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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

2012

Open to Public Inspection

A For the 2012 calendar year, or tax year beginning 07-01-2012 , 2012, and ending 06-30-2013

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
Suite

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 $ 685,766,861

F Name and address of principal officer
MICHAEL TRETINA
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: ▶ www bayhealth org

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**	10
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 2012 (Part V, line 2a)	**5**	3,646
6	Total number of volunteers (estimate if necessary)	**6**	475
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	37,807
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	

		Prior Year	Current Year
8	Contributions and grants (Part VIII, line 1h)	1,197,537	1,200,796
9	Program service revenue (Part VIII, line 2g)	488,929,454	514,835,988
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	32,180,456	18,635,747
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	1,265,153	2,713,642
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	523,572,600	537,386,173
13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	208,729
14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	238,283,551	256,772,257
16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b	Total fundraising expenses (Part IX, column (D), line 25) ▶0		
17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	214,752,127	226,947,971
18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	453,035,678	483,928,957
19	Revenue less expenses Subtract line 18 from line 12	70,536,922	53,457,216

		Beginning of Current Year	End of Year
20	Total assets (Part X, line 16)	810,989,924	866,443,235
21	Total liabilities (Part X, line 26)	370,894,574	340,672,060
22	Net assets or fund balances Subtract line 21 from line 20	440,095,350	525,771,175

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

****** | 2014-05-12
Signature of officer | Date

Michael Tretina SVP & CFO
Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Russlee Armstrong				
Firm's name ▶ GRANT THORNTON LLP			Firm's EIN ▶	
Firm's address ▶ 2001 MARKET STREET SUITE 700 PHILADELPHIA, PA 19103			Phone no (215) 561-4200	

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 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 $ 349,458,166 including grants of $) (Revenue $ 510,096,987)

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, wounded care, perinatology services, and a Level II NICU and PICU During the twelve months ending June 30, 2013, Bayhealth recorded 90,142 Emergency Room visits,470,307 non-emergency outpatient visits, 2,226 births, and 18,078 patients admitted Bayhealth has affiliations with the University of Pennsylvania's Penn Health in cardiology, oncology, and orthopedics, it provides physician and medical clinical rotations, housing, and meals for interns and residents from surrounding states In FY 2013, 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, supporting 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** ▶ 349,458,166

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 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9		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, line 10? *If "Yes," complete Schedule D, Part VI.*	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII*	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII*	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX*	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X*	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X*	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI and XII*	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 and XII 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, Parts I and IV*	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the United States? *If "Yes," complete Schedule F, Parts II and IV*	15		No
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the United States? *If "Yes," complete Schedule F, Parts III and IV*	16		No
17	Did the organization report a total of more than $15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I (see instructions)*	17		No
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II*	18		No
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III*	19		No
20a	Did the organization operate one or more hospital facilities? *If "Yes," complete Schedule H*	20a	Yes	
b	If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?	20b	Yes	

Part IV Checklist of Required Schedules *(continued)*

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

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response 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	384		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c		Yes	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a	3,646		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)	2b		Yes	
3a	Did the organization have unrelated business gross income of $1,000 or more during the year? . . .	3a		Yes	
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*	3b		Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a			No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .	5a			No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b			No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?	5c			
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions? . . .	6a			No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b			
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?	7a			No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b			
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c			No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e			No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .	7f			No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g			
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h			
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8			
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?	9a			
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b			
10	**Section 501(c)(7) organizations.** Enter				
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?	12a			
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** See the instructions for additional information the organization must report on Schedule O	13a			
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a			No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .	14b			

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

Check if Schedule O contains a response 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** 10		
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
b	Enter the number of voting members included in line 1a, above, who are independent	**1b** 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**		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	**11a**	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	**12a**	Yes	
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	**12b**	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? *If "Yes," describe in Schedule O how this was done*	**12c**	Yes	
13	Did the organization have a written whistleblower policy?	**13**	Yes	
14	Did the organization have a written document retention and destruction policy?	**14**	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	**15a**	Yes	
b	Other officers or key employees of the organization	**15b**	Yes	
	If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	**16a**	Yes	
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	**16b**	Yes	

Section C. Disclosure

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

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

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

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

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶MICHAEL TRETINA 640 SOUTH STATE STREET Dover, DE (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 Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

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

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W- 2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Wendy S Newell MD Board Member	1 0	X						0	0	0
(2) Michel R Samaha MD Board Member	1 0	X						0	0	0
(3) Robert Scacheri MD Board Member	1 0	X						0	0	0
(4) Mary Jane McClements MD Ex Officio Director	40 0	X						331,198	0	30,095
(5) Gary Siegelman SVP & CMO	40 0	X						519,643	0	33,600
(6) Bonnie Perratto SVP - Patient Care	40 0	X						343,835	0	26,716
(7) Michael E Ashton Administrator	40 0	X						198,672	0	32,426
(8) Terry M Murphy Chair & CEO	38 0 2 0	X		X				1,206,572	0	35,365
(9) Deborah Watson Vice Chair & COO	40 0	X		X				379,027	0	35,365
(10) Earl Tanis Treasurer & CFO	38 0 2 0	X		X				534,136	0	172,384
(11) John Van Gorp SVP Planning & Bus Development	40 0				X			239,324	0	34,156
(12) Brad D Kirkes VP Ancillary & Clinical Srvs	40 0				X			186,866	0	18,663
(13) John D Mannon MD Physician	40 0					X		924,246	0	35,365
(14) Pedro Perez MD Physician	40 0					X		811,081	0	35,365
(15) Laeeq Ahmer MD Physician	40 0					X		787,644	0	35,365
(16) David Ramos MD Physician	40 0					X		759,425	0	35,365
(17) Clifford Turen MD Physician	40 0					X		744,068	0	34,582

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W- 2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) Dennis E Klima President, Bayhealth Inc	40 0						X	740,257	0	57,006
(19) Jon McDowell Former VP Human Resources	40 0						X	122,774	0	74,265
(20) Gerald L White Pres Bayhealth Develop Corp	40 0						X	259,942	0	325,935
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								9,088,710	0	1,052,018

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 ▶ 292

		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
WHITING-TURNER CONTRACTORS , 131 Continental Drvie Suite 404 NEWARK DE 19713	Construction	18,862,663
MCKESSON TECHNOLOGY , 5995 Windward Pkwy ALPHARETTA GA 30005	IS Consulting/Sftwr	4,768,309
BAY ANESTHESIA GROUP , 640 S State St DOVER DE 19901	Anesthesia/Med Svcs	4,014,183
Armark Services Inc , 10 Woods Road VALHALLA NY 10595	Food Mgmt Services	3,993,519
Gilbane Building Company , 99 Pine STreet NEW YORK NY 10005	Architects/Constr	3,105,594

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 ▶ 260

Part VIII Statement of Revenue

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

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 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	1,200,796			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f				
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f		1,200,796			
Program Service Revenue			Business Code				
	2a	NET PATIENT SERVICE REVENUE	900099	507,635,497	507,635,497		
	b	PHARMACY	900099	4,739,001			4,739,001
	c	HEALTH & WELLNESS PROGRAMS	900099	2,461,490	2,461,490		
	d						
	e						
	f	All other program service revenue					
	g	**Total.** Add lines 2a–2f		514,835,988			
	3	Investment income (including dividends, interest, and other similar amounts)		11,993,320		37,807	11,955,513
	4	Income from investment of tax-exempt bond proceeds		0			
	5	Royalties		0			

		(i) Real	(ii) Personal				
	6a	Gross rents	768,599					
	b	Less rental expenses	366,276					
	c	Rental income or (loss)	402,323	0				
	d	Net rental income or (loss)			402,323			402,323

		(i) Securities	(ii) Other				
	7a	Gross amount from sales of assets other than inventory	153,454,449	1,202,390			
	b	Less cost or other basis and sales expenses	146,854,475	1,159,937			
	c	Gain or (loss)	6,599,974	42,453			
	d	Net gain or (loss)			6,642,427			6,642,427
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	GIFT SHOP/FOOD SALES		900099	1,061,020			1,061,020
	b	CHILD CARE		900099	607,691			607,691
	c	FITNESS CENTER		900099	295,135			295,135
	d	All other revenue			347,473			347,473
	e	**Total.** Add lines 11a–11d			2,311,319			
	12	**Total revenue.** See Instructions			537,386,173	510,096,987	37,807	26,050,583

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns All other organizations must complete column (A)

Check if Schedule O contains a response 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	208,729	208,729		
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	5,938,222		5,938,222	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7 Other salaries and wages	175,200,792	138,868,605	36,332,187	
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	13,350,958	4,111,006	9,239,952	
9 Other employee benefits	49,622,394	15,279,647	34,342,747	
10 Payroll taxes	12,659,891	3,898,213	8,761,678	
11 Fees for services (non-employees)				
a Management	0			
b Legal	816,293		816,293	
c Accounting	290,971		290,971	
d Lobbying	0			
e Professional fundraising services See Part IV, line 17	0			
f Investment management fees	1,908,467		1,908,467	
g Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O)	3,727,699	3,727,699		
12 Advertising and promotion	719,139	719,139		
13 Office expenses	3,009,780	2,017,478	992,302	
14 Information technology	0			
15 Royalties . .	0			
16 Occupancy	9,916,630	9,916,630		
17 Travel	1,000,547	1,000,547		
18 Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19 Conferences, conventions, and meetings	0			
20 Interest	7,963,148	7,963,148		
21 Payments to affiliates	0			
22 Depreciation, depletion, and amortization	28,425,613	28,155,766	269,847	
23 Insurance	3,815,001	783,380	3,031,621	
24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24e If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O)				
a MEDICAL SUPPLIES	75,570,773	43,024,269	32,546,504	
b PROVISION FOR BAD DEBT	36,685,770	36,685,770		
c OTHER PURCHASED SERVICES	29,764,393	29,764,393		
d EQUIP REPAIR & MAINT CONTRACTS	10,006,236	10,006,236		
e All other expenses	13,327,511	13,327,511		
25 **Total functional expenses.** Add lines 1 through 24e	483,928,957	349,458,166	134,470,791	0
26 **Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation Check here ▶ ☐ if following SOP 98-2 (ASC 958-720)				

Part X Balance Sheet

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

				(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		0	1	0
	2	Savings and temporary cash investments		27,653,766	2	29,761,191
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		51,487,127	4	59,448,127
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		0	5	0
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		0	7	0
	8	Inventories for sale or use		7,366,736	8	9,062,729
	9	Prepaid expenses and deferred charges		9,057,739	9	8,241,066
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 523,860,541			
	b	Less accumulated depreciation	10b 218,654,821	308,314,968	10c	305,205,720
	11	Investments—publicly traded securities		382,740,239	11	429,079,575
	12	Investments—other securities See Part IV, line 11		4,797,959	12	4,459,819
	13	Investments—program-related See Part IV, line 11		0	13	0
	14	Intangible assets		0	14	0
	15	Other assets See Part IV, line 11		19,571,390	15	21,185,008
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		810,989,924	16	866,443,235
Liabilities	17	Accounts payable and accrued expenses		82,689,056	17	68,768,401
	18	Grants payable		0	18	0
	19	Deferred revenue		0	19	0
	20	Tax-exempt bond liabilities		208,019,094	20	206,317,819
	21	Escrow or custodial account liability Complete Part IV of Schedule D		0	21	0
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L		0	22	0
	23	Secured mortgages and notes payable to unrelated third parties		0	23	0
	24	Unsecured notes and loans payable to unrelated third parties		644,037	24	473,572
	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		79,542,387	25	65,112,268
	26	**Total liabilities.** Add lines 17 through 25		370,894,574	26	340,672,060
Net Assets or Fund Balances		**Organizations that follow SFAS 117 (ASC 958), check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		429,743,994	27	515,580,915
	28	Temporarily restricted net assets		4,584,571	28	4,296,958
	29	Permanently restricted net assets		5,766,785	29	5,893,302
		Organizations that do not follow SFAS 117 (ASC 958), check here ▶ ☐ and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		440,095,350	33	525,771,175
	34	Total liabilities and net assets/fund balances		810,989,924	34	866,443,235

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	537,386,173
2	Total expenses (must equal Part IX, column (A), line 25)	2	483,928,957
3	Revenue less expenses Subtract line 2 from line 1	3	53,457,216
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	440,095,350
5	Net unrealized gains (losses) on investments	5	17,127,636
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	15,090,973
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	525,771,175

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
	If 'Yes,' check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis			
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
	If 'Yes,' check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both ☑ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis			
c	If "Yes," to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?	2c	Yes	
	If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a		
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		

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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

2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 **Total support** (Add lines 7 through 10)						

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

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

Section C. Computation of Public Support Percentage

14 Public support percentage for 2012 (line 6, column (f) divided by line 11, column (f)) **14**

15 Public support percentage for 2011 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2012.** 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—2011.** If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

17a **10%-facts-and-circumstances test—2012.** 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—2011.** If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶☐

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

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

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 2012 (line 8, column (f) divided by line 13, column (f))	15	
16	Public support percentage from 2011 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17	Investment income percentage for **2012** (line 10c, column (f) divided by line 13, column (f))	17	
18	Investment income percentage from **2011** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2012.** 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—2011.** 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.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

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 can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? ☐ Yes ☐ No

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

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

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

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

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

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

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

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

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

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

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

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

1a If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIII, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

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

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

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items

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

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

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

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

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

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

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

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

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

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

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

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

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

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

		(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a	Beginning of year balance	5,766,785	6,072,820	5,398,802	5,031,093	
b	Contributions					
c	Net investment earnings, gains, and losses	126,517	-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	5,893,302	5,766,785	6,072,820	5,398,802	

2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as

- a Board designated or quasi-endowment ▶ 100 000 %
- b Permanent endowment ▶
- c Temporarily restricted endowment ▶

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

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

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

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

Part VI Land, Buildings, and Equipment. 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		12,489,962		12,489,962
b Buildings		259,768,636	60,963,230	198,805,406
c Leasehold improvements		0	0	0
d Equipment		244,809,833	155,050,566	89,759,267
e Other		6,792,110	2,641,025	4,151,085
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ▶				305,205,720

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) must 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) must 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) must 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) Book value
Federal income taxes	0
INTEREST RATE SWAP	2,704,973
ACCRUED POSTRETIREMENT BENEFIT COSTS	46,737,670
ESTIMATED PROFESSIONAL LIABILITY COSTS	11,543,882
ESTIMATED WORKERS COMPENSATION COSTS	4,125,743
Total. *(Column (b) must equal Form 990, Part X, col (B) line 25)* ▶	65,112,268

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

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

1	Total revenue, gains, and other support per audited financial statements			1	529,843,620
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12				
a	Net unrealized gains on investments	2a	17,127,636		
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIII)	2d	-21,594,797		
e	Add lines **2a** through **2d**			2e	-4,467,161
3	Subtract line **2e** from line **1**			3	534,310,781
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	1,908,467		
b	Other (Describe in Part XIII)	4b	1,166,925		
c	Add lines **4a** and **4b**			4c	3,075,392
5	Total revenue Add lines **3** and **4c.** (This must equal Form 990, Part I, line 12)			5	537,386,173

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

1	Total expenses and losses per audited financial statements			1	444,167,795
2	Amounts included on line 1 but not on Form 990, Part IX, line 25				
a	Donated services and use of facilities	2a			
b	Prior year adjustments	2b			
c	Other losses	2c			
d	Other (Describe in Part XIII)	2d	366,276		
e	Add lines **2a** through **2d**			2e	366,276
3	Subtract line **2e** from line **1**			3	443,801,519
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	1,908,467		
b	Other (Describe in Part XIII)	4b	38,218,971		
c	Add lines **4a** and **4b**			4c	40,127,438
5	Total expenses Add lines **3** and **4c.** (This must equal Form 990, Part I, line 18)			5	483,928,957

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

Identifier	Return Reference	Explanation
Endowment Funds	Part V	The endowment funds are to be held in perpetuity The investment income from the funds in not restricted
Fin 48 (ASC 740) Footnote	Part X, Line 2	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 At June 30, 2013, the Medical Center's tax years ended June 30, 2011 through 2013 for the federal tax jurisdiction remain open
Reconciliation of Revenue	Part XI, Line 2d	Provision for Bad Debt (Reclass) $(36,685,770) Change in fair value of interest rate swap 1,255,357 Change in beneficial interest in net assets of Bayhealth Foundation 1,728,322 Change in benefit obligations 11,980,777 Change in beneficial interest in perpetual trusts 126,517 ---------- Total $(21,594,797) Part XI, Line 4b Expenses From Limited Partnerships (Reclass) $1,533,201 Rental Expenses (Reclass) (366,276) ---------- Total $1,166,925
Reconciliation of Expenses	Part XII, Line 2d	Rental Expenses (Reclass) $366,276 Part XII, Line 4b Provision for Bad Debt (Reclass) $36,685,770 Expenses From Limited Partnerships (Reclass) 1,533,201 ---------- Total $38,218,971

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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

2012

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Part I Financial Assistance and Certain Other Community Benefits at Cost

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

7 Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)			9,062,200		9,062,200	1 880 %
b Medicaid (from Worksheet 3, column a)						
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d **Total** Financial Assistance and Means-Tested Government Programs			9,062,200		9,062,200	1 880 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			1,757,110		1,757,110	0 360 %
f Health professions education (from Worksheet 5)			3,610,873		3,610,873	0 750 %
g Subsidized health services (from Worksheet 6)			73,390,845	49,137,380	24,253,465	5 030 %
h Research (from Worksheet 7)			1,402,069		1,402,069	0 290 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)			4,150,031	690,213	3,459,818	0 720 %
j **Total.** Other Benefits			84,310,928	49,827,593	34,483,335	7 150 %
k **Total.** Add lines 7d and 7j			93,373,128	49,827,593	43,545,535	9 030 %

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

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development	1		755,875		755,875	0 160 %
3 Community support						
4 Environmental improvements						
5 Leadership development and training for community members						
6 Coalition building	1		834		834	
7 Community health improvement advocacy						
8 Workforce development	1	655	1,028,865		1,028,865	0 210 %
9 Other						
10 **Total**	3	655	1,785,574		1,785,574	0 370 %

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 Explain in Part VI the methodology used by the organization to estimate this amount	2	35,294,955		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit	3			
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	141,713,788
6	Enter Medicare allowable costs of care relating to payments on line 5	6	180,933,579
7	Subtract line 6 from line 5 This is the surplus (or shortfall)	7	-39,219,791
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used		

☑ Cost accounting system ☐ Cost to charge ratio ☐ Other

Section C. Collection Practices

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

Part IV **Management Companies and Joint Ventures** (owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

	(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership %	(e) Physicians' profit % or stock ownership %
1	Eden Hill Express	Walk-in Urgent Care	16 667 %		
2	Premier Purchasing	Group Purchasing	0 360 %		
3	Dover Surgicenter	Outpatient Surgery Center	27 079 %		
4	Eden Hill Medical Ct	Real Estate	0 422 %		
5					
6					
7					
8					
9					
10					
11					
12					
13					

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)
How many hospital facilities did the organization operate during the tax year?
2

	Name, address, and primary website address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
1	Kent General Hospital 640 South State Street Dover, DE 19901	X	X					X			
2	Milford Memorial Hospital 21 West Clarke Ave Milford, DE 19963	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 or facility reporting groups listed in Part V, Section A)

Name of hospital facility or facility reporting group Kent General Hospital

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A) _____

			Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)				
1	During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9	**1**	Yes	
	If "Yes," indicate what the CHNA report describes (check all that apply)			
a	☑ A definition of the community served by the hospital facility			
b	☑ Demographics of the community			
c	☑ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d	☑ How data was obtained			
e	☑ The health needs of the community			
f	☑ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g	☑ The process for identifying and prioritizing community health needs and services to meet the community health needs			
h	☑ The process for consulting with persons representing the community's interests			
i	☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j	☐ Other (describe in Part VI)			
2	Indicate the tax year the hospital facility last conducted a CHNA 20 12			
3	In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	**3**	Yes	
4	Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	**4**	Yes	
5	Did the hospital facility make its CHNA report widely available to the public?	**5**	Yes	
	If "Yes," indicate how the CHNA report was made widely available (check all that apply)			
a	☑ Hospital facility's website			
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 CHNA, indicate how (check all that apply to date)			
a	☑ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA			
b	☑ Execution of the implementation strategy			
c	☑ Participation in the development of a community-wide plan			
d	☑ Participation in the execution of a community-wide plan			
e	☑ Inclusion of a community benefit section in operational plans			
f	☑ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g	☑ Prioritization of health needs in its community			
h	☑ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i	☐ Other (describe in Part VI)			
7	Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	**7**	Yes	
8a	Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	**8a**		No
b	If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	**8b**		
c	If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? $_____			

Part V Facility Information *(continued)*

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**9**	Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing *free* care?	**10**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 200 % If "No," explain in Part VI the criteria the hospital facility used			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**		No
If "Yes," indicate the FPG family income limit for eligibility for discounted care __% If "No," explain in Part VI the criteria the hospital facility used			
12 Explained the basis for calculating amounts charged to patients?	**12**		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)			
13 Explained the method for applying for financial assistance?	**13**	Yes	
14 Included measures to publicize the policy within the community served by the hospital facility?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☑ The policy was posted on the hospital facility's website			
b ☐ The policy was attached to billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☐ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients on admission to the hospital facility			
f ☑ The policy was available upon request			
g ☑ Other (describe in Part VI)			
Billing and Collections			
15 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	**15**	Yes	
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			
17 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	**17**		No
If "Yes," check all actions in which the hospital facility or a third party engaged			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			

Part V Facility Information *(continued)*

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

- **a** ☐ Notified individuals of the financial assistance policy on admission
- **b** ☐ Notified individuals of the financial assistance policy prior to discharge
- **c** ☑ Notified individuals of the financial assistance policy in communications with the 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)

Policy Relating to Emergency Medical Care

		Yes	No
19 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?	**19**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ Other (describe in Part VI)			

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

20 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b ☐ The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d ☑ Other (describe in Part VI)			
21 During the tax year, did the hospital facility charge any FAP-eligible individuals to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?	**21**		No
If "Yes," explain in Part VI			
22 During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual?	**22**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices

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

Name of hospital facility or facility reporting group Milford Memorial Hospital

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A) _____

			Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)				
1	During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9	**1**	Yes	
	If "Yes," indicate what the CHNA report describes (check all that apply)			
a	☑ A definition of the community served by the hospital facility			
b	☑ Demographics of the community			
c	☑ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d	☑ How data was obtained			
e	☑ The health needs of the community			
f	☑ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g	☑ The process for identifying and prioritizing community health needs and services to meet the community health needs			
h	☑ The process for consulting with persons representing the community's interests			
i	☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j	☐ Other (describe in Part VI)			
2	Indicate the tax year the hospital facility last conducted a CHNA 20 12			
3	In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	**3**	Yes	
4	Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	**4**	Yes	
5	Did the hospital facility make its CHNA report widely available to the public?	**5**	Yes	
	If "Yes," indicate how the CHNA report was made widely available (check all that apply)			
a	☑ Hospital facility's website			
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 CHNA, indicate how (check all that apply to date)			
a	☑ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA			
b	☑ Execution of the implementation strategy			
c	☑ Participation in the development of a community-wide plan			
d	☑ Participation in the execution of a community-wide plan			
e	☑ Inclusion of a community benefit section in operational plans			
f	☑ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g	☑ Prioritization of health needs in its community			
h	☑ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i	☐ Other (describe in Part VI)			
7	Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	**7**	Yes	
8a	Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	**8a**		No
b	If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	**8b**		
c	If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? $_____			

Part V Facility Information *(continued)*

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**9**	Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing *free* care?	**10**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 200 % If "No," explain in Part VI the criteria the hospital facility used			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**		No
If "Yes," indicate the FPG family income limit for eligibility for discounted care __% If "No," explain in Part VI the criteria the hospital facility used			
12 Explained the basis for calculating amounts charged to patients?	**12**		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)			
13 Explained the method for applying for financial assistance?	**13**	Yes	
14 Included measures to publicize the policy within the community served by the hospital facility?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☑ The policy was posted on the hospital facility's website			
b ☐ The policy was attached to billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☐ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients on admission to the hospital facility			
f ☑ The policy was available upon request			
g ☑ Other (describe in Part VI)			
Billing and Collections			
15 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	**15**	Yes	
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			
17 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	**17**		No
If "Yes," check all actions in which the hospital facility or a third party engaged			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			

Part V Facility Information *(continued)*

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

- **a** ☐ Notified individuals of the financial assistance policy on admission
- **b** ☐ Notified individuals of the financial assistance policy prior to discharge
- **c** ☑ Notified individuals of the financial assistance policy in communications with the 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)

Policy Relating to Emergency Medical Care

		Yes	No
19 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?	**19**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ Other (describe in Part VI)			

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

20 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b ☐ The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d ☑ Other (describe in Part VI)			
21 During the tax year, did the hospital facility charge any FAP-eligible individuals to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?	**21**		No
If "Yes," explain in Part VI			
22 During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual?	**22**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

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

How many non-hospital health care facilities did the organization operate during the tax year?
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, Part V, Section A, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

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

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

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

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

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

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

8 **Facility reporting group(s).** If applicable, for each hospital facility in a facility reporting group provide the descriptions required for Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

Identifier	ReturnReference	Explanation
Part I		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
Part II		Community Building Activities Bayhealth has invested heavily in recruiting primary care and certain specialty physicians to this medical 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, Brian 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 III		Line 4 - Bad Debt Expense 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 In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid) For receivables associated with self-pay patients, the Medical Center records a significant provision for bad debts on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible The difference between the billed rates and the amounts actually collected after all reasonable internal collection efforts have been exhausted is charged off against the allowance for doubtful accounts The Medical Center in 2013 experienced an approximately 6 percent decrease in the allowance for doubtful accounts due to changes in charity care and improved collection efforts 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 serves patients covered 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 form the Medicare program accounted for approximately 33% of Bayhealth's net patient revenue for the year ended 6/30/13 Line 9b - Provisions on Collection Practices for Qualified Patients BAYHEALTH'S POLICY IS TO COMPLY WITH ALL STATE AND FEDERAL LAW AND THIRD PARTY REGULATIONS AND TO PERFORM ALL CREDIT AND COLLECTION FUNCTIONS IN A DIGNIFIED AND RESPECTFUL MANNER EMERGENCY SERVICES WILL BE PROVIDED TO ALL PATIENTS REGARDLESS OF ABILITY TO PAY FINANCIAL ASSISTANCE IS AVAILABLE FOR PATIENTS BASED ON FINANCIAL NEED AS DEFINED IN THE FINANCIAL ASSISTANCE POLICY BAYHEALTH DOES NOT DISCRIMINATE ON THE BASIS OF AGE, GENDER, RACE, SOCIAL OR IMMIGRATION STATUS, SEXUAL ORIENTATION, OR RELIGIOUS AFFILIATION PATIENTS WHO ARE UNABLE TO PAY MAY REQUEST A FINANCIAL ASSISTANCE APPLICATION AT ANY TIME PRIOR TO SERVICE AND UP TO 120 DAYS FROM THE BILL DATE BAYHEALTH MAY REQUEST THE PATIENT TO APPLY FOR MEDICAL ASSISTANCE PRIOR TO APPLYING FOR FINANCIAL ASSISTANCE OUR ORGANIZATION DOES NOT PURSUE COLLECTION ACTIVITY ON PATIENTS DETERMINED TO BE ELIGIBLE FOR OUR FINANCIAL ASSISTANCE PROGRAM
Part V - Milford Memorial Hospital		To better understand the health needs in Bayhealth's service area, Bayhealth conducted a Community Health Needs Assessments (CHNA) Bayhealth analyzed a variety of publicly reported data and gathered input from key stakeholders in Sussex County Diligent attempts were made to collect interview and survey responses from individuals and community-based organizations to gain insight on the needs of vulnerable families in Sussex County Prior to 2012-2013, the most recent needs assessment was reported to the Bayhealth Board of Directors in 2006 The CHNA is made available on the Hospital's website as follows www bayhealth org/bayhealthcontentpage aspx?nd=907 The 2013 needs assessment results revealed opportunities for improvement in health promotion, disease prevention and improving access to health care in Sussex, DE The needs assessment team collated interview and survey responses in order to prioritize identified health needs and develop implementation strategies to fulfill Bayhealth's mission Description of communities served Milford Memorial Hospital, one of two hospital facilities owned and operated by Bayhealth, opened its doors in 1938 Since that time, Milford Memorial has grown in size and services to meet the health needs of the communities served, offering a comprehensive array of services to the residents of central and southern Delaware Sussex County is located in the southern part of the state of Delaware The county seat is Georgetown Historically a rural farmland community, Sussex County is attempting to preserve its farmland and natural resources while effectively managing the population growth that is occurring in the county Sussex County has a population of 203,390, making it the second largest county in the state in terms of the size of its population The population has grown 30 2% since 2000, which is much higher than the state average rate of approximately 17% for the same time frame The median age for the county in 2011 was 45 9 years of age, higher than the state as a whole or the U S median age for the same time frame The most prevalent race in Sussex County is white (non-Hispanic), which currently represents over 75% of the total population The average education level in Sussex County is lower than the state average Sussex County is home to three acute care hospital facilities Bayhealth's Milford Memorial, Beebe Medical Center in Lewes, and Nanticoke Health Services in Seaford These three hospitals are joining with local community and health resources to focus on one mission - to make Sussex County one of the healthiest in the nation As part of the healthier Sussex county initiative, Bayhealth will focus on addressing important health issues impacting residents of Sussex County Milford memorial's community health needs assessment focuses on the residents of Sussex County, the home county of the hospital Approximately 65% of Milford Memorial's patients originate from Sussex County An additional 30% of patients that utilize Milford memorial come from Kent County, a contiguous county The 2015 population is forecasted to exceed 220,000 in Sussex County The median age for the county in 2011 was 45 9 years of age, higher than the state as a whole or the U S median age for the same time frame Who was involved in the assessment The assessment process was initiated jointly by the education and strategic planning departments of Bayhealth The assessment was primarily conducted by the education department To gain feedback from persons with broad knowledge of the community served, Bayhealth sought input from community stakeholders, to include the following -Hope Medical Center -Delaware Division of public health department of health and social services -Thurman Adams State Service Center -Delaware division of public health office of minority health -Delaware division of public health office of women's health -Delaware division of public health nursing -Delaware division of public health social services -LabRed medical center -Westside family health center -PA mid-Atlantic AIDS training center -Bayhealth High School wellness centers, advance practice nurses -Milford -Woodbridge -Poly Tech -Community Physicians Personal imitations were extended to community partner organizations who interact with low-income groups to participate in one-on-one interviews regarding the health needs of Kent county residents Focus groups were conducted in multiple locations throughout the county Wellness center staff, guidance counselors, church staff (including those of minority populations), and public health nurses, were interviewed to ensure information obtained represents the diversity of our community in terms of demographic, socioeconomic, and geographic factors One-on-one meetings with community physicians were conducted over a two-month period Community physicians offer a unique perspective and knowledge of the health needs of our population Physicians who could not attend one-on-one sessions completed a written response assessment How the assessment was conducted Quantitative and qualitative analyses methods were utilized to generate a comprehensive assessment to fully understand the health needs of the community served Quantitative analyses were conducted using the most recent data available from five primary sources - Delaware Health Tracker (s product of the healthy community network), -County health rankings & roadmaps (a collaboration between the Robert wood Johnson foundation and the university of Wisconsin population health institute), -demographic data from the Delaware population consortium, -Delaware health statistics center, and, -demographic and socioeconomic data from the U S Census bureau To gain insight, Bayhealth reviewed available data to compare health statistics at the state and county levels to identify areas of health disparity Based on this analysis, the education department of Bayhealth developed discussion topics for a variety of community engagements, including interviews with key stakeholders, focus groups, and online surveys A variety of community settings were selected with a special emphasis on those persons and areas most impacted by health disparities Thematic analysis identified health needs based on available quantitative data and responses from interviews and online surveys

Identifier	ReturnReference	Explanation
Part V - Kent General Hospital		The 2013 needs assessment results revealed opportunities for improvement in health promotion, disease prevention and improving access to health care in Kent County, DE The Needs Assessment Team collated interview and survey responses in order to prioritize identified health needs and develop implementation strategies to fulfill Bayhealth's mission Description of Community Served Kent County is located in the central part of the state of Delaware Dover is the county seat and the state's capital Historically, a rural farmland community, Kent County is attempting to preserves its farmland and natural resources while effectively managing the population growth that is occurring in the county Kent County has a population of nearly 170,000, making it the smallest county in the state in terms of the size of its population However, the county population has grown 32% since 2000, which is much higher than the state average rate of approximately 17% for the same time frame The most prevalent race in Kent County is white, which represent over 60% of the total population The average Kent County education level is lower than the state average Kent General Hospital, one of two hospital facilities owned and operated by Bayhealth, opened its doors in 1927 Kent General has grown in size and services to meet the health needs of the communities served In 2012, Bayhealth invested 130 million dollars to complete Phase II construction of Kent General Hospital, part of Bayhealth's 10 year strategic plan designed to address present and future health care needs Phase II added 415,000 square feet to the Kent campus constructing a new welcome center, central services building, expanded emergency department, integrated cancer center and parking garage Bayhealth's CHNA focuses on the residents of Kent County Approximately 87% of Kent General's patients originate from Kent County Moreover, Kent County residents rely heavily on Kent General for inpatient services, as evidenced by the approximate 75% of Kent County resident who utilized Bayhealth's Kent General for inpatient in CY 2009 (the most recent data available) Who was Involved in the Assessment The assessment process was initiated jointly by the Education and Strategic Planning Departments of Bayhealth The assessment was primarily conducted by the Education Department To gain feedback from persons with broad knowledge of the community served, Bayhealth sought input from community stakeholders, to include the following - Hope Medical Clinic - Delaware Division of Public Health Department of Health and Social Services 1 James W Williams State Service Center 2 Thurman Adams State Service Center 3 Delaware Division of Public Health Office of Minority Health 4 Delaware Division of Public Health Office of Women's Health 5 Delaware Division of Public Health Nursing 6 Delaware Division of Public of Public Health Social Services - LaRed Medical Center - Westside Family Health Center - Bayhealth High School Wellness Centers, Advanced Practice Nurses 1 Caesar Rodney 2 Lake Forrest 3 Dover 4 Milford 5 Smyrna 6 Woodbridge 7 Polytech - Community Physicians Personal invitations were extended to community partner organizations who interact with low-income groups to participate in one-on-one interviews regarding the health needs of Kent County residents Focus groups were conducted in multiple locations throughout the county Wellness center staff, guidance counselors, church staff (including those of minority populations), and public health nurses were interviewed to ensure information obtained represents the diversity of our community in terms of demographic, socioeconomic, and geographic factor One-on-one meetings with community physicians were conducted over a two-month period Community physicians offer a unique perspective and knowledge of the health needs of our population Physicians who could not attend one-on-one sessions completed a written response assessment How the Assessment was conducted Quantitative and qualitative analyses methods were utilized to generate a comprehensive assessment to fully understand the health needs of the community served Quantitative analyses were conducted using the most recent data available from five primary sources - Delaware Health Tracker (a product of the Healthy Community Network), - County Health Rankings & Roadmaps (a collaboration between the Robert Wood Johnson Foundation and the University of Wisconsin Population health Institute), - Demographic data from the Delaware Population Consortium, - Delaware Health Statistics Center, and, - Demographic and socioeconomic data from the U S Census Bureau To gain insight, Bayhealth reviewed available data to compare health statistics at the state and county levels to identify areas of health disparity Based on this analysis, the Education Department of Bayhealth developed discussions topics for a variety of community engagements, including interviews with key stakeholders, focus groups, and online surveys A variety of community settings were selected with a special emphasis on those persons and areas most impacted by health disparities Thematic analysis identified health needs based on available quantitative data and responses from interviews and online surveys Priority Criteria and Outcomes The criteria used to evaluate and prioritize the health needs identified through the fact-finding process included - The seriousness of the issue, - The relative size of the populations affected, - The degree to which the need particularly affected persons living in poverty or reflected health disparities, - Alignment with Bayhealth's mission and vision, and, - Availability of community resources to address the need After close review of the community data and discussions with medical staff members of Bayhealth, health needs were prioritized jointly the by Education and Strategic Planning Departments Bayhealth's administration was given the opportunity to discuss and reprioritize as needed The four health concerns identified as priority issues are 1 Obesity rates 2 Cancer rates (lung, breast, prostate) 3 Healthcare access 4 Mental health and substance abuse
Part V - Other Information		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 Part V, Line 11 Bayhealth does not have a tiered financial assistance program, all uninsured patients receive a 10% discount on service provided Part V, Line 14g All patient statements advise patients to call out billing support department if they need financial assistance Part V, Line 20d Uninsured FAP and Non FAP individuals receive a discount similar to that of our largest commercial payer

Identifier	ReturnReference	Explanation
Part VI		Part VI, Line 2 - Community Health 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 that State of Delaware and with national not-for-profit health organizations Plans for full-scale state-wide needs assessment are progressing on schedule Part VI, Line 3 - Patient education of eligibility for assistance All patient 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 invoices state - If you are not able to pay please contact our Billings 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 information material EMTALA and patient rights information is conspicuously placed for all patients and visitors to see BAYHEALTH'S FINANCIAL ASSISTANCE POLICY WAS ESTABLISHED TO PROVIDE FINANCIAL RELIEF TO THOSE WHO ARE UNABLE TO MEET THEIR OBLIGATION FOR SERVICES RENDERED, A PATIENT'S INABILITY TO OBTAIN FINANCIAL ASSISTANCE DOES NOT, IN ANY WAY, PRECLUDE THE PATIENT'S RIGHT TO RECEIVE AND HAVE ACCESS TO MEDICAL TREATMENT OUR FINANCIAL ASSISTANCE POLICY INFORMS PATIENTS AND PERSONS WHO WOULD OTHERWISE BE BILLED FOR SERVICES ABOUT THEIR ELIGIBILITY FOR ASSISTANCE UNDER FEDERAL, STATE OR LOCAL GOVERNMENT PROGRAMS OUR FINANCIAL ASSISTANCE POLICY AND CONTACT INFORMATION IS POSTED IN ALL ADMISSION AREAS, THE EMERGENCY ROOM AND ALL OTHER OUTPATIENT AREAS THROUGHOUT THE FACILITY A COPY OF THE POLICY IS INCLUDED UPON PATIENT ADMISSION AND DISCHARGE, AS WELL AS PROVIDED IN PATIENT BILLS AND OUR WEBSITE BAYHEALTH DISCUSSES WITH PATIENTS THE AVAILABILITY OF VARIOUS GOVERNMENT BENEFITS, SUCH AS MEDICAID OR STATE PROGRAMS, AND EMPLOYS DEDICATED STAFF ON-SITE TO ASSIST PATIENTS WITH QUALIFICATIONS FOR SUCH PROGRAMS Part VI, Line 4 - Community Information Bayhealth's service area is designated as 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 because 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 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 jobs sectors paying less than $26,000 annually The fastest growing job sector in Sussex County averages $16,000 annual salary In 2012, Kent County median household income was $55,786 and Sussex County was $52,692 Part VI, Line 5 - Promotion of community health Bayhealth is investing heavily in expanding and upgrading its facilities and equipment Bayhealth Kent General recently completed 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 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 argument 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 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's 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 Part VI, Line 6 - Affiliated Health Care System Bayhealth is a member of the University of Pennsylvania Cancer Network, University of Pennsylvania Health System's Penn Cardiac Care, and Penn Orthopedics of Penn Medicine These alliances provide direct access to the latest medical research, clinical trials, and specialty care Part VI, Line 7 - State filing of Community benefit report Delaware Part VI, Line 8 - Facility reporting group As required, Part V, Section B, Line 11 The facilities do not have a tiered financial assistance program, all uninsured patients receive a 10% discount on service provided As required, Part V, Section B, Line 14g All patient statements advise patients to call out billing support department if they need financial assistance As required, Part V, Section B, Line 20d Uninsured FAP and Non FAP individuals receive a discount similar to that of our largest commercial payer

Additional Data

Software ID:
Software Version:
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 Health Care Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size, from largest to smallest)

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

Name and address	Type of Facility (describe)
Eden Hill Outpatient Imaging Center 200 Banning St Ste 140 Dover, DE 19904	Outpatient Diagnostic Center
Bayhealth Medical Group Cardiology 1100 Forrest Ave Dover, DE 19904	Outpatient Diagnostic Center
Cardiac Diagnostic Ctr Dover 1100 Forrest Ave Dover, DE 19901	Outpatient Diagnostic Center
Kent Outpatient Imaging-Dover 540 S Governors Ave Dover, DE 19901	Outpatient Diagnostic Center
Cardiac Diagnostic Ctr Milford 802 N Dupont Hwy Milford, DE 19963	Outpatient Diagnostic Center
Milford Outpatient Imaging 1020 Mattlind Way Milford, DE 19963	Outpatient Diagnostic Center
Smyrna-Clayton Professional Center 401 N Carter Rd Smyrna, DE 19977	Outpatient Diagnostic Center
Bayhealth Maternal Fetal Medicine 1060 S Governors Ave Dover, DE 19904	Outpatient Diagnostic Center
Bayhealth Medical Grp Orthopedic 540 S Governors Ave Ste 201 Dover, DE 19901	Outpatient Diagnostic Center
Bayhealth ENT Dover 826 S Governors Ave Dover, DE 19901	Outpatient Diagnostic Center
Bayhealth Women's Care Assoc 517 S Dupont Hwy Dover, DE 19963	Outpatient Diagnostic Center
Women's Center at Milford 200 Kings Hwy Ste 3 Milford, DE 19963	Outpatient Diagnostic Center
Women's Center - Dover 540 s governors ave Dover, DE 19901	Outpatient Diagnostic Center
Bayhealh Neurology Dover 540 s governors ave Dover, DE 19901	Outpatient Diagnostic Center
Bayhealth Medical Assoc of Harrington 205 Shaw ave harrington, DE 19952	Outpatient Diagnostic Center
Bayhealth ENT of Georgetown 20930 Dupont blvd suite 202 georgetown, DE 19947	Outpatient Diagnostic Center
Bayhealth Urology Dover 200 Banning St suite 350 Dover, DE 19904	Outpatient Diagnostic Center
Bayhealth Medical Grp Urology-Milford 200 Kings Hwy Ste 7 Milford, DE 19963	Outpatient Diagnostic Center
Middletown Medical Center 209 E Main St Middletown, DE 19709	Outpatient Diagnostic Center
Bayhealth Plastic & Aesthetic Surgery 34446-2 King st Row Lewes, DE 19958	Outpatient Diagnostic Center
Milford Occupational Health & Urgentcare 301 Jefferson St Milford, DE 19963	Outpatient Diagnostic Center
Dover Occupational Health 1275 S State st Dover, DE 19901	Outpatient Diagnostic Center
Bayhealth Pain Treatment Center 826 S Governors Ave Dover, DE 19901	Outpatient Diagnostic Center
Bayhealth Medical Assoc Milford 305 Jefferson Ave Milford, DE 19968	Outpatient Diagnostic Center
Bayhealth Medical Assoc Milton 630 Mulberry st Milton, DE 19968	Outpatient Diagnostic Center
Bayhealth General Surgery Dover 819 s governors ave Dover, DE 19904	Outpatient Diagnostic Center
Bayhealth Family Practice Georgetown 25 Bridgeville rd georgetown, DE 19947	Outpatient Diagnostic Center
Bayhealth Endocrinology Milford 113 Neurology Way Milford, DE 19963	Outpatient Diagnostic Center
Bayhealth Family Practice Dover 200 Banning St Suite 150 Dover, DE 19904	Outpatient Diagnostic Center
Bayhealth General Surgery Milford 113 Neurology Way Milford, DE 19963	Outpatient Diagnostic Center

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

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

Name and address	Type of Facility (describe)
Harrington Outpatient Center 201 Shaw Ave harrington, DE 19953	Outpatient Diagnostic Center
Wellness Center at Smyrna High School 500 Duck Creek Parkway Smyrna, DE 19977	Outpatient Diagnostic Center
Milton Outpatient Center 632 Mulberry St Milton, DE 19968	Outpatient Diagnostic Center
Wellness Ctr at Woodbridge High School 307 Laws st Bridgeville, DE 19933	Outpatient Diagnostic Center
Wellness Ctr at Milford High School 1019 N Walnut St Milford, DE 19963	Outpatient Diagnostic Center
Wellness Ctr at Caesar Rodney High Schoo 239 Old North Road Camden, DE 19934	Outpatient Diagnostic Center
Wellness Ctr at Dover High School 1 Pat Lynn Drive Dover, DE 19904	Outpatient Diagnostic Center
Wellness Ctr at Polytech High School 823 Walnut Shade Rd Dover, DE 19901	Outpatient Diagnostic Center
Wellness Ctr at Lake Forest High School 5407 Killens Pond Rd Felton, DE 19943	Outpatient Diagnostic Center

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Schedule I (Form 990)

Department of the Treasury
Internal Revenue Service

Grants and Other Assistance to Organizations, Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . . ☐ Yes ☐ No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II Grants and Other Assistance to Governments and Organizations in the United States.

Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than $5,000. Part II can be duplicated if additional space is needed.

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) Delaware Technical Community College 100 Campus Drive Dover, DE 19904	51-0246178		25,000				Program Support
(2) American Heart Association 7272 Greenville Ave Dallas, TX 75231	13-5613797		20,500				Program Support
(3) Delaware State University 1200 N Dupont Hwy Dover, DE 19901			25,500				Program Support
(4) American Cancer Society 250 Williams Street NW Atlanta, GA 30303	13-1788491		10,000				Program Support
(5) Central DE Chamber 435 N Dupont Hwy Dover, DE 19901	51-0082741		8,740				Program Support
(6) Delaware Breast Cancer Coalition 111 W 11th St Suite 3 Wilmington, DE 19801	52-2045298		8,000				Program Support
(7) Wesley College 120 N State Street Dover, DE 19901	51-0064335		5,500				Program Support

2 Enter total number of section 501(c)(3) and government organizations listed in the line 1 table . . . . . ▶

3 Enter total number of other organizations listed in the line 1 table . . . . . ▶

Part III **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22. Part III can be duplicated if additional space is needed.

(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance

Part IV **Supplemental Information.**

Complete this part to provide the information required in Part I, line 2, Part III, column (b), and any other additional information

Identifier	Return Reference	Explanation

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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

2012

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 or provision of all of 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**	Yes	
3	Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III ☑ Compensation committee ☐ Written employment contract ☑ Independent compensation consultant ☑ Compensation survey or study ☑ Form 990 of other organizations ☑ Approval by the board or compensation committee			
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization			
a	Receive a severance payment or change-of-control payment?	**4a**	Yes	
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**	Yes	
8	Were any amounts reported in Form 990, Part VII, paid or accured pursuant to a contract that was subject to the initial contract exception described in Regulations section 53 4958-4(a)(3)? If "Yes," describe in Part III	**8**		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	**9**		

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

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

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

(A) Name and Title	**(B)** Breakdown of W-2 and/or 1099-MISC compensation			**(C)** Retirement and other deferred compensation	**(D)** Nontaxable benefits	**(E)** Total of columns (B)(i)-(D)	**(F)** Compensation reported as deferred in prior Form 990
	(i) Base compensation	**(ii)** Bonus & incentive compensation	**(iii)** Other reportable compensation				
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, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II
Also complete this part for any additional information

Identifier	Return Reference	Explanation
Part I, Line 1	Discretionary Spending Account	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
Part I, Line 4a	Severence/Change of Control Payments	Jon McDowell received a severence payment of $55,290 which is included in his compensation on Schedule J, part II, column (b)(iii)
Part I, Line 4b	Supplemental Nonqualified Retirement Plan	During the Fiscal Year- ended June 30, 2013, certain officers and key employees participated in the Bayhealth Supplemental Nonqualified Retirement Plan The individuals listed below have not vested in the plan therefore the accrued contribution to the plan for the fiscal year is reported on Schedule J, Part II, Column C, Retirement and Other Deferred Compensation Gary Siegelman Bonnie Perratto John Van Gorp
Part I, Line 7	Non-fixed Payments	Bonuses paid are based on a number of variables including but not limited to individual goal achievements as well as organization operation achievements The final determination of the bonus amount is determined and approved by the Board as part of the overall compensation review of the officers and key employees

Additional Data

Return to Form

Software ID:
Software Version:
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				
Mary Jane McClements MD	(I)	301,811	600	28,787	12,756	17,339	361,293	
	(II)	0	0	0	0	0	0	
Gary Siegelman	(I)	392,167	115,268	12,208	15,000	18,600	553,243	
	(II)	0	0	0	0		0	
Bonnie Perratto	(I)	248,319	76,874	18,642	13,243	13,473	370,551	
	(II)	0	0	0	0	0	0	
Michael E Ashton	(I)	178,793	15,480	4,399	12,061	20,365	231,098	
	(II)	0	0	0	0	0	0	
Terry M Murphy	(I)	565,658	340,963	299,951	15,000	20,365	1,241,937	
	(II)	0	0	0	0	0	0	
Deborah Watson	(I)	285,062	79,634	14,331	15,000	20,365	414,392	
	(II)	0	0	0	0	0	0	
Earl Tanis	(I)	350,726	131,247	52,163	164,826	7,558	706,520	
	(II)	0	0	0	0	0	0	
John Van Gorp	(I)	172,380	55,503	11,441	13,791	20,365	273,480	
	(II)	0	0	0	0	0	0	
Brad D Kirkes	(I)	171,054	14,620	1,192	11,269	7,394	205,529	
	(II)	0	0	0	0	0	0	
John D Mannon MD	(I)	769,137	17,000	138,109	15,000	20,365	959,611	
	(II)	0	0	0	0	0	0	
Pedro Perez MD	(I)	294,273	373,371	143,437	15,000	20,365	846,446	
	(II)	0	0	0	0	0	0	
Laeeq Ahmer MD	(I)	294,273	372,945	120,426	15,000	20,365	823,009	
	(II)	0	0	0	0	0	0	
David Ramos MD	(I)	294,273	391,051	74,101	15,000	20,365	794,790	
	(II)	0	0	0	0	0	0	
Clifford Turen MD	(I)	594,555	30,000	119,513	15,000	19,582	778,650	
	(II)	0	0	0	0	0	0	
Dennis E Klima	(I)	0	148,954	591,303	57,006	0	797,263	
	(II)	0	0	0	0	0	0	
Jon McDowell	(I)	59,659	0	63,115	72,274	1,991	197,039	
	(II)	0	0	0	0	0	0	
Gerald L White	(I)	196,588	38,289	25,065	305,570	20,365	585,877	
	(II)	0	0	0	0	0	0	

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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 Part VI.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

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 PNC Bank		X		X		X
B	Delaware Health Facilities Authority		246388PZ9	10-31-2009	35,600,000	Replace 2009 B&C Bonds PNC Bank		X		X		X
C	Delaware Health Facilities Authority		246388xxx	10-31-2009	138,490,000	Construction Project		X		X		X

Part II Proceeds

		A	B	C	D
1	Amount of bonds retired	0	0	0	
2	Amount of bonds legally defeased	0	0	0	
3	Total proceeds of issue	37,789,270	37,745,725	136,526,503	
4	Gross proceeds in reserve funds	0	0	0	
5	Capitalized interest from proceeds	0	0	0	
6	Proceeds in refunding escrows	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	0	0	0	
9	Working capital expenditures from proceeds	0	0	0	
10	Capital expenditures from proceeds	0	0	117,594,038	
11	Other spent proceeds	0	0	18,320,647	
12	Other unspent proceeds	0	0	0	
13	Year of substantial completion	2012		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 of bond-financed property?		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 ▶	0%		0%		0%		%	
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	Does the bond issue meet the private security or payment test?		X		X		X		
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X		X		X		
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of	%		%		%		%	
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1 141-12 and 1 145-2?		X		X		X		
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1 141-12 and 1 145-2?	X		X		X			

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?		X		X		X		
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?								
b	Exception to rebate?								
c	No rebate due?								
	If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
3	Is the bond issue a variable rate issue?	X		X			X		
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X		X		X		
b	Name of provider	0		0		0			
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								

Part IV Arbitrage *(Continued)*

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		X		X		X		
b	Name of provider	0		0		0			
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
6	Were any gross proceeds invested beyond an available temporary period?		X		X		X		
7	Has the organization established written procedures to monitor the requirements of section 148?		X		X		X		

Part V Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has 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?	X		X		X			

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Identifier	Return Reference	Explanation
Form 990, Schedule K, Part I, Lines A	0	Issue price - Delaware Health Facilities Authority Bond Issue A was issued under 24 CUSIP Numbers, which are not listed seperated on Schedule K their total was $138,490,000
Form 990, Schedule K, Part I, Line B & C	0	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 services 2012 bonds were used to extinguish the Series 2009B and 2009C bonds CUSIP numbers did not change in this transaction

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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

2012

Open to Public Inspection

Name of the organization
Bayhealth Medical Center Inc

Employer identification number
51-0064318

Identifier	Return Reference	Explanation
Form 990 Review Process	Part VI, Section B, Line 11	
Explanation of Monitoring and Enforcement Conflicts	Part VI, Section B, Line 12	Bayhealth regularly and consistently monitors and enforces compliance with its conflict of interest policy for all officers and directors A conflict of interest questionnaire is distributed to and collected from officers and directors annually Any potential conflicts of interest are investigated further by Bayhealth's executive team In the event of an actual or perceived conflict of interst, subsequent recusal and abstention by the officer or director may be necessary These and other requirements are monitored, reviewed and resolved on an on-going basis pursuant to the conflict of interest policy
Compensation Review	Form 990, Part VI, Line 15 A & B	For officers and key employees other than 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
Governing Documents	Form 990, Part VI, Line 19	The governing documents, conflict of interest policy, and financial statements are available upon request
Change in Net Assets	Form 990, Part XI, Line 9	Change in fair value of interest rate swap $ 1,255,357 Change in beneficial interest in net assets of Bayhealth Foundation 1,728,322 Change in pension benefit obligations 11,980,777 Change in beneficial interest in perpetual trusts 126,517 ---------- Total $15,090,973

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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

2012

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" to Form 990, Part IV, line 33.)

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

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

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

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

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

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

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity? Yes	(i) No
(1) Bayhealth Development Corp 640 South State Street Dover, DE 19901 51-0281107	Real Estate	DE	na	c corp					

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

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

Part VI **Unrelated Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" to 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 section 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	

Additional Data

Return to Form

Software ID:
Software Version:
EIN: 51-0064318
Name: Bayhealth Medical Center Inc

Part VII **Supplemental Information**

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

Identifier	Return Reference	Explanation	

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Financial Statements and Report of
Independent Certified Public Accountants

Bayhealth Medical Center, Inc.

June 30, 2013 and 2012

Contents

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Report of Independent Certified Public Accountants

Board of Directors
Bayhealth Medical Center, Inc.

We have audited the accompanying financial statements of Bayhealth Medical Center, Inc. (the Medical Center), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bayhealth Medical Center, Inc. as of June 30, 2013 and 2012, and the results of its operations and changes in net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note B18 to the accompanying financial statements, in 2013 the Medical Center changed the presentation of the provision for bad debts on the statements of operations and changes in net assets in accordance with the amendment to the accounting standards.

Grant Thornton LLP

Philadelphia, Pennsylvania

September 27, 2013

Bayhealth Medical Center, Inc

BALANCE SHEETS

June 30,

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 29,761,191	$ 27,653,766
Assets limited as to use, held by trustees	5,191,212	4,471,873
Patient accounts receivable, less allowance for uncollectibles of $23,546,900 in 2013 and $25,102,800 in 2012	59,448,127	51,487,127
Supplies	9,062,729	7,366,736
Prepaid expenses and other assets	6,818,692	7,014,595
Total current assets	110,281,951	97,994,097
Assets limited as to use		
Internally designated	189,470,681	165,764,913
Held by trustees	12,844,181	12,537,243
	202,314,862	178,302,156
Other investments	226,928,064	205,794,217
Prepaid expenses and other assets	1,422,374	2,043,144
Property and equipment, net	305,205,720	308,314,968
Deferred financing costs, net	2,309,628	2,415,545
Beneficial interest in net assets of Bayhealth Foundation	12,087,334	10,359,012
Beneficial interest in perpetual trusts	5,893,302	5,766,785
TOTAL	$ 866,443,235	$ 810,989,924
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and other accrued expenses	$ 22,061,533	$ 27,142,045
Construction and retainage payable	296,597	6,414,910
Accrued salaries, wages and benefits	36,994,863	33,688,524
Current portion of long-term debt	3,560,476	1,791,883
Accrued interest payable	3,246,606	3,445,666
Estimated settlements due to third-party payors	6,168,802	11,997,911
Total current liabilities	72,328,877	84,480,939
Interest rate swap	2,704,973	3,960,330
Accrued postretirement benefit costs	46,737,670	60,463,664
Estimated professional liability costs	11,543,882	10,992,393
Estimated workers' compensation costs	4,125,743	4,126,000
Long-term debt, net of current portion	203,230,915	206,871,248
Total liabilities	340,672,060	370,894,574
NET ASSETS		
Unrestricted	515,580,915	429,743,994
Temporarily restricted	4,296,958	4,584,571
Permanently restricted	5,893,302	5,766,785
Total net assets	525,771,175	440,095,350
TOTAL	$ 866,443,235	$ 810,989,924

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended June 30,

	2013	2012
UNRESTRICTED NET ASSETS		
Revenues		
Net patient service revenue	$ 507,635,497	$ 479,659,196
Less: provision for bad debts	(36,685,770)	(39,310,218)
Net patient service revenue less provision for bad debts	470,949,727	440,348,978
Other revenue	11,489,276	10,679,149
Total revenues	482,439,003	451,028,127
Expenses		
Salaries and benefits	256,772,259	238,283,549
Supplies and other expenses	151,056,924	145,151,617
Interest	7,963,148	5,663,265
Depreciation and amortization	28,375,464	23,568,786
Total expenses	444,167,795	412,667,217
Operating income	38,271,208	38,360,910
Other income (expense)		
Investment return, net	30,329,211	5,196,658
Change in fair value of interest rate swap	1,255,357	(1,083,527)
Change in beneficial interest in net assets of Bayhealth Foundation	2,007,864	286,804
Other, net	1,992,504	510,694
Total other income, net	35,584,936	4,910,629
Excess of revenues over expenses	73,856,144	43,271,539
OTHER CHANGES IN UNRESTRICTED NET ASSETS		
Change in benefit obligations	11,980,777	(20,111,069)
Increase in unrestricted net assets	85,836,921	23,160,470
TEMPORARILY RESTRICTED NET ASSETS		
Other	(8,071)	43,391
Change in beneficial interest in net assets of Bayhealth Foundation	(279,542)	(39,081)
(Decrease) increase in temporarily restricted net assets	(287,613)	4,310
PERMANENTLY RESTRICTED NET ASSETS		
Change in beneficial interest in perpetual trusts	126,517	(306,035)
Increase (decrease) in permanently restricted net assets	126,517	(306,035)
INCREASE IN NET ASSETS	85,675,825	22,858,745
NET ASSETS, beginning of year	440,095,350	417,236,605
NET ASSETS, end of year	$ 525,771,175	$ 440,095,350

The accompanying notes are an integral part of these statements

Bayhealth Medical Center, Inc

STATEMENTS OF CASH FLOWS

For the year ended June 30,

	2013	2012
OPERATING ACTIVITIES		
Increase in net assets	$ 85,675,825	$ 22,858,745
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in benefit obligations	(11,980,777)	20,111,069
Change in fair value of interest rate swap	(1,255,357)	1,083,527
Net realized and unrealized (gains) losses on investments	(20,917,758)	3,907,678
Depreciation and amortization	28,375,464	23,568,786
Provision for bad debts	36,685,770	39,310,218
Change in beneficial interest in perpetual trusts	(126,517)	306,035
Change in beneficial interest in net assets of Bayhealth Foundation	(1,728,322)	(247,723)
Changes in assets and liabilities		
Patient accounts receivable - net	(44,646,770)	(40,145,228)
Supplies	(1,695,993)	(937,145)
Prepaid expenses and other assets	816,673	(1,406,925)
Accounts payable and other accrued expenses	(5,369,216)	2,146,162
Accrued salaries, wages, and benefits	3,306,339	997,074
Accrued interest payable	(199,060)	(25,965)
Estimated settlements due to third-party payors	(5,829,109)	1,077,321
Accrued postretirement benefit costs	(1,645,217)	(1,279,803)
Estimated professional liability costs	865,646	(242,154)
Estimated workers' compensation costs	(125,710)	(66,000)
Net cash provided by operating activities before trading securities	60,205,911	71,015,672
Change in investments - trading securities	(24,934,634)	(21,394,120)
Net cash provided by operating activities	35,271,277	49,621,552
INVESTING ACTIVITIES		
Capital expenditures, net	(31,358,469)	(62,100,528)
Change in investments - other than trading securities	(13,500)	23,651,274
Net cash used in investing activities	(31,371,969)	(38,449,254)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	71,200,000
Financing costs incurred		(220,000)
Repayment of long-term debt	(1,791,883)	(74,071,766)
Net cash used in financing activities	(1,791,883)	(3,091,766)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,107,425	8,080,532
CASH AND CASH EQUIVALENTS - beginning of year	27,653,766	19,573,234
CASH AND CASH EQUIVALENTS - end of year	$ 29,761,191	$ 27,653,766
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$ 7,764,088	$ 5,689,230
SUPPLEMENTAL NONCASH INVESTING ACTIVITIES		
Decrease in accrual for the purchase of property and equipment	$ (6,118,313)	$ (1,493,969)
Capital lease obligation 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 and portions of Sussex Counties in Delaware. Other entities affiliated with the Medical Center through common control by Bayhealth, Inc. are Bayhealth Foundation (the Foundation) and Bayhealth Development Corporation.

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.

In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid). For receivables associated with self-pay patients, the Medical Center records a significant provision for bad debts on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable internal collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Medical Center in 2013 experienced an approximately 6 percent decrease in the allowance for doubtful accounts due to changes in charity care and improved 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

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2013 and 2012 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.

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.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 $390,086 and $284,169 at June 30, 2013 and 2012, respectively.

10. Derivative Financial Instruments

The Medical Center recognizes all derivative financial instruments 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. 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 $1,011,063 and $1,019,134 as of June 30, 2013 and 2012, 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.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. 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 changes in benefit obligations.

14. 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.

15. 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.

16. 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 $5,696,291 and $5,510,808 for the years ended June 30, 2013 and 2012, respectively, of charity care at full cost including direct and indirect costs, based on the actual charity population using a cost accounting system.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

17. 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. At June 30, 2013, the Medical Center's tax years ended June 30, 2011 through 2013 for the federal tax jurisdiction remain open.

18. Recently Adopted Accounting Pronouncement

In July 2011, the Financial Accounting Standards Board (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. 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 adopted this guidance as of and for the year ended June 30, 2013 and retrospectively applied the presentation requirements to all periods presented. The change in presentation and additional disclosures are reflected in the Medical Center's statement of operations and changes in net assets and in Note C. The new guidance did not affect the results of operations and financial position.

19. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no impact on total assets, total liabilities, and net assets or excess of revenues over expenses previously reported.

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 and finalized by the Medicare fiscal intermediary through June 30, 2005.

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

Net revenue from the Medicare and Medicaid programs accounted for approximately 27% and 18%, and 33% and 18%, respectively, of the Medical Center's net patient service revenue for the years ended June 30, 2013 and 2012, respectively. 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, 2013 and 2012, net patient service revenue reflects a net increase of approximately $6,127,500 and $4,458,000, respectively, due to final settlements or estimate changes.

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.

For uninsured patients who do not qualify for charity care, the Medical Center recognizes revenue based on established rates, subject to certain discounts as determined by the Medical Center. An estimated provision for bad debts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The Medical Center has determined that patient service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for bad debts related to patient revenue is recorded as a deduction from patient service revenue in the accompanying statements of operations and changes in net assets.

(Continued)

NOTE C - NET PATIENT SERVICE REVENUE - Continued

Patient service revenue for the year ended June 30, 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	90%	10%	100%

Deductibles and copayments under third-party payment programs within the third-party payor amount above are patients' responsibility, and the Medical Center considers these amounts in its determination of the provision for bad debts based on collection experience.

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:

	2013	2012
Internally designated		
Cash and cash equivalents	$ 20,077,333	$ 19,230,412
Government securities and corporate bonds	98,867,883	94,915,847
Equity securities	69,633,802	50,591,895
Accrued interest receivable	891,663	1,026,759
	$ 189,470,681	$ 165,764,913
Held by trustees		
Under bond indenture agreements		
Cash and cash equivalents	$ 4,936,831	$ 4,923,331
Under malpractice funding arrangement		
Cash and cash equivalents	568,746	627,126
Government securities and corporate bonds	6,016,669	5,483,356
Equity securities	6,513,147	5,975,303
	13,098,562	12,085,785
Total held by trustees	18,035,393	17,009,116
Less amounts required for current liabilities	(5,191,212)	(4,471,873)
	$ 12,844,181	$ 12,537,243

(Continued)

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

Other Investments

Other investments at June 30 consisted of:

	2013	2012
Cash and cash equivalents	$ 9,137,750	$ 12,894,706
Government securities and corporate bonds	36,314,550	37,105,661
Equity securities	177,012,864	150,992,602
Alternative investments	4,459,819	4,797,959
Accrued interest receivable	3,081	3,289
	$ 226,928,064	$ 205,794,217

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:

	2013	2012
Investment return, net		
Interest and dividend income	$ 9,411,453	$ 9,104,336
Net realized gains on sales of securities	3,790,122	22,274,178
Change in net unrealized gains and losses on trading securities	17,127,636	(26,181,856)
	$ 30,329,211	$ 5,196,658

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of:

	Estimated useful life	2013	2012
Land		$ 12,489,962	$ 12,317,767
Land improvements	2 to 25 years	3,347,445	3,330,720
Buildings and improvements	5 to 40 years	259,768,636	241,532,525
Major movable and fixed equipment	3 to 20 years	244,809,833	221,767,606
Construction in progress		3,444,665	21,204,270
		523,860,541	500,152,888
Less accumulated depreciation and amortization		(218,654,821)	(191,837,920)
		$ 305,205,720	$ 308,314,968

(Continued)

NOTE E - PROPERTY AND EQUIPMENT - Continued

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 totaled $28,349,404 and $23,233,073, respectively.

The net amount of assets under capital leases included in major movable and fixed equipment amounted to $551,900 and $730,895 at June 30, 2013 and 2012, respectively.

NOTE F - LONG-TERM DEBT

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

	2013	2012
Project Revenue Bonds, Series 2009A, net of unamortized discount of $692,646 and $612,789 at June 30, 2013 and 2012, respectively, and interest rates ranging from 2.25% to 5.00%	$ 134,947,354	$ 136,677,211
Variable Rate Refunding Revenue Bonds, Series 2012, variable rate of interest, 0.74% and 0.77% at June 30, 2013 and 2012, respectively	71,200,000	71,200,000
Capital leases at various interest rates	644,037	785,920
	206,791,391	208,663,131
Less current portion	(3,560,476)	(1,791,883)
	$ 203,230,915	$ 206,871,248

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 $207,900,000 and $210,955,000 at June 30, 2013 and 2012, respectively.

Bonds

Series 2009A 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). 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 2.25% 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 4.50% to 5.00%, with maturities occurring on July 1, 2026 through 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.

(Continued)

NOTE F - LONG-TERM DEBT - Continued

Series 2012 Bonds

In June 2012, the Medical Center replaced the $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) 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 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.

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.

As of June 30, 2013, the principal payments on the Medical Center's long-term debt are as follows:

2014	$ 3,560,476
2015	3,480,000
2016	3,580,000
2017	3,685,000
2018	3,810,000
Thereafter	189,368,561
	$ 207,484,037

Capitalized Interest

A summary of interest cost and investment income on borrowed funds held by the trustee under the Series 2009A bonds for the year ended June 30, 2012 is as follows:

Interest cost	
Capitalized	$ 2,913,486
Charged to operations	3,530,882
Total	$ 6,444,368
Investment income	
Capitalized	$ -
Credited to investment return	49,873
Total	$ 49,873

(Continued)

NOTE F - LONG-TERM DEBT - Continued

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, 2013 and 2012, the notional amount was $22,785,000 and $26,865,000, 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 gain (loss) on the fair value of the swap of $1,255,357 and $(1,083,527) for the years ended June 30, 2013 and 2012, 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 $2,704,973 and $3,960,330 at June 30, 2013 and 2012, respectively.

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 September 27, 2013, 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. Effective January 1, 2013, the other benefits plan was amended to exclude all new hires, including rehires.

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

The following table summarizes information about the benefit plans:

	Pension benefits		Other benefits	
	June 30,			
	2013	2012	2013	2012
Accumulated benefit obligation	$ 160,731,516	$ 158,795,687	$ N/A	$ N/A
Change in benefit obligation				
Benefit obligation at beginning of year	$ 166,248,732	$ 138,513,336	$ 12,494,862	$ 17,145,490
Service cost	2,229,927	2,125,685	539,663	1,006,220
Interest cost	7,748,463	7,839,730	475,470	956,145
Plan amendments	-	-	(1,242,728)	-
Actuarial (gain) loss	(6,028,998)	22,324,708	624,736	(5,877,080)
Benefits paid	(5,089,449)	(4,554,727)	(710,727)	(735,913)
Benefit obligation at end of year	165,108,675	166,248,732	12,181,276	12,494,862
Change in plan assets				
Fair value of the plan assets at beginning of year	117,579,930	113,326,428	-	-
Actual return on plan assets	9,156,688	3,139,236	-	
Contributions by the Medical Center	8,105,112	5,668,993	710,727	735,913
Benefits paid	(5,089,449)	(4,554,727)	(710,727)	(735,913)
Fair value of the plan assets at end of year	129,752,281	117,579,930	-	-
Funded status at year end	$ (35,356,394)	$ (48,668,802)	$ (12,181,276)	$ (12,494,862)
Net amounts recognized in the balance sheets consist of				
Current liabilities, as accrued salaries, wages and benefits	$ -	$ -	$ (800,000)	$ (700,000)
Noncurrent liabilities	(35,356,394)	(48,668,802)	(11,381,276)	(11,794,862)
Accrued retirement benefits	$ (35,356,394)	$ (48,668,802)	$ (12,181,276)	$ (12,494,862)
Amounts recognized in unrestricted net assets but not yet recognized in net periodic benefit costs consist of				
Net actuarial loss (gain)	$ 56,760,389	$ 68,172,762	$ 423,676	$ (201,060)
Prior service cost (credit)	43,098	60,448	(1,175,790)	
	$ 56,803,487	$ 68,233,210	$ (752,114)	$ (201,060)

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

	Pension benefits		Other benefits	
	June 30,			
	2013	2012	2013	2012
Components of net periodic benefit cost				
Service cost	$ 2,229,927	$ 2,125,685	$ 539,633	$ 1,006,220
Interest cost	7,748,463	7,839,730	475,470	956,145
Expected return on plan assets	(8,528,542)	(9,481,015)	-	-
Amortization of prior service cost (credit)	17,350	17,350	(66,908)	-
Amortization of actuarial loss	4,755,229	2,369,836	-	291,152
	6,222,427	2,871,586	948,195	2,253,517
Other changes in benefit obligations recognized in other changes in unrestricted net assets				
Prior service (credit) cost	(17,350)	(17,350)	(1,175,790)	-
Net (gain) loss	(11,412,373)	26,296,651	624,736	(6,168,232)
	(11,429,723)	26,279,301	(551,054)	(6,168,232)
Total recognized in net benefit cost and other changes in unrestricted net assets	$ (5,207,296)	$ 29,150,887	$ 397,141	$ (3,914,715)

At June 30, 2013, 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	$ 4,328,000	$ -
Prior service cost (credit)	17,350	(89,210)
	$ 4,345,350	$ (89,210)

	Pension benefits		Other benefits	
	June 30,			
	2013	2012	2013	2012
Weighted-average assumptions used to determine benefit obligations were				
Discount rate	5.07%	4.70%	4.59%	4.46%
Rate of compensation increase	3.00%	4.59%	N/A	N/A
Measurement date	June 30	June 30	June 30	June 30

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

	Pension benefits		Other benefits	
	June 30,			
	2013	2012	2013	2012
Weighted-average assumptions used to determine net periodic benefit costs were				
Discount rate	4.70%	5.76%	4.46%	5.65%
Expected long-term return on plan assets	7.25%	8.25%	N/A	N/A
Rate of compensation increase	4.59%	4.59%	N/A	N/A

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 2018 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, 2013:

	1% increase	1% (decrease)
Incremental effect on total service and interest cost components of benefit cost	$ 91,248	$ 74,683
Incremental effect on postretirement benefit obligation	$ 598,953	$ 502,526

The Pension benefits' weighted average asset allocation as of the measurement dates of June 30, 2013 and 2012, by asset category, follows:

	2013	2012
Asset category		
Cash and cash equivalents	7%	9%
Fixed income	34	38
Equity securities	59	53
Total	100%	100%

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

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

Fair Value of the Plan Assets

The following fair value hierarchy table presents 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, 2013 and 2012:

		Fair value measurement at report date using		
2013	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	$ 8,144,597	$ 8,144,597	$ -	$
Fixed income (a)	44,481,848	-	44,481,848	
Equity securities (b)	77,125,836	77,125,836	-	
	$ 129,752,281	$ 85,270,433	$ 44,481,848	$ -
2012				
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	$ -

(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

(Continued)

NOTE G - POSTRETIREMENT BENEFIT PLANS - Continued

- 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.

Cash Flows

The Medical Center expects to contribute $2,500,000 to Pension benefits and $800,000 to the Other benefits plan for the year ending June 30, 2014. 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
2014	$ 6,300,000	$ 800,000
2015	6,900,000	900,000
2016	7,600,000	900,000
2017	8,300,000	1,000,000
2018	8,900,000	1,100,000
2019-2023	53,100,000	5,300,000

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, 2013 and 2012 was $7,418,306 and $6,824,035, 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, 2013 and 2012, the malpractice claims liability totaled $13,529,411 and $12,663,765, respectively, including the estimated current portion of this liability, totaling $1,985,529 and $1,159,828, 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 2019. Certain of these leases contain options to extend the lease terms. Lease expense for the years ended June 30, 2013 and 2012 was $2,368,485 and $2,668,453, respectively. Future minimum lease payments are as follows for the years ending June 30:

2014	$ 2,257,409
2015	1,943,749
2016	1,456,790
2017	1,138,946
2018	734,764
Thereafter	111,020

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, 2013 and 2012 was as follows:

	2013	2012
Medicare	21%	20%
Blue Cross	20	18
Medicaid	14	14
Managed care	12	13
Self-pay	14	16
Workers' compensation	7	9
Other	12	10
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, 2013 and 2012 are as follows:

	2013	2012
Healthcare services	$ 312,734,437	$ 296,333,954
General and administrative services	131,433,358	116,333,263
	$ 444,167,795	$ 412,667,217

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.

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

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Assets				
Cash and cash equivalents	$ 64,481,851	$ -	$ -	$ 64,481,851
Equity securities	253,159,813	-	-	253,159,813
Government securities and corporate bonds	141,199,102	-		141,199,102
Limited partnership	-	4,459,819	-	4,459,819
Beneficial interest in perpetual trusts		-	5,893,302	5,893,302
Total assets	$ 458,840,766	$ 4,459,819	$ 5,893,302	$ 469,193,887

(Continued)

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Liabilities				
Interest rate swap	$ -	$ 2,704,973	$	$ 2,704,973
Total liabilities	$ -	$ 2,704,973	$	$ 2,704,973
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
Liabilities				
Interest rate swap	$ -	$ 3,960,330	$ -	$ 3,960,330
Total liabilities	$ -	$ 3,960,330	$ -	$ 3,960,330

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 on a monthly basis.

Net unrealized gains (losses) on the Level 3 assets were $126,517 and ($306,035) for the years ended June 30, 2013 and 2012, respectively.

NOTE M - SUBSEQUENT EVENTS

The Medical Center evaluated its June 30, 2013 financial statements for subsequent events through September 27, 2013, 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.