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Form 990

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

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

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

OMB No 1545-0047

2013

Open to Public Inspection

A For the 2013 calendar year, or tax year beginning 09-01-2013, 2013, and ending 08-31-2014

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

St Francis Hospital Inc

Doing Business As

Number and street (or P O box if mail is not delivered to street address) Room/suite

One St Francis Drnve

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

Greenville, SC 296013955

D Employer identification number

58-2504530

E Telephone number

(864) 255-1000

G Gross receipts \$ 537,124,564

F Name and address of principal officer

Mark Nantz

One St Francis Drive

Greenville,SC 296013955

H(a) Is this a group return for subordinates?

☐ Yes☒ No

H(b) Are all subordinates included?

☐ Yes☐ No

If "No," attach a list (see instructions)

H(c) Group exemption number

0928

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) () (insert no) ☐ 4947(a)(1) or ☐ 527

J Website:

www.stfrancishealth.org

K Form of organization

☒ Corporation☐ Trust☐ Association☐ Other

L Year of formation

1932

M State of legal domicile

SC

Part I Summary																																																											
Activities & Governance	<div><div>1</div><div>Briefly describe the organization's mission or most significant activities</div><div>Provides acute care hospital services</div></div>																																																										
	<div><div>2</div><div>Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets</div></div>																																																										
Revenue	<table><tr><td>3</td><td>Number of voting members of the governing body (Part VI, line 1a)</td><td>3</td><td>17</td></tr><tr><td>4</td><td>Number of independent voting members of the governing body (Part VI, line 1b)</td><td>4</td><td>13</td></tr><tr><td>5</td><td>Total number of individuals employed in calendar year 2013 (Part V, line 2a)</td><td>5</td><td>3,082</td></tr><tr><td>6</td><td>Total number of volunteers (estimate if necessary)</td><td>6</td><td>239</td></tr><tr><td>7a</td><td>Total unrelated business revenue from Part VIII, column (C), line 12</td><td>7a</td><td>629,001</td></tr><tr><td>b</td><td>Net unrelated business taxable income from Form 990-T, line 34</td><td>7b</td><td>105,021</td></tr></table>	3	Number of voting members of the governing body (Part VI, line 1a)	3	17	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	13	5	Total number of individuals employed in calendar year 2013 (Part V, line 2a)	5	3,082	6	Total number of volunteers (estimate if necessary)	6	239	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	629,001	b	Net unrelated business taxable income from Form 990-T, line 34	7b	105,021																																		
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Expenses	<table><tr><td>8</td><td>Contributions and grants (Part VIII, line 1h)</td><td>Prior Year</td><td>Current Year</td></tr><tr><td>9</td><td>Program service revenue (Part VIII, line 2g)</td><td>3,146,444</td><td>2,071,495</td></tr><tr><td>10</td><td>Investment income (Part VIII, column (A), lines 3, 4, and 7 d)</td><td>508,363,581</td><td>523,881,812</td></tr><tr><td>11</td><td>Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)</td><td>2,123,654</td><td>1,683,123</td></tr><tr><td>12</td><td>Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)</td><td>5,497,982</td><td>6,697,513</td></tr><tr><td></td><td></td><td>519,131,661</td><td>534,333,943</td></tr><tr><td>13</td><td>Grants and similar amounts paid (Part IX, column (A), lines 1–3)</td><td>780,122</td><td>761,338</td></tr><tr><td>14</td><td>Benefits paid to or for members (Part IX, column (A), line 4)</td><td>0</td><td>0</td></tr><tr><td>15</td><td>Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)</td><td>171,789,747</td><td>178,279,723</td></tr><tr><td>16a</td><td>Professional fundraising fees (Part IX, column (A), line 11e)</td><td>0</td><td>0</td></tr><tr><td>b</td><td>Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0</td><td></td><td></td></tr><tr><td>17</td><td>Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)</td><td>279,820,130</td><td>295,053,523</td></tr><tr><td>18</td><td>Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)</td><td>452,389,999</td><td>474,094,584</td></tr><tr><td>19</td><td>Revenue less expenses Subtract line 18 from line 12</td><td>66,741,662</td><td>60,239,359</td></tr></table>	8	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year	9	Program service revenue (Part VIII, line 2g)	3,146,444	2,071,495	10	Investment income (Part VIII, column (A), lines 3, 4, and 7 d)	508,363,581	523,881,812	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	2,123,654	1,683,123	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	5,497,982	6,697,513			519,131,661	534,333,943	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	780,122	761,338	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)	171,789,747	178,279,723	16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0	b	Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0			17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	279,820,130	295,053,523	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	452,389,999	474,094,584	19	Revenue less expenses Subtract line 18 from line 12	66,741,662	60,239,359		
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Net Assets or Fund Balances		Beginning of Current Year	End of Year																																																								
	20	Total assets (Part X, line 16)	690,919,912 751,113,199																																																								
	21	Total liabilities (Part X, line 26)	319,668,296 323,990,832																																																								
	22	Net assets or fund balances Subtract line 21 from line 20	371,251,616 427,122,367																																																								

Part II Signature Block

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

Sign Here

Signature of officer

Ronnie Hyatt Chief Financial Officer-BSSFHS

Date

2015-07-13

Paid Preparer Use Only

Prnt/Type preparer's name

David A Craig

Preparer's signature

Date

Check ☐ if self-employed

PTIN P00542227

Firm's name

Deloitte Tax LLP

Firm's EIN

86-1065772

Firm's address

191 Peachtree Street Suite 2000

Atlanta, GA 303031749

Phone no

(404) 220-1500

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

☒ Yes☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2013)

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

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

4a	(Code) (Expenses \$ 444,625,965 including grants of \$ 761,338) (Revenue \$ 525,630,938)
	<p>Bon Secours St Francis Health System (BSSFHS) primarily serves Greenville County, which is comprised of approximately 451,000 (in 2012) residents with a 19% population increase over the last decade. 15.3% of residents in Greenville County are in households that fall below the federal poverty guidelines. Currently, 27% of Greenville County residents are considered medically uninsured. Two specific populations with large growth rates in the county are the senior population, with a 17% growth of residents 60 and older since 2000, and the Hispanic population, with an estimated growth of over 147% over the past decade. The three leading causes of death for Greenville County are cancer, cardiovascular disease and accidents. See Community benefit information in Sch H. The Community Benefit Report is available on the SFH website.</p>

[illegible][illegible]

4e	Total program service expenses	444,625,965
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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 Yes	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I 	3	No
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II 	4 Yes	
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III 	5	No
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6	No
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9 Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	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	No
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI 	11a Yes	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII 	11b	No
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII 	11c	No
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX 	11d	No
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X 	11e Yes	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X 	11f 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	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Parts I and IV	14b	No
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? If "Yes," complete Schedule F, Parts II and IV	15	No
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? If "Yes," complete Schedule F, Parts III and IV	16	No
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)	17	No
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospital facilities? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or government on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21	Yes	
22	Did the organization report more than \$5,000 of grants or other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	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? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a</i>	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If so, complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i>	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a	Yes	
b	If 'Yes' to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>	35b	Yes	
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V

Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response or note to any line in this Part V

☐

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	147
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	3,082
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes
b	If "Yes," has it filed a Form 990-T for this year? If "No" to line 3b, provide an explanation in Schedule O.	3b	Yes
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a	No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?	6a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	
7 Organizations that may receive deductible contributions under section 170(c).			
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8 Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?		8	
9 Sponsoring organizations maintaining donor advised funds.			
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10 Section 501(c)(7) organizations. Enter			
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b	
11 Section 501(c)(12) organizations. Enter			
a	Gross income from members or shareholders.	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b	
12a Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?		12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b	
13 Section 501(c)(29) qualified nonprofit health insurance issuers.			
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b	
c	Enter the amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b	

Part VI

Governance, Management, and Disclosure

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

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

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	17	
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	13	
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	Yes
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a	Yes
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	Yes
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body?	8a	Yes
b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

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

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

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed▶
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. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request <input type="checkbox"/> 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 ▶Ronnie Hyatt One St Francis Drive Greenville, SC 296053955 (864) 255-1000

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

Check if Schedule O contains a response or note to any line in this Part VII

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

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

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

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

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W- 2/1099- MISC)	(E) Reportable compensation from related organizations (W- 2/1099- MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Charlton Armstrong III MD Board Member	2 00 0 00	X						0	0	0
(2) Br Peter Campbell CFX Board Member	2 00 50	X						0	0	0
(3) John Castile Board Member	2 00 0 00	X						0	0	0
(4) Richard Davis Board Member (Jan-Aug)	2 00 0 00	X						0	0	0
(5) Gregory Haselden Board Member	2 00 0 00	X						0	0	0
(6) Camilla Hertwig Chairman	3 00 50	X		X				0	0	0
(7) Valerie Hollinger Board Member (Sep-Dec)	2 00 0 00	X						0	0	0
(8) Henry Horowitz Board Member (Jan-Aug)	2 00 0 00	X						0	0	0
(9) Fletcher Kirkland Jr Board Member	2 00 50	X						0	0	0
(10) Joanie Martin Board Member	2 00 0 00	X						0	0	0
(11) William Masters Board Member (Jan-Aug)	2 00 0 00	X						0	0	195
(12) T Wayne McDonald MD Board Member	2 00 50	X						0	0	0
(13) Thomas Morris PhD President	3 00 47 00	X		X				0	404,206	56,063
(14) Mark Nantz CEO - BSSFHS	25 00 25 00	X		X				0	945,479	101,635
(15) Jeffrey Oak PhD Board Member	2 00 48 00	X						0	442,736	63,373
(16) Lnton Puckett Board Member	2 00 0 00	X						0	0	0
(17) Joseph Sullivan Board Member	2 00 0 00	X						0	0	0

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) K Angela Webb Board Member	2 00 0 00	X						0	0	0
(19) Daniel Duggan COO - BSSFHS	36 00 14 00			X				0	438,962	46,220
(20) Irene Holcombe Secretary	50 00 0 00			X				86,837	0	14,962
(21) Ronnie Hyatt Treasurer/CFO - BSSFHS	36 00 14 00			X				488,150	0	70,173
(22) Teresa Ficicchy EVP - CNO	50 00 0 00				X			350,535	0	27,823
(23) Patricia Fowler VP - Surgical Services	50 00 0 00				X			298,879	0	27,750
(24) John Pietras EVP - SFPS (Sep-Apr)	10 49 90					X		305,729	0	55,035
(25) Fernando Fleites SVP - HR	50 00 0 00					X		286,517	0	30,976
(26) John Weems MD Internist	50 00 0 00					X		284,290	0	19,425
(27) Elizabeth Keith SVP - Mission	47 50 2 50					X		251,584	0	21,389
(28) Dana Parker DDS Dentist	50 00 0 00					X		243,541	0	15,538
(29) Frank Smeeks Former Highly Compensated Employee	0 00 0 00						X	461,777	0	40,773
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								3,057,839	2,231,383	591,330
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▶140									

		Yes	No
3	Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	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? <i>If "Yes," complete Schedule J for such individual</i>	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? <i>If "Yes," complete Schedule J for such person</i>	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
Sleepworks LLC 556 Hall Road Thomasville GA 31757	Sleep Studies	900,526
Upstate Carolina Radiology PA PO Box 27049 Greenville SC 29616	Radiology Readings	443,240
Pillsbury Winthrop Shaw Pittman LLP PO Box 601240 Charlotte NC 282601240	Legal Services	433,342
Anesthesia Business Consultant PO Box 77000 Detroit MI 482770181	Collection Services	317,029
Pediatric Med Group Inc PO Box 281034 Atlanta GA 303841034	Neonatology Services	259,239
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 ▶21	

Part VIII

Statement of Revenue

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

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514	
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d	1,460,130			
	e	Government grants (contributions)	1e	611,365			
	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		2,071,495			
Program Service Revenue	2a	Patient Service Rev	Business Code 622110	523,881,812	523,881,812		
	b						
	c						
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f		523,881,812			
	Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)	1,044,145			1,044,145
4		Income from investment of tax-exempt bond proceeds					
5		Royalties					
6a		(i) Real		496,618		3,117	493,501
		(ii) Personal					
		Gross rents	17,885				
		Less rental expenses	0				
c		Rental income or (loss)	17,885				
d		Net rental income or (loss)					
7a		(i) Securities		638,978			638,978
		(ii) Other					
		Gross amount from sales of assets other than inventory	2,808,052				
		Less cost or other basis and sales expenses	2,790,621				
c		Gain or (loss)	17,431				
d		Net gain or (loss)					
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					
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						
10a	Gross sales of inventory, less returns and allowances						
	a						
	Less cost of goods sold						
c	Net income or (loss) from sales of inventory						
Miscellaneous Revenue		Business Code					
11a	Regency Hospital	900099	1,749,126	1,749,126			
b	Supplies - Rebates	900099	1,693,154			1,693,154	
c	Cafeteria/Vending/Gift	561499	697,679			697,679	
d	All other revenue		2,060,936		625,884	1,435,052	
e	Total. Add lines 11a-11d		6,200,895				
12	Total revenue. See Instructions		534,333,943	525,630,938	629,001	6,002,509	

Part IX

Statement of Functional Expenses

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

Check if Schedule O contains a response or note to any line in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States. See Part IV, line 21.	761,338	761,338		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.				
3	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.				
4	Benefits paid to or for members.				
5	Compensation of current officers, directors, trustees, and key employees.	1,317,996	1,186,196	131,800	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B).				
7	Other salaries and wages.	141,252,071	127,126,864	14,125,207	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	4,991,220	4,492,098	499,122	
9	Other employee benefits.	19,257,290	17,331,561	1,925,729	
10	Payroll taxes.	11,461,146	10,315,031	1,146,115	
11	Fees for services (non-employees):				
a	Management.				
b	Legal.	1,636,247	1,472,622	163,625	
c	Accounting.	166,752	150,077	16,675	
d	Lobbying.	22,713	20,442	2,271	
e	Professional fundraising services. See Part IV, line 17.				
f	Investment management fees.				
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	12,573,505	12,573,505		
12	Advertising and promotion.	2,707,634	2,436,871	270,763	
13	Office expenses.	3,884,528	3,496,075	388,453	
14	Information technology.	12,226,369	11,003,732	1,222,637	
15	Royalties.				
16	Occupancy.	12,287,209	11,058,488	1,228,721	
17	Travel.	1,209,922	1,088,930	120,992	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.				
19	Conferences, conventions, and meetings.	388,063	349,257	38,806	
20	Interest.	6,662,636	6,662,636		
21	Payments to affiliates.				
22	Depreciation, depletion, and amortization.	17,502,728	15,752,455	1,750,273	
23	Insurance.	1,747,142	1,572,428	174,714	
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	104,867,754	104,867,754		
b	Bad Debt Expense	54,543,159	54,543,159		
c	Purchased Services	31,052,124	27,946,912	3,105,212	
d	BSHSI Mgmt Allocation	17,046,070	15,341,463	1,704,607	
e	All other expenses	14,528,968	13,076,071	1,452,897	
25	Total functional expenses. Add lines 1 through 24e.	474,094,584	444,625,965	29,468,619	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 <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

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

				(A)		(B)	
				Beginning of year		End of year	
Assets	1	Cash—non-interest-bearing		10,864	1	30,398	
	2	Savings and temporary cash investments		318,393,517	2	359,783,064	
	3	Pledges and grants receivable, net			3		
	4	Accounts receivable, net		72,411,315	4	71,552,925	
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5		
	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			6		
	7	Notes and loans receivable, net			7		
	8	Inventories for sale or use		14,744,505	8	13,923,912	
	9	Prepaid expenses and deferred charges		1,459,216	9	982,737	
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a	321,487,882			
	b	Less accumulated depreciation	10b	137,852,042	164,749,789	10c	183,635,840
	11	Investments—publicly traded securities			11	21,827,681	
	12	Investments—other securities See Part IV, line 11		19,558,397	12		
	13	Investments—program-related See Part IV, line 11			13		
	14	Intangible assets		83,640,996	14	83,640,996	
	15	Other assets See Part IV, line 11		15,951,313	15	15,735,646	
16	Total assets. Add lines 1 through 15 (must equal line 34)		690,919,912	16	751,113,199		
Liabilities	17	Accounts payable and accrued expenses		39,604,829	17	44,444,130	
	18	Grants payable			18		
	19	Deferred revenue			19		
	20	Tax-exempt bond liabilities			20		
	21	Escrow or custodial account liability Complete Part IV of Schedule D			21		
	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			22		
	23	Secured mortgages and notes payable to unrelated third parties			23		
	24	Unsecured notes and loans payable to unrelated third parties			24		
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D		280,063,467	25	279,546,702	
	26	Total liabilities. Add lines 17 through 25		319,668,296	26	323,990,832	
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets		371,251,616	27	427,122,367	
	28	Temporarily restricted net assets			28		
	29	Permanently restricted net assets			29		
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> 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		371,251,616	33	427,122,367	
	34	Total liabilities and net assets/fund balances		690,919,912	34	751,113,199	

Part XI Reconciliation of Net Assets

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

1	Total revenue (must equal Part VIII, column (A), line 12)	1	534,333,943
2	Total expenses (must equal Part IX, column (A), line 25)	2	474,094,584
3	Revenue less expenses Subtract line 2 from line 1	3	60,239,359
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	371,251,616
5	Net unrealized gains (losses) on investments	5	1,453,319
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	-5,821,927
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	427,122,367

Part XII Financial Statements and Reporting

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

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> 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? 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 <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? 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 <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	Yes	
2c	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? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	Yes	
3b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	Yes	

SCHEDULE A

(Form 990 or 990EZ)

Department of the
Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

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

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization St Francis Hospital Inc	Employer identification number 58-2504530
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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	<input type="checkbox"/>	A church, convention of churches, or association of churches described in section 170(b)(1)(A)(i).
2	<input type="checkbox"/>	A school described in section 170(b)(1)(A)(ii). (Attach Schedule E)
3	<input checked="" type="checkbox"/>	A hospital or a cooperative hospital service organization described in section 170(b)(1)(A)(iii).
4	<input type="checkbox"/>	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	<input type="checkbox"/>	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	<input type="checkbox"/>	A federal, state, or local government or governmental unit described in section 170(b)(1)(A)(v).
7	<input type="checkbox"/>	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	<input type="checkbox"/>	A community trust described in section 170(b)(1)(A)(vi) (Complete Part II)
9	<input type="checkbox"/>	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	<input type="checkbox"/>	An organization organized and operated exclusively to test for public safety See section 509(a)(4).
11	<input type="checkbox"/>	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 <input type="checkbox"/> Type I b <input type="checkbox"/> Type II c <input type="checkbox"/> Type III - Functionally integrated d <input type="checkbox"/> Type III - Non-functionally integrated
e	<input type="checkbox"/>	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	<input type="checkbox"/>	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	<input type="checkbox"/>	Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons? (i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization? (ii) A family member of a person described in (i) above? (iii) A 35% controlled entity of a person described in (i) or (ii) above?
h	<input type="checkbox"/>	Provide the following information about the supported organization(s)

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

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

Part II

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage			
14 Public support percentage for 2013 (line 6, column (f) divided by line 11, column (f))	14		
15 Public support percentage for 2012 Schedule A, Part II, line 14	15		
16a 33 1/3% support test—2013. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization			▶
b 33 1/3% support test—2012. If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization			▶
17a 10%-facts-and-circumstances test—2013. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization			▶
b 10%-facts-and-circumstances test—2012. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization			▶
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions			▶

Part IIISupport Schedule for Organizations Described in Section 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public support (Subtract line 7c from line 6)						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12.)						
14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage		
15 Public support percentage for 2013 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2013 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2012 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2013. If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
b 33 1/3% support tests—2012. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ▶		

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

Facts And Circumstances Test

Return Reference	Explanation	
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SCHEDULE C

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ **Complete if the organization is described below. ▶ Attach to Form 990 or Form 990-EZ.**

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

OMB No 1545-0047

2013

Open to Public
Inspection

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

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

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

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

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

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

Name of the organization St Francis Hospital Inc	Employer identification number 58-2504530
---	--

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

1	Provide a description of the organization's direct and indirect political campaign activities in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

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

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," describe in Part IV	

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

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

- A
- Check ☐ if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B
- Check ☐ if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing organization's totals	(b) Affiliated group totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)															
b Total lobbying expenditures to influence a legislative body (direct lobbying)															
c Total lobbying expenditures (add lines 1a and 1b)															
d Other exempt purpose expenditures															
e Total exempt purpose expenditures (add lines 1c and 1d)															
f Lobbying nontaxable amount Enter the amount from the following table in both columns															
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)															
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No													

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2010	(b) 2011	(c) 2012	(d) 2013	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

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

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(a)		(b)
		Yes	No	Amount
1 During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of a Volunteers? b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)? c Media advertisements? d Mailings to members, legislators, or the public? e Publications, or published or broadcast statements? f Grants to other organizations for lobbying purposes? g Direct contact with legislators, their staffs, government officials, or a legislative body? h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means? i Other activities? j Total Add lines 1c through 1i		No		
		No		
		No		
		No		
		No		
		No		
		No		
		No		
		No		
		No		
		Yes		22,713
			22,713	
2a Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No		
b If "Yes," enter the amount of any tax incurred under section 4912				
c If "Yes," enter the amount of any tax incurred by organization managers under section 4912				
d If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?				

Part III-A

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

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

Part III-B

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

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

Part IV

Supplemental Information

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

Return Reference	Explanation
Part II-B, Line 1	The filing organization maintains memberships to various professional healthcare associations. Portions of their membership dues are used for lobbying activities. The lobbying portion of such dues is included on line 1i.

[illegible]

SCHEDULE D
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2013

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

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

▶ Attach to Form 990. ▶ See separate instructions. ▶ Information about Schedule D (Form 990) and its instructions is at www.irs.gov/form990.

Name of the organization St Francis Hospital Inc	Employer identification number 58-2504530
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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? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	
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? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	

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

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

▶ \$ _____

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 52283D

Schedule D (Form 990) 2013

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
- c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance
- | | |
|----|--------|
| | Amount |
| 1c | |
| 1d | |
| 1e | |
| 1f | |
- 2a

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

☐ Yes

☐ No
- b

If "Yes," explain the arrangement in Part 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	b (c)Two years back	(d)Three years back	(e)Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

- 2

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

Board designated or quasi-endowment
- b

Permanent endowment
- c

Temporarily restricted endowment

The percentages in lines 2a, 2b, and 2c should equal 100%
- 3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by
- (i) unrelated organizations

3a(i)

(ii) related organizations

3a(ii)
- b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b
- 4

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

Part VI Land, Buildings, and Equipment. Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		13,362,168		13,362,168
b Buildings		156,023,403	48,961,314	107,062,089
c Leasehold improvements		1,510,018	718,319	791,699
d Equipment		121,382,813	84,377,173	37,005,640
e Other		29,209,480	3,795,236	25,414,244
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				183,635,840

Part XI

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

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

Part XII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.

Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

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

Part XIII

Supplemental Information

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

Return Reference	Explanation
Part X, Line 2	Schedule D, Part X, Line 2 requires that the organization provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under ASC 740. ASC 740 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The adoption of ASC 740 by BSHSI on September 1, 2007 did not have a material impact on BSHSI's consolidated financial statements. As the organization does not conduct a separate audit of its financial statements, below is the related statement from the Bon Secours Health System, Inc. consolidated audited financial statements. The System and most of its subsidiaries (including certain joint venture entities) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The system accounts for uncertain tax positions in accordance with ASC Topic 740. Income taxes of the System's for-profit subsidiaries are not material to the accompanying consolidated financial statements. The System's taxable subsidiaries have approximately \$61,513 and \$66,681 of net operating loss carryforwards as of August 31, 2014 and 2013, respectively, which expire in varying periods through 2034 and are available to offset future taxable income. The System's deferred tax assets are fully reserved at August 31, 2014 and 2013. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change.

[illegible]

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

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

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
St Francis Hospital Inc

Employer identification number
58-2504530

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 <input checked="" type="checkbox"/> Applied uniformly to all hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> 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 <i>free</i> care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for <i>free</i> care <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ % b Did the organization use FPG as a factor in determining eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care <input checked="" type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> 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"?	3a Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	3b Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	4 Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?	5a Yes	
6a	Did the organization prepare a community benefit report during the tax year?	5b	No
b	If "Yes," did the organization make it available to the public?	5c	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H	6a Yes	
		6b Yes	

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)			4,468,680		4,468,680	1 070 %
b Medicaid (from Worksheet 3, column a)			34,957,935	37,343,777	-2,385,842	0 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . .						
d Total Financial Assistance and Means-Tested Government Programs . .			39,426,615	37,343,777	2,082,838	1 070 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)	21	117,575	2,551,670	11,250	2,540,420	0 610 %
f Health professions education (from Worksheet 5)	1	1,715	633,584	0	633,584	0 150 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)	1	19	4,737	0	4,737	0 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)	5	6,332	1,058,992	1,367	1,057,625	0 250 %
j Total Other Benefits	28	125,641	4,248,983	12,617	4,236,366	1 010 %
k Total . Add lines 7d and 7j . .	28	125,641	43,675,598	37,356,394	6,319,204	2 080 %

Part IICommunity Building Activities

Complete this table 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
1Physical improvements and housing						
2Economic development						
3Community support	5	129	23,485	0	23,485	0.010 %
4Environmental improvements	2	588	82,130	0	82,130	0.020 %
5Leadership development and training for community members	1	20	3,782	0	3,782	0 %
6Coalition building						
7Community health improvement advocacy	1	299	41,043	0	41,043	0.010 %
8Workforce development						
9Other						
10Total	9	1,036	150,440		150,440	0.040 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?

1Yes

No

2Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

254,543,159

3Enter 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.

30

4Provide 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

5Enter total revenue received from Medicare (including DSH and IME).

5129,158,321

6Enter Medicare allowable costs of care relating to payments on line 5.

6136,943,369

7Subtract line 6 from line 5. This is the surplus (or shortfall).

7-7,785,048

8Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.

☐ Cost accounting system

☒ Cost to charge ratio

☐ Other

Section C. Collection Practices

9aDid the organization have a written debt collection policy during the tax year?

9aYes

No

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

9bYes

No

Part IVManagement 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 %
11Upstate Surgery Center	Ambulatory Surgery Center	58.090 %	0 %	11.360 %
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V

Facility Information

Section A. Hospital Facilities

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

Name, address, primary website address, and state license number

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
	See Additional Data Table										

Part V

Facility Information *(continued)*

Section B. Facility Policies and Practices

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

Name of hospital facility or facility reporting group _____

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

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

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?		9	Yes
10 Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate the FPG family income limit for eligibility for free care <u>200 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		10	Yes
11 Used FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>200 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		11	Yes
12 Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply)		12	Yes
a <input checked="" type="checkbox"/> Income level			
b <input type="checkbox"/> Asset level			
c <input type="checkbox"/> Medical indigency			
d <input type="checkbox"/> Insurance status			
e <input type="checkbox"/> Uninsured discount			
f <input type="checkbox"/> Medicaid/Medicare			
g <input type="checkbox"/> State regulation			
h <input type="checkbox"/> Residency			
i <input checked="" type="checkbox"/> 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? If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		14	Yes
a <input checked="" type="checkbox"/> The policy was posted on the hospital facility's website			
b <input type="checkbox"/> The policy was attached to billing invoices			
c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices			
e <input type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility			
f <input checked="" type="checkbox"/> The policy was available upon request			
g <input checked="" type="checkbox"/> 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	No
16 Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP			
a <input type="checkbox"/> Reporting to credit agency			
b <input type="checkbox"/> Lawsuits			
c <input type="checkbox"/> Liens on residences			
d <input type="checkbox"/> Body attachments			
e <input type="checkbox"/> Other similar actions (describe in Section C)			
17 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged		17	No
a <input type="checkbox"/> Reporting to credit agency			
b <input type="checkbox"/> Lawsuits			
c <input type="checkbox"/> Liens on residences			
d <input type="checkbox"/> Body attachments			
e <input type="checkbox"/> Other similar actions (describe in Section C)			

Part V

Facility Information *(continued)*

- 18** Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a** ☐ Notified individuals of the financial assistance policy on admission

b ☐ Notified individuals of the financial assistance policy prior to discharge

c ☐ Notified individuals of the financial assistance policy in communications with the individuals regarding the individuals' bills

d ☐ Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy

e ☐ Other (describe in Section C)

Policy Relating to Emergency Medical Care

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

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

Part V Facility Information (continued)

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

[illegible]

Part V

Facility Information *(continued)*

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

How many non-hospital health care facilities did the organization operate during the tax year? **22**

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

Provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II and Part III, lines 2, 3, 4, 8 and 9b
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Form and Line Reference	Explanation
Part I, Line 6a	Annually, Bon Secours St Francis Health System (BSSFHS) publishes a report for the community, explaining the various community benefit services and programs that exist This report also includes the annual financial commitment of the local system to the community, detailing monetary contributions for government sponsored healthcare shortfall, community benefit programs, and charity care at cost This report is available to the public each year on or around January 24, commemorating Foundation Day of the Sisters of Bon Secours This report is available online at http://stfrancishealth.org/about-us-in-the-community-community-ministries.html

Form and Line Reference	Explanation
Part I, Line 7	<p>Part I, line 7a Charity Care at cost is computed by applying a cost-to-charge ratio to the aggregate charity adjustments recorded in the general ledger Part I, line 7b Unreimbursed Medicaid is computed by determining the cost of Medicaid services supplied less payments received for these services To determine the cost of Medicaid services provided, a cost-to-charge ratio is applied to traditional and managed Medicaid gross charges recorded in the general ledger Payments include payments for individual claims, payments from the Medicaid program paid outside the claim process (such as medical education payments) and expected or actual cost report settlements Part I, line 7b (f) Prior to 2006, Medicaid in the state of South Carolina was reimbursed to hospitals on a fixed prospective basis (fixed rates not directly related to costs) For years 2006 - 2012, the State reimbursed Hospitals on a cost basis (actual costs to provide services) This reimbursement resulted in the hospitals receiving payments close to their costs Starting in 2013 the State changed reimbursement methodologies to a fixed rate prospective basis (fixed rates not directly related to costs) For the first year the rates state wide were set to approximate the hospital's cost to provide service For the subsequent years the fixed rate will be adjusted by a state wide inflationary factor and not related to an individual hospital's cost For 2013 the Hospital's unreimbursed Medicaid percentage for St Francis Hospital, Inc is fairly consistent with those of other hospitals in the state Part I, line 7c Unreimbursed costs from other means-tested government programs are computed by applying a cost-to-charge ratio to the total charges to patients covered under these programs The charges are identified by the financial class assigned to the patient For Part I, Line 7 a-c computations The cost-to-charge ratio is derived using the suggested computation in Worksheet 2, Ratio of Patient Care Cost-to-Charges Operating expenses and Gross patient charges are taken from the general ledger Expenses for nonpatient care activities recorded in operating expenses are approximated as directly equaling other operating revenue, assuming these activities do not provide profit Part I, line 7e Community health improvement services and community benefit operations are accumulated throughout the year and reported at actual cost in a software program that specifically addresses this purpose Part I, line 7f Health professions education cost is determined as the direct and indirect cost of qualifying education activities as traditionally reported in columns 21-24 on Worksheet B of the Medicare cost report as a Medical Education program, nursing school or other allied health program</p>

Form and Line Reference	Explanation
Part I, Ln 7 Col(f)	Bad debt expense included in Part IX, line 25 and excluded from the "percent of total expense" calculation is \$54,543,159

Form and Line Reference	Explanation
Part II, Community Building Activities	The Bon Secours' Building Healthy Communities Initiative was created in 2008 to lead efforts towards building healthier communities in which each Bon Secours facility serves. Using a multi-level process of community engagement, grassroots advocacy, and strategic partnerships with public or private organizations and individuals, the Bon Secours St. Francis Healthy Community Initiative works to strengthen the assets of the community while identifying needs to ultimately improve the overall health of community residents. The Bon Secours St. Francis Healthy Community Initiative seeks to leverage our health care resources, outreach services and programs, clinical expertise, and relationships to best target the sources of poor health rather than just address the symptoms.

Form and Line Reference	Explanation
Part III, Line 2	Bad debt expense on the general ledger includes 1) actual write offs of discounted gross charges where it is determined an uninsured patient can pay and does not pay, and 2) the estimated write offs for uninsured patient accounts with outstanding balances after discount Estimates are based on historical collection rates When an uninsured patient is billed for patient care services, the charges are automatically discounted and the patient is requested to only pay the amount after discount The discount is recorded as an adjustment to gross revenue and is not recorded in bad debt expense If the balance after discount is not paid or not paid in full, the unpaid amount will be written off to bad debt expense When a patient remits a payment on an account that has already been written off to bad debt expense, the payment is recorded as a recovery of bad debt, which reduces bad debt expense

Form and Line Reference	Explanation
Part III, Line 3	The organization does not report an estimate for the portion of bad debt expense that may have been likely to qualify for financial assistance under the hospital's charity care policy. The organization takes the position that ample opportunity and assistance is provided to the patient to qualify under the financial assistance policy. If sufficient information is not provided, the organization must assume the patient does not qualify.

Form and Line Reference	Explanation
Part III, Line 4	Please see Footnote "(2d) Accounts Receivable, net" discussing "accounts receivable" on page 10 in the attached BSHSI consolidated audited financial statements ("AFS") "Allowance for uncollectible accounts" is discussed in the second paragraph in Footnote "(10) Net Patient Service Revenue" on page 40 of the attached AFS There is not a separate "bad debt expense" footnote in the AFS

Form and Line Reference	Explanation
Part III, Line 8	Medicare allowable costs reflected in Part III come directly from the facility's Medicare cost report. The cost report segregates the total facility actual expenses into costs for support departments, clinical departments (routine and ancillary) and nonreimbursable departments. The cost report uses appropriate statistical bases to "step down" support costs to allowable clinical and nonreimbursable departments. The charges for clinical departments are matched to the total cost for these departments for a cost-to-charge ratio. Medicare-specific allowable costs for in- and outpatient ancillary departments are computed by applying the department-specific cost-to-charge ratio to the Medicare program charges by department. For routine departments, a per diem total cost is computed and applied to Medicare program days for the Medicare routine program cost. The organization feels the total shortfall of Medicare reimbursement compared to computed Medicare allowable costs should be treated as community benefit. The hospital improves access to patient care by providing services regardless of a patient's ability to pay or the hospital's ability to receive full cost reimbursement for services. The hospital also relieves the government of a financial burden when it provides care to publically insured patients where reimbursement is less than cost of providing the service.

Form and Line Reference	Explanation
Part III, Line 9b	The hospital has a written policy that describes collection practices applying to patients that qualify for charity care or financial assistance. If full assistance is approved, no collection efforts are pursued on that patient's account(s). If partial assistance is provided, the patient is responsible for the adjusted account balance and collection efforts will follow the established practices for all patients where a self-pay balance exists. Collection efforts are not pursued on any pending FAP account. Specific criteria exist for how much financial assistance, partial or total, will be provided to the patient based on the assessed need. Criteria is based on Federal Poverty Guidelines and is reviewed and updated annually. Once a patient has been deemed eligible for the Patient Financial Assistance Program (FAP), the patient is notified by letter within 60 days after receipt of the application and supporting documentation. The patient retains eligibility for a period of twelve months from the date of the application. This eligibility is signaled to hospital admissions, billing and collection staff by the assignment of a specific financial class with accompanying eligibility dates. At the end of those twelve months, the patient is responsible for reapplying for FAP eligibility.

Form and Line Reference	Explanation
Part VI, Line 2	BSSFHS conducted a comprehensive needs assessment over the course of 18 months, and released it in 2013 (Tax year 2012) The CHNA process included a community telephone survey, secondary data analysis, and focus groups This was completed with input provided by those with public health knowledge Additional groups were well-captured through this document, including individuals representing the broad interests of the community, persons with special knowledge of the medically underserved, low-income, minority, and chronic disease populations This CHNA process will be conducted every three years, with the next CHNA to be released in the Fall of 2016

Form and Line Reference	Explanation
Part VI, Line 3	<p>Patient financial assistance policy is communicated to patients verbally upon scheduling, registration, visible postings of the policy in common areas throughout the hospital, brochures and on Bon Secours website. In addition, patient statements request that patients apply for financial assistance, if needed, once any patient financial obligation is determined. Bon Secours is committed to ensuring access to health care services for all. As a health care provider, Bon Secours treats all patients, whether insured, underinsured or uninsured, with dignity, respect and compassion throughout admission, delivery of services, discharge and billing and collection processes. Bon Secours addresses the needs of the uninsured by providing free or reduced fees on hospital services, community outreach efforts to assist with enrollment in Medicaid and other medical coverage programs, including free community-based preventive and primary care services. Bon Secours proactively screens to identify individuals and their families who may qualify for federal, state or local health insurance programs or the Bon Secours Patient Financial Assistance Program ("FAP") and assist the potential eligible patients through the qualification process. Potentially eligible patients that do not qualify for a federal or state health insurance program are referred to the Financial Assistance Coordinator located in Patient Financial Services for assistance in completing the documentation required to establish FAP eligibility. Patients are responsible for providing the information necessary to complete the documentation. The FAP aids uninsured and underinsured patients who do not qualify for government-sponsored health insurance and who communicate their inability to pay for their medical care. The FAP provides 100% financial assistance to uninsured patients with annual family incomes at or below 200% of the Federal Poverty Guidelines ("FPG"), A sliding scale assistance policy is afforded patients that exceed the income guidelines for 100% assistance. Sliding scale assistance is provided to patients and progressively declines in proportion to the patient's higher income level. Additionally, all uninsured (i.e. self-pay) patients are given a reduction to the amount of the full charges for medically necessary services through a community service adjustment ("CSA"). The CSA is market adjusted and based on the payment discount received by other health care payers doing business in the community. For these patients, the FAP also sets a maximum annual family payment liability to ensure that no family suffers a catastrophic financial burden to receive necessary health care services. Based on research conducted by the Tax Foundation, a non-partisan tax research group based in Washington DC, the maximum annual family liability is based on a sliding scale determined by the family income and size. In addition, a variety of other potential payment options are available. Bon Secours is dedicated to meeting the needs of non-English speaking patients by having on-site Spanish translators, and other language translation services. In addition, Bon Secours employs a telephone language service which assists in meeting any language needs that arise. The translation services are offered to non-English speaking patients from admission to discharge, including the financial process.</p>

Form and Line Reference	Explanation
Part VI, Line 4	Bon Secours St Francis Health System primarily serves Greenville County, which is comprised of approximately 474,266 residents Greenville County is the largest county in the state and one of the fastest growing, with a 5% estimated growth rate in just three years (U S Census), Five year estimates show that the median household income for Greenville County (\$49,022) was higher than the median income of South Carolina (\$44,779) Five year estimates also indicate that 15 8% of people living in Greenville County receive incomes that are below the federal poverty level This is a decline from the previously reported estimate of 18 6% in 2011 Nonetheless, 23 9% of children under the age of 18 are estimated to live in poverty, an increase of 2 9% since 2011, Five year estimates also reveal that 16 5% (75,159) of Greenville County adults are uninsured and 8 6% of children under 18 currently have no health insurance coverage

Form and Line Reference	Explanation
Part VI, Line 5	<p>BSSFHS has an open medical staff with privileges available to all qualified physicians BSSFHS operates an emergency room at both of its hospitals which provide services 24 hours a day, seven days a week to ensure access to needed emergency care for all persons In 2014, the health system was driven by the Bon Secours mission to serve the community by the leadership of a governing board that includes members who are mainly representative of the community BSSFHS supports several community programs through the Bon Secours mission to be "good help to those in need " As part of this mission, BSSFHS provides dedicated staff and services with the sole purpose of measuring the needs of the community and engaging community partners to address the needs These include the Community Ministries department, the Community Health Outreach department, LifeWise (a community initiative targeting adults 55 and older), and Open Arms Hospice, a partnership providing the only community Hospice House in the region The dedicated staff assist in the following programs and also work to build collaborative partnerships in the community Access to Oral Health Care Program The BSSFHS Oral Health Services program provides access to oral health care through an integrated service partnership providing a mutually beneficial relationship between businesses, funding agencies, a dental hygiene training program, and a college of dentistry The St Francis Mobile Dental Unit provides the opportunity to reach out to outlying portions of the county and reach populations that face multiple barriers to care, including transportation The fixed sites at the Greenville Free Medical Clinic and the New Horizon Family Dental Care ensure that a range of comprehensive oral health services are available in the community on a sliding fee scale or at no cost for the underserved During Fiscal Year 2013-2014, over 3,900 adults and children received education and services through the Oral Health Services program The Medical University of South Carolina College of Dentistry joined BSSFHS in December of 2010 to create a new model of service for the Mobile Dental Unit Under the direct supervision of a licensed dentist (employed by BSSFHS) and credentialed faculty from the Medical University of South Carolina, senior dental students performed limited restorative services to underserved populations in our Greenville communities This model also allows Greenville Technical College dental assisting students to work in tandem with the Medical University of South Carolina senior dental students to provide comprehensive oral health prevention and dental services, while receiving hands-on-training experience Care for Families and ChildrenAnnually, BSSFHS provides each family with a 4-year-old kindergarten student residing in Greenville County a self-care manual/resource for accessing appropriate health care in Greenville The self-care guides are purchased from the American Institute of Preventive Medicine (Health at Home) explains common medical issues and provides a decision tree for how to care for the problem at home and how and when to seek appropriate medical care On average, this health literacy project, "A Healthy You," documents nearly 50% of families able to avoid one or more visits to the doctor in the past 6 months because of the Health at Home book In addition, over 60% of families specify that Health at Home books helped them decide when to see a doctor, and thought that the Health at Home books saved them money on medical or health care in the past 6 months</p>

Form and Line Reference	Explanation
Part VI, Line 6	<p>Bon Secours Health System, Inc , a Maryland nonprofit, nonstock membership corporation (BSHSI), and all of the other entities that are controlled directly or indirectly by Bon Secours, Inc, a Maryland nonprofit, nonstock membership corporation (BSI) are described collectively as the System BSI, which is the sole corporate member of BSHSI, has no healthcare operations The System was organized in June 1983 to fulfill the healthcare mission of the United States Province of the Congregation of the Sisters of Bon Secours of Paris, a congregation of religious women of the Roman Catholic Church founded in France in 1824 The System's activities are in the states of New York, Maryland, Virginia, Kentucky, South Carolina, and Florida, each referred to as a local system The Ministry of BSHSI aids those in need, particularly those who are sick and dying, by offering services that include but are not limited to acute inpatient, outpatient, pastoral, palliative, home health, nursing home, rehabilitative, primary and secondary care and assisted living without regard to race, religion, color, gender, age, marital status, national origin, sexual orientation, or disability BSHSI's vision to bring about the holistic health of the communities it serves is implemented through its Strategic Quality Plan which provides focus in five goal areas for the current three year period (2013-2015) One of those goals was to bring our communities to wholeness To accomplish this, two key strategies are to - Improve Health Locally and Globally- Build Partnerships for Population Health As a member of the Catholic health ministry and a member of Bon Secours Health System, Inc (BSHSI), this organization and it's related entities are called to continue the healing ministry of Jesus We exist to benefit the people living in the communities it serves Through all of the services offered to the community, the mission is "to bring compassion to health care and to be good help to those in need, especially those who are poor and dying As a System of caregivers, we commit ourselves to help bring people and communities to health and wholeness as part of the healing ministry of Jesus Christ and the Catholic Church " This organization and related organizations share the BSHSI Vision "Inspired by the healing ministry of Jesus Christ and the charism of Bon Secours, Bon Secours Health System will be recognized for its leadership in justice, transforming the communities in which we serve and work into places of health and hope, and being a prophetic voice for systemic US health reform and a more humane world "Please see Schedule R for listings of the related organizations</p>

Form and Line Reference	Explanation
Part VI, Line 7, Reports Filed With States	SC

Additional Data

Software ID:
Software Version:
EIN: 58-2504530
Name: St Francis Hospital Inc

990 Schedule H, Supplemental Information

Section C. Supplemental Information for Part V, Section B. Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.	
Form and Line Reference	Explanation
Part V, Section B	Facility Reporting Group A
Facility Reporting Group A consists of	- Facility 1 St Francis Hospital - Downtown, - Facility 2 St Francis Hospital - Eastside
Facility Reporting Group - A Part V, Section B, line 3	BSSFHS took into account input from persons who represented the community through a county-wide telephone survey, with an over-sampling of low income households. Focus groups were organized to capture perspectives from individuals that represent the chronically ill. Participants included representatives from Taylors Free Medical Clinic, The Greenville Free Medical Clinic, BSSF-Downtown, Faces and Voices of Recovery (substance abuse recovery program), Carolina Centers for Behavioral Health, community residents suffering from chronic disease, AID Upstate, the Greenville County Medical Society, New Horizon Family Health Services, Cancer Society of Greenville, Greenville County EMS and SCDHEC. These focus groups generated insightful perspective on the struggles and strengths of individuals experience in managing a chronic disease in Greenville County. Representatives also discussed common traits and characteristics of the current populations they serve. Expert Interviews were conducted using the NPHPSP (National Public Health Performance Standards Program) Local Public Health System Performance (LPHSA) assessment instrument. This instrument evaluated responses from key experts in the community, measuring how well Greenville County provides the 10 Essential Public Health Services. A series of 8 group interviews were conducted. Those with special knowledge in public health were consulted throughout the CHNA process. They included Natalie Dougherty (BSSFHS), Lillie Hall (SC Department of Health and Environment Control), and Dr. Alicia Powers (Health Sciences professor, Furman University).
Facility Reporting Group - A Part V, Section B, line 4	Greenville Health System
Facility Reporting Group - A Part V, Section B, line 7	Identified needs through the CHNA that could not be addressed through BSSFHS were asthma, mental health, alcohol/substance abuse, current technology to manage and communicate population health data to the public, and public health policy development. These needs could not be addressed by BSSFHS either because limited resources and infrastructure to address the issue, or there are current community organizations that already exist to mitigate the need.
Facility Reporting Group - A Part V, Section B, line 12i	Please see the narrative for Part VI, Line 3 regarding the Financial Assistance Policy
Facility Reporting Group - A Part V, Section B, line 14g	Please see the narrative for Part VI, Line 3 regarding the Financial Assistance Policy
Facility Reporting Group - A Part V, Section B, line 20d	Please see the narrative for Part VI, Line 3 regarding the Financial Assistance Policy

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

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

Name and address	Type of Facility (describe)
St Francis Outpatient Center 3 St Francis Drive Greenville, SC 29601	Outpatient Services
St Francis ES Outpatient Lab 135 Commonwealth Dr Suite 255 Greenville, SC 29615	Outpatient Services
St Francis Rehab 131 Commonwealth Drive Suite 200 Greenville, SC 29615	Outpatient Services
St Francis Outpatient Rehab 120 Summer Street Greenville, SC 29601	Outpatient Services
St Francis Physical Therapy 712 Congaree Road Greenville, SC 29607	Outpatient Services
St Francis Therapy Services 1130 Grove Road Greenville, SC 29605	Outpatient Services
St Francis Powdersville Rehab 3407 Hwy 153 Piemont, SC 29673	Outpatient Services
St Francis Physical Therapy 209 Patewood Dr Ste 100 Greenville, SC 29615	Outpatient Services
St Francis Homecare 10 Patewood Drive Ste 300 Greenville, SC 29615	Outpatient Services
McCall Hospice House 1836 West Georgia Rd Simpsonville, SC 29680	Outpatient Services
St Francis Sleep Disorder Center 3 St Francis Drive Ste 340 Greenville, SC 29601	Outpatient Services
St Francis Wound Healing Center 131 Commonwealth Drive Suite 200 Greenville, SC 29615	Outpatient Services
Central Registration & Lab 2 Innovation Dr Ste 110 Greenville, SC 29607	Outpatient Services
Healthy Self Cardiovascular Rehab 2 Innovation Dr Ste 200 Greenville, SC 29607	Outpatient Services
Sleep Lab 2 Innovation Dr Ste 340 Greenville, SC 29607	Outpatient Services

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

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

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

Name and address	Type of Facility (describe)
Sports Medicine & Workwell Admin 135 Commonwealth Dr Suite 250 Greenville, SC 29615	Outpatient Services
Workwell Occupational Health 135 Commonwealth Dr Suite 120 Greenville, SC 29615	Outpatient Services
Early Detection & Renewal 2 Innovation Dr Ste 350 Greenville, SC 29607	Outpatient Services
Sports & Exe Medi & Phy Therapy 2 Innovation Dr Ste 250 Greenville, SC 29607	Outpatient Services
Nu-Life 2 Innovation Dr Ste 330 Greenville, SC 29607	Outpatient Services
Community Education 2 Innovation Dr Ste 100 Greenville, SC 29607	Outpatient Services
St Francis Pearlle Harris Breast Ctr 131 Commonwealth Drive Suite 220 Greenville, SC 29615	Outpatient Services

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

▶ Information about Schedule I (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public
Inspection

Name of the organization
St Francis Hospital Inc

Employer identification number
58-2504530

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) Bon Secours - St Francis Health System Foundation Inc One St Francis Drive Greenville, SC 29601	26-0012031	501(c)(3)	761,338				Cost of administrative services provided to the Foundation

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

3 Enter total number of other organizations listed in the line 1 table 0

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. Provide the information required in Part I, line 2, Part III, column (b), and any other additional information.

Return Reference	Explanation
Part I, Line 2	The organization complies with Bon Secours Health System, Inc 's system-wide financial and accounting policies Contributions are generally made as reimbursements for funds spent In such cases, the donee/grantee organization must provide documentation to the filing organization before funds are approved for disbursement

Schedule J
(Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 23.
▶ Attach to Form 990. ▶ See separate instructions.

▶ Information about Schedule J (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
St Francis Hospital Inc

Employer identification number
58-2504530

Part I

Questions Regarding Compensation

	Yes	No
<div><div>1a</div><div>Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items</div><div><div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Travel for companions</div><div><input checked="" type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Discretionary spending account</div></div><div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div></div></div>		
<div><div>b</div><div>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</div></div>		No
<div><div>2</div><div>Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all directors, trustees, officers, including the CEO/Executive Director, regarding the items checked in line 1a?</div></div>		No
<div><div>3</div><div>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</div><div><div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Form 990 of other organizations</div></div><div><div><input type="checkbox"/> Written employment contract</div><div><input type="checkbox"/> Compensation survey or study</div><div><input type="checkbox"/> Approval by the board or compensation committee</div></div></div></div>		
<div><div>4</div><div>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</div></div>		
<div><div>a</div><div>Receive a severance payment or change-of-control payment?</div></div>	Yes	
<div><div>b</div><div>Participate in, or receive payment from, a supplemental nonqualified retirement plan?</div></div>	Yes	
<div><div>c</div><div>Participate in, or receive payment from, an equity-based compensation arrangement?</div></div> <div>If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III</div>		No
<div><div></div><div>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</div></div>		
<div><div>5</div><div>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</div></div>		
<div><div>a</div><div>The organization?</div></div>		No
<div><div>b</div><div>Any related organization?</div></div> <div>If "Yes," to line 5a or 5b, describe in Part III</div>		No
<div><div>6</div><div>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</div></div>		
<div><div>a</div><div>The organization?</div></div>		No
<div><div>b</div><div>Any related organization?</div></div> <div>If "Yes," to line 6a or 6b, describe in Part III</div>		No
<div><div>7</div><div>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</div></div>		No
<div><div>8</div><div>Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53 4958-4(a)(3)? If "Yes," describe in Part III</div></div>		No
<div><div>9</div><div>If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?</div></div>		

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

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

Also complete this part for any additional information

Return Reference	Explanation
Part I, Line 1a	Tax indemnification and gross-up Certain full time individuals (9) listed on Form 990, Part VII received gift cards valued at \$10 The value of the gift cards were reported as taxable compensation In an effort to reduce the tax impact of these gifts, each recipient received additional taxable compensation of \$7 which was added to their paycheck
Part I, Line 3	Bon Secours Health System, Inc , a related organization of the filing organization uses the following to establish the compensation of the organization's CEO/Executive Director Compensation Committee Independent Compensation Consultant Written Employment Contract Compensation Survey or Study Approval by the Board or Compensation Committee
Part I, Lines 4a-b	Bon Secours Health System, Inc has system wide severance policies for various levels of executive management Executive positions throughout the system may include, but are not limited to, CEO/President, CFO, COO, EVP, SVP, VP and Directors Severance periods vary based on length of service, subsequent employment and violations of the severance policy Generally, severance periods can be up to 24 months Benefits may include, but are not limited to, base salary, certain health benefits and payment of unused vacation The following individual(s) received severance payments during the applicable calendar year Frank Smeeks, \$102,984 The filing organization participates in a BSHSI sponsored executive retirement program that allows for deposits into additional retirement plans and available only to key employees The 457F plan is a non-qualified plan and is subject to a minimum three-year service requirement before vesting on deposits made into this plan Individuals that received a distribution include Mark Nantz, \$24,869, Thomas Morris, PhD, \$17,448, Daniel Duggan, \$4,435, Ronnie Hyatt, \$46,295, Patricia Fowler, \$68,186, Elizabeth Keith, \$20,272, John Pietras, \$16,317

Additional Data

Software ID:

Software Version:

EIN: 58-2504530

Name: St Francis Hospital 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				
Thomas Morris PhD President	(i)	0	0	0	0	0	0	0
	(ii)	286,607	77,693	39,906	36,404	19,659	460,269	11,391
Mark Nantz CEO - BSSFHS	(i)	0	0	0	0	0	0	0
	(ii)	601,773	275,781	67,925	82,500	19,135	1,047,114	22,875
Jeffrey Oak PhD Board Member	(i)	0	0	0	0	0	0	0
	(ii)	315,456	85,722	41,558	35,252	28,121	506,109	0
Daniel Duggan COO - BSSFHS	(i)	0	0	0	0	0	0	0
	(ii)	307,449	83,309	48,204	25,461	20,759	485,182	681
Ronnie Hyatt Treasurer/CFO - BSSFHS	(i)	333,214	85,207	69,729	51,800	18,373	558,323	37,500
	(ii)	0	0	0	0	0	0	0
Teresa Ficicchy EVP - CNO	(i)	249,650	64,366	36,519	15,300	12,523	378,358	0
	(ii)	0	0	0	0	0	0	0
Patricia Fowler VP - Surgical Services	(i)	169,901	37,268	91,710	18,165	9,585	326,629	13,397
	(ii)	0	0	0	0	0	0	0
John Pietras EVP - SFPS (Sep-Apr)	(i)	213,954	56,680	35,095	26,090	28,945	360,764	12,400
	(ii)	0	0	0	0	0	0	0
Fernando Fleites SVP - HR	(i)	206,542	53,300	26,675	12,807	18,169	317,493	0
	(ii)	0	0	0	0	0	0	0
John Weems MD Internist	(i)	216,686	64,994	2,610	13,200	6,225	303,715	0
	(ii)	0	0	0	0	0	0	0
Elizabeth Keith SVP - Mission	(i)	148,792	42,396	60,396	10,185	11,204	272,973	11,022
	(ii)	0	0	0	0	0	0	0
Dana Parker DDS Dentist	(i)	242,528	0	1,013	14,552	986	259,079	0
	(ii)	0	0	0	0	0	0	0
Frank Smeeks Former Highly Compensated Employee	(i)	233,438	74,972	153,367	15,372	25,401	502,550	0
	(ii)	0	0	0	0	0	0	0

Schedule L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons
▶ Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V, line 38a or 40b.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.
▶ Information about Schedule L (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047
2013
Open to Public Inspection

Name of the organization
St Francis Hospital Inc

Employer identification number
58-2504530

Part I Excess Benefit Transactions (section 501(c)(3) and section 501(c)(4) organizations only).
Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1	(a) Name of disqualified person	(b) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

2 Enter the amount of tax incurred by organization managers or disqualified persons during the year under section 4958 ▶ \$

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ▶ \$

Part II Loans to and/or From Interested Persons.
Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?	(i) Written agreement?	
			To	From			Yes	No		Yes	No
Total ▶ \$											

Part III Grants or Assistance Benefitting Interested Persons.
Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance

Part IV Business Transactions Involving Interested Persons.
Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Katie Hertwig	Daughter-in-law of Board Member Camilla Hertwig	137,739	Employment		No

Part V Supplemental Information
Provide additional information for responses to questions on Schedule L (see instructions)

Return Reference	Explanation
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SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.
▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at
www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public
Inspection

Name of the organization
St Francis Hospital Inc

Employer identification number
58-2504530

990 Schedule O, Supplemental Information

Return Reference	Explanation
Form 990, Part VI, Section A, line 6	
Form 990, Part VI, Section A, line 7a	The governing body of St Francis Hospital, Inc is appointed by its member Bon Secours St Francis Health System, Inc and subject to approval by Bon Secours Health System, Inc
Form 990, Part VI, Section A, line 7b	Certain authorities of St Francis Hospital, Inc are reserved to its member or to Bon Secours Health System, Inc
Form 990, Part VI, Section B, line 11	The process the organization uses to review the Form 990 consists of a review by the local system's audit and compliance board-committee and providing the form to the local system board of directors to allow for a thorough review by both before the filing date The local system's audit and compliance committee and board of directors have reviewed the Form 990, scheduled time on meeting agendas, and asked questions regarding the Form 990 before the return is filed
Form 990, Part VI, Section B, line 12c	The organization regularly and consistently monitors compliance with the conflict of interest policy On an annual basis, all persons subject to the policy, including all officers, directors and key employees are required to make certain disclosures These include disclosures related to certain personal, financial and organizational relationships that may present a conflict, or the appearance of a conflict of interest with the organization All disclosures go through a three-part review process (1) disclosures are reviewed first by the corporate responsibility officer (CRO), (2) a governance team comprised of the CEO, board president, board chair, CRO, and the BSHSI CRO participate in a second review of all disclosures during which recommendations are made as to the resolution of any conflicts or potential conflicts Depending on the facts and circumstances, resolutions may include ongoing disclosure, recusal or removal of the conflict, and (3) all disclosures and recommendations are reviewed by a board committee (audit and compliance committee reviews the disclosures of management and the governance committee reviews the disclosures of the board and board committee members)
Form 990, Part VI, Section B, line 15	The compensation committee of the board of Bon Secours Health System, Inc (BSHSI) engages in a comprehensive process for the oversight and management of remuneration for executive employees and disqualified parties of the BSHSI The compensation committee consists of a group of independent board members and engages an independent external compensation consultant to ensure they receive appropriate analysis of market and follow the practices necessary to obtain full compliance with the IRS' rebuttable presumption of reasonableness The committee establishes and maintains a compensation philosophy, reviews pay practices against local, regional and national healthcare organizations and approves all remunerative decisions for this group of individuals The committee reviews and receives assurances that all levels of pay within the organization are reasonable based on performance and validates incentives are met These decisions are documented in the BSHSI board of directors' and compensation committee minutes Form 990, Part VI, Section B, Line 15b - Compensation Process Other Officers/Key Employees For those key employees and highest paid employees that are not reviewed by the BSHSI compensation committee, the process included a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision In the review, the other officers or key employees of the organization were compared to other hospitals' employees in the area that hold the same title During the review and approval of the compensation, documentation of the decision was recorded in human resources
Form 990, Part VI, Section C, line 19	The filing organization makes all documents available to the general public upon request
Form 990, Part VII - Additional Disclosure	Board Member positions are generally voluntary in nature Compensated employees of the filing organization and other related organizations who also hold board positions are compensated only in relation to their employment and do not receive additional compensation for their board responsibilities
Form 990, Part XI, line 9	Transfers to BSHSI for principal and swap -6,025,949 Distributions from JV 204,018 Rounding 4

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

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

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
St Francis Hospital Inc

Employer identification number
58-2504530

Part I Identification of Disregarded Entities

Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

(a) Name, address, and EIN (if applicable) of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) Physicians' Surgery Center at St Francis LLC One St Francis Drive Greenville, SC 29601	No Activity	SC	0	0	St Francis Hospital Inc

Part II Identification of Related Tax-Exempt Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
(1) Bon Secours Health System Inc 1505 Marriottsville Road Marnottsville, MD 21104 52-1301088	Parent Org - Management Services	MD	501(c)(3)	Line 11c, III-FI	Bon Secours Inc		No
(2) Bon Secours St Francis Health System Inc One St Francis Drive Greenville, SC 29601 58-2504528	Local System Parent Org	SC	501(c)(3)	Line 11c, III-FI	Bon Secours Health System Inc		No
(3) Bon Secours - St Francis Health System Foundation Inc One St Francis Drive Greenville, SC 29601 26-0012031	Grant Making Foundation	SC	501(c)(3)	Line 7	St Francis Hospital Inc	Yes	
(4) St Francis Physician Services One St Francis Drive Greenville, SC 29601 13-4290167	Physician Services	SC	501(c)(3)	Line 9	Bon Secours St Francis Health System Inc		No

Part III

Identification of Related Organizations Taxable as a Partnership

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income(related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Dispropportionate allocations?		(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) Upstate Surgery Center One St Francis Drive Greenville, SC 296013955 56-2186977	Ambulatory Surgery Center	SC	St Francis Hospital Inc	Related	535,965	954,809		No			No	58 090 %

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of- year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) Optimum Health Network Inc One St Francis Drive Greenville, SC 29601 57-0973524	Healthcare Services	SC	Bon Secours St Francis Health System Inc	C			100 000 %	Yes	

Part V

Transactions With Related Organizations

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

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

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

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

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

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

e Loans or loan guarantees by related organization(s)

f Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

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

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

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

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

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

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

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

1s

No

No

No

No

No

No

No

Yes

No

Yes

Yes

No

No

Yes

Yes

Yes

Yes

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

(a) Name of related organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
(1) St Francis Hospital Foundation	B	761,338	Actual
(2) St Francis Hospital Foundation	C	1,390,050	Actual
(3) Upstate Surgery Center	S	204,018	Actual
(4) Upstate Surgery Center	L	225,552	Cost

Schedule R (Form 990) 2013

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

[illegible]

Part VII

Supplemental Information

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

Return Reference	Explanation
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**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements and Consolidating Schedules

August 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Directors
Bon Secours Health System, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Bon Secours Health System, Inc. and its subsidiaries (the System), which comprise the consolidated balance sheets as of August 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bon Secours Health System, Inc and its subsidiaries as of August 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U S generally accepted accounting principles

KPMG LLP

October 28, 2014

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Balance Sheets

August 31, 2014 and 2013

(In thousands)

Assets	2014	2013
Current assets		
Cash and cash equivalents	\$ 143,625	194,888
Accounts receivable, net		
Patient and third-party payors	463,345	443,332
Other	35,645	41,470
Total accounts receivable, net	498,990	484,802
Assets limited or restricted as to use	61,433	65,505
Inventories	59,090	61,075
Prepaid expenses and other current assets	40,679	30,410
Total current assets	803,817	836,680
Assets limited or restricted as to use, less current portion	1,089,334	984,188
Property, plant, and equipment, net	1,159,977	1,093,253
Goodwill and other assets, net	336,053	332,265
Total assets	\$ 3,389,181	3,246,386
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 28,602	31,423
Accounts payable	199,878	188,750
Accrued salaries, wages, and benefits	159,647	146,878
Other accrued expenses	111,822	122,602
Total current liabilities	499,949	489,653
Long-term debt, less current portion	957,512	989,761
Other long-term liabilities and deferred credits	607,946	586,719
Total liabilities	2,065,407	2,066,133
Net assets		
Unrestricted-controlling interest	1,028,084	901,618
Unrestricted-noncontrolling interest	241,773	222,053
Total unrestricted	1,269,857	1,123,671
Temporarily restricted	46,088	48,872
Permanently restricted	7,829	7,710
Total net assets	1,323,774	1,180,253
Total liabilities and net assets	\$ 3,389,181	3,246,386

See accompanying notes to consolidated financial statements

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended August 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Revenues		
Net patient service revenue before bad debts	\$ 3,584,441	3,440,175
Provision for patient bad debts, net	(255,931)	(216,295)
Net patient service revenue	3,328,510	3,223,880
Other revenue	133,335	133,530
Total revenues	<u>3,461,845</u>	<u>3,357,410</u>
Expenses		
Salaries, wages, and benefits	1,790,641	1,717,273
Supplies	576,569	565,830
Purchased services and other	804,786	777,634
Depreciation and amortization	131,723	135,366
Interest	34,553	37,386
Total expenses	<u>3,338,272</u>	<u>3,233,489</u>
Operating income from continuing operations	123,573	123,921
Nonoperating gains (losses), net		
Nonoperating investment gains, net	85,702	95,730
Loss on early retirement of debt	(194)	(8,328)
Gain on sale of assets, net	324	33
Other nonoperating activities, net	(34,558)	(42,206)
Excess of continuing revenues over expenses	174,847	169,150
(Loss) gain on discontinued operations, net	(1,105)	1,700
Excess of revenues over expenses	173,742	170,850
Other changes in unrestricted net assets		
Grants for capital	4,005	6,081
Net change in unrealized losses on other-than-trading securities	(598)	(1,881)
Net assets released from restrictions used for purchase of property, plant, and equipment	6,980	910
Net change in equity of joint ventures	778	986
Distributions to noncontrolling interest owners	(7,679)	(6,671)
Pension and other postretirement adjustments	(21,208)	171,318
Transfers to affiliates and other changes, net	(9,834)	(7,545)
Increase in unrestricted net assets	146,186	334,048
Unrestricted net assets, beginning of year	1,123,671	789,623
Unrestricted net assets, end of year	<u>\$ 1,269,857</u>	<u>1,123,671</u>

See accompanying notes to consolidated financial statements

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended August 31, 2014 and 2013

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at August 31, 2012	\$ 789,623	45,849	8,044	843,516
Excess of revenues over expenses	170,850	—	—	170,850
Grants and restricted contributions	—	9,847	(346)	9,501
Grants for capital	6,081	—	—	6,081
Net change in unrealized gains (losses) on other-than-trading securities	(1,881)	525	12	(1,344)
Investment income	—	204	—	204
Net assets released from restrictions used for purchase of property, plant, and equipment	910	(910)	—	—
Net assets released from restrictions used for operations	—	(5,913)	—	(5,913)
Net change in equity of joint ventures	986	—	—	986
Distributions to noncontrolling interest owners	(6,671)	—	—	(6,671)
Pension and other postretirement adjustments	171,318	—	—	171,318
Transfers to affiliates and other changes, net	(7,545)	(730)	—	(8,275)
Increase (decrease) in net assets	<u>334,048</u>	<u>3,023</u>	<u>(334)</u>	<u>336,737</u>
Balance at August 31, 2013	<u>1,123,671</u>	<u>48,872</u>	<u>7,710</u>	<u>1,180,253</u>
Excess of revenues over expenses	173,742	—	—	173,742
Grants and restricted contributions	—	10,853	156	11,009
Grants for capital	4,005	—	—	4,005
Net change in unrealized gains (losses) on other-than-trading securities	(598)	1,296	4	702
Investment income	—	152	—	152
Net assets released from restrictions used for purchase of property, plant, and equipment	6,980	(6,980)	—	—
Net assets released from restrictions used for operations	—	(7,869)	—	(7,869)
Net change in equity of joint ventures	778	—	—	778
Distributions to noncontrolling interest owners	(7,679)	—	—	(7,679)
Pension and other postretirement adjustments	(21,208)	—	—	(21,208)
Transfers to affiliates and other changes, net	(9,834)	(236)	(41)	(10,111)
Increase (decrease) in net assets	<u>146,186</u>	<u>(2,784)</u>	<u>119</u>	<u>143,521</u>
Balance at August 31, 2014	<u><u>\$ 1,269,857</u></u>	<u><u>46,088</u></u>	<u><u>7,829</u></u>	<u><u>1,323,774</u></u>

See accompanying notes to consolidated financial statements

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended August 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Increase in net assets	\$ 143,521	336,737
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Loss (gain) on discontinued operations, net	1,105	(1,700)
Provision for bad debts, net	255,931	216,295
Depreciation and amortization, including \$6,135 and \$4,204 reported in nonoperating activities, net in 2014 and 2013, respectively	137,858	139,570
Amortization of deferred financing costs and bond premium discount, net	(831)	(96)
Equity in income of joint ventures	(31,097)	(48,640)
Distributions received from investments in joint ventures	45,386	23,417
Net realized unrealized gains on certain investments and derivative instruments	(93,558)	(89,815)
Loss on early retirement of debt	194	8,328
Gain on sale of assets	(324)	(33)
Gain on sales of joint ventures	(12,046)	—
Unrealized gains on investment in joint venture	(7,071)	—
Pension and other postretirement adjustments	21,208	(171,318)
Grants received for capital expenditures	(4,005)	(6,081)
Contributions restricted by donor	(11,009)	(9,501)
Cash distributions to noncontrolling interest owners and affiliates	13,818	6,671
Cash (used in) provided by changes in assets and liabilities		
Increase in accounts receivable	(270,119)	(258,055)
Increase in inventories, prepaid expenses and other current assets	(8,284)	(5,070)
(Increase) decrease in goodwill and other assets, net	(1,589)	2,401
Increase in accounts payable and other current liabilities	11,851	26,077
(Decrease) increase in other long-term liabilities and deferred credits	(519)	33,832
Net cash provided by operating activities	<u>190,420</u>	<u>203,019</u>
Cash flows from investing activities		
Investment in joint ventures	(13,490)	(3,816)
Proceeds from sales of joint ventures	13,725	—
Proceeds from sales of securities, net of purchases	33,499	171,738
Purchases of alternative investments and equity and fixed income commingled funds	(71,644)	(177,873)
Proceeds from sale of equity and fixed income commingled funds	43,700	40,000
Property, plant, and equipment additions, net of disposals	(202,567)	(131,098)
Payments related to interest rate swaps	(12,533)	(14,195)
Net cash used in investing activities	<u>(209,310)</u>	<u>(115,244)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	26,900	395,522
Payments of long-term debt	(29,736)	(33,896)
Retirements of long-term debt	(30,320)	(397,632)
Payment of deferred financing fees	(413)	(4,573)
Grants received for capital expenditures	4,005	6,081
Proceeds from contributions restricted by donors	11,009	9,501
Cash distributions to noncontrolling interest owners and affiliates	(13,818)	(6,671)
Net cash used in financing activities	<u>(32,373)</u>	<u>(31,668)</u>
Net (decrease) increase in cash and cash equivalents	<u>(51,263)</u>	<u>56,107</u>
Cash and cash equivalents, beginning of year	<u>194,888</u>	<u>138,781</u>
Cash and cash equivalents, end of year	<u>\$ 143,625</u>	<u>194,888</u>

Supplemental disclosures

- (a) Cash paid for taxes was \$773 and \$706 for 2014 and 2013, respectively
- (b) Entered into a capital lease of \$3,500 in 2013 (none in 2014)

See accompanying notes to consolidated financial statements

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

August 31, 2014 and 2013

(1) Organization and Mission

(a) *Organizational Structure*

Bon Secours Health System, Inc., a Maryland nonprofit, nonstock membership corporation (BSHSI or the System), and all of the other entities that are controlled directly or indirectly by Bon Secours, Inc., a Maryland nonprofit, nonstock membership corporation (BSI) are described collectively as the System. BSI, which is the sole corporate member of BSHSI, has no healthcare operations. The System was organized in June 1983 to fulfill the healthcare mission of the United States Province of the Congregation of the Sisters of Bon Secours of Paris (Sisters of Bon Secours), a congregation of religious women of the Roman Catholic Church founded in France in 1824.

The Sisters of Bon Secours have ministered to the healthcare needs of people in the United States since 1881. To ensure the sustainability of the ministry into the future as well as to broaden their collaboration with the laity in areas of influence, the Sisters of Bon Secours petitioned the Vatican to establish Bon Secours Ministries, an entity comprised of both laypersons and Sisters of Bon Secours to oversee the Catholic healthcare ministry of BSHSI. Bon Secours Ministries, which is referred to as a "public juridic person" in the Catholic Church's *Code of Canon Law*, was established by the Vatican on May 31, 2006 with the specific responsibility to oversee (and, as appropriate, initiate) the healthcare ministries within the System and, in particular, BSHSI's Catholic identity and mission. This formal relationship with the Catholic Church and the specific ministry is commonly referred to as "sponsorship." The Sisters of Bon Secours formally transferred the responsibility of sponsorship of the System to Bon Secours Ministries on November 1, 2006. Since then, Bon Secours Ministries (of which the majority of its members are Sisters of Bon Secours) has provided an active presence of leadership and direction for BSHSI to ensure its operations and use of resources are aligned with the mission, values and fundamentals of Catholic social teaching.

The System's principal activities comprise health and nursing care services in the states of New York, Maryland, Virginia, Kentucky, South Carolina, and Florida.

(b) *Mission*

The Mission of the System is to bring compassion to healthcare and to be good help to those in need, especially those who are poor and dying. As a system of caregivers, the System is committed to helping to bring people and communities to health and wholeness as part of the healing ministry of Jesus Christ and the Catholic Church.

The ministry of BSHSI aids those in need, particularly those who are sick and dying, by offering a wide variety of services, including acute inpatient, outpatient, pastoral, palliative, home health, nursing home, rehabilitative, primary and secondary care and assisted living, in Florida, Kentucky, Maryland, New York, South Carolina, and Virginia without regard to race, religion, color, gender, age, marital status, national origin, sexual orientation, or disability. Activities directly associated with this purpose are considered operating activities. Operating activities also include other incidental services that are closely related to healthcare.

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

August 31, 2014 and 2013

(c) Community Benefits

The System exists to benefit the people in the communities it serves. In pursuing its mission, the System advocates for and provides services to help meet healthcare and related socioeconomic needs of poor and disadvantaged individuals and the broader community. The System provides services in the communities served by holistically ministering to its patients with respect and without regard to their ability to pay.

Programs and services for the uninsured and underinsured represent the financial commitment of the System to everyone in the community. The System's financial assistance policy ensures that all members of the community receive this basic human right to access healthcare.

The categories included as programs and services for the poor and disadvantaged are as follows:

(i) Charitable Services – Financially Disadvantaged Persons

The System provides care to patients regardless of their ability to pay for all or a portion of the charges incurred. This care is classified as charity care based upon the System's established policies. In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance.

In assessing a patient's ability to pay, the System utilizes generally recognized poverty income levels, financially supporting 100% of the healthcare services provided to patients with annual family income at or below 200% of the federal poverty guidelines. Additional assistance is provided by a reduction in charges for medically necessary services through a community service adjustment.

(ii) Charitable Services – State Programs

The System provides services to indigent patients under various state programs, including state Medicaid, that generally pay healthcare providers amounts that are less than the cost of the services provided to the recipients. Unreimbursed costs of the care provided to these disadvantaged patients are also reported as charitable services.

(iii) Other Community Benefits

Other community benefits include community services for the poor and disadvantaged as well as the broader community. The programs cover a broad spectrum of services and are financially supported by the System.

- Primary care access – providing free community-based preventive and primary care services through free-standing clinics and mobile health vehicles.
- Health screenings and immunizations – provision of free health screenings and immunizations for a variety of health conditions for women, children, and senior residents.

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

August 31, 2014 and 2013

- Child programs – providing oral healthcare, asthma and childhood obesity interventions.
- Caregiver and senior programs – focused on support, health screenings, and services to assist older adult populations.
- Education – providing medical and other health professional programs.
- Leadership activities – a full-time healthy community leader is provided in each community served who works to expand community capacity, identify community health needs and address social health conditions

The cost of charitable services and community benefits provided by the System is determined in accordance with the System's accounting policies. These costs are computed by using the cost to charge ratio applied by Medicaid and other state programs as well as specific patient visits identified under the System's charity care policies. The cost of these services is as follows for the years ended August 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Charitable services and other community benefits		
Cost of services to financially disadvantaged persons	\$ 156,932	151,066
Unpaid cost of state programs (e.g., Medicaid) to financially disadvantaged persons	86,795	84,383
Cost of other community benefits	<u>57,656</u>	<u>60,560</u>
Total community benefits, at cost	<u>\$ 301,383</u>	<u>296,009</u>

(2) Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSHSI. Members of the corporate group include all entities that BSHSI directly or indirectly controls, even if the System has less than 50% of the ownership or membership interest in the entity. Investments in entities where the System holds 50% or less of an entity's operations and does not have operational control are recorded under the equity or cost method of accounting. The System has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue and changes in unrestricted net assets, respectively, in the accompanying consolidated statements of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

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consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the years ended August 31, 2014 and 2013, the System recorded income of \$9,878 and \$8,891, respectively, related to expense reductions and increases in net patient service revenue as a result of the reassessment of various third-party payor settlement issues and changes in estimates associated with other operating assets and liabilities.

(c) Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less, excluding investments limited or restricted as to use.

(d) Accounts Receivable, net

Accounts receivable is presented net of allowances for uncollectible accounts. The System grants credits to patients and generally does not require collateral or other security. However, it routinely obtains assignment of patients' benefits under their health insurance policies. Most of the System's net patient service revenue is derived from third-party payment programs. Medicare, Medicaid, and Managed Care contracts comprise approximately 75% of the System's consolidated third-party payor revenue.

The respective percentages of amounts due from patients and third-party payors at August 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Medicare	25%	24%
Medicaid	10	9
Commercial and managed care	43	42
Other, including self-pay	22	25
	<u>100%</u>	<u>100%</u>

In evaluating the collectibility of accounts receivable, the System analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for uncollectible accounts. Management regularly reviews its estimate and evaluates the sufficiency of the allowance for bad debts. The System analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For patient accounts receivable associated with self-pay patients, which includes those patients without existing insurance coverage for a portion of the bill, the Company records a significant provision for bad debts for patients that are unable or unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted.

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(e) *Assets Limited or Restricted as to Use and Investment Income*

Assets limited or restricted as to use include assets held by trustees under indentures, self-insurance trust arrangements, assets related to donor-restricted net assets, and assets designated by the board of directors over which it retains control and may, at its discretion, use for other purposes. The fair value of investments, with the exception of alternative investments, is based upon quoted market prices or other observable market inputs. The System elected to fair value its investments in its equity and fixed income commingled funds. Alternative investments are recorded under the equity method.

Unrealized gains or losses on trading securities are included in nonoperating investment gains, net. As of August 31, 2014 and 2013, all investments and assets limited or restricted as to use are designated as trading securities, except for certain foundation investments and trustee held funds, which are designated as other than trading securities.

Investment income on donor-restricted funds is recorded as an addition to donor-restricted net assets provided the income has been restricted by the donor. Investment income on trustee-held funds, professional/general liability, workers' compensation, and health benefit self-insurance funds is reported in other revenue for the years ended August 31, 2014 and 2013, respectively. All other investment income is reported within nonoperating investment gains, net.

(f) *Inventories*

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated at the lower of cost or market, principally on a first-in, first-out basis.

(g) *Property, Plant, and Equipment, net*

Property, plant, and equipment, net are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Estimated useful lives of the assets are as follows:

Buildings	20 to 50 years
Fixed equipment	10 to 20 years
Major movable equipment	5 to 10 years
Software	3 to 7 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations

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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

Interest cost is capitalized as part of the cost of constructing capital assets, net of any interest income earned on unexpended bond proceeds borrowed for a specific project. during the construction period The System capitalizes the direct costs, including internal costs, associated with the implementation of new information systems for internal use Capitalized amounts are amortized over the estimated lives of the software

(h) *Asset Impairment*

The System regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment in the value of long-lived assets In accordance with the provisions of the Accounting Standards Codification (ASC) Topic 360-10, *Impairment or Disposal of Long-Lived Assets*, if events or changes in circumstances indicate that the carrying value of an asset is not recoverable, the System's management estimates the projected undiscounted cash flows, excluding interest and taxes, of the related individual facilities to determine if an impairment loss should be recognized The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value Estimated fair value is determined through an evaluation of recent and projected financial performance of facilities using standard industry valuation techniques

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets If estimates are changed, the carrying value of affected assets is allocated over the remaining lives In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the System groups their assets at the lowest level for which there are identifiable cash flows independent of other groups of assets No impairment charges were recorded during the years ended August 31, 2014 and 2013, respectively

(i) *Goodwill and Other Assets, Net*

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination ASC Topic 350, *Intangibles – Goodwill and Other*, requires that tangible and indefinite-lived assets, as well as goodwill, must be analyzed in order to determine whether their value has been impaired

Goodwill is assessed annually for impairment at the reporting unit The System first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two step goodwill impairment tests as described in Topic 350 The more-likely-than-not threshold is defined as having a likelihood of more than 50% The System determined that it was not more likely than not that the fair value of its reporting unit was less than its carrying amount Accordingly, the System concluded that goodwill was not impaired as of August 31, 2014 and 2013 without having to perform the two-step impairment test

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Goodwill and other assets, net, consist of the following at August 31, 2014 and 2013

	2014	2013
Goodwill, net of accumulated amortization of \$50.873	\$ 98,359	98,359
Investment in joint ventures (note 12)	151,777	141,838
Self insurance receivable	20,876	28,727
Other assets	25,714	26,690
Pledges and notes receivable	29,038	25,659
Deferred financing costs, net	10,289	10,992
Total goodwill and other assets, net	\$ 336,053	332,265

(j) Deferred Financing Costs, Net

Financing costs incurred in connection with the issuance of long-term debt have been capitalized and included in other assets. These costs are being amortized using the effective-interest method over the term of the related obligations. Accumulated amortization of long-term debt issuance costs amounted to \$7,138 and \$6,055 at August 31, 2014 and 2013, respectively.

(k) Leases

Lease arrangements, including assets under construction, are capitalized when such leases convey substantially all the risks and benefits incidental to ownership. Capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to capital leases is included in the consolidated statements of operations within depreciation and amortization expense.

(l) Other Long-Term Liabilities and Deferred Credits

Other long-term liabilities and deferred credits consist of the following at August 31, 2014 and 2013

	2014	2013
Accrued pension liability (note 9)	\$ 314,225	290,227
Self-insurance liabilities	147,966	147,479
Environmental liabilities	14,657	14,234
Derivative instrument valuations (note 7)	62,986	62,398
Medical office building liabilities (note 13(e))	35,321	35,321
Other long-term liabilities	32,791	37,060
	\$ 607,946	586,719

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. 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

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permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restrictions. Such amounts are classified as other revenue or transfers for additions to property, plant, and equipment. Donor-restricted contributions whose restrictions are satisfied within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(n) Net Assets

The System classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts, and grants that have no donor-imposed restrictions or that arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Temporarily restricted net assets of \$46,088 and \$48,872 at August 31, 2014 and 2013, respectively, primarily consisted of pledges and funds received for capital projects, various healthcare programs, and community outreach programs. Approximately 60% of the temporarily restricted net assets will be expended for capital with the remaining 40% for operating purposes. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes.

(o) Fair Values

The carrying values of financial instruments classified as current assets and current liabilities approximate fair values. The fair values of investments and assets limited or restricted as to use, with the exception of alternative investments, are based on quoted market prices or other observable inputs. Alternative investments are recorded under the equity method but approximate fair value. The System elected to record its investments in equity and fixed income commingled funds at fair value. See note 4 for additional disclosures of investments and assets limited or restricted as to use. The carrying values of other long-term liabilities approximate fair values. See note 6 for the fair value of long-term debt.

(p) Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System 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 estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive reimbursement adjustments are estimated in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

(q) Other Revenue

Other revenue includes income from equity investments in joint ventures (note 12), gains on sales of operating activities, grant revenues (including Meaningful Use-Health Information Technology for

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Economic and Clinical Health Act (HITECH) Stimulus Grants), assisted living, capitated payments from insurance companies, earnings on funds held by bond trustees and cafeteria and meal sales. The System, using the grant model for Meaningful Use incentive payments, recorded approximately \$18,600 and \$22,500 of revenues related to Medicare's and Medicaid's incentive payments for certain entities meeting the criteria for electronic health records during the years ended August 31, 2014 and 2013, respectively (note 11)

(r) Other Nonoperating Activities, Net

Other activities, which are largely unrelated to the System's primary mission, are recorded as other nonoperating gains (losses), include rental activities of medical office buildings, school of nursing, general donations, and fund-raising activities

(s) Performance Indicator

The accompanying consolidated statements of operations include a performance indicator, excess of continuing revenues over expenses. Changes in unrestricted net assets that are excluded from the performance indicator, consistent with industry practice, include discontinued operations, unrealized gains on other-than-trading securities, permanent transfers of assets to and from unconsolidated affiliates for other than goods and services, pension and other postretirement adjustments, the System's allocated share of joint ventures' change in equity, distributions to noncontrolling interest owners and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets)

(t) Discontinued Operations

The System accounts for discontinued operations under relevant accounting guidance, which requires that a component of an entity that has been disposed of or is classified as held-for-sale and has operations and cash flows that can be clearly distinguished from the rest of the entity be reported as discontinued operations. In the period that a component of an entity has been disposed of or classified as held-for-sale, the results of operations for prior periods are reclassified to discontinued operations in the accompanying consolidated statements of operations. The System recognized loss on discontinued operations of \$1.105 for the year ended August 31, 2014 and gain of \$1.700 for the year ended August 31, 2013, as the result of adjustments to certain liabilities for final settlements associated with the System's formerly discontinued operations

(u) Income Taxes

The System and most of its subsidiaries (including certain joint venture entities) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The system accounts for uncertain tax positions in accordance with ASC Topic 740. Income taxes of the System's for-profit subsidiaries are not material to the accompanying consolidated financial statements. The System's taxable subsidiaries have approximately \$61,513 and \$66,681 of net operating loss carry forwards as of August 31, 2014 and 2013, respectively, which expire in varying periods through 2034 and are available to offset future taxable income. The System's deferred tax assets are fully reserved at August 31, 2014 and 2013. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change.

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(v) *Derivative Instruments*

ASC Topic 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. An entity is required to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value. In addition, for those derivative instruments that meet the criteria of an effective hedge, the hedged item must also be recorded at its fair value, with the changes in fair value reflected in other changes in unrestricted net assets.

Derivative instruments, specifically interest rate swaps, are recorded on the balance sheets at their respective fair values and are included in other long-term liabilities and deferred credits. The System's current derivative instruments do not qualify for hedge accounting, and the changes in fair value of such derivative instruments are reflected in nonoperating investment gains, net in the accompanying consolidated statements of operations in the period of change. Net settlement payments made or received on nonqualifying derivatives are recorded as a component of nonoperating investment gains, net.

(iv) *Self-Insurance*

Under the System's self-insurance programs (professional/general liability, workers' compensation, and employee health benefits), claims are reflected as based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. BSHSI shares certain insurance risks it has underwritten through the use of reinsurance contracts. Amounts that can be claimed from BSHSI's reinsurers are valued by an independent actuary and are included in the accrued claims including liabilities for incidents incurred but not reported. Should BSHSI's reinsurers be unable to reimburse BSHSI for recoverable claims, BSHSI would still be liable to pay the claims, however, BSHSI contracts with various highly rated insurance carriers to mitigate this risk.

(x) *Recently Issued Accounting Pronouncements*

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal year 2018. The System expects to record a decrease in net patient service revenue and a corresponding decrease in bad debt expense upon adoption of the standard.

(y) *Reclassifications*

Certain reclassifications were made to 2013 amounts to conform to the 2014 presentation.

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(3) Property, Plant, and Equipment, Net

Property, plant, and equipment, net consist of the following at August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Land	\$ 80,984	83,426
Land improvements	47,496	47,378
Buildings	1,043,696	965,847
Fixed equipment	80,255	79,240
Major movable equipment	1,332,717	1,183,387
Leasehold improvements	88,250	83,755
Construction in progress	<u>56,847</u>	<u>90,021</u>
	2,730,245	2,533,054
Less accumulated depreciation	<u>1,570,268</u>	<u>1,439,801</u>
	<u><u>\$ 1,159,977</u></u>	<u><u>1,093,253</u></u>

Included in construction in progress at August 31, 2014 are costs mainly associated with new facility construction, and other facility renovations and expansion. Included in construction in progress at August 31, 2013 are costs mainly associated with an electronic medical records project, and facility renovations and expansion. The System anticipates expending an additional \$77,228 in future periods to complete strategic capital projects. Depreciation expense for the System was \$136,167 and \$137,859 for the years ended August 31, 2014 and 2013, respectively.

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(4) Assets Limited or Restricted as to Use

The composition of assets limited or restricted as to use consists of the following at August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Board-designated funds		
Cash and cash equivalents	\$ 59,740	65,277
Equity mutual funds	58,501	49,020
Equity commingled funds	50,951	42,932
Common and preferred stocks	221,496	206,934
Fixed income mutual funds	111,359	100,813
Fixed income commingled funds	122,375	98,005
U S government and agency securities	17,374	14,532
Corporate obligations	15,966	12,829
Alternative investments	338,914	302,434
Land and other investments, at cost	39	152
	<u>\$ 996,715</u>	<u>892,928</u>

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	<u>2014</u>	<u>2013</u>
Donor-restricted funds		
Cash and cash equivalents	\$ 14.807	17.016
Equity mutual funds	2.387	1.904
Equity commingled funds	658	559
Common and preferred stocks	7.935	7.649
Fixed income mutual funds	2.142	2.716
Fixed income commingled funds	1.580	1.275
U S government and agency securities	812	579
Corporate obligations	1.337	2.016
Alternative investments	4.377	4.027
Land and other investments, at cost	24	297
	<u>36.059</u>	<u>38.038</u>
Funds held by indenture trustees		
Cash and cash equivalents	7.456	9.289
Government and agency bonds	7.067	7.784
Corporate obligations	1.348	554
	<u>15.871</u>	<u>17.627</u>
Self-insurance funds		
Cash and cash equivalents	7.375	14.765
Equity commingled funds	23.139	18.827
Common and preferred stocks	11.448	14.704
Fixed income mutual funds	24.778	20.312
Fixed income commingled funds	24.286	23.202
Alternative investments	11.096	9.290
	<u>102.122</u>	<u>101.100</u>
Assets limited or restricted as to use	1,150.767	1,049.693
Available for current liabilities	<u>(61.433)</u>	<u>(65.505)</u>
Long-term assets limited or restricted as to use	<u>\$ 1,089.334</u>	<u>984.188</u>

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The portion of the System's assets limited or restricted as to use available for current liabilities consists of the following at August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Current portion of debt	\$ —	1,885
Self-insurance programs	43,965	45,082
Foundation programs	12,877	13,173
Board-designated	4,591	5,365
	<u>\$ 61,433</u>	<u>65,505</u>

The System's consolidated total return on assets limited or restricted as to use consists of the following for the years ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Dividends and interest	\$ 7,663	14,960
Net realized gains on securities	36,088	67,818
Net unrealized gains on securities	70,541	4,276
	<u>114,292</u>	<u>87,054</u>
Realized and unrealized (losses) gains on derivative instruments	(13,071)	17,721
	<u>\$ 101,221</u>	<u>104,775</u>

Total return on assets limited or restricted as to use is classified in the accompanying consolidated financial statements as follows for the years ended August 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Nonoperating investment gains, net	\$ 85,702	95,730
Investment income, net on self insurance and trustee-held funds recorded as other revenue	14,665	10,185
Investment income and net unrealized gains on securities in restricted net assets	1,452	741
Net unrealized losses on other-than-trading securities	<u>(598)</u>	<u>(1,881)</u>
Total return on assets limited or restricted as to use	<u>\$ 101,221</u>	<u>104,775</u>

The System's ability to generate investment income is dependent in large measure on market conditions. The market value of the System's investment portfolio, as well as the System's investment income, have

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fluctuated significantly in the past and are likely to continue to fluctuate in the future. The System's investment portfolio assets are designated as trading securities as discussed in ASC Topic 320, *Investments – Debt and Equity Securities*. The System's entire portfolio is actively managed by third-party investment managers. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. As required by U.S. GAAP, realized and unrealized gains and losses on an investment portfolio designated as a trading portfolio are accounted for as nonoperating investment income and are included in excess of continuing revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in excess of revenues over expenses.

At August 31, 2014 and 2013, the System had invested approximately \$354.387 and \$315.751, or 30.8% and 30.1%, respectively, of the portfolio in alternative investments, which are allocated between hedge funds of funds, real estate investment funds and long/short equity funds.

(5) Fair Value of Financial Instruments

The System determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include cash and cash equivalents, debt and equity securities and mutual funds that are traded in an active exchange market, as well as government and agency securities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain equity mutual funds, corporate-debt securities, equity commingled funds, fixed income commingled funds, and interest rate swaps.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the System's business, its value or consolidated financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows.

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and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the System's fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The System's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by the System from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

Fair values for the System's interest rate swaps have been determined using pricing models developed based on the LIBOR swap rate and other observable market data. The values were determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the System.

BSHSI elected to record equity and fixed income commingled funds using the fair value option contained within FASB ASC Topic 825, *Financial Instruments*, in prior years and continues to account for these investments at fair value.

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The following table presents the System's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of August 31, 2014

	Fair value	Fair value measurements at August 31, 2014 using		
		Level 1	Level 2	Level 3
Assets limited or restricted as to use				
Cash and cash equivalents	\$ 89,378	89,378	—	—
Equity mutual funds	60,888	60,888	—	—
Equity commingled funds	74,748	—	74,748	—
Common and preferred stocks	240,879	240,879	—	—
Fixed income mutual funds	138,279	138,279	—	—
Fixed income commingled funds	148,241	—	148,241	—
Government and agency bonds	25,253	22,169	3,084	—
Corporate obligations	18,651	1,763	16,888	—
Assets limited or restricted as to use	<u>\$ 796,317</u>	<u>553,356</u>	<u>242,961</u>	<u>—</u>
Liabilities				
Interest rate swaps	\$ 62,986	—	62,986	—
Total liabilities	<u>\$ 62,986</u>	<u>—</u>	<u>62,986</u>	<u>—</u>

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The following table presents the System's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of August 31, 2013

	Fair value	Fair value measurements at August 31, 2013 using		
		Level 1	Level 2	Level 3
Assets limited or restricted as to use				
Cash and cash equivalents	\$ 106,347	106,347	—	—
Equity mutual funds	50,924	50,924	—	—
Equity commingled funds	62,318	—	62,318	—
Common and preferred stocks	229,287	229,287	—	—
Fixed income mutual funds	123,841	123,841	—	—
Fixed income commingled funds	122,482	—	122,482	—
Government and agency bonds	22,895	22,895	—	—
Corporate obligations	15,399	1,725	13,674	—
Assets limited or restricted as to use	\$ 733,493	535,019	198,474	—
Liabilities				
Interest rate swaps	\$ 62,398	—	62,398	—
Total liabilities	\$ 62,398	—	62,398	—

There were no significant transfers between Levels 1, 2 and 3 during the year ended August 31, 2014 and 2013

The change in the fair value of the assets and liabilities using significant unobservable inputs (Level 3) was due to the following

	Level 3 assets Corporate Bonds
Ending balance, August 31, 2012	\$ 1,578
Total net gains realized	46
Total net losses unrealized	(40)
Purchases	—
Sales	(1,584)
Transfers in (out) of Level 3	—
Ending balance, August 31, 2013	\$ —

The System had no activity in Level 3 assets during the year ended August 31, 2014

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The System has incorporated an Investment Policy Statement (IPS) into its investment program. The IPS, which has been formally adopted by the Board of Directors, contains numerous standards designed to ensure adequate diversification by asset category and geography. The IPS also limits investments by manager and position size, and limits fixed-income positions based on credit ratings, which serves to further mitigate the risks associated with the investment program. At August 31, 2014 and 2013, management believes that its investment positions are in accordance with the guidelines in the IPS.

(6) Long-Term Debt

Long-term debt consists of the following at August 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Master Trust Notes and Hospital Revenue Bonds		
Series 1992B and 1992C Virginia fixed rate term bonds payable in installments through August 2027, interest at 5.93%	\$ 61.043	61.043
Series 1995 Memorial Regional Medical Center fixed rate serial and term bonds payable in installments through August 2018, interest at 6.38% to 6.50%	16.050	19.480
Series 1996 Virginia fixed rate serial and term bonds payable in installments through August 2020, interest at 5.40% to 6.25%	9.210	10.455
Series 1997 New York fixed rate serial and term bonds payable in installments through July 2027, interest at 5.00% to 5.50%	—	30.320
Series 2002B Florida variable rate demand bond payable in installments beginning November 2017 through November 2026 subject to a fifteen day put provision, interest at 0.07% and 0.09% at August 31, 2014 and 2013, set at prevailing rates	4.250	4.250
Series 2002B Kentucky variable rate demand bond payable in installments through November 2026 subject to a fifteen day put provision, interest at 0.05% and 0.09% at August 31, 2014 and 2013, set at prevailing rates	11.975	12.700
Series 2008B-C Virginia fixed rate serial and term bond payable in installments through November 2042, interest at 4.50 to 5.25% at August 31, 2014 and 2013	173.355	173.355
Series 2008A South Carolina variable rate demand bonds subject to a seven day put provision payable in installments beginning November 2032 through November 2042, interest at 0.05% and 0.07% at August 31, 2014 and 2013, set at prevailing rates	69.925	69.925

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	<u>2014</u>	<u>2013</u>
Series 2008D Virginia variable rate demand bonds subject to a seven day put provision payable in installments through November 2025, interest at 0.05% and 0.06% at August 31, 2014 and 2013, set at prevailing rates	\$ 106,955	110,860
Series 2008D South Carolina variable rate demand bonds subject to a seven day put provision payable in installments through November 2025, interest at 0.07% and 0.06% at August 31, 2014 and 2013, set at prevailing rates	22,105	23,590
Series 2011 variable rate direct placement bonds payable in installments through November 2025, interest at 1.4% at August 31, 2014 and 2013, set at prevailing rates	62,900	67,600
Series 2013 Kentucky fixed rate serial and term bonds payable in installments beginning November 2015 through November 2026, interest at 4.0% to 5.0%	39,075	39,075
Series 2013 South Carolina fixed rate serial bonds payable in installments beginning November 2015 through November 2029, interest at 3.75% to 5.0%	184,870	184,870
Series 2013 Virginia fixed rate serial bonds payable in installments beginning November 2016 through November 2030, interest at 4.0% to 5.0%	78,245	78,245
Series 2013B variable rate direct placement bonds payable in installments through November 2043, interest at 1.1% to 1.3% at August 31, 2014 and 1.2% to 1.3% at August 31, 2013, set at prevailing rates	59,420	67,245
Series 2013 New York variable rate term loan payable in installments beginning November 2016 through November 2020, interest at 1.0%	26,900	—
Total Master Trust Notes and Hospital Revenue Bonds	<u>926,278</u>	<u>953,013</u>

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	<u>2014</u>	<u>2013</u>
Other debt secured by certain property, plant, and equipment		
9.25% note payable to HUD, due April 2025	\$ 5,931	6,244
3.00% note payable to Wells Fargo	900	1,075
Capital leases obligations (interest at 5.00-6.00%)	5,587	9,005
Notes payable	24,179	26,694
Other debt	97	97
Total other debt	<u>36,694</u>	<u>43,115</u>
Total debt	962,972	996,128
Add bond premium, net of accumulated amortization	<u>23,142</u>	<u>25,056</u>
	986,114	1,021,184
Less current portion	<u>28,602</u>	<u>31,423</u>
Long-term debt, less current portion	<u>\$ 957,512</u>	<u>989,761</u>

Master Notes have been issued by BSHSI on behalf of itself and certain affiliates who collectively constitute the Members of an Obligated Group created by a Second Amended and Restated Master Trust Indenture dated as of March 12, 2014, as restated, supplemented, and amended. Master Notes secure payment of principal and interest on various series of serial and term indebtedness issued for the benefit of the Members of the Obligated Group by various governmental issuers as well as the performance of certain agreements entered into with credit enhancers, liquidity providers, swap counterparties and certain banks, which have purchased indebtedness issued for the benefit of the Obligated Group. Each Master Note is a joint and several obligation of each Member of the Obligated Group and is secured by a pledge of such Member's unrestricted receivables. Approximately 37.3% and 40.0% of the indebtedness secured by Master Notes was supported, as to payments of principal and interest, by bond insurance policies as of August 31, 2014 and 2013, respectively. Approximately 30.0% and 21.1% of the indebtedness secured by the Master Notes was supported by letters of credit as of August 31, 2014 and 2013, respectively. Certain amounts of the indebtedness supported by letters of credit are also supported by bond insurance policies.

The Master Trust Indenture and certain other agreements require the Obligated Group to maintain minimum financial ratios, place restrictions on the disposition of assets, the incurrence of additional indebtedness and changes in members of the Obligated Group, and provide for the maintenance of certain trustee-held funds, among other things.

The Series 2002 Bonds, the Series 2008A Bonds and the Series 2008D Bonds are subject to optional tender by the bondholders, and in certain events, mandatory tender. Tendered bonds which are remarketed will be purchased by a bank pursuant to a related letter of credit. No principal payments are due the bank with respect to such purchased Bonds until at least 367 days after the purchase date.

The Obligated Group has delivered letters of credit as additional security for the Series 2002 and 2008A Bonds. Pursuant to each letter of credit, the bank covenants to pay principal of and interest on the related

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series of Bonds. An existing bond insurance policy with respect to each series of such bonds will only pay principal of and interest on the related series of Bonds if the bank fails to pay pursuant to the letter of credit. The bank can, under certain circumstances, cause the cancellation of each bond insurance policy. The Obligated Group must repay the principal amount of the purchased Series 2002 Bonds and Series 2008A Bonds beginning on the 367th day after the purchase date in ten substantially equal semiannual installments (or if the bond insurance policy has been canceled, in six substantially equal semiannual installments). The Obligated Group must repay the principal amount of the purchased Series 2008D Bonds (x) pursuant to one of the letter of credit agreements, in eight substantially equal semiannual installments commencing on the first business day following the 367th day after the purchase date and (y) pursuant to two of the letter of credit agreements, in eight substantially equal quarterly installments commencing on the first March 31, June 30, September 30 or December 31 occurring at least eighteen months following the date the bank purchases the related bonds.

BSHSI issued separate Master Notes to secure its obligations to reimburse the various letter of credit banks. The letters of credit which secure the Series 2002 Bonds, the Series 2008A Bonds and the Series 2008D Bonds have stated expiration dates, which range from November 2015 to January 2018. BSHSI has historically been able to request and receive extensions of the stated expiration dates.

The Series 2011 Bonds and the Series 2013B Bonds (as hereinafter defined) were each purchased by a financial institution for a stated term less than the maturity of such bonds.

On December 8, 2011, the Economic Development Authority of the City of Norfolk issued \$72,500 principal amount of its revenue bonds (referred to as the Series 2011 Bonds) and loaned the proceeds thereof to BSHSI. The Series 2011 Bonds have a final maturity of November 15, 2025 and were purchased by a financial institution (referred to as the Series 2011 Direct Purchase Bank) for an initial term of ten years. During the initial term, the Series 2011 Bonds bear interest based on a percentage of LIBOR plus an agreed-upon spread. Following the expiration of the initial term, BSHSI may determine to seek an extension of the initial term, convert the interest rate mode on the Series 2011 Bonds or otherwise refinance the Series 2011 Bonds. Payment of the Series 2011 Bonds is secured by a Master Note issued under the Master Indenture. In connection with the issuance of the Series 2011 Bonds, the Obligated Group entered into a covenant agreement with the Series 2011 Direct Purchase Bank, which contains various covenants that can be enforced or waived solely by the Series 2011 Direct Purchase Bank. Those covenants are similar to the covenants that BSHSI has provided to various other banks and insurance companies, which have provided credit enhancement with respect to BSHSI's other outstanding indebtedness. The obligations of the Obligated Group under the covenant agreement are secured by a Master Note.

On December 7, 2012, the Obligated Group used its own funds to defease the outstanding \$4,855 Maryland Industrial Development Financing Authority Economic Development Revenue Bonds, Series 1995 (Bon Secours Health System Project).

On January 11, 2013, the South Carolina Jobs-Economic Development Authority, the City of Russell, Kentucky, the Economic Development Authority of Henrico County, Virginia and the Economic Development Authority of the City of Norfolk, respectively, issued their revenue bonds (referred to as the Series 2013 Bonds) in the aggregate principal amount of \$302,190 and loaned the proceeds thereof to BSHSI. The proceeds were used to (i) pay or reimburse, or refinance certain indebtedness the proceeds of

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which were used by one or more of St Mary's Hospital, located in Henrico County, Virginia, Memorial Regional Medical Center, located in Hanover County, Virginia, Maryview Hospital, located in Portsmouth, Virginia, DePaul Medical Center, Norfolk, located in Virginia, Mary Immaculate Hospital, located in Newport News, Virginia, Our Lady of Bellefonte Hospital, located in Russell, Kentucky, and St Francis Hospital and St Francis Women's & Family Hospital, both located in Greenville, South Carolina, for the payment of the costs of acquiring, constructing, equipping, expanding, enlarging and improving certain of their healthcare facilities and (ii) refinance, in current refunding transactions, four series of revenue bonds that were issued for the benefit of BSHSI and other Members of the Obligated Group, and that were outstanding in the aggregate principal amount of \$326,025. The System recognized a loss on extinguishment of debt of approximately \$8,200 during the fiscal year ended August 31, 2013 in connection with this transaction.

On July 11, 2013, the Virginia Small Business Financing Authority and the Economic Development Authority of Henrico County, Virginia issued \$67,245 principal amount of its revenue bonds (referred to as the Series 2013B Bonds) and loaned the proceeds thereof to BSHSI and certain other Members of the Obligated Group. The proceeds were used to refinance, in current refunding transactions, two series of revenue bonds that were issued for the benefit of BSHSI and other Members of the Obligated Group, and that were outstanding in the aggregate principal amount of \$67,245. The two series of Series 2013B Bonds have final maturities of November 1, 2025 and 2042, respectively, and were purchased by a financial institution (referred to as the Series 2013B Direct Purchase Bank) for an initial term of twelve years. During the initial term, the Series 2013B Bonds will bear interest based on a percentage of LIBOR plus an agreed-upon spread. With respect to the series maturing on November 1, 2042, following the expiration of the initial term, BSHSI may determine to seek an extension of the initial term, convert the interest rate mode on such Series 2013B Bonds or otherwise refinance such Series 2013B Bonds. Payment of the Series 2013B Bonds is secured by Master Notes issued under the Master Indenture. In connection with the issuance of the Series 2013B Bonds, the Obligated Group entered into separate covenant agreements with the Series 2013B Direct Purchase Bank, which contain various covenants that can be enforced or waived solely by the Series 2013B Direct Purchase Bank. Those covenants are similar to covenants BSHSI has provided to various other banks and insurance companies, which have provided credit enhancement with respect to BSHSI's other outstanding indebtedness. The obligations of the Obligated Group under the covenant agreement are secured by a Master Note. The System recognized a loss on extinguishment of debt of approximately \$100 during the year ended August 31, 2013 in connection with this transaction.

Frances Schervier Home and Hospital (Schervier) is located in the Bronx, New York and directly controlled by BSHSI, but is not a member of the BSHSI Obligated Group. On November 21, 2013, Schervier borrowed \$26,900 million (referred to as the 2013 Term Loan) from a financial institution through a taxable term loan. The proceeds of the 2013 Term Loan, together with \$4.5 million of existing debt service reserve funds, were used to defease certain Series 1997 fixed rate bonds (referred to as the Schervier Bonds) issued by the Dormitory Authority of the State of New York (referred to as DASNY) that were outstanding in the principal amount \$30,320. Schervier's scheduled payment obligations under the Schervier Bonds were secured by a Master Note. Schervier's scheduled payment obligations under the 2013 Term Loan are guaranteed by the Members of the Obligated Group pursuant to a guaranty agreement with U.S. Bank (the Schervier Guaranty). The Schervier Guaranty does not guarantee payment of principal or interest on the 2013 Term Loan upon an acceleration of the due date thereof by reason of an event of

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default under the agreement governing the 2013 Term Loan. In the event of any such acceleration, payments under the Schervier Guaranty will be required to be made only in such amounts and at such times as such payments would have been due had there been no acceleration of the 2013 Term Loan. The Schervier Guaranty is secured by a Master Note. In connection with the defeasance, BSHSI incurred a loss on extinguishment of debt of approximately \$200. Scheduled principal repayments on long-term debt are as follows:

2015	\$	28,580
2016		44,305
2017		30,199
2018		34,997
2019		42,401
Thereafter		<u>782,490</u>
Total	\$	<u><u>962,972</u></u>

In May 2014, BSHSI executed a \$100,000 revolving credit agreement with a five year term with a commercial bank (the Credit Agreement). Pursuant to the Credit Agreement, BSHSI, as Credit Group Representative, may either request loans or request that the bank issue letters of credit for the benefit of the Obligated Group. The proceeds of any such loan and any such letter of credit are available for general corporate purposes. As of August 31, 2014, no loans have been made under the Credit Agreement. The obligations of the Obligated Group under the Credit Agreement are secured by a Master Note.

The System has entered into four leases maturing from 2019-2024 that are classified as capital leases for building and equipment. In addition, the System consolidates two limited liability corporations that own medical office buildings with notes payable outstanding of \$23.919 and \$25.857 as of August 31, 2014 and 2013, respectively. Such notes have an interest rate of 7.75% and maturity dates in 2021.

Total interest expense was \$34,553 and \$37,386 for the years ended August 31, 2014 and 2013, respectively. Cash paid for interest was \$36,516 and \$40,313 for the years ended August 31, 2014 and 2013, respectively, and includes capitalized interest for construction projects of \$1,798 and \$2,080, net of investment income, for the years ended August 31, 2014 and 2013, respectively.

(7) Interest Rate Risk Management

The System uses fixed and variable-rate debt to finance capital needs and develop an appropriate debt structure. Variable-rate debt exposes the System to variability in interest expense due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the System in times of declining interest rates. The System manages and monitors its cost of capital on a regular basis and from time to time enters into derivative instruments with financial institutions to help manage interest rate risk.

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At August 31, 2014 and 2013, the System had eleven instruments, respectively, which did not qualify for hedge accounting treatment under ASC Topic 815. Fair value changes of these instruments were reported under nonoperating investment gains, net. The following is a summary of the derivative instruments in place at August 31, 2014.

Description	Number	Outstanding notional amount	Pay rates	Maturity dates	Collateral posted at August 31, 2014	Counterparties	Mark to market	Collateral thresholds
Fixed payer	1	\$ 38,580	3.448%	Nov-2025	\$ —	Goldman Sachs	\$ (4,542)	10,000
Fixed payer	1	57,870	3.491%	Nov-2025	—	Deutsche Bank	(6,952)	20,000
Fixed payer	2	109,775	4.460% 3.420%	Aug-2026 Nov-2028	—	Merrill Lynch	(17,723)	*
Fixed payer	2	113,000	4.485% 3.384%	Oct-2025 Oct-2026	4,698	JP Morgan	(19,626)	15,000
Fixed payer	1	69,925	3.454%	Nov-2042	—	PNC Bank	(15,924)	*
	7	389,150			4,698		(64,767)	
Fixed basis	1	200,000	SIFMA	Jan-2029	—	Citigroup	1,806	20,000
Variable basis	3	460,500	SIFMA	Nov-2029	—	Merrill Lynch	(4,828)	*
Total derivatives	11	\$ 1,049,650			\$ 4,698		(67,789)	\$ 65,000
						Valuation adjustments	4,803	
							\$ (62,986)	

* Derivative instrument does not provide for the posting of collateral.

The following is a summary of the derivative instruments in place at August 31, 2013.

Description	Number	Outstanding notional amount	Pay rates	Maturity dates	Collateral posted at August 31, 2013	Counterparties	Mark to market	Collateral thresholds
Fixed payer	1	\$ 44,640	3.448%	Nov-2025	\$ —	Goldman Sachs	\$ (4,500)	10,000
Fixed payer	1	66,960	3.491%	Nov-2025	—	Deutsche Bank	(6,911)	20,000
Fixed payer	2	115,950	4.460% 3.420%	Aug-2026 Nov-2028	—	Merrill Lynch	(17,147)	*
Fixed payer	2	117,250	4.485% 3.384%	Oct-2025 Oct-2026	4,843	JP Morgan	(19,325)	15,000
Fixed payer	1	69,925	3.454%	Nov-2042	—	PNC Bank	(10,655)	*
	7	414,725			4,843		(58,538)	
Fixed basis	1	200,000	SIFMA	Jan-2029	—	Citigroup	(551)	20,000
Variable basis	3	475,000	SIFMA	Nov-2029	—	Merrill Lynch	(5,900)	*
Total derivatives	11	\$ 1,089,725			\$ 4,843		(64,989)	\$ 65,000
						Valuation adjustments	2,591	
							\$ (62,398)	

* Derivative instrument does not provide for the posting of collateral.

The unrealized losses of \$588 and unrealized gains of \$31,916 for the years ended August 31, 2014 and 2013, respectively, relating to these nonqualifying derivative activities are recorded within nonoperating investment gains, net in the accompanying consolidated statements of operations.

The System utilizes a diversified group of swap counterparties and has sought to limit its obligations to post collateral in the agreements governing its derivative instruments. In addition, the System routinely

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evaluates its derivative portfolio and may decide at any time to terminate certain of the derivative instruments discussed above and/or enter into new derivative instruments. Should the System decide to terminate any of such instruments, it may be required to make termination or breakage payments under the terms of those instruments.

(8) Noncontrolling Interest

The following table presents a reconciliation of the changes in consolidated unrestricted net assets attributable to the System's controlling interest and noncontrolling interest, including amounts such as the performance indicator, change in pension and other postretirement adjustments and other changes in unrestricted net assets as of and for the years ended August 31, 2014 and 2013.

	Unrestricted net assets- controlling interest	Unrestricted net assets- noncontrolling interest	Total unrestricted net assets
Balance as of August 31, 2012	\$ 608,843	180,780	789,623
Excess of revenues over expenses	126,413	44,437	170,850
Grants for capital	6,081	—	6,081
Net change in unrealized losses on other than trading securities	(1,881)	—	(1,881)
Net assets released from restrictions used for purchase of property, plant, and equipment	910	—	910
Net change in equity of joint ventures	986	—	986
Distributions to noncontrolling interest owners	—	(6,671)	(6,671)
Pension and other postretirement adjustments	170,423	895	171,318
Purchase of ownership interest from noncontrolling interest owners	1,718	(1,718)	—
Transfers to affiliates and other changes, net	(11,875)	4,330	(7,545)
Increase in net assets	292,775	41,273	334,048
Balance as of August 31, 2013	901,618	222,053	1,123,671

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	Unrestricted net assets- controlling interest	Unrestricted net assets- noncontrolling interest	Total unrestricted net assets
Excess of revenues over expenses	\$ 146,504	27,238	173,742
Grants for capital	4,005	—	4,005
Net change in unrealized losses on other than trading securities	(598)	—	(598)
Net assets released from restrictions used for purchase of property, plant, and equipment	6,980	—	6,980
Net change in equity of joint ventures	778	—	778
Distributions to noncontrolling interest owners	—	(7,679)	(7,679)
Pension and other postretirement adjustments	(21,208)	—	(21,208)
Transfers to affiliates and other changes, net	(9,995)	161	(9,834)
	<u>126,466</u>	<u>19,720</u>	<u>146,186</u>
Increase in net assets			
Balance as of August 31, 2014	\$ <u>1,028,084</u>	<u>241,773</u>	<u>1,269,857</u>

(9) Pension Plan

The System's employees are covered either by one of the System's noncontributory defined benefit pension plans, or are covered by defined contribution retirement plans. The System's noncontributory defined benefit pension plans provide benefits based upon age at retirement, years of credited services, and average earnings. Seven of the System's eight defined benefit plans are deemed church plans under the Internal Revenue Code. For defined benefit pension plans deemed to be church plans under the Internal Revenue Code, the System's funding policy is to make contributions to fund the annual service cost of the plans plus a 15 year amortization of the unfunded Accumulated Benefit Obligation. Defined benefit pension plans that are subject to the Employee Retirement Income Security Act of 1974 guidelines are funded in accordance with those guidelines. The service cost and projected benefit obligation are based upon the projected unit credit actuarial method.

In July 2011, the System announced the closure of the defined benefit pension plans to all new employees. Existing defined benefit plan participants were given a choice option. This choice option allowed a one time election to maintain participation in the defined benefit pension plan or move to a defined contribution retirement plan.

The investment policy and objectives for defined benefit plan assets are established by BSHSI and are based on a long-term perspective. An investment advisory firm engaged by BSHSI reviews asset performance and allocation on a periodic basis throughout the fiscal year. The percentage allocation to

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each asset class may vary depending upon market conditions and is adjusted when it falls outside the established ranges set for each asset class

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in unrestricted net assets, as of August 31, 2014 and 2013. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the expected average remaining assumed service period for active employees.

	Amounts in unrestricted net assets at August 31, 2014	Amounts in unrestricted net assets at August 31, 2013	Amounts in unrestricted net assets to be recognized in fiscal year 2015
Net prior service cost	\$ 48	153	(10)
Net actuarial losses	216,084	194,540	17,299
Transition asset	—	(7)	—
Total	<u>\$ 216,132</u>	<u>194,686</u>	<u>17,289</u>

The components of the funded status, net periodic benefit costs, and actuarial assumptions used in accounting for defined benefit pension plans as of and for the years ended August 31, 2014 and 2013 are as follows:

	2014	2013
Change in projected benefit obligation		
Net projected benefit obligation at beginning of year	\$ 850,444	943,395
Service cost	18,553	22,896
Interest cost	43,154	37,697
Actuarial loss (gain)	100,359	(120,179)
Gross benefits paid	<u>(32,570)</u>	<u>(33,365)</u>
Projected benefit obligation at end of year	<u>979,940</u>	<u>850,444</u>

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	<u>2014</u>	<u>2013</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 560,217	496,857
Actual return on plan assets	108,710	59,385
Employer contributions	29,358	37,340
Gross benefits paid	<u>(32,570)</u>	<u>(33,365)</u>
Fair value of plan assets at end of year	<u>665,715</u>	<u>560,217</u>
Net amount recognized at end of year	<u><u>\$ (314,225)</u></u>	<u><u>(290,227)</u></u>

	<u>2014</u>	<u>2013</u>
Accumulated benefit obligation at end of year	\$ 933,159	810,979
Amounts recognized in the consolidated balance sheets consist of		
Accrued benefit costs – long term	\$ (314,225)	(290,227)
Components of net periodic benefit cost		
Service cost	\$ 18,553	22,896
Interest cost	43,154	37,697
Expected return on plan assets	(41,041)	(36,788)
Amortization of		
Actuarial loss	11,146	28,759
Prior service cost	105	213
Transition asset	<u>(7)</u>	<u>(7)</u>
Total net periodic benefit costs	<u><u>\$ 31,910</u></u>	<u><u>52,770</u></u>

	<u>2014</u>	<u>2013</u>
Weighted average assumptions used to determine benefit obligations at August 31		
Discount rate	4.30%	5.10%
Rate of compensation increase	3.00%	3.00%
Weighted average assumptions used to determine net periodic benefit cost at August 31		
Discount rate	5.10%	4.00%
Expected return on plan assets	7.80%	7.80%
Rate of compensation increase	3.00%	3.00%

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Net pension expense is included as a component of fringe benefits recorded as salaries, wages, and benefits in the accompanying consolidated statements of operations

The expected long-term rate of return of the pension plan assets used for determining pension expense was 7.80% and was determined based upon a review of the System's long-term rate of return experienced in the capital markets for the target asset allocation employed to invest pension assets

The System's pension plan asset allocation is planned to include approximately 65% equities, 25% fixed income/cash, and 10% alternatives. Equity investments are balanced between type and size of investment and investment managers are monitored against benchmarks. As of August 31, 2014 and 2013, the pension plan assets were allocated by asset category as follows:

	<u>2014</u>	<u>2013</u>
Asset category		
Equity mutual and commingled funds and securities	63%	67%
Fixed income mutual funds and securities	25	23
Alternative investments	9	9
Cash	3	1
Total	<u>100%</u>	<u>100%</u>

The following table presents the System's fair value hierarchy for the pension plan assets measured at fair value on a recurring basis as of August 31, 2014:

	<u>Fair value</u>	<u>Fair value measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash and cash equivalents	\$ 23,258	23,258	—	—
Equity mutual funds	7,447	7,447	—	—
Equity commingled funds	75,491	—	75,491	—
Common and preferred stocks	335,016	333,862	1,154	—
Fixed income mutual funds	56,584	56,584	—	—
Government and agency bonds	18,026	43	17,983	—
Corporate obligations	90,954	—	90,954	—
Alternative investments	58,939	—	—	58,939
Total investments	<u>\$ 665,715</u>	<u>421,194</u>	<u>185,582</u>	<u>58,939</u>

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The following table presents the System's fair value hierarchy for the pension plan assets measured at fair value on a recurring basis as of August 31, 2013

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 21,112	21,112	—	—
Equity mutual funds	5,433	5,433	—	—
Equity commingled funds	65,819	—	65,819	—
Common and preferred stocks	293,056	293,056	—	—
Fixed income mutual funds	29,138	29,138	—	—
Government and agency bonds	30,658	30,658	—	—
Corporate obligations	66,784	—	66,784	—
Alternative investments	48,217	—	—	48,217
Total investments	\$ 560,217	379,397	132,603	48,217

During the year ended August 31, 2014, the System transferred approximately \$30 million of Level 1 fixed income assets to Level 2 due to a change in investment strategy in the pension assets. During the year ended August 31, 2013, there were no significant transfers between Levels 1, 2 and 3.

The change in the fair value for the pension assets valued using significant unobservable inputs (Level 3) was due to the following:

		Level 3 assets		
		Corporate bonds	Alternative investments	Total
Ending balance August 31, 2012	\$	788	43,577	44,365
Total net gains realized		26	780	806
Total net (losses) gains unrealized		(23)	3,860	3,837
Sales		(791)	—	(791)
Ending balance August 31, 2013		—	48,217	48,217
Total net gains realized		—	442	442
Total net gains unrealized		—	3,080	3,080
Purchases		—	7,200	7,200
Ending balance August 31, 2014	\$	—	58,939	58,939

The System applies ASU No 2009-12, *Fair Value Measurements and Disclosures (Topic 820) Investments in Certain Entities That Calculate Net Asset per Share (or Its Equivalent)*, to its pension plan asset portfolio. The guidance amends ASC Topic 820 and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value or its equivalent. The alternative

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investments classified within Level 3 of the fair value hierarchy have been recorded using Net Asset Value (NAV)

The following summarizes the redemption and commitment terms for the alternative investment vehicles held in the pension plan assets as of August 31, 2014

	<u>Hedge Fund 1</u>	<u>Hedge Fund 2</u>
Redemption timing		
Redemption frequency	Monthly	Quarterly
Required notice	70 days	95 days
Audit reserve		
Percentage held back for audit reserve	10%	10%
Gates		
Potential gate holdback	—%	—%
Potential gate release timeframe	n/a	n/a
Unfunded commitments	—	—

The System expects to contribute \$21.073 to its pension plans in fiscal year 2015

Future pension benefit payments, which reflect expected future service, as appropriate, are expected as follows

2015	\$	49.059
2016		37.772
2017		40.057
2018		42.230
2019		45.193
2020–2024		269.133

The System also has various contributory, tax-deferred annuity, and savings plans with participation available to certain employees. The System matches employee contributions up to 6% of compensation under certain defined contribution plans. The System contributed \$36,571 and \$34,297 towards these plans during the years ended August 31, 2014 and 2013, respectively. Total expense was \$40,875 and \$33,604 in 2014 and 2013, respectively.

In addition to the retirement plan described above, other postretirement healthcare benefits are provided to certain qualified retirees who meet certain eligibility requirements. The net obligation recognized in the accompanying consolidated balance sheets at August 31, 2014 and 2013 is \$3,038 and \$2,765, respectively.

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Multi-Employer Plans

The system contributes to two multi-employer defined benefit pension plans. These plans include The Archdiocese Pension Plan for the Archdiocese of New York (Archdiocesan Plan) and the 1199 Union Pension Plan.

(a) Archdiocesan Plan

The Archdiocesan Plan is a noncontributory, multi-employer defined benefit plan, which covers substantially all of Bon Secours New York Health System (BSNYHS) and Bon Secours Charity Health System's (BSCHS) full-time nonunion employees. The Employer Identification Number is 13-3089351. The Archdiocesan Plan is a Church plan approved by the Internal Revenue Service and is exempt from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Contributions to the Archdiocesan Plan are based on actuarial valuations. The contributions of all participating employers are pooled. As of January 1, 2013, the Archdiocesan Plan's market value of assets is \$1,022,056 and the present value of accrued plan benefits is \$1,339,498 resulting in a funded status of 76.3%. Contributions to the Archdiocesan Plan were \$3,419 and \$3,349 for the years ended August 31, 2014 and 2013, respectively.

(b) 1199 SEIU Health Care Employees Pension Fund

The System contributes to a multi-employer defined benefit plan under the terms of a collective bargaining agreement for its 1199 SEIU employees. The Employer Identification Number is 13-3604862/001. The most recent available information on the Pension Protection Act (PPA) zone status is for the plan years ended December 31, 2012 and 2011. The zone status is based on information that the System received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. Based on this information, the zone status was green for the plan years ended December 31, 2012 and 2011, respectively.

The expiration date of the collective bargaining agreements requiring contributions to the plan are October 31, 2015 for service and maintenance units and December 31, 2015 for nursing units. The contributions by the System to the union pension fund were \$10,504 and \$10,013 for the years ended August 31, 2014 and 2013, respectively. There have been no significant changes that affect the comparability of 2014 and 2013 contributions. The System was not listed in the plan's most recent available annual report (Form 5500 for U.S. Plans) for providing more than 5% of the total contributions to the plan for the years ended December 31, 2012 and 2011.

(10) Net Patient Service Revenue

BSHSI has agreements with third-party payors that provide for payments to the System 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 estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors.

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Retroactive reimbursement adjustments are estimated in the period in which the related services are rendered and adjusted in future periods as final settlements are determined

The System estimates the allowance for uncollectible accounts based on the aging of the accounts receivable, historical collection experience, payor mix and other relevant factors. A significant portion of the allowance for uncollectible accounts relates to self-pay patients, as well as co-payments and deductibles owed by patients with insurance. There are various factors that can impact collection trends such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients. Other factors include the volume of patients through the emergency departments and the increased level of co-payments and deductibles due from patients with insurance. These factors continuously change and can have an impact on collection trends and the estimation process.

The activity in the allowance for uncollectible accounts is summarized as follows for the years ended August 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 140,588	158,540
Provision for bad debts	255,931	216,295
Write-offs	<u>(251,381)</u>	<u>(234,247)</u>
Ending balance	<u>\$ 145,138</u>	<u>140,588</u>

(11) Reimbursement Programs

The System participates in the Medicare and Medicaid programs. Payment rates for inpatient services provided to program beneficiaries are governed by the applicable regulations and implementation provisions thereunder, based generally on prospectively determined rates using clinical and diagnostic charges. Capital costs are also generally based upon prospectively determined rates. However, certain services are subject to cost-based reimbursement principles, subject to certain limitations. The System also participates in various managed care programs. Generally, these programs provide for payments based on negotiated rates, however, certain plans utilize cost-based or charge-based payment principles.

Programs utilizing cost-based reimbursement principles are subject to review and final determination by appropriate program representatives. In the opinion of management, adequate provision has been made for any adjustments that may result from such reviews. Due to third-party payors, net is included in other accrued expenses and other long-term liabilities in the accompanying consolidated balance sheets.

Since 2005, the Centers for Medicare and Medicaid Services (CMS) have utilized recovery audit contractors (RACs) as part of the CMS's further efforts to assure accurate patient payments. The project uses the RACs to search for potentially inaccurate Medicare payments that may have been made to healthcare providers and that were not detected through existing CMS program integrity efforts. To date, all System hospitals have had certain Medicare claims denied, and all have a diligent appeal process. While additional RAC assessments against the System are anticipated, the impact of such assessments is still

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unknown. The resumption of the RAC program reviews has been delayed until after September 30, 2014 when the bid of new contractors is complete. There will be no additional audits of claims before this date.

In addition to RAC audits, System affiliates may from time to time be subject to other audits by state or federal agencies, including state Medicaid programs. The outcome of these audits is uncertain and the impact cannot be reasonably estimated at this time.

The System's management strives to anticipate factors that affect payment changes and develop plans to address them. Management attempts to address these issues proactively through its policies and practices that focus on areas such as charity and uninsured care as well as effective managed care contracting, accounts receivable and revenue cycle best practices and analysis of potential government payment changes. Nonetheless, future actions by federal, state, and private payors could have a significant adverse effect on the System's operating results, cash flows, and liquidity. In addition, management pursues the highest level of compliance, but state and federal audits by the Offices of the Inspector General do create uncertainty. At this time, the System has audits underway, the outcomes of which are uncertain and the impact cannot be reasonably estimated at this time.

As a result of the federal healthcare reform legislation enacted in 2010, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

Two specific programs were enacted by CMS in 2011 that impacted the reimbursement for the System during the fiscal year ended August 31, 2014 and 2013. The first is value-based purchasing, which affects acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2013, value-based incentive payments were made based upon achievement of or improvement on a set of clinical and patient experience of care quality measures designed to foster improved clinical outcomes for hospital patients as well as improve how patients experience inpatient care. For Federal fiscal year 2013 and 2014 respectively, 1% and 1.25% of a hospital's inpatient Medicare reimbursement was at risk/available in this program for either a penalty or a bonus depending on performance as measured with the rest of the hospitals in the country. Percentages considered at risk will increase an additional 0.25% each Federal fiscal year, with 2% of a hospital's inpatient Medicare reimbursement being at risk by Federal fiscal year 2017. In addition, components of value-based purchasing are changed and/or expanded each Federal fiscal year and include new measures, performance periods, performance standards, and domain weighting. The System's hospitals are currently measuring quality indicators consistent with the CMS value-based purchasing methodology and creating action plans to continue improvement in future periods in an effort to maximize the System's reimbursement opportunities.

The second program is the readmission reduction program that also began with federal fiscal year 2013 and is a penalty-only based program based on a hospital's actual readmissions for three specific costly diagnoses compared to an expected readmission rate. Effective for discharges beginning on October 1, 2012, the CMS's Hospital Readmissions Reduction Program withheld up to 1% of regular reimbursements for hospitals that had excess patient readmissions within 30 days of discharge for three medical conditions: heart attack, heart failure and pneumonia. As a part of healthcare reform legislation, the maximum penalty

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increased to 2% for federal fiscal year 2014 and will increase to 3% by 2015 and be expanded to include readmissions for other medical conditions

Another program enacted by CMS is Meaningful Use – HITECH Stimulus Grants. On July 13, 2010, CMS issued rules to implement the Medicare and Medicaid electronic health record (EHR) incentive program established under the Health Information Technology for Economic and Clinical Health Act (HITECH Act). Certain hospitals and eligible healthcare professionals (EPs) that demonstrate “meaningful use” of certified EHR technology can qualify for Medicare payments beginning in 2011. Medicaid requires that hospitals and EPs “adopt, implement or upgrade” certified EHR, which includes purchasing the technology, in order to receive incentive payments. Beginning in federal fiscal year 2015, Medicare payment reduction penalties will be assessed against hospitals and EPs that do not achieve meaningful use of EHR. During the year ended August 31, 2014, the System qualified for Medicare EHR incentive payments of approximately \$15,000 and Medicaid EHR incentive payments of \$3,600. During the year ended August 31, 2013, the System qualified for Medicare EHR incentive payments of approximately \$16,000 and Medicaid EHR incentive payments of \$6,500. BSHSI has made a substantial investment in a qualified EHR. The System expects to qualify providers for Medicaid payments in all states where the State Medicaid Health Information Technology Plan has been submitted to and are approved by CMS.

Beginning April 1, 2013, sequestration was put into effect as part of the spending reductions required by the Budget Control Act of 2011. These budget deficit reductions have resulted in a 2% reduction in all Medicare payments made to all healthcare providers.

On August 2, 2013, CMS published the “Two Midnight” rule. This rule establishes the basis of determining a patient’s stay as inpatient or outpatient. If a patient stays more than two midnights from the hour the service began then the stay is classified as inpatient. If the time is less than two midnights then it will be classified as outpatient or observation time. This rule is expected to result in decreased payments to hospitals nation-wide. The rule became effective October 1, 2014 but Recovery Audit Contractors (referred to as RACs) utilized by CMS may not begin to audit claims until March 31, 2015. It is unknown at this time what the impact may be to the System.

Beginning October 1, 2013, the Affordable Care Act (ACA) amended the adjustment provision for hospital Medicare disproportionate share (DSH) payments. Hospitals which qualified for DSH payments will now receive twenty five percent of what would have been received under the historical statutory formula and will receive an additional payment for uncompensated care. The uncompensated care payment will be announced in the annual rulemaking process, and it is expected to decrease annually relative to the growing percentage of newly insured individuals. The amount the System reserves against expected DSH payments will be updated when the uncompensated care payment is published in the final regulations.

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(12) Investments in Joint Ventures

The System has invested in a number of joint ventures, limited liability corporations and other entities to provide specialty healthcare services or engage in other activities. These investments range from minority investments with no control to majority investments or investments with control.

(a) Roper St. Francis Healthcare – South Carolina

BSHSI, The Medical Society of South Carolina, and the Carolinas Health System, Inc. are members of Care Alliance Health Services (d/b/a Roper St. Francis Healthcare). Roper St. Francis Healthcare is the sole member of and operates Bon Secours – St. Francis Xavier Hospital, Roper Hospital, a supporting foundation and physician practices located in Charleston, South Carolina. BSHSI is obligated to provide 27% of any capital contribution to Roper St. Francis Healthcare and is entitled to 27% of any surplus capital. BSHSI accounts for its interest in Roper St. Francis Healthcare under the equity method and includes its interest in Roper St. Francis Healthcare's excess of revenue over expenses in its consolidated statements of operations as other revenue. Roper St. Francis Healthcare, The Medical Society of South Carolina, and the Carolinas Health System, Inc. are not otherwise affiliated with BSHSI and are not Members of the Obligated Group.

The System recorded income of \$5,967 and \$12,694 related to its equity interest for the years ended August 31, 2014 and 2013, respectively. Included in these amounts were the System's allocated share of investment gains of \$5,773 and \$5,409 for the years ended August 31, 2014 and 2013, respectively. In addition, adjustments of \$778 and \$986 were recorded as net change in equity of joint ventures in 2014 and 2013, respectively, to reflect the System's 27% interest in the net assets of this joint venture. The System received cash distributions of \$8,556 and \$6,284 related to its equity interest during the years ended August 31, 2014 and 2013, respectively.

The total assets, total liabilities, and net assets as of August 31, 2014 and 2013 and the total revenue, total expenses, investment gains, net, and change in unrestricted net assets for the years then ended for Roper St. Francis Healthcare are as follows:

	2014	2013
Total assets	\$ 861,020	873,931
Total liabilities	486,733	496,321
Net assets	374,287	377,610
Total revenue	772,468	741,287
Total expenses	756,442	727,944
Investment gains, net	21,384	33,670
Change in unrestricted net assets	(6,699)	27,414

In June 2009, Roper St. Francis Healthcare received state approval for the construction of a new 50-bed full service hospital located in Berkeley County, South Carolina. The approval of this project is currently under appeal at the request of a local hospital that also received state approval for a 50-bed facility. These capital construction projects will be financed through Roper St. Francis

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Healthcare's equity. A portion of the annual distributions are expected to be foregone during the construction period.

(b) *Sentara Princess Anne*

BSHSI, DePaul Medical Center and Bon Secours Hampton Roads Health System (referred to as Bon Secours Hampton Roads) and Sentara Healthcare (Sentara) are members in a Virginia not-for-profit, nonstock corporation that owns and operates Sentara Princess Anne Hospital located in Virginia Beach, Virginia. Sentara holds a 70% membership interest and DePaul Medical Center holds a 30% membership interest in the corporation.

The joint venture is managed by Sentara and the agreements provide the members with rights to "put" and "call" the Bon Secours Hampton Roads' membership interest at fair market value terms upon the occurrence of certain events and dates.

BSHSI accounts for its interest in Sentara Princess Anne Hospital under the equity method and includes its interest in Sentara Princess Anne Hospital's excess of revenue over expenses in its consolidated statements of operations as other revenue. Sentara Healthcare is not otherwise affiliated with BSHSI and is not a Member of the Obligated Group.

The System recorded income of \$5,014 and \$6,532 and received cash distributions of \$5,742 and \$0 related to its equity interest during the years ended August 31, 2014 and 2013, respectively.

The total assets, total liabilities, and net assets as of August 31, 2014 and 2013 and the total revenue, total expenses, and change in unrestricted net assets for the years then ended, for Sentara Princess Anne Hospital are as follows:

	<u>2014</u>	<u>2013</u>
Total assets	\$ 263,647	266,553
Total liabilities	168,449	169,690
Net assets	95,198	96,863
Total revenue	203,959	195,397
Total expenses	186,939	175,484
Change in unrestricted net assets	(1,666)	19,914

(c) *Rappahannock General Hospital*

In December 2011, Bon Secours – Richmond Health System (referred to as BSRHS) entered into an affiliation agreement with Chesapeake Health Services (referred to as CHS) and Chesapeake Hospital Corporation, a Virginia not-for-profit, nonstock corporation d/b/a Rappahannock General Hospital (referred to as RGH), pursuant to which BSRHS became a minority member of RGH, committed to certain capital contributions to RGH, and agreed to work with RGH to improve healthcare services in the service area served by RGH. RGH operates a 76 bed hospital in Kilmarnock, Virginia. Since 2011, BSRHS has made additional capital contributions to RGH and has made its ConnectCare system available to an affiliate of RGH.

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BSHSI accounts for its interest in RGH under the cost method. The System contributed cash of \$2,005 and \$3,816 related to its cost method investment in RGH during the years ended August 31, 2014 and 2013, respectively. As a result of these transactions, BSRHS's minority membership was approximately 41% and 29% as of August 31, 2014 and 2013, respectively.

On October 3, 2014, BSRHS, CHS and RGH entered into a definitive agreement for the acquisition by BSRHS of the remaining membership interest in RGH. Subject to regulatory approvals, the parties expect the closing of the transaction to occur during the second fiscal quarter of 2015.

(d) *Premier Purchasing Partners, LP*

BSHSI holds an equity investment in Premier Purchasing Partners, LP (Premier LP), a group purchasing organization, in which BSHSI is a limited partner. The System recorded income of \$7,027 and \$8,376 in other operating revenue related to its equity interest and revenue share for the years ended August 31, 2014 and 2013, respectively. On October 1, 2013, Premier LP sold 16% of its equity as part of an organizational restructuring and an initial public offering of shares in its affiliate, Premier, Inc. As a result of this restructuring and related public offering, the System received a cash distribution of \$9,700, which resulted in a net gain of \$9,056 that was recognized in other operating revenue. In addition, during the fiscal year ended August 31, 2014, BSHSI recorded reductions to operating supply expenses of \$7,071 resulting from the unrealized gains related to the System's vesting of its interests in Premier, LP.

(13) Other Commitments and Contingent Liabilities

(a) *General and Professional Liability Insurance*

The System participates in a self-insurance program for health professional/general liability (HPL/GL Program) by policies issued under a member of the System, Bon Secours Assurance Company, LTD (BSAC). BSAC is incorporated in the Cayman Islands. BSHSI is the sole shareholder of BSAC. Assets are available under the HPL/GL Program to provide specified levels of claims-made coverage for health professional liabilities and occurrence-based coverage for general liabilities, with excess layers reinsured through commercial carriers under policies written on a claims-made basis.

The provision for claims and related funding levels for the HPL/GL Program is established annually based upon the recommendations of consulting actuaries. BSAC has accrued claims including liabilities for incidents incurred but not reported of approximately \$111,639 and \$117,742 at August 31, 2014 and 2013, respectively. The current portion of such accruals, \$17,713 at August 31, 2014 and \$18,333 at August 31, 2013, is included in other accrued expenses, and the remainder, \$93,926 at August 31, 2014 and \$99,409 at August 31, 2013, is reported within other long-term liabilities in the accompanying consolidated balance sheets. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

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(b) *Workers' Compensation Insurance*

The System's workers' compensation program primarily consists of self-insurance programs in various states with excess coverage through a commercial insurer Mary Immaculate Hospital, which is also a participant of the System's workers' compensation program, is insured under a large deductible policy. Accrued workers' compensation claims of \$60,428 and \$53,492, of which the current portion, \$8,100 and \$7,600 at August 31, 2014 and 2013, respectively, is reported as other accrued expenses and the remainder, \$52,328 and \$45,892 at August 31, 2014 and 2013, respectively, is reported within other long-term liabilities in the accompanying consolidated balance sheets, include estimates for incidents incurred but not reported at August 31, 2014 and 2013, respectively. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments such amounts are undiscounted and based upon an actuarial central estimate. The impact of the change in discount rate was not significant to the consolidated financial statements.

(c) *Employee Health Insurance*

Employee health benefits of the System are principally provided through the System's self-insurance program. Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately \$19,621 and \$18,011, include estimates for claims incurred but not reported, at August 31, 2014 and 2013, respectively.

(d) *Litigation*

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The System's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, but cannot reasonably predict any particular outcomes or operational or financial effects from these matters at this time.

(e) *Operating Leases*

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense was \$81,340 and \$82,491 in 2014 and 2013, respectively. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

2015	\$	54,708
2016		39,642
2017		31,092
2018		25,546
2019		20,569
Thereafter		33,855

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Certain local systems entered into agreements to lease space in medical office buildings (MOBs) under construction by external development companies. Based on the provisions of ASC Topic 840-40-05-5, *Lessee Involvement with Construction*, local systems were considered the owner of the MOBs during construction. These transactions do not qualify for sale-leaseback accounting and as such are treated as financing transactions. Accordingly, the associated financing obligations, along with their related construction in progress or building assets of \$35.321 at August 31, 2014 and 2013, are included in other long-term liabilities and construction in progress or buildings and equipment in the accompanying consolidated balance sheets. The financing obligations associated with these transactions will not result in cash payments in excess of amounts paid under the related operating lease payments. All future cash obligations related to leased space within these MOBs are included as future minimum lease payments in the amounts reported above.

(f) Guaranty Agreements

Affiliates of the System entered into nine limited partnership agreements during the period from 1997 through 2014. The limited partnerships are involved in housing projects in the System's Baltimore market. System affiliates have entered into guaranty agreements with the limited partnerships during 1997 through 2014, whereby they have agreed to advance funds to the partnerships under specified conditions. The termination of each guaranty agreement is predicated on the occurrence of certain events. Seven such guaranty agreements are still in effect as of August 31, 2014. System affiliates have not been obligated to make any guarantee payments under the guaranty agreements to date through August 31, 2014. The maximum potential amount of future payments the System affiliates are obligated to make was \$12.864 and \$6.419 as of August 31, 2014 and 2013, respectively.

(14) Net Assets

BSHSI's endowments consist of approximately 83 individual funds established for a variety of purposes. Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor or board-imposed restrictions and the nature of the restrictions, if any.

The System's endowment net assets are comprised of permanently restricted funds, which were \$7.829 and \$7.710 at August 31, 2014 and 2013, respectively. The System does not hold any board-designated endowment funds within unrestricted net assets or temporarily restricted net assets.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the System to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at August 31, 2014 and 2013.

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The System has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified period as well as board-designated funds. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The System expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. The System uses diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

BSHSI has a practice of distributing the major portion of current year earnings on the endowment funds, if the restrictions have been met. This is consistent with the System's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

(15) Functional Expenses

The functional breakdown of expenses incurred by the System in fulfilling its mission for the years ended August 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Healthcare services	\$ 3,027,535	2,935,985
General and administrative	<u>310,737</u>	<u>297,504</u>
Total expenses	<u><u>\$ 3,338,272</u></u>	<u><u>3,233,489</u></u>

(16) Subsequent Events

Management evaluated all events and transactions that occurred after August 31, 2014 and through October 28, 2014. The System did not have any material recognizable subsequent events during this period other than disclosed in note 12(c).