,481

At June 30, 2012, the expected estimated amount from unrestricted net assets into net periodic benefit cost for the next year is:

	Pension benefits	Other benefits
Net actuarial loss	$ 4,800,000	$ 291,152
Prior service cost	17,350	-
	$ 4,817,350	$ 291,152

	Pension benefits		Other benefits	
	June 30,			
	2012	2011	2012	2011
Weighted-average assumptions used to determine benefit obligations were				
Discount rate	4.70%	5.76%	4.46%	5.65%
Rate of compensation increase	4.59%	4.59%	N/A	N/A
Measurement date	June 30	June 30	June 30	June 30
Weighted-average assumptions used to determine net periodic benefit costs were				
Discount rate	5.76%	5.55%	5.65%	5.41%
Expected long-term return on plan assets	8.25%	8.25%	N/A	N/A
Rate of compensation increase	4.59%	4.59%	N/A	N/A

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

The expected long-term rate of return on Pension benefits' total assets is developed based on applying historical average total returns by asset class to the Pension benefits' current asset allocation.

The current health care cost trend rates used to measure the future benefits under the postretirement health care plans are (1) 8% for pre-65 year old retirees, decreasing to 5% by 2017 and remaining at that level thereafter; and (2) 7% for retirees age 65 and older, decreasing to 5% by 2016 and remaining at that level thereafter. A one percentage-point change in assumed health care cost trend rates would have the following effects on the year ended June 30, 2012:

	1% increase	1% (decrease)
Incremental effect on total service and interest cost components of benefit cost	$ 122,451	$ 101,589
Incremental effect on postretirement benefit obligation	536,452	449,858

The Pension benefits' weighted average asset allocation as of the measurement dates of June 30, 2012 and 2011, by asset category, follows:

	2012	2011
Asset category		
Cash and cash equivalents	9%	6%
Fixed income	38	32
Equity securities	53	62
Total	100%	100%

The target asset allocation is 60% in equity securities, 35% in fixed income and 5% in cash and cash equivalents.

Fair Value of the Plan Assets

The following fair value hierarchy tables present information about each major category of the Pension benefits' financial assets measured at fair value using the market approach on a recurring basis as of June 30, 2012 and 2011:

		Fair value measurement at report date using		
2012	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 12,021,074	$ 12,021,074	$ -	$ -
Fixed income (a)	38,955,341	-	38,955,341	-
Equity securities (b)	66,603,515	66,603,515	-	-
	$ 117,579,930	$ 78,624,589	$ 38,955,341	$ -

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

		Fair value measurement at report date using		
2011	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 8,414,890	$ 8,414,890	$ -	$ -
Fixed income (a)	35,650,945	-	35,650,945	-
Equity securities (b)	69,260,593	69,260,593	-	-
	$ 113,326,428	$ 77,675,483	$ 35,650,945	$ -

(a) Comprised of investment grade bonds of U S issuers from various industries and a commingled trust fund.
(b) Comprised of mutual funds investing in at least 90% of assets in common stock of companies with large market capitalizations similar to companies in the Standard & Poor's (S&P) 500 Index

Investment Strategies

The funding obligations of the Pension benefits are long-term in nature; consequently, the investment of the Pension benefits' assets should have a long-term focus. The Pension benefits' assets are invested in accordance with sound investment practices that emphasize long-term fundamentals. The investment objectives for the plan's assets are:

- To achieve a positive rate of return over the long term that significantly contributes to meeting the Pension benefits' obligations, including actuarial interest and benefit payment obligations;
- To earn long-term returns that keep pace with or exceed the long-run inflation rate;
- To diversify the Pension benefits' assets in order to reduce the risk of wide swings in market value from year to year, or of incurring large losses; and
- To achieve investment results over the long term that compare favorably with those of other benefit plans and of appropriate market indices.

It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with this investment policy.

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

Cash Flows

The Medical Center expects to contribute $5,000,000 to Pension benefits and $700,000 to the Other benefits plan for the year ending June 30, 2013. The following benefit payments, which reflect expected future service, as appropriate, are expected to be made in future years:

Years ending June 30,	Pension benefits	Other benefits
2013	$ 5,400,000	$ 700,000
2014	5,900,000	800,000
2015	6,500,000	800,000
2016	7,000,000	800,000
2017	7,600,000	800,000
2018-2022	47,200,000	4,900,000

Defined Contribution Plan

The Medical Center also offers a defined contribution savings plan to all full-time and part-time employees of the Medical Center. The Medical Center matches participant contributions for active participants as of December 31 that have completed at least 1,000 hours of service during the calendar year. The match is 50% of the first 4% of compensation. Effective on January 1, 2008, grandfathered participants will continue to receive a match of 50% of the first 4% of compensation, and for non-grandfathered participants, 50% of the first 6% of compensation. Additionally, non-grandfathered participants also receive a 3% contribution of compensation. The Medical Center's contribution expense for the years ended June 30, 2012 and 2011 was $6,824,035 and $6,123,373, respectively.

NOTE H - ESTIMATED PROFESSIONAL LIABILITY COSTS

The Medical Center maintains medical malpractice insurance coverage under an annual claims-made policy with a deductible amount of $3,000,000 on a per-claim basis and $9,000,000 in the aggregate. The Medical Center provides for estimated losses which have been reported and losses which have been incurred but not reported. At June 30, 2012 and 2011, the malpractice claims liability totaled $12,663,765 and $12,905,919, respectively, including the estimated current portion of this liability, totaling $1,671,372 and $1,159,828, respectively, reported in accounts payable and other accrued expenses. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE I - COMMITMENTS AND CONTINGENCIES

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Medical Center's financial position or results of operations.

Operating Leases

The Medical Center leases equipment through lease agreements expiring on various dates through June 2018. Certain of these leases contain options to extend the lease terms. Lease expense for the years ended June 30, 2012 and 2011 was $1,172,630 and $1,144,722, respectively. Future minimum lease payments are as follows for the years ending June 30:

2013	$ 2,359,776
2014	2,168,166
2015	1,978,804
2016	1,765,116
2017	967,111
Thereafter	792,373

NOTE J - CONCENTRATIONS OF CREDIT RISK

The Medical Center grants credit without collateral to patients, most of whom are local residents and are insured under third-party agreements. The mix of net accounts receivable from patients and third-party payors at June 30, 2012 and 2011 was as follows:

	2012	2011
Medicare	20%	34%
Blue Cross	18	16
Medicaid	14	14
Managed care	13	10
Self-pay	16	11
Workers' compensation	9	6
Other	10	9
Total	100%	100%

In addition, the Medical Center invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

NOTE K - FUNCTIONAL EXPENSES

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Health care services	$ 335,644,172	$ 288,801,664
General and administrative services	116,333,263	111,542,862
	$ 451,977,435	$ 400,344,526

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Medical Center measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

The fair value hierarchy is broken down into three levels based on the source of inputs: Level 1 - defined as observable inputs such as quoted prices in active markets; Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

In determining fair value, the Medical Center uses the market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

In determining fair value, the Medical Center uses quoted prices and observable inputs. Observable inputs are inputs that market participants would use in pricing the assets or liabilities based on market data obtained from sources independent of the Medical Center. The Medical Center did not have any Level 3 assets or liabilities.

Financial assets and liabilities carried at fair value are classified in the tables below:

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Assets				
Cash and cash equivalents	$ 65,329,341	$ -	$ -	$ 65,329,341
Equity securities	207,559,800	-	-	207,559,800
Government securities and corporate bonds	137,504,864	-	-	137,504,864
Limited partnership	-	4,797,959	-	4,797,959
Beneficial interest in perpetual trusts	-	-	5,766,785	5,766,785
Total assets	$ 410,394,005	$ 4,797,959	$ 5,766,785	$ 420,958,749

(Continued)

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Liabilities				
Interest rate swap	$ -	$ 3,960,330	$ -	$ 3,960,330
Total liabilities	$ -	$ 3,960,330	$ -	$ 3,960,330
June 30, 2011				
Assets				
Cash and cash equivalents	$ 58,085,828	$ -	$ -	$ 58,085,828
Equity securities	213,369,627	-	-	213,369,627
Government securities and corporate bonds	136,803,534	-	-	136,803,534
Limited partnership	-	5,066,664	-	5,066,664
Beneficial interest in perpetual trusts	-	-	6,072,820	6,072,820
Total assets	$ 408,258,989	$ 5,066,664	$ 6,072,820	$ 419,398,473
Liabilities				
Interest rate swap	$ -	$ 2,876,803	$ -	$ 2,876,803
Total liabilities	$ -	$ 2,876,803	$ -	$ 2,876,803

The limited partnership is categorized as Level 2 in the hierarchy above, based on the Medical Center's ability to liquidate at any time with 90 days notice.

The Medical Center did not purchase any additional Level 3 assets during the years ended June 30, 2012 and 2011. Net unrealized (losses) gains on these assets were $(306,035) and $674,018 for the years ended June 30, 2012 and 2011, respectively.

NOTE M - SUBSEQUENT EVENTS

The Medical Center evaluated its June 30, 2012 financial statements for subsequent events through October 8, 2012, the date the financial statements were available to be issued. The Medical Center is not aware of any subsequent events which would require recognition or disclosure in the financial statements.