BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

August 31, 2013 and 2012

(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 Company), which comprise the consolidated balance sheets as of August 31, 2013 and 2012, 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 auditors consider 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, 2013 and 2012, 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 is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Emphasis of Matter

As discussed in note 2(x) to the consolidated financial statements, in 2013, the Company adopted new accounting guidance, Accounting Standards Update No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

October 29, 2013

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

August 31, 2013 and 2012

(In thousands)

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	194,888	138,781
Accounts receivable, net:			
Patient and third-party payors		443,332	394,359
Other		41,470	48,683
Total accounts receivable, net		484,802	443,042
Assets limited or restricted as to use		65,505	61,336
Inventories		61,075	56,853
Prepaid expenses and other current assets		30,410	29,562
Total current assets		836,680	729,574
Assets limited or restricted as to use, less current portion		984,188	950,128
Property, plant, and equipment, net		1,093,253	1,096,481
Goodwill and other assets, net		332,265	303,793
Total assets	$	3,246,386	3,079,976
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	31,423	27,810
Accounts payable		188,750	198,896
Accrued salaries, wages, and benefits		146,878	127,413
Other accrued expenses		122,602	106,420
Total current liabilities		489,653	460,539
Long-term debt, less current portion		989,761	1,019,800
Other long-term liabilities and deferred credits		586,719	756,121
Total liabilities		2,066,133	2,236,460
Net assets:			
Unrestricted-controlling interest		901,618	608,843
Unrestricted-noncontrolling interest		222,053	180,780
Total unrestricted		1,123,671	789,623
Temporarily restricted		48,872	45,849
Permanently restricted		7,710	8,044
Total net assets		1,180,253	843,516
	$	3,246,386	3,079,976

See accompanying notes to consolidated financial statements.

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended August 31, 2013 and 2012

(In thousands)

		2013	2012
Revenues:			
Net patient service revenue before bad debts	$	3,440,175	3,330,158
Provision for patient bad debts, net		(216,295)	(242,585)
Net patient service revenue		3,223,880	3,087,573
Other revenue		133,530	118,344
Total revenues		3,357,410	3,205,917
Expenses:			
Salaries, wages, and benefits		1,717,273	1,618,264
Supplies		565,830	559,808
Purchased services and other		777,634	738,878
Depreciation and amortization		135,366	128,614
Interest		37,386	42,358
Total expenses		3,233,489	3,087,922
Operating income from continuing operations		123,921	117,995
Nonoperating gains (losses), net:			
Nonoperating investment gains, net		95,730	33,032
Loss on early retirement of debt		(8,328)	(602)
Gain on sale of assets, net		33	2,836
Other nonoperating activities, net		(42,206)	(41,220)
Excess of continuing revenues over expenses		169,150	112,041
Gain on discontinued operations, net		1,700	2,872
Excess of revenues over expenses		170,850	114,913
Other changes in unrestricted net assets:			
Grants for capital		6,081	5,235
Net change in unrealized (losses) gains on other-than-trading securities		(1,881)	438
Net assets released from restrictions used for purchase of property, plant, and equipment		910	3,537
Net change in equity of joint ventures		986	3,301
Distributions to noncontrolling interest owners		(6,671)	(7,042)
Pension and other postretirement adjustments		171,318	(129,968)
Transfers to affiliates and other changes, net		(7,545)	(4,063)
Increase (decrease) in unrestricted net assets		334,048	(13,649)
Unrestricted net assets, beginning of year		789,623	803,272
Unrestricted net assets, end of year	$	1,123,671	789,623

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, 2013 and 2012

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at August 31, 2011	$ 803,272	40,911	6,854	851,037
Excess of revenues over expenses	114,913	—	—	114,913
Grants and restricted contributions	—	16,791	1,214	18,005
Grants for capital	5,235	—	—	5,235
Net change in unrealized gains on other-than-trading securities	438	290	—	728
Investment income	—	140	—	140
Net assets released from restrictions used for purchase of property, plant, and equipment	3,537	(3,537)	—	—
Net assets released from restrictions used for operations	—	(8,557)	(19)	(8,576)
Net change in equity of joint ventures	3,301	—	—	3,301
Distributions to noncontrolling interest owners	(7,042)	—	—	(7,042)
Pension and other postretirement adjustments	(129,968)	—	—	(129,968)
Transfers to affiliates and other changes, net	(4,063)	(189)	(5)	(4,257)
(Decrease) increase in net assets	(13,649)	4,938	1,190	(7,521)
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	334,048	3,023	(334)	336,737
Balance at August 31, 2013	$ 1,123,671	48,872	7,710	1,180,253

See accompanying notes to consolidated financial statements.

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended August 31, 2013 and 2012

(In thousands)

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 336,737	(7,521)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Gain on discontinued operations, net	(1,700)	(2,872)
Provision for bad debts, net	216,295	242,585
Depreciation and amortization, including $4,204 and $5,699 reported in nonoperating activities, net in 2013 and 2012, respectively	139,570	134,313
Amortization of deferred financing costs and bond premium/discount, net	(96)	2,045
Equity in income of joint ventures	(48,640)	(27,261)
Distributions received from investments in joint ventures	23,417	25,197
Net realized/unrealized gains on certain investments and derivative instruments	(89,815)	(28,263)
Loss on early retirement of debt	8,328	602
Gain on sale of assets	(33)	(2,836)
Pension and other postretirement adjustments	(171,318)	129,968
Grants received for capital expenditures	(6,081)	(5,235)
Contributions restricted by donor	(9,501)	(18,005)
Cash distributions to noncontrolling interest owners	6,671	7,042
Cash (used in) provided by changes in assets and liabilities:		
Increase in accounts receivable	(258,055)	(263,014)
Increase in inventories, prepaid expenses and other current assets	(5,070)	(13,653)
Decrease (increase) in goodwill and other assets, net	2,401	(8,086)
Increase (decrease) in accounts payable and other current liabilities	26,077	(13,465)
Increase in other long-term liabilities and deferred credits	33,832	13,965
Net cash provided by operating activities	203,019	165,506
Cash flows from investing activities:		
Investment in joint ventures	(3,816)	(4,666)
Purchases of securities, net of sales and maturities	33,865	(12,853)
Property, plant, and equipment additions, net of disposals	(131,098)	(143,976)
Proceeds from sale of assets	—	2,349
Payments related to interest rate swaps	(14,195)	(15,432)
Net cash used in investing activities	(115,244)	(174,578)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	395,522	72,460
Payments of long-term debt	(33,896)	(28,324)
Retirements of long-term debt	(397,632)	(70,880)
Payment of deferred financing fees	(4,573)	(1,236)
Grants received for capital expenditures	6,081	5,235
Proceeds from contributions restricted by donors	9,501	18,005
Cash distributions to noncontrolling interest owners	(6,671)	(7,042)
Net cash used in financing activities	(31,668)	(11,782)
Net increase (decrease) in cash and cash equivalents	56,107	(20,854)
Cash and cash equivalents, beginning of year	138,781	159,635
Cash and cash equivalents, end of year	$ 194,888	138,781

Supplemental disclosures:

(a) Cash paid for taxes was $706 and $892 for 2013 and 2012, respectively.

(b) Entered into a capital lease of $3,500 in 2013.

See accompanying notes to consolidated financial statements.

(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 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.

(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;

- 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, 2013 and 2012:

	2013	2012
Charitable services and other community benefits:		
Cost of services to financially disadvantaged persons	$ 151,066	143,575
Unpaid cost of state programs (e.g., Medicaid) to financially disadvantaged persons	84,383	94,634
Cost of other community benefits	60,560	59,410
Total community benefits, at cost	$ 296,009	297,619

(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

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, 2013 and 2012, the System recorded income of $8,891 and $9,456, 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, 2013 and 2012 are as follows:

	2013	2012
Medicare	24%	24%
Medicaid	9	9
Managed care	42	45
Other, including self-pay	25	22
	100%	100%

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.

(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, 2013 and 2012, all investments and assets limited or restricted as to use are designated as trading securities, except for certain foundation investments and trustee held funds.

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, 2013 and 2012, 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

Property, plant, and equipment 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 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, 2013 and 2012, 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, 2013 and 2012 without having to perform the two-step impairment test.

Total goodwill recognized on acquisitions, less accumulated amortization, was $98,359 as of August 31, 2013 and 2012, respectively, and is included in goodwill and other assets, net. Accumulated amortization of goodwill amounted to $50,873 at August 31, 2013 and 2012.

Goodwill and other assets, net, consist of the following at August 31, 2013 and 2012:

		2013	2012
Goodwill, net of accumulated amortization	$	98,359	98,359
Investment in joint venture (note 12)		141,838	120,030
Self insurance receivable		28,727	33,766
Other assets		26,690	21,845
Pledges and notes receivable		25,659	18,924
Deferred financing costs, net		10,992	10,869
Total goodwill and other assets, net	$	332,265	303,793

(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 $6,055 and $7,831 at August 31, 2013 and 2012, 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, 2013 and 2012:

		2013	2012
Accrued pension liability (note 9)	$	290,227	446,538
Self-insurance liabilities		147,479	131,544
Environmental liabilities		14,234	14,176
Derivative instrument valuations (note 7)		62,398	94,260
Medical office building liabilities (note 14(e))		35,321	35,321
Other long-term liabilities		37,060	34,282
	$	586,719	756,121

(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 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 $48,872 and $45,849 at August 31, 2013 and 2012, 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. 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, gains on sales of operating activities, grant revenues (including Meaningful Use-Health Information Technology for Economic and Clinical Health Act (HITECH) Stimulus Grants), assisted living, and cafeteria and meal sales. The System, using the grant model for Meaningful Use incentive payments, recorded approximately $22,500 and $18,900 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, 2013 and 2012, respectively (note 11).

(r) 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 gains on discontinued operations of $1,700 and $2,872 for the years ended August 31, 2013 and 2012, respectively, as the result of adjustments to certain liabilities in excess of 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 $66,681 and $95,733 of net operating loss carryforwards as of August 31, 2013 and 2012, respectively, which expire in varying periods through 2032 and are available to offset future taxable income. The System's deferred tax assets are fully reserved at August 31, 2013 and 2012. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change.

(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 nonoperating investment losses, net.

(w) 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

(Continued)

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

(i) In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patients service revenue from an operating expense to a deduction from patients service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The System adopted this guidance on September 1, 2012. Adoption of this guidance resulted in reclassification of $216,295 and $242,585 of bad debts from operating expenses to a reduction of net patient service revenue on the consolidated statements of operations for the years ended August 31, 2013 and 2012, respectively. See note 10 for additional disclosures.

(ii) In September 2011, the FASB issued ASU No. 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan*. The guidance is intended to provide financial statement users with greater transparency about an employer's participation in a multiemployer pension plan. The guidance requires additional qualitative and quantitative information disclosures to assist users of the consolidated financial statements in understanding the commitments and risks involved in participating in multiemployer pension plans, including the financial health of all of the significant plans in which the employer participates. This ASU does not change the current recognition and measurement guidance for an employer's participation in a multiemployer pension plan. The System adopted this guidance on September 1, 2012. The adoption of this guidance required additional disclosures and did not have an impact on the consolidated financial position, operating results or cash flows of the System. See note 9 for the new disclosures.

(iii) In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. New considerations from ASU 2011-04 included the following:

(a) Expanded disclosures around the reporting entity's valuation policies and procedures, specifically what internal reporting procedures, frequency and methods for calibration of

the assets or liabilities, back-testing, how the reporting entity assessed third-party information, and other methods used to develop and substantiate unobservable inputs.

(b) Tabular disclosure of all transfers between Levels 1 and 2 that are held at the end of the reporting period, and reasons for such transfers.

(c) Additional tabular disclosures for Level 3 assets, including the valuation technique used, quantification of unobservable inputs, and a sensitivity analysis of changes to unobservable inputs.

The System adopted this guidance effective September 1, 2012, which required additional disclosures and the adoption did not have a material impact on the consolidated financial statements.

(y) Reclassifications

Certain reclassifications were made to 2012 amounts to conform to the 2013 presentation.

(3) Property, Plant, and Equipment, Net

Property, plant, and equipment, net consist of the following at August 31, 2013 and 2012:

		2013	2012
Land	$	83,426	81,776
Land improvements		47,378	47,223
Buildings		965,847	933,144
Fixed equipment		79,240	75,409
Major movable equipment		1,183,387	1,076,857
Leasehold improvements		83,755	74,698
Construction in progress		90,021	112,028
		2,533,054	2,401,135
Less accumulated depreciation and amortization		1,439,801	1,304,654
	$	1,093,253	1,096,481

Included in construction in progress at August 31, 2013 and 2012 are costs mainly associated with an electronic medical records project, facility renovations, and expansions. The System anticipates expending an additional $87,819 in future periods to complete strategic capital projects. Depreciation expense for the System was $137,859 and $132,721 for the years ended August 31, 2013 and 2012, respectively.

(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, 2013 and 2012:

	2013	2012
Board-designated funds:		
Cash and cash equivalents	$ 65,277	91,383
Equity mutual funds	49,020	44,875
Equity commingled funds	42,932	61,032
Common and preferred stocks	206,934	277,703
Fixed income mutual funds	100,813	82,642
Fixed income commingled funds	98,005	80,363
U.S. government and agency securities	14,532	—
Corporate obligations	12,829	41,801
Alternative investments	302,434	140,830
Land and other investments, at cost	152	62
	892,928	820,691

	2013	2012
Donor-restricted funds:		
Cash and cash equivalents	$ 17,016	14,724
Equity mutual funds	1,904	1,633
Equity commingled funds	559	793
Common and preferred stocks	7,649	8,049
Fixed income mutual funds	2,716	2,168
Fixed income commingled funds	1,275	1,044
U.S. government and agency securities	579	493
Corporate obligations	2,016	1,954
Alternative investments	4,027	2,008
Land and other investments, at cost	297	51
	38,038	32,917
Funds held by indenture trustees:		
Cash and cash equivalents	9,289	24,971
Government and agency bonds	7,784	33,776
Corporate obligations	554	11,347
	17,627	70,094
Self-insurance funds:		
Cash and cash equivalents	14,765	12,698
Equity commingled funds	18,827	16,002
Common and preferred stocks	14,704	11,359
Fixed income mutual funds	20,312	24,086
Fixed income commingled funds	23,202	23,617
Alternative investments	9,290	—
	101,100	87,762
Assets limited or restricted as to use	1,049,693	1,011,464
Available for current liabilities	(65,505)	(61,336)
Long-term assets limited or restricted as to use	$ 984,188	950,128

(Continued)

The portion of the System's investments available for current liabilities consists of the following at August 31, 2013 and 2012:

		2013	2012
Current portion of debt	$	1,885	2,742
Self-insurance programs		45,082	44,688
Foundation programs		13,173	9,218
Board-designated		5,365	4,688
	$	65,505	61,336

The System's consolidated total return on investments consists of the following for the years ended August 31, 2013 and 2012:

		2013	2012
Dividends and interest	$	14,960	14,885
Net realized gains on securities		67,818	11,717
Net unrealized gains on securities		4,276	38,156
		87,054	64,758
Realized and unrealized gains (losses) on derivative instruments		17,721	(21,610)
	$	104,775	43,148

Total investment return is classified in the accompanying consolidated financial statements as follows for the years ended August 31, 2013 and 2012:

		2013	2012
Nonoperating investment gains, net	$	95,730	33,032
Investment income, net on trustee-held funds recorded as other revenue		10,185	9,248
Investment income and net unrealized gains on securities in restricted net assets		741	430
Net unrealized (losses) gains on other-than-trading securities		(1,881)	438
Total investment return	$	104,775	43,148

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 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 revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in excess of revenues over expenses.

At August 31, 2013 and 2012, the System had invested approximately $315,751 and $142,838, or 30.1% and 14.1%, 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, 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.

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**
Investments:				
Cash and cash equivalents	$ 106,347	106,347	—	—
Equity mutual funds, primarily foreign	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	—
Total investments	$ 733,493	535,019	198,474	—
Liabilities:				
Interest rate swaps	$ 62,398	—	62,398	—
Total liabilities	$ 62,398	—	62,398	—

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, 2012:

		Fair value measurements at August 31, 2012 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Investments:				
Cash and cash equivalents	$ 143,776	143,353	423	—
Equity mutual funds, primarily foreign	46,508	46,508	—	—
Equity commingled funds	77,827	—	77,827	—
Common and preferred stocks	297,111	297,111	—	—
Fixed income mutual funds	108,896	108,896	—	—
Fixed income commingled funds	105,024	—	105,024	—
Government and agency bonds	34,269	34,258	11	—
Corporate obligations	55,102	11,673	41,851	1,578
Other	113	96	17	—
Total investments	$ 868,626	641,895	225,153	1,578
Liabilities:				
Interest rate swaps	$ 94,260	—	94,260	—
Total liabilities	$ 94,260	—	94,260	—

There were no significant transfers between Levels 1, 2 and 3 during the year ended August 31, 2013 and 2012.

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
Beginning balance, September 1, 2011	$ 126
Total net gains realized	1
Total net gains unrealized	44
Purchases	1,870
Sales	(463)
Transfers in (out) of Level 3	—
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 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, 2013 and 2012, 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, 2013 and 2012:

	2013	2012
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	64,644
Series 1995 Maryland fixed rate term bonds payable in installments through August 2024; interest at 5.50%	—	4,855
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%	19,480	22,700

		2013	2012
Series 1996 Virginia fixed rate serial and term bonds payable in installments through August 2020; interest at 5.40% to 6.25%	$	10,455	11,630
Series 1997 Virginia fixed rate serial and term bonds payable in installments through August 2023; interest at 4.70% to 5.25%		—	11,455
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	31,735
Series 2002A Kentucky fixed rate term bond payable in installments beginning November 2023 through November 2030; interest at 5.63%		—	42,970
Series 2002A South Carolina fixed rate and serial term bonds payable in installments beginning November 2015 through November 2030; interest at 5.50% to 6.00%		—	225,200
Series 2002A Henrico, Virginia fixed rate term bond payable in installments beginning November 2023 through November 2030; interest at 5.60%		—	46,400
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 0.09% and 0.22% at August 31, 2013 and 2012, 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 0.09% and 0.22% at August 31, 2013 and 2012, set at prevailing rates		12,700	13,400
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, 2013 and 2012.		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 0.07% and 0.17% at August 31, 2013 and 2012, set at prevailing rates		69,925	69,925
Series 2008D Virginia variable rate demand bonds subject to a seven day put provision payable in installments through November 2025; interest at 0.06% at August 31, 2013 and 0.17% to 0.18% at August 31, 2012, set at prevailing rates		110,860	144,490

		2013	2012
Series 2008D South Carolina variable rate demand bonds subject to a seven day put provision payable in installments through November 2025; interest at 0.06% and 0.15% at August 31, 2013 and 2012, set at prevailing rates	$	23,590	25,010
Series 2010 Virginia variable rate demand bonds subject to a seven day put provision payable in installments through November 2042; interest at 0.16% at August 31, 2012, set at prevailing rates		—	40,740
Series 2011 variable rate direct placement bonds payable in installments through November 2025 ; interest at 1.4% at August 31, 2013 and 2012, set at prevailing rates		67,600	72,460
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	—
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	—
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	—
Series 2013B Virginia variable rate direct placement bonds payable in installments through November 2043; interest at 1.2% to 1.3% at August 31, 2013, set at prevailing rates		67,245	—
Total Master Trust Notes and Hospital Revenue Bonds		953,013	1,005,219
Other debt secured by certain property, plant, and equipment:			
9.25% note payable to HUD, due April 2025		6,244	6,528
3.00% note payable to Wells Fargo		1,075	1,250
Capital leases obligations (interest at 5.00-6.00%)		9,005	9,090
Notes payable		26,694	29,190
Other long-term debt		97	97
Total other debt		43,115	46,155
Total long-term debt		996,128	1,051,374
Add (less) bond premium (discount), net of accumulated amortization		25,056	(3,764)
		1,021,184	1,047,610
Less current portion		31,423	27,810
Long-term debt, less current portion	$	989,761	1,019,800

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 Master Trust Indenture dated October 1, 1985, as restated, supplemented, and amended. Master Notes secured 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 enhances, liquidity providers and swap counterparties. 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 40.0% and 40.9% of the indebtedness secured by Master Notes was supported, as to payments of principal and interest, by bond insurance policies as of August 31, 2013 and 2012, respectively. Approximately 21.1% and 28.2% of the indebtedness secured by the Master Notes was supported by letters of credit as of August 31, 2013 and 2012, 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 and changes in members of the Obligated Group, and provide for the maintenance of certain trustee-held funds, among other things

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. Schervier is the borrower of the proceeds of certain Series 1997 fixed rate bonds issued by the Dormitory Authority of the State of New York (DASNY), which had an outstanding principal amount of $30,320 as of August 31, 2013. Pursuant to its loan agreement with DASNY, Schervier covenanted to maintain minimum annual debt service coverage at the end of each calendar year. At December 31, 2012, Schervier was not in compliance with the coverage ratio. Management requested and received waivers of compliance with the Coverage Ratio for the calendar years ended December 31, 2012 and 2013. Accordingly, such debt has been classified as long-term at August 31, 2013, except for the amounts that are payable in the following year, which are classified as current.

The Series 2008D Bonds are subject to long-term amortization periods. However, while bearing interest at a weekly rate, the Series 2008D Bonds are subject to optional tender by the bondholders. If bonds, which are tendered, are not remarketed to new bondholders, pursuant to the letter of credit, the bank will purchase the tendered Series 2008D Bonds on behalf of the Obligated Group. If the bank purchases tendered Series 2008D Bonds pursuant to the letter of credit, no payments are due the Bank with respect to such Bonds until 367 days after the bank purchases the tendered Series 2008D Bonds. The Obligated Group must repay the principal amount of the purchased bonds (x) with respect to two of the bank agreements ((i) and (ii), as described above), on the first day of the 13th month succeeding the stated expiration date (y) with respect to the other one letter of credit agreement ((iv) as described above), in substantially equal payments commencing on the first business day following the 367th day, and semiannually thereafter over the subsequent three years, and (z) with respect to the other one letter of credit agreement ((vi) as described above), in substantially equal payments commencing on the first business day following the 367th day, and semiannually thereafter over the subsequent four years, unless certain events occur. To secure its obligations to reimburse the various banks, BSHSI issued separate Master Notes. On September 29, 2010, BSHSI terminated six irrevocable direct pay letters of credit that secured variable rate debt bonds

originally issued in October 2008. On the same date, BSHSI entered into four new and two amended and restated irrevocable direct pay letters of credit with respect to those bonds.

On October 19, 2010, BSHSI converted four series of bonds originally issued in January 2008 from variable interest rate bonds to fixed rate serial and term bonds. Additionally, on October 19, 2010, the Virginia Small Business Financing Authority issued $40,700 principal amount of new variable rate bonds (referred to as the Series 2010 Bonds) and loaned the proceeds thereof to BSHSI. The proceeds of the Series 2010 Bonds were used to (i) pay a termination payment relating to the termination of four fixed payor swaps relating to the converted bonds and (ii) pay related costs of issuance.

On November 30, 2011, the Series 2008A Bonds were subject to mandatory tender. In connection with the mandatory tender, the Obligated Group delivered a letter of credit as additional security for the Series 2008A Bonds. Pursuant to the letter of credit, the bank covenants to pay principal of and interest on the Series 2008A Bonds. The bond insurance policy, which was issued concurrently with the issuance of the Series 2008A Bonds, will only pay principal of and interest on the Series 2008A Bonds if the bank fails to pay pursuant to the letter of credit. The bank, which issued the letter of credit, can, under certain circumstances, cause the cancellation of the bond insurance policy. The Series 2008A Bonds continue to be remarketed weekly and bear interest at a weekly interest rate established by the market. While bearing interest at a weekly rate, the Series 2008A Bonds are subject to optional tender by the bondholders. If bonds, which are tendered, are not remarketed to new bondholders, pursuant to the letter of credit, the bank will purchase the tendered Series 2008A Bonds on behalf of the Obligated Group. The letter of credit expires, subject to certain exceptions and to the ability of the Obligated Group to request an extension of the stated expiration date, on November 30, 2015. If the bank purchases tendered Series 2008A Bonds pursuant to the letter of credit, no payments are due to the Bank with respect to such Bonds until 367 days after the bank purchases the tendered Series 2008A Bonds. Beginning on such 367th day, the Obligated Group must repay the principal amount of the purchased bonds in substantially equal semiannual installments (i) if the bond insurance policy is still in effect, over the subsequent five years or (ii) if the bond insurance policy has been canceled, over the subsequent three years.

On November 30, 2011, BSHSI terminated three irrevocable direct pay letters of credit that secured variable rate bonds originally issued in 2002 and 2008, respectively. On the same date, BSHSI entered into three new irrevocable direct pay letters of credit with a substitute letter of credit provider with respect to those 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 proceeds of the Series 2011 Bonds were used to (i) refund the Series 2008D-1 Bonds and Series 2008D-2 Bonds issued by the Economic Development Authority of the City of Norfolk, (ii) pay or reimburse DePaul Medical Center for the costs of acquiring, constructing, equipping, expanding, enlarging and improving its acute care hospital facilities and (iii) pay certain costs incurred in connection with the issuance of the Series 2011 Bonds and the refunding of the prior bonds. 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 Notes issued under the Master Indenture. In connection with the issuance of the Series 2011 Bonds, BSHSI, as Credit Group Representative under the Master Indenture, entered into a credit agreement with the Series 2011 Direct Purchase Bank, which contain 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 banks and insurance companies, which have provided credit enhancement with respect to BSHSI's other outstanding indebtedness.

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).

In addition, in December 2012, BSHSI entered into a new irrevocable, direct-pay letter of credit with an existing letter of credit provider that replaced the previous letter of credit securing the Industrial Development Authority of Hanover County Revenue Refunding Bonds, Series 2008D-2 (Bon Secours Health System, Inc.). This new irrevocable, direct-pay letter of credit expires in December 2015.

On January 9, 2013, a letter of credit facility provider issued irrevocable, direct-pay letters of credit to secure the South Carolina Jobs-Economic Development Authority Economic Development Revenue Refunding Bonds, Series 2008D (Bon Secours Health System, Inc.) and the Economic Development Authority of Hanover County Revenue Refunding Bonds, Series 2008D-1 (Bon Secours Health System, Inc.) pursuant to related reimbursements agreements. These letters of credit replaced previous letters of credit provided by a different bank with respect to those series of variable rate bonds. Each of the new irrevocable, direct-pay letters of credit expires in January 2018.

On January 11, 2013, BSHSI borrowed from 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 the proceeds of new bonds issued on January 11, 2013 in the aggregate principal amount of $302,190 (referred to as the Series 2013 Bonds). The proceeds were used to (i) pay or reimburse, or refinance certain indebtedness the proceeds of 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 year ended August 31, 2013 in connection with this transaction.

On July 11, 2013, BSHSI and certain other Members of the Obligated Group borrowed from the Virginia Small Business Financing Authority and the Economic Development Authority of Henrico County,

(Continued)

Virginia, the proceeds of new bonds issued on July 11, 2013 in the aggregate principal amount of $67,245 (referred to as the Series 2013B Bonds). 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) to hold for an initial term of up to 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, BSHSI, as Credit Group Representative under the Master Note, entered into agreements with the Series 2013B Direct Purchase Bank, which contains 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 banks and insurance companies which have provided credit enhancement with respect to BSHSI's other outstanding indebtedness. The System recognized a loss on extinguishment of debt of approximately $100 during the year ended August 31, 2013 in connection with this transaction.

Scheduled principal repayments on long-term debt are as follows:

2013	$	31,423
2014		28,495
2015		33,254
2016		35,668
2017		34,458
Thereafter		832,830
Total	$	996,128

The System has entered into four leases maturing in 5-10 years that are classified as capital leases for building and equipment. In addition, the System has consolidated two limited liability corporations with amounts outstanding under notes totaling $25,857 and $27,576 as of August 31, 2013 and 2012, respectively. Such notes have an interest rate of 7.75% and maturity dates in 2021.

Total interest expense was $37,386 and $42,358 for the years ended August 31, 2013 and 2012, respectively. Cash paid for interest was $40,313 and $42,602 for the years ended August 31, 2013 and 2012, respectively, and includes capitalized interest for construction projects of $2,080 and $2,648, net of investment income, for the years ended August 31, 2013 and 2012, 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.

At August 31, 2013 and 2012, 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, 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 following is a summary of the derivative instruments in place at August 31, 2012:

Description	Number	Outstanding notional amount	Pay rates	Maturity dates	Collateral posted at August 31, 2012	Counterparties	Mark to market	Collateral thresholds
Fixed payer	1	$ 50,710	3.448%	Nov-2025	$ —	Goldman Sachs	$ (7,612)	10,000
Fixed payer	1	76,065	3.491%	Nov-2025	—	Deutsche Bank	(11,611)	20,000
Fixed payer	2	121,875	4.460%/3.420%	Aug-2026/Nov-2028	—	Merrill Lynch	(27,409)	*
Fixed payer	2	121,350	4.485%/3.384%	Oct-2025/Oct-2026	14,285	JP Morgan	(29,441)	15,000
Fixed payer	1	69,925	3.454%	Nov-2042	—	PNC Bank	(22,976)	*
	7	439,925			14,285		(99,049)	
Fixed basis	1	200,000	SIFMA	Jan-2029	—	Citigroup	4,829	20,000
Variable basis	3	488,500	SIFMA	Nov-2029	—	Merrill Lynch	(7,305)	*
Total derivatives	11	$ 1,128,425			$ 14,285		(101,525)	$ 65,000
						Valuation adjustments	7,265	
							$ (94,260)	

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

The unrealized gains of $31,916 and unrealized losses of $6,178 for the years ended August 31, 2013 and 2012, 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 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, 2013 and 2012:

		Unrestricted net assets-controlling interest	Unrestricted net assets-noncontrolling interest	Total unrestricted net assets
Balance as of August 31, 2011	$	638,462	164,810	803,272
Excess of continuing revenues over expenses		91,018	21,023	112,041
Gain on discontinued operations		2,872	—	2,872
Grants for capital		5,235	—	5,235
Net change in unrealized gains on other than trading securities		438	—	438
Net assets released from restrictions used for purchase of property, plant, and equipment		3,537	—	3,537
Net change in equity of joint ventures		3,301	—	3,301
Distributions to noncontrolling interest owners		—	(7,042)	(7,042)
Pension and other postretirement adjustments		(129,750)	(218)	(129,968)
Transfers to affiliates and other changes, net		(6,270)	2,207	(4,063)
(Decrease) increase in net assets		(29,619)	15,970	(13,649)
Balance as of August 31, 2012		608,843	180,780	789,623

		Unrestricted net assets- controlling interest	Unrestricted net assets- noncontrolling interest	Total unrestricted net assets
Excess of continuing revenues over expenses	$	124,713	44,437	169,150
Gain on discontinued operations		1,700	—	1,700
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

(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 allows 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 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, 2013 and 2012. 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, 2013	Amounts in unrestricted net assets at August 31, 2012	Amounts in unrestricted net assets to be recognized in fiscal year 2014
Net prior service cost	$	153	366	105
Net actuarial losses		194,540	366,076	11,146
Transition asset		(7)	(14)	(7)
Total	$	194,686	366,428	11,244

The components of the funded status, net periodic benefit costs, and actuarial assumptions used in accounting for defined benefit pension plans for the years ended August 31, 2013 and 2012 are as follows:

		2013	2012
Change in projected benefit obligation:			
Net projected benefit obligation at beginning of year	$	943,395	750,554
Service cost		22,896	20,495
Interest cost		37,697	40,120
Actuarial loss		(120,179)	160,352
Gross benefits paid		(33,365)	(28,126)
Projected benefit obligation at end of year		850,444	943,395
Change in plan assets:			
Fair value of plan assets at beginning of year		496,857	439,987
Actual return on plan assets		59,385	52,870
Employer contributions		37,340	32,126
Gross benefits paid		(33,365)	(28,126)
Fair value of plan assets at end of year		560,217	496,857
Net amount recognized at end of year	$	(290,227)	(446,538)

(Continued)

		2013	2012
Accumulated benefit obligation at end of year	$	810,979	900,261
Amounts recognized in the consolidated balance sheets consist of:			
Accrued benefit costs – long term	$	(290,227)	(446,538)
Components of net periodic benefit cost:			
Service cost	$	22,896	20,495
Interest cost		37,697	40,120
Expected return on plan assets		(36,788)	(36,086)
Amortization of:			
Actuarial loss		28,759	12,749
Prior service cost		213	199
Transition asset		(7)	(7)
Total net periodic benefit costs	$	52,770	37,470

	2013	2012
Weighted average assumptions used to determine benefit obligations at August 31:		
Discount rate	5.10%	4.00%
Rate of compensation increase	3.00	3.00
Weighted average assumptions used to determine net periodic benefit cost at August 31:		
Discount rate	4.00%	5.35%
Expected return on plan assets	7.80	7.80
Rate of compensation increase	3.00	3.50

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, 30% fixed income/cash, and 5% alternatives. Equity investments are balanced between type and size of investment and investment managers are monitored against benchmarks. As of August 31, 2013 and 2012, the pension plan assets were allocated by asset category as follows:

	2013	2012
Asset category:		
Equity mutual and commingled funds and securities	67%	61%
Fixed income mutual funds and securities	23	28
Alternative investments	9	9
Cash	1	2
Total	100%	100%

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

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, 2012:

		Fair value	Fair value measurements Level 1	Level 2	Level 3
Investments:					
Cash and cash equivalents	$	22,231	22,231	—	—
Equity mutual funds		6,810	6,810	—	—
Equity commingled funds		55,591	—	55,591	—
Common and preferred stocks		233,424	233,424	—	—
Fixed income mutual funds		18,515	18,515	—	—
Government and agency bonds		45,948	44,909	1,039	—
Corporate obligations		70,761	—	69,973	788
Alternative investments		43,577	—	—	43,577
Total investments	$	496,857	325,889	126,603	44,365

There were no significant transfers between Levels 1, 2 and 3 during the years ended August 31, 2013 and 2012.

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
Beginning balance September 1, 2011	$	60	44,595	44,655
Total net gains realized		1	—	1
Total net gains (losses) unrealized		24	(1,018)	(994)
Purchases		1,011	—	1,011
Sales		(308)	—	(308)
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
Purchases		—	—	—
Sales		(791)	—	(791)
Ending balance August 31, 2013	$	—	48,217	48,217

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 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, 2013:

	Hedge Fund 1	Hedge Fund 2
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 $29,719 to its pension plans in fiscal year 2014.

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

2014	$ 46,262
2015	35,181
2016	37,342
2017	39,826
2018	42,154
2019 – 2023	255,171

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 approximately $34,297 and $29,060 towards these plans during the years ended August 31, 2013 and 2012, respectively. Total expense was $33,604 and $27,933 in 2013 and 2012, 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, 2013 and 2012 is $2,765 and $3,189, respectively.

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, 2012, the Archdiocesan Plan's market value of assets is $917,245 and the present value of accrued plan benefits is $1,276,488 resulting in a funded status of 71.9%. Contributions to the Archdiocesan Plan were $3,349 and $3,723 for the years ended August 31, 2013 and 2012, 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, 2011 and 2010. 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, 2011 and 2010, respectively.

The expiration date of the collective bargaining agreements requiring contributions to the plan are April 30, 2015 for service and maintenance units and June 30, 2015 for nursing units. The contributions by the System to the union pension fund were $10,013 and $7,523 for the years ended August 31, 2013 and 2012, respectively. There have been no significant changes that affect the comparability of 2013 and 2012 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, 2011 and 2010.

(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. 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, 2013 and 2012:

		2013	2012
Beginning balance	$	158,540	134,510
Provision for bad debts		216,295	242,585
Write-offs		(234,247)	(218,555)
Ending balance	$	140,588	158,540

(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 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. Since 2008, State Medicaid Integrity Programs (referred to as MIPs) have been initiated by CMS through contractors.

In addition to RAC and MIP 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 two audits underway. The outcome of these audits is 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 changes have been enacted by CMS in 2011, both of which present opportunities to the System. The first is value based purchasing. On May 6, 2011, CMS issued the final rule that establishes a hospital value-based purchasing program for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Value-based incentive payments are being 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. 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 change 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 in 2011. Beginning in federal fiscal year 2015, Medicare payment reduction penalties will be assessed against hospitals and EP's that do not achieve meaningful use of EHR. 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. During the year ended August 31, 2012, the System qualified for Medicare EHR incentive payments of approximately $12,400

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.

Effective for discharges beginning on October 1, 2012, the Hospital Readmissions Reductions 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 will increase to 3% by 2015 and be expanded to include readmissions for other medical conditions.

(12) Investments in Joint Ventures and Nonpublic Entities

The System has invested in a number of joint ventures, limited liability corporations and other nonpublic 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 $12,694 and $3,630 related to its equity interest for the years ended August 31, 2013 and 2012, respectively. Included in these amounts were the System's allocated share of investment gains of $5,409 and $3,077 for the years ended August 31, 2013 and 2012, respectively. In addition, adjustments of $986 and $3,310 were recorded as net change in equity of joint ventures in 2013 and 2012, respectively, to reflect the System's 27% interest in the net assets of this joint venture.

The total assets, total liabilities, and net assets as of August 31, 2013 and 2012 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:

		2013	2012
Total assets	$	873,931	840,650
Total liabilities		496,321	492,624
Net assets		377,610	348,026
Total revenue		741,287	772,411
Total expenses		727,944	771,818
Investment gains, net		33,670	11,247
Change in unrestricted net assets		29,584	15,708

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 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 $6,532 and $1,537 related to its equity interest for the years ended August 31, 2013 and 2012, respectively.

The total assets, total liabilities, and net assets as of August 31, 2013 and 2012 and the total revenue, total expenses, and change in unrestricted net assets for the twelve months then ended, for Sentara Princess Anne Hospital are as follows:

		2013	2012
Total assets	$	266,553	253,345
Total liabilities		169,690	176,396
Net assets		96,863	76,949
Total revenue		195,397	159,420
Total expenses		175,484	148,227
Change in unrestricted net assets		19,914	11,211

(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 $117,742 and $113,085 at August 31, 2013 and 2012, respectively. The current portion of such accruals, $18,333 at August 31, 2013 and $18,710 at August 31, 2012, is included in other accrued expenses, and the remainder, $99,409 at August 31, 2013 and $94,375 at August 31, 2012, 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.

(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 $53,492 and $45,051, of which the current portion, $7,600 and $8,500 at August 31, 2013 and 2012, respectively, is reported as other accrued expenses and the remainder, $45,892 and $36,551 at August 31, 2013 and 2012, 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, 2013 and 2012,

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 $18,011 and $18,286, include estimates for claims incurred but not reported, at August 31, 2013 and 2012, 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 $82,491 and $81,537 in 2013 and 2012, respectively. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

2014	$	63,971
2015		55,339
2016		41,786
2017		32,372
2018		26,764
Thereafter		58,910

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, 2013 and 2012, 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.

Subsequent to August 31, 2013, the System has entered into additional operating leases and developments as a matter of ongoing business.

(f) Guaranty Agreements

Affiliates of the System entered into several limited partnership agreements during the period from 1997 through 2010. 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 2010, 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. All such guaranty agreements are still in effect as of August 31, 2013. System affiliates have not been obligated to make any guarantee payments under the guaranty agreements to date through August 31, 2013. The maximum potential amount of future payments the System affiliates are obligated to make was $6,419 and $6,849 as of August 31, 2013 and 2012, 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 $7,710 and $8,044 at August 31, 2013 and 2012, 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 significant deficiencies at August 31, 2013 and 2012.

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, 2013 and 2012 is as follows:

		2013	2012
Healthcare services	$	2,935,985	2,786,775
General and administrative		297,504	301,147
Total expenses	$	3,233,489	3,087,922

(16) Subsequent Events

Management evaluated all events and transactions that occurred after August 31, 2013 and through October 29, 2013. The System did not have any material recognizable subsequent events during this period other than disclosed below.

On October 1, 2013 Premier Purchasing Partners, LP, a group purchasing organization in which BSHSI is a limited partner, sold 20% of its equity as part of an organizational restructuring and an affiliate's Initial Public Offering. BSHSI received a distribution from the restructuring proceeds of approximately $9,700. As a result of the distribution, BSHSI expects to record approximately $8,000 into income in fiscal year 2014.