



LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
LifeBridge Health, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of LifeBridge Health, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, 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 responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of LifeBridge Health, Inc. and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 3 to the consolidated financial statements, the Corporation acquired Carroll County Health Services Corporation. Our opinion is not modified with respect to this matter.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

October 26, 2015

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

| Assets | 2015 | 2014 |
|---|---------------------|------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 356,973 | 219,711 |
| Investments | 23,761 | 12,675 |
| Assets limited as to use, current portion | 30,565 | 11,873 |
| Patient service receivables, net of allowance for doubtful accounts of \$58,346 in 2015 and \$35,085 in 2014 | 142,212 | 121,324 |
| Other receivables | 10,164 | 6,559 |
| Inventory | 29,482 | 22,665 |
| Prepaid expenses | 19,079 | 10,719 |
| Pledges receivable, current portion | 6,693 | 4,298 |
| Total current assets | <u>618,929</u> | <u>409,824</u> |
| Board-designated investments | 250,000 | — |
| Long-term investments | 258,685 | 374,695 |
| Donor-restricted investments | 21,644 | 12,676 |
| Reinsurance recovery receivable | 15,935 | 13,365 |
| Assets limited as to use, net of current portion | 33,187 | 34,157 |
| Pledges receivable, net of current portion | 5,477 | 3,434 |
| Property and equipment, net | 595,143 | 459,638 |
| Deferred financing costs, net of accumulated amortization of \$767 in 2015 and \$633 in 2014 | 4,073 | 2,319 |
| Beneficial interest in split interest agreement | 4,628 | 4,633 |
| Investment in unconsolidated affiliates | 33,865 | 18,720 |
| Other assets, net | 43,082 | 16,939 |
| Total assets | <u>\$ 1,884,648</u> | <u>1,350,400</u> |

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

| Liabilities and Net Assets | 2015 | 2014 |
|--|---------------------|------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 117,874 | 86,384 |
| Accrued salaries, wages and benefits | 80,534 | 63,781 |
| Advances from third-party payors | 41,780 | 35,966 |
| Current portion of long-term debt and capital lease obligations | 14,711 | 6,198 |
| Other current liabilities | 14,418 | 9,382 |
| Total current liabilities | <u>269,317</u> | <u>201,711</u> |
| Other long-term liabilities | 130,856 | 100,147 |
| Long-term debt and capital lease obligations, net of current portion | 558,170 | 323,414 |
| Total liabilities | <u>958,343</u> | <u>625,272</u> |
| Net assets: | | |
| Unrestricted | 844,907 | 660,970 |
| Noncontrolling interest in consolidated subsidiaries | 3,922 | (192) |
| Total unrestricted net assets | <u>848,829</u> | <u>660,778</u> |
| Temporarily restricted | 61,660 | 49,703 |
| Permanently restricted | 15,816 | 14,647 |
| Total liabilities and net assets | <u>\$ 1,884,648</u> | <u>1,350,400</u> |

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

(Dollars in thousands)

| | 2015 | 2014 |
|---|--------------|-------------|
| Unrestricted revenues, gains and other support: | | |
| Patient service revenue (net of contractual allowances and discounts) | \$ 1,201,545 | 1,073,738 |
| Provision for bad debts | 54,845 | 56,245 |
| Net patient service revenue | 1,146,700 | 1,017,493 |
| Net assets released from restrictions used for operations | 3,665 | 3,935 |
| Other operating revenue | 62,764 | 56,357 |
| Total operating revenues | 1,213,129 | 1,077,785 |
| Expenses: | | |
| Salaries and employee benefits | 662,338 | 598,683 |
| Supplies | 195,387 | 174,446 |
| Purchased services | 201,240 | 173,441 |
| Depreciation, amortization and gain/loss on sale of assets | 62,957 | 62,053 |
| Repairs and maintenance | 19,774 | 18,912 |
| Interest | 20,687 | 18,997 |
| Total expenses | 1,162,383 | 1,046,532 |
| Operating income | 50,746 | 31,253 |
| Other income, net: | | |
| Investment income | 21,161 | 22,460 |
| Unrealized (losses) gains on trading investments | (10,978) | 31,232 |
| Other | 4,563 | 9 |
| Total other income, net | 14,746 | 53,701 |
| Excess of revenues over expenses before inherent contribution | 65,492 | 84,954 |
| Inherent contribution – CCHS | 134,032 | — |
| Excess of revenues over expenses | \$ 199,524 | 84,954 |

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total net assets</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Net assets at June 30, 2013 | \$ 562,818 | 47,190 | 14,540 | 624,548 |
| Excess of revenues over expenses | 84,954 | — | — | 84,954 |
| Unrealized gain on investments | — | 4,051 | 8 | 4,059 |
| Net assets released from restrictions used for the purchase of property and equipment | 5,202 | (5,202) | — | — |
| Restricted gifts and bequests | — | 7,051 | 102 | 7,153 |
| Net assets released from restrictions used for operations | — | (3,932) | (3) | (3,935) |
| Net change in value of beneficial interest in split interest agreement | — | 545 | — | 545 |
| Adjustment to pension liability | 7,623 | — | — | 7,623 |
| Other | 181 | — | — | 181 |
| Change in net assets | <u>97,960</u> | <u>2,513</u> | <u>107</u> | <u>100,580</u> |
| Net assets at June 30, 2014 | <u>660,778</u> | <u>49,703</u> | <u>14,647</u> | <u>725,128</u> |
| Excess of revenues over expenses | 199,524 | — | — | 199,524 |
| Inherent contribution – CCHS | — | 10,733 | 1,173 | 11,906 |
| Unrealized loss on investments | — | (370) | (3) | (373) |
| Net assets released from restrictions used for the purchase of property and equipment | 5,347 | (5,347) | — | — |
| Restricted gifts and bequests | — | 10,789 | 3 | 10,792 |
| Net assets released from restrictions used for operations | — | (3,661) | (4) | (3,665) |
| Net change in value of beneficial interest in split interest agreement | — | 5 | — | 5 |
| Adjustment to pension liability | (16,548) | — | — | (16,548) |
| Other | (272) | (192) | — | (464) |
| Change in net assets | <u>188,051</u> | <u>11,957</u> | <u>1,169</u> | <u>201,177</u> |
| Net assets at June 30, 2015 | \$ <u>848,829</u> | <u>61,660</u> | <u>15,816</u> | <u>926,305</u> |

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

| | 2015 | 2014 |
|--|-------------|-------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 201,177 | 100,580 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 62,697 | 62,076 |
| Loss (gain) on disposal of equipment | 260 | (23) |
| Gain on sale of Courtland Gardens | (3,409) | — |
| Change in pension liability | 16,548 | (7,623) |
| Provision for bad debts | 54,845 | 56,245 |
| Realized and unrealized gains on investments, net | (2,412) | (51,925) |
| Inherent contribution – CCHS | (145,938) | — |
| Restricted gifts and bequests | (10,789) | (7,153) |
| Change in beneficial interest of split interest agreement | 5 | (545) |
| Earnings on investments in unconsolidated affiliates | (5,342) | (3,229) |
| Change in operating assets and liabilities: | | |
| Increase in patient service receivables, net | (41,962) | (55,576) |
| Increase in other receivables | (1,021) | (1,336) |
| (Increase) decrease in pledges receivable | (4,438) | 1,316 |
| (Increase) decrease in inventory | (2,136) | 728 |
| Decrease in prepaid expenses | 115 | 196 |
| (Increase) decrease in reinsurance recovery receivable | (2,570) | 10,549 |
| Decrease (increase) in other assets | 5,877 | (10,159) |
| (Decrease) increase in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits | (10,462) | 7,390 |
| (Decrease) increase in advances from third-party payors | (944) | 1,210 |
| Increase (decrease) in other current and long-term liabilities | 1,121 | (14,351) |
| Net cash provided by operating activities | 111,222 | 88,370 |
| Cash flows from investing activities: | | |
| Change in donor-restricted investments | (8,968) | 2,024 |
| Addition of cash from CCHS acquisition | 15,719 | — |
| Change in long-term investments | (49,422) | 1,874 |
| Change in assets limited as to use | 28,098 | 4,912 |
| Investment in/distributions from unconsolidated affiliates, net | (6,543) | (10,561) |
| Additions to operating property | (44,462) | (47,128) |
| Proceeds from the sale of property | 31 | 17 |
| Settlement of swap | (13,998) | — |
| Acquisition of physician practices | (1,404) | (2,482) |
| Net cash used in investing activities | (80,949) | (51,344) |
| Cash flows from financing activities: | | |
| Payment on debt and capital lease obligations | (53,800) | (5,997) |
| Proceeds from issuance of debt | 150,000 | — |
| Restricted gifts and bequests | 10,789 | 7,153 |
| Net cash provided by financing activities | 106,989 | 1,156 |
| Net increase in cash and cash equivalents | 137,262 | 38,182 |
| Cash and cash equivalents: | | |
| Beginning of year | 219,711 | 181,529 |
| End of year | \$ 356,973 | 219,711 |
| Supplemental cash flow disclosures: | | |
| Cash paid during the year for interest | \$ 19,412 | 19,060 |
| Cash paid during the year for income taxes | 44 | 86 |
| Accounts payable related to purchase of operating property | 11,210 | 5,487 |

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(1) Organization

On October 1, 1998, Sinai Health System, Inc. merged with Northwest Health System, Inc. to form LifeBridge Health, Inc. (LifeBridge). LifeBridge is a not-for-profit, nonstock Maryland corporation.

LifeBridge's subsidiaries include Sinai Hospital of Baltimore, Inc. (Sinai); Northwest Hospital Center, Inc. (Northwest); Levindale Hebrew Geriatric Center and Hospital, Inc. (Levindale); Children's Hospital of Baltimore City, Inc.; The Baltimore Jewish Health Foundation, Inc. (BJHF); The Baltimore Jewish Eldercare Foundation, Inc. (BJEF); Children's Hospital at Sinai Foundation, Inc. (CHSF); LifeBridge Anesthesia Associates, LLC (LAA); LifeBridge Insurance Company, Ltd. (LifeBridge Insurance); LifeBridge Investments, Inc. (Investments); LifeBridge Health ACO, LLC; LifeBridge Physician Network, LLC; and 8600 Liberty Road, LLC. This group will be referred to as Legacy LifeBridge. Except for LifeBridge Insurance and Investments, all of the entities named above are not-for-profit and tax-exempt. Sinai and Levindale are constituent agencies of THE ASSOCIATED: Jewish Community Federation of Baltimore, Inc. (AJCF), a charitable corporation.

Effective April 1, 2015, Carroll County Health Services Corporation (CCHS), the parent of Carroll Hospital Center, Inc. (Carroll) and other related entities, became a subsidiary of LifeBridge. CCHS is further discussed below and the acquisition of CCHS by LifeBridge is further discussed in note 3.

Investments is a for-profit corporation that holds, directly and indirectly, interests in a variety of for-profit businesses. Investments' wholly owned subsidiaries include:

- *Practice Dynamics, Inc.*
- *LifeBridge Health and Fitness, LLC*
- *Sinai Eldersburg Real Estate, LLC*
- *David L. Zisow M.D., LLC*
- *General Surgery Specialists, LLC*
- *BW Primary Care, LLC*
- *LifeBridge Community Practices, LLC*
- *The Center for Urologic Specialties, LLC*
- *LifeBridge Roundwood Practices, LLC*
- *LifeBridge Community Physicians, LLC (Community Physicians)*

Investments also holds interests in numerous other health-related businesses.

Community Physicians is a for-profit corporation that provides physician and related services through numerous subsidiaries.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

Courtland Gardens Nursing and Rehabilitation Center, Inc. is a wholly owned subsidiary of Levindale. On September 1, 2014, Levindale sold substantially all of the assets of Courtland, except for cash and accounts receivable, for \$8,215.

CCHS is a not-for-profit, nonstock Maryland corporation. The accompanying consolidated financial statements include the accounts of CCHS and its wholly or partially owned subsidiaries since April 1, 2015, as described below.

Wholly owned subsidiaries of CCHS include:

Carroll Hospital Center, Inc (Carroll); Carroll Hospital Center Foundation, Inc. (Carroll Foundation); Carroll Hospice, Inc. (CH); Cen-Mar Assurance Co. (Cen-Mar); and Carroll Regional Cancer Center Physicians, LLC (CRCCP). Carroll also holds interests in various health-related companies.

Carroll County Med-Services, Inc. (CCMS) is a wholly owned, for-profit subsidiary of CCHS that is involved in real estate holdings, physician services, and other activities, and also maintains ownership interests in various joint ventures. Wholly owned subsidiaries of CCMS include: Carroll Health Group, LLC; Carroll County CMO, LLC; and Carroll PHO, LLC.

(2) Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All controlled and direct member entities are consolidated. The accompanying consolidated financial statements include the accounts of LifeBridge Health, Inc. and Subsidiaries (the Corporation). All entities where the Corporation exercises significant influence, but does not have control, are accounted for under the equity method. All other unconsolidated entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

(b) Cash and Cash Equivalents

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at the date of purchase.

(c) Assets Limited as to Use

Assets limited as to use primarily consists of assets held by trustees under bond indenture agreements, a self-insured workers' compensation reserve fund, and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

(d) Inventory

Inventories, which consist primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (using the moving average cost method of valuation) or market.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(e) ***Investments, Long-Term Investments and Donor-Restricted Investments***

The Corporation's investment portfolio is considered a trading portfolio and is classified as current or noncurrent assets based on management's intention as to use. All debt and equity securities are reported in the consolidated balance sheets at fair value, principally based on quoted market prices.

The Corporation has investments in alternative investments, primarily funds of hedge funds, totaling \$146,923 and \$125,198 at June 30, 2015 and 2014, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Also included in alternative investments are BJEF's and BJHF's funds that are invested on their behalf by the Associated Jewish Charities (AJC), an affiliate of AJCF. The underlying investments for these funds include cash of \$1,052, equities of \$25,672, private equity of \$2,945, fixed income of \$4,351, inflation hedging funds of \$2,820, and alternative investments of \$17,427. Alternative investments are recorded based on the Net Asset Value (NAV) of the shares in each investment company or partnership.

Investments in unconsolidated affiliates are accounted for under the cost or equity method of accounting as appropriate and are included in other assets and investment in unconsolidated affiliates, respectively, in the consolidated balance sheets. The Corporation's equity income or loss is recognized in other operating revenue within the excess of revenue over expenses in the accompanying consolidated statements of operations.

Investments also include assets restricted by donor, and assets designated by the Board of Directors for future capital improvements and other purposes over which it retains control and may, at its discretion, use for other purposes. Purchases and sales of securities are recorded on a trade-date basis.

Investment income (interest and dividends) including realized gains and losses on investment sales is reported as other income (expense) within the excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets unless the income or loss is restricted by the donor or law. Investment income on funds held in trust for self-insurance purposes is included in other operating revenue. Investment income and net gains (losses) that are restricted by the donor are recorded as a component of changes in temporarily or permanently restricted net assets, in accordance with donor-imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price. Unrealized gains and losses are included in other income, net within the excess of revenue over expenses.

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

- Level 2 Inputs – Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs – Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value measurements.

(f) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the period of the lease term or the estimated useful life of the equipment. Maintenance and repair costs are expensed as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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 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.

(g) *Deferred Financing Costs and Other Assets*

Deferred financing costs and other assets consist primarily of deferred financing costs, intangibles related to practice acquisitions, notes receivable, and the cash surrender value of split dollar life insurance. The deferred financing costs are amortized using the effective-interest method over the term of the related debt. Amortization expense was \$2,430 and \$3,780 for the years ended June 30, 2015 and 2014, respectively. Such amortization is included in depreciation and amortization in the consolidated financial statements.

(h) *Beneficial Interest in Split Interest Agreement*

CHSF holds a 25% interest in a trust, of which management has estimated the present value of the future income stream. CHSF will receive 25% of the net annual income over the next 10 years. At the end of this period in 2024, the trust will terminate, and 25% of the principal will be distributed to CHSF. Management has reported the beneficial interest at fair value based on the fair value of the underlying trust investments.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(i) *Advances from Third-Party Payors*

Advances from third-party payors are comprised of advance funding from CareFirst BlueCross BlueShield, Medicaid, Aetna, United/MAMSI, and other insurance providers.

(j) *Self-Insurance Programs*

The Corporation maintains self-insurance programs for professional and general liability, workers' compensation, and employee health benefits. The provision for estimated self-insurance program claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimates are based on historical trends, claims asserted, and reported incidents.

(k) *Other Long-Term Liabilities*

Other long-term liabilities consist of self-insurance liabilities, pension plan liabilities, asset retirement obligations, and deferred compensation plan liabilities.

(l) *Donor-Restricted Gifts*

Unconditional promises to give cash and other assets to the Corporation 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 those promises become unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(m) *Net Assets*

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of externally imposed stipulations. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to externally imposed stipulations.

Temporarily restricted net assets – Net assets subject to externally imposed stipulations that may or will be met either by actions of the Corporation and/or the passage of time.

Permanently restricted net assets – Net assets subject to externally imposed stipulations that they be maintained by the Corporation in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by externally imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless use of the related asset is limited by externally imposed restrictions or law. Expirations of temporary restrictions of net assets (i.e., the externally stipulated purpose has been fulfilled and/or the stipulated time period has

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as unrestricted operating revenue.

(n) Net Patient Service Revenue

Net patient service revenue for Sinai, Northwest, Carroll and the chronic hospital component of Levindale is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered. On January 29, 2014, the Corporation and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology, effective July 1, 2013, for Sinai, Northwest and Levindale. The Agreement will continue through June 30, 2015 and on July 1, 2014, and each year thereafter, the Agreement will renew for a one-year period unless it is canceled by the HSCRC or by the Hospital (the Agreement was not cancelled for the period ending June 30, 2016). The GBR model is a revenue constraint and quality improvement system, designed by the HSCRC to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in healthcare costs and improve healthcare delivery processes and outcomes. The GBR model is consistent with the Hospitals' mission to provide the highest value of care possible to their patients and the communities they serve.

The GBR agreement establishes a prospective, fixed revenue base "GBR cap" for the upcoming year. This includes both inpatient and outpatient regulated services. Under GBR, the Corporation's revenue for all HSCRC-regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year-end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. Beginning in Fiscal Year 2016, the GBR is adjusted for changes in market share. The market share adjustment adjusts revenue and volumes at a 50% variable cost factor and is designed to be revenue-neutral on a statewide basis. The GBR cap continues to be adjusted annually for inflation, and for changes in payor mix and uncompensated care. Beginning on July 1, 2014 and each year thereafter, the Corporation will receive an annual adjustment to its cap for the change in population in the Corporation's service area.

Effective July 1, 2010, Carroll and the HSCRC agreed to a three year contract for Carroll to implement the Total Patient Revenue (TPR) methodology, which was renewed for an additional three year period effective July 1, 2013. The TPR agreement establishes a prospective, fixed revenue base, the "TPR cap," for the upcoming year. This includes both inpatient and outpatient regulated services. Under TPR, Carroll's revenue for all HSCRC-regulated services is predetermined for the upcoming year, regardless of changes in volume, service mix intensity, or mix of inpatient or outpatient services that occurred during the year. The TPR agreement allows Carroll to adjust unit rates, within certain limits, to achieve the overall revenue base for Carroll at year end. Any overcharge or undercharge versus the TPR cap is prospectively added to the subsequent year's TPR cap. Beginning in Fiscal Year 2016, the TPR is adjusted for changes in market share. The market share adjustment is a revenue neutral adjustment which adjusts revenue and volumes at a 50% variable cost factor. The TPR cap continues to be adjusted annually for inflation, and for changes in payor mix and uncompensated care. Beginning

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in year three of the three-year contract, Carroll will receive an annual adjustment to its cap for the change in population in Carroll's service area. TPR is designed to encourage hospitals to operate efficiently by reducing utilization and managing patients in the appropriate care delivery setting.

Contractual adjustments, which represent the difference between amounts billed as patient service revenue and amounts paid by third-party payors, are accrued in the period in which the related services are rendered. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Medicare reimburses Northwest, Levindale and Courtland for skilled nursing services under the Medicare skilled nursing Prospective Payment System (PPS). Under PPS, the payment rate is based on patient resource utilization as calculated by a patient classification system known as Resource Utilization Groups.

Medicaid reimburses Levindale and Courtland for services rendered in their long-term care facilities based on their actual costs, however, beginning in January 2015, the cost from the 2012 cost reports was used to set Resource Utilization Group (similar to Medicare) rates which are adjusted for changes in case mix. The case mix from two quarters prior is used to adjust the rates on a quarterly basis.

All other patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

(o) Other Operating Revenue

Other operating revenue includes income of LifeBridge Health and Fitness LLC, revenue from retail pharmacy and other support services, and revenue generated from investments in joint ventures that offer health care services or services that support or complement the delivery of care.

(p) Grants

Federal grants are accounted for either as an exchange transaction or as a contribution based on terms and conditions of the grant. If the grant is accounted for as an exchange transaction, revenue is recognized as other operating revenue when earned. If the grant is accounted for as a contribution, the revenues are recognized as either other operating revenue or temporarily restricted contributions depending on the restrictions within the grant.

(q) Meaningful Use Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians, and certain other professionals when they adopt, implement, or upgrade certified electronic health record (EHR) technology or become "meaningful users," as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Incentive payments will be paid out over varying transitional schedules depending on the type of incentive (Medicare and Medicaid) and recipient (hospital or other eligible provider). Eligible hospitals can attest for both Medicare and Medicaid incentives, while physicians must select to attest for either Medicare or Medicaid incentives. For Medicare incentives,

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eligible hospitals receive payments over four years while eligible physicians receive payments over five years. For Medicaid incentives, eligible Maryland hospitals receive payments over four years and physicians receive payments over six years.

The Corporation recognizes EHR incentives when the payment is received. During the years ended June 30, 2015 and 2014, certain hospitals and physicians satisfied the meaningful use criteria. As a result, the Corporation recognized \$3,728 and \$4,494 of EHR incentives during fiscal years 2015 and 2014, respectively, in other operating revenue.

(r) ***Charity Care and Bad Debt***

Sinai, Northwest, Carroll, Levindale and Courtland provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The amount of charity care provided during the years ended June 30, 2015 and 2014, based on patient charges forgone, was \$9,179 and \$20,368, respectively. The total direct and indirect costs to provide the care amounted to approximately \$7,548 and \$16,918 for the years ended June 30, 2015 and 2014, respectively.

All patient accounts are handled consistently and appropriately to maximize cash flow and to identify bad debt accounts timely. Active accounts are considered bad debt accounts when they meet specific collection activity guidelines and/or are reviewed by the appropriate management and deemed to be uncollectible. Every effort is made to identify and pursue all account balance liquidation options, including but not limited to third party payor reimbursement, patient payment arrangements, Medicaid eligibility and financial assistance. Third party receivable management agencies provide extended business office services and insurance outsource services to ensure maximum effort is taken to recover insurance and self-pay dollars before transfer to bad debt. Contractual arrangements with third party collection agencies are used to assist in the recovery of bad debt after all internal collection efforts have been exhausted. In so doing, the collection agencies must operate consistently with the goal of maximum bad debt recovery and strict adherence with Fair Debt Collections Practices Act (FDCPA) rules and regulations, while maintaining positive patient relations.

| | <u>2015</u> | <u>2014</u> |
|---|------------------|-----------------|
| Beginning allowance | \$ 35,085 | 25,280 |
| Plus provision for bad debt | 54,845 | 56,245 |
| Less bad debt write-offs, net of recoveries | <u>(31,584)</u> | <u>(46,440)</u> |
| Ending allowance | <u>\$ 58,346</u> | <u>35,085</u> |

(s) ***Income Taxes***

LifeBridge and its not-for-profit subsidiaries have been recognized by the Internal Revenue Service as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

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LifeBridge's incorporated for-profit subsidiaries account for income taxes in accordance with Financial Accounting Standards Board (FASB) ASC Topic 740, *Income Taxes*. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change. The Corporation accounts for uncertain tax positions in accordance with ASC Topic 740.

(t) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

(u) Excess of Revenues over Expenses

The accompanying consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include changes in the funded status of defined-benefit pension plans, permanent transfers of assets to and from affiliates for other than goods and services, the cumulative effect of a change in accounting principles, and contributions received for additions of long-lived assets.

(v) Employee Pension Plan

Pension benefits are administered by the Corporation. The Corporation accounts for its defined-benefit pension plans within the framework of ASC Topic 958, *Not-for-Profit Entities, Section 715, Compensation-Retirement Benefits* (Topic 958, Section 715), which requires the recognition of the overfunded or underfunded status of a defined-benefit pension plan as an asset or liability. The plans are subject to annual actuarial evaluations, which involve various assumptions creating changes in elements of expense and liability measurement. Key assumptions include the discount rate, the expected rate of return on plan assets, retirement, mortality, and turnover. The Corporation evaluates these assumptions annually and modifies them as appropriate.

Additionally, Topic 958, Section 715 requires the measurement date for plan assets and liabilities to coincide with the employer's year-end and requires the disclosure in the notes to the consolidated financial statements of additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. During fiscal year 2015, LifeBridge adopted the RP-2014 Mortality Table with generational improvements. See footnote 11 for further discussion.

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(3) Carroll County Health Services Corporation

The Corporation became the sole corporate member of CCHS and all of its subsidiaries on April 1, 2015. Beginning on that date the financial position and results of operations of CCHS were consolidated. As part of the transaction, LifeBridge contributed \$50,000 to Carroll Foundation to be used solely in furtherance of the Foundation's charitable purposes of supporting the missions of CCHS and other charitable CCHS Affiliates (the Foundation Contribution), and LifeBridge committed to provide \$250,000 to meet the strategic needs of CCHS and its affiliates. LifeBridge established a \$250,000 board-designated fund containing the funds required to meet the commitment. The affiliation was accounted for under the purchase accounting method for business combinations. As a result, the Corporation recorded an inherent contribution related to the transaction of \$145,938.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at April 1, 2015 (the acquisition date prior to the Foundation Contribution):

| | |
|----------------------------------|-------------------|
| Assets: | |
| Current assets | \$ 91,236 |
| Property and equipment | 144,403 |
| Other long-term assets | 144,079 |
| Total assets | <u>\$ 379,718</u> |
| Liabilities: | |
| Current liabilities | \$ 58,769 |
| Long-term liabilities | 175,011 |
| Total liabilities | <u>233,780</u> |
| Net assets: | |
| Unrestricted | 134,032 |
| Temporarily restricted | 10,733 |
| Permanently restricted | 1,173 |
| Total net assets | <u>145,938</u> |
| Total liabilities and net assets | <u>\$ 379,718</u> |

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The following table summarizes the Corporation's pro forma consolidated results as though the acquisition occurred at July 1:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------|-------------------|----------------|
| Total operating revenues | \$ 1,435,203 | 1,364,206 |
| Operating income | 51,757 | 38,293 |
| Other income, net | 144,690 | 61,366 |
| Changes in net assets: | | |
| Unrestricted | \$ 184,931 | 112,668 |
| Temporarily restricted | 12,488 | 2,290 |
| Permanently restricted | <u>1,169</u> | <u>107</u> |
| Total changes in net assets | <u>\$ 198,588</u> | <u>115,065</u> |

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(4) Investments

Investments, which consist of assets limited as to use, board-designated investments, donor-restricted investments, and long-term investments in the accompanying consolidated balance sheets, are stated at fair value or under the equity method, as appropriate, as of June 30, 2015 and 2014, and consist of the following:

| | 2015 | 2014 |
|--|-------------|-------------|
| Assets limited as to use: | | |
| Self-insurance fund: | | |
| Cash and cash equivalents | \$ 3,128 | — |
| Mutual funds | 2,197 | — |
| Equity securities | 7,106 | 8,346 |
| U.S. Treasury | 11,389 | 10,273 |
| Government securities | 1,705 | 2,006 |
| Fixed income | 11,350 | 9,160 |
| Alternative investments | 4,364 | 4,372 |
| Self-insurance fund | 41,239 | 34,157 |
| Debt service fund: | | |
| Cash and cash equivalents | 11,501 | 10,221 |
| Government securities | 7,328 | 1,652 |
| Debt Service Fund | 18,829 | 11,873 |
| Collateral held for lines of credit and other: | | |
| Cash and cash equivalents | 89 | — |
| Mutual funds | 1,230 | — |
| Equity securities | 2,297 | — |
| Fixed income | 68 | — |
| Collateral held for lines of credit | 3,684 | — |
| Less current portion | (30,565) | (11,873) |
| Assets limited as to use, net of current portion | \$ 33,187 | 34,157 |
| Donor-restricted investments: | | |
| Cash and cash equivalents | \$ 5,418 | 3,617 |
| Mutual funds | 6,082 | 3,055 |
| Equity securities | 2,091 | 969 |
| U.S. Treasury | 3,238 | 2,057 |
| Government securities | 3,324 | 2,282 |
| Fixed income | 1,205 | 696 |
| Alternative investments | 286 | — |
| Donor-restricted investments | \$ 21,644 | 12,676 |
| Beneficial interest in split interest agreement | \$ 4,628 | 4,633 |

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There are other investments restricted by donors other than pledges receivable, donor-restricted investments, and beneficial interest that are included in long-term investments as of June 30, 2015 and 2014. As of June 30, 2015 and 2014 current, long-term, and board-designated investments are as follows:

| | 2015 | 2014 |
|---|-------------|-------------|
| Current, long-term, and board-designated investments: | | |
| Cash and cash equivalents | \$ 56,619 | 4,249 |
| Mutual funds | 165,392 | 110,780 |
| Equity securities | 132,483 | 136,221 |
| Government securities | 8,849 | 2,097 |
| Fixed income | 26,830 | 13,197 |
| Alternative investments | 142,273 | 120,826 |
| Current, long-term and board-designated investments | 532,446 | 387,370 |
| Less current portion | (23,761) | (12,675) |
| Long-term and board-designated investments | \$ 508,685 | 374,695 |

Investment income and gains and losses on long-term investments, board-designated investments, donor-restricted investments, and assets limited as to use are comprised of the following for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|--|-------------|-------------|
| Investment income: | | |
| Interest income and dividends | \$ 7,398 | 9,259 |
| Realized gains on sale of securities | 13,763 | 13,201 |
| Investment income | 21,161 | 22,460 |
| Unrealized (losses) gains on trading securities | (10,978) | 31,232 |
| Other changes in net assets: | | |
| Changes in unrealized gains on temporarily and permanently restricted net assets | (373) | 4,059 |
| Total investment return | \$ 9,810 | 57,751 |

(5) Pledges Receivable

Contributions and pledges to raise funds are recorded as temporarily restricted net assets until the donor-intended purpose is met and the cash is collected. Future pledges are discounted at the treasury bill rate to reflect the time value of money, and an allowance for potentially uncollectible pledges has been established.

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Sinai, Northwest, Carroll, and Levindale have recorded total pledges as of June 30, 2015 and 2014 as follows:

| | 2015 | 2014 |
|--------------------------------------|-------------|-------------|
| Gross pledges receivable | \$ 15,878 | 11,128 |
| Less: | | |
| Discount for time value of money | (1,232) | (1,261) |
| Allowance for uncollectible accounts | (2,476) | (2,135) |
| | \$ 12,170 | 7,732 |

Total future payments are as follows:

| | |
|---------------------------|-----------|
| Less than one year | \$ 8,492 |
| One to five years | 6,657 |
| Five years and thereafter | 729 |
| | \$ 15,878 |

(6) Property and Equipment

As described in note 13, Sinai and Levindale leases from an affiliate of AJCF lease all land, land improvements, buildings, and fixed equipment located at those entities' primary locations; LifeBridge entities own the movable equipment. Property and equipment are classified as follows at June 30:

| | Estimated useful life | 2015 | 2014 |
|-------------------------------|----------------------------------|-------------|-------------|
| Land | | \$ 7,302 | 2,838 |
| Land improvements | 8 to 20 years | 35,913 | 11,964 |
| Building and improvements | 10 to 40 years | 829,588 | 663,248 |
| Fixed equipment | 8 to 20 years | 88,710 | 52,702 |
| Movable equipment | 3 to 15 years | 453,896 | 305,244 |
| | | 1,415,409 | 1,035,996 |
| Less accumulated depreciation | | (867,451) | (619,292) |
| | | 547,958 | 416,704 |
| Construction in progress | | 47,185 | 42,934 |
| Property and equipment, net | | \$ 595,143 | 459,638 |

Depreciation, amortization, and gain/loss on sale of assets were \$62,957 and \$62,053 for the years ended June 30, 2015 and 2014, respectively. Of this, depreciation expense was \$60,267 and \$58,296 for the years ended June 30, 2015 and 2014, respectively.

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Included in property and equipment is building and equipment, net of accumulated amortization, of \$9,258 and \$9,849 for the years ended June 30, 2015 and 2014, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was \$21,222 and \$16,583 at June 30, 2015 and 2014, respectively.

(7) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under the equity method, consist of the following at June 30, 2015 and 2014:

| <u>Joint Venture</u> | <u>Business purpose</u> | <u>2015</u> | | <u>2014</u> | |
|--|----------------------------|-----------------------------|------------------|-----------------------------|------------------|
| | | <u>Percentage ownership</u> | <u>Balance</u> | <u>Percentage ownership</u> | <u>Balance</u> |
| MNR Industries, LLC | Urgent Care Centers | 40% | \$ 23,123 | 40% | \$ 12,873 |
| Riverside Health of Maryland, Inc. | Medicaid Managed Care Plan | 20 | 2,736 | 20 | 2,314 |
| Mt. Airy Plaza, LLC | Real Estate | 50 | 1,649 | — | — |
| LifeBridge Sports Medicine & Rehabilitation, LLC | Physical Therapy | 50 | 1,165 | 50 | 1,217 |
| Carroll Care Pharmacies, LLC | Pharmacies | 49 | 1,018 | — | — |
| Other Joint Ventures | Miscellaneous | 0.12–50 | 4,174 | 25–50 | 2,316 |
| | Total | | <u>\$ 33,865</u> | | <u>\$ 18,720</u> |

For those joint ventures and partnerships accounted for using the equity method, LifeBridge recorded equity in earnings of joint ventures and partnerships. For those joint ventures and partnerships accounted for using the cost method, LifeBridge recorded dividend income. Such amounts are included in other operating revenue in the consolidated statements of operations.

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(8) Long-Term Debt and Capital Lease Obligations

As of June 30, long-term debt and capital lease obligations consist of the following:

| | 2015 | 2014 |
|---|-------------|-------------|
| Maryland Health and Higher Educational Facilities Authority (MHHEFA): | | |
| Revenue Bonds Series 2006 | \$ 35,000 | — |
| Revenue Bonds Series 2008 | 266,285 | 269,405 |
| Revenue Bonds Series 2011 | 48,315 | 49,130 |
| Revenue Bonds Series 2012A | 56,620 | — |
| Other debt: | | |
| Bank of America line of credit | 100,000 | — |
| M&T Bank taxable loan | 50,000 | — |
| Mortgage Payable line of credit | 2,351 | — |
| Capital leases | 7,206 | 8,299 |
| Other | 343 | 343 |
| | 566,120 | 327,177 |
| Less current portion | (14,711) | (6,198) |
| Unamortized premium | 6,805 | 2,482 |
| Unamortized discount | (44) | (47) |
| Long-term debt, net | \$ 558,170 | 323,414 |

In November 2006, the Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) loaned \$35,000 from the proceeds of bonds (Series 2006 Bonds) to CCHS and certain of its subsidiaries, resulting in proceeds of \$35,000. The Series 2006 Bonds included \$3,165 of term bonds maturing in 2026, \$7,420 of term bonds maturing in 2036, and \$24,415 of term bonds maturing in 2040, bearing interest at fixed rates of 4.5%, 5.0%, and 5.0%, respectively.

In January 2008, MHHEFA loaned \$285,815 from the proceeds of bonds (Series 2008 Bonds) to LifeBridge and certain of its subsidiaries. Portions of the Series 2008 Bonds are payable on July 1 of each year through 2047. The Series 2008 Bonds bear interest at a weighted fixed rate of 5.35%.

In March 2011, the Authority loaned \$50,695 from the proceeds of bonds (Series 2011 Bonds) to LifeBridge and certain of its subsidiaries. Portions of the Series 2011 Bonds are payable on July 1 of each year through 2041. The Series 2011 Bonds bear interest at a weighted fixed rate of 5.99%.

In May 2012, MHHEFA loaned \$89,790 from the proceeds of bonds (Series 2012A Bonds) to CCHS and certain of its subsidiaries (the Series 2012 Bonds). The Series 2012 Bonds were issued in three series: \$26,995 of serial bonds maturing in 2013 through 2027, \$7,505 of term bonds maturing in 2030, and \$25,280

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of term bonds maturing in 2037 (Series 2012A Bonds); \$15,010 of term bonds maturing in 2037 (Series 2012B Bonds); and \$15,000 of term bonds maturing in 2042 (Series 2012C Bonds).

On April 1, 2015, LifeBridge established a two-year loan facility with Bank of America in the amount of \$250,000 (2015 Line of Credit) that matures on March 31, 2017, with a variable rate of interest on amounts drawn of 30-day LIBOR plus 88 basis points (1.07% at June 30, 2015). The 2015 Line of Credit is secured on parity with the Series 2008 and 2011 Bonds. On April 1, 2015, LifeBridge drew \$100,000 on the 2015 Line of Credit, of which \$50,000 was transferred to Carroll Foundation for the Foundation Contribution and \$39,800 was used to pay off the Series 2012B and 2012C Bonds Bank.

On May 1, 2015, a single obligated group (the Obligated Group) was formed, consisting of LifeBridge, Sinai, Northwest, Levindale, BJHF, CHSF, CCHS, Carroll, CCMS, CHG, CH, and CRCCP. Members of the Obligated Group are jointly and severally liable for all of the outstanding bonds issued by the Authority on behalf of LifeBridge and CCHS and their respective affiliates, together with the other obligations on parity with such bonds.

The Series 2006, 2008, 2011, and 2012A Bonds are governed by a Master Loan Agreement. Under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. In addition, the Master Loan Agreement requires Obligated Group members to adhere to limitations on mergers, disposition of assets, and additional indebtedness and certain financial covenants. The financial covenants include a rate covenant, which requires the Obligated Group to achieve a debt service coverage ratio of 1.10; a liquidity covenant, which requires the Obligated Group to maintain 65 days cash on hand; and a debt-to-capitalization covenant, which requires the Obligated Group to maintain a debt-to-capitalization ratio of not more than 65%, all measured as of June 30 in each fiscal year. In the fiscal year ended June 30, 2015, the Obligated Group met all of its covenants.

On June 26, 2015, LifeBridge entered into a \$50,000 direct bank placement with M&T Bank (2015 M&T Loan). The interest rates range from 1.57% to 3.28%, with maturity dates ranging from July 1, 2016 to July 1, 2025. The 2015 M&T Loan is secured on parity with the bonds.

CCHS has a \$3,500 line of credit with BB&T for property acquisition. The line of credit is interest only, payable at 30-day LIBOR plus 1.7%. The line matures on February 24, 2016. Currently, the line of credit has an outstanding balance of \$2,300 and CCHS has pledged securities of \$3,700 against the line.

On April 28, 2015, Carroll entered into a termination agreement related to its floating-to-fixed interest rate swap agreement with Bank of America. Carroll paid Bank of America \$13,998 to terminate the swap agreement. The Corporation recognized a realized gain on settlement of approximately \$600. This amount was recognized within other income, net within the consolidated statements of operations.

The Corporation is obligated under several noncancelable capital leases for hospital equipment and office building space.

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The total future principal payments on long-term debt and capital lease payments are as follows:

| | MHHEFA and other debt | Capital lease obligations |
|-----------------------|----------------------------------|--------------------------------------|
| Years ending June 30: | | |
| 2016 | \$ 12,354 | 3,730 |
| 2017 | 110,792 | 2,344 |
| 2018 | 10,750 | 1,070 |
| 2019 | 11,140 | 1,022 |
| 2020 | 11,605 | 1,022 |
| Thereafter | 402,273 | 936 |
| | \$ 558,914 | 10,124 |
| Less interest portion | | (2,918) |
| | | \$ 7,206 |

(9) M&T Bank Line of Credit

Sinai maintains a \$5,000 line of credit with M&T Bank. As of June 30, 2015 and 2014, there were no balances outstanding on this line of credit.

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

| | 2015 | 2014 |
|-------------------------------------|-------------|-------------|
| Healthcare services: | | |
| Capital equipment/construction | \$ 24,824 | 24,790 |
| Other healthcare services: | | |
| Service grants | 215 | 149 |
| Donor-specified healthcare services | 20,491 | 11,939 |
| Enrichment and research | 16,130 | 12,825 |
| | \$ 61,660 | 49,703 |

Permanently restricted net assets of \$15,816 and \$14,647 at June 30, 2015 and 2014, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(11) Employee Benefit Plans

(a) LifeBridge Health Pension Plans (Sinai and Levindale)

The Corporation sponsors noncontributory defined-benefit pension plans (the Sinai/Levindale Plans) covering full-time, nonunion and union employees of Sinai and Levindale. Annual contributions to the

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Sinai/Levindale Plans are made at a level equal to or greater than the funding requirement as determined by the Sinai/Levindale Plans' consulting actuary. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The following tables set forth the Sinai/Levindale Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|--|---------------------------|---------------------------|
| | June 30, 2015 | June 30, 2014 |
| Measurement date | | |
| Change in projected benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 174,787 | 159,218 |
| Service cost | 7,490 | 6,769 |
| Interest cost | 7,369 | 7,138 |
| Actuarial loss | 6,933 | 7,531 |
| Benefits paid | (10,321) | (5,462) |
| Expenses paid from assets | <u>(450)</u> | <u>(407)</u> |
| Benefit obligation at end of year | <u>185,808</u> | <u>174,787</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 157,068 | 130,332 |
| Actual return on plan assets | 3,666 | 22,519 |
| Company contributions | 8,694 | 10,086 |
| Benefits paid | (10,321) | (5,462) |
| Expenses paid from assets | <u>(450)</u> | <u>(407)</u> |
| Fair value of plan assets at end of year | <u>158,657</u> | <u>157,068</u> |
| Funded status | \$ <u><u>(27,151)</u></u> | \$ <u><u>(17,719)</u></u> |

Amounts recognized in the consolidated financial statements consist of the following at June 30:

| | <u>2015</u> | <u>2014</u> |
|--|-------------------------|-------------------------|
| Amounts recognized in the consolidated balance sheets: | | |
| Other long-term liabilities | \$ 27,151 | 17,719 |
| Amounts recognized in unrestricted net assets: | | |
| Net actuarial loss | \$ 41,086 | 27,984 |
| Prior service cost | <u>43</u> | <u>132</u> |
| | \$ <u><u>41,129</u></u> | \$ <u><u>28,116</u></u> |

The Corporation has estimated \$10,523 for its defined-benefit contributions to the Sinai/Levindale Plans for the fiscal year ending June 30, 2016. The accumulated benefit obligation is \$169,323 and \$158,145 at June 30, 2015 and 2014, respectively.

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Net periodic pension expense for the years ended June 30, 2015 and 2014 was as follows:

| | <u>2015</u> | <u>2014</u> |
|------------------------------------|-----------------|--------------|
| Service cost | \$ 7,490 | 6,769 |
| Interest cost | 7,369 | 7,138 |
| Expected return on plan assets | (10,982) | (9,413) |
| Amortization of net loss | 1,149 | 2,042 |
| Amortization of prior service cost | 89 | 89 |
| Net periodic benefit cost | <u>\$ 5,115</u> | <u>6,625</u> |

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year are \$2,383 and \$43, respectively.

Actuarial assumptions used were as follows:

| | <u>2015</u> | <u>2014</u> |
|--|----------------|----------------|
| Assumptions used to determine annual pension expense: | | |
| Discount rate | 4.40% | 4.70% |
| Expected return on plan assets | 7.25 | 7.50 |
| Rate of compensation increase | 2.50 | 2.50 |
| Assumptions used to determine end-of-year liabilities: | | |
| Discount rate | 4.47% | 4.40% |
| Expected return on plan assets | 7.00 | 7.25 |
| Rate of compensation increase | 2.50 | 2.50 |
| Plan asset allocation: | | |
| Asset category: | | |
| Cash and cash equivalents | 2.00% | 1.00% |
| Fixed income/debt securities | 25.00 | 24.00 |
| Equity securities | 48.00 | 50.00 |
| Alternative investments | 25.00 | 25.00 |
| Total | <u>100.00%</u> | <u>100.00%</u> |

In selecting the expected long-term rate on asset assumption, Sinai and Levindale considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of these

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plans. This included considering the Sinai/Levindale Plans' asset allocation and the expected returns likely to be earned over the life of the plans:

| | <u>Target</u> |
|------------------------------|---------------|
| Target allocation on assets: | |
| Equity securities | 45% |
| Alternative investments | 30 |
| Fixed income/debt securities | 25 |

Following are the expected benefit payments to be disbursed from plan assets:

| Years ending June 30: | |
|-----------------------|----------|
| 2016 | \$ 9,360 |
| 2017 | 10,997 |
| 2018 | 11,168 |
| 2019 | 11,418 |
| 2020 | 11,820 |
| Thereafter | 63,114 |

The fair values of assets of the Sinai/Levindale Plans held by PNC Institutional Investments by level at June 30, 2015 were as follows:

| | <u>Pension benefits – plan assets</u> | | | |
|---------------------------|---------------------------------------|----------------|----------------|--------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets: | | | | |
| Cash and cash equivalents | \$ 5,411 | — | — | 5,411 |
| Mutual funds | 53,314 | — | — | 53,314 |
| Fixed income | — | 6,140 | — | 6,140 |
| Equity securities | 57,330 | — | — | 57,330 |
| Alternative investments | — | — | 36,462 | 36,462 |
| Total assets | \$ 116,055 | 6,140 | 36,462 | 158,657 |

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The fair values of assets of the Sinai/Levindale Plans held by PNC Institutional Investments by level at June 30, 2014 were as follows:

| | Pension benefits – plan assets | | | |
|---------------------------|---------------------------------------|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Cash and cash equivalents | \$ 5,146 | — | — | 5,146 |
| Mutual funds | 56,073 | — | — | 56,073 |
| Fixed income | — | 5,157 | — | 5,157 |
| Equity securities | 56,677 | — | — | 56,677 |
| Alternative investments | — | — | 34,015 | 34,015 |
| Total assets | \$ <u>117,896</u> | <u>5,157</u> | <u>34,015</u> | <u>157,068</u> |

For the years ended June 30, 2015 and 2014, there were no significant transfers into or out of Levels 1, 2, or 3.

Changes to the fair values based on the Level 3 inputs are summarized as follows:

| | Total |
|-----------------------------|------------------|
| Balance as of June 30, 2014 | \$ 34,015 |
| Additions: | |
| Contributions/purchases | 1,171 |
| Disbursements: | |
| Withdrawals/sales | (1,063) |
| Net change in value | <u>2,339</u> |
| Balance as of June 30, 2015 | \$ <u>36,462</u> |

The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2015:

| | Fund 1 | Fund 2 | Fund 3 | Fund 4 | Fund 5 |
|--|---------------|---------------|---------------|---------------|---------------|
| Redemption timing: | | | | | |
| Redemption frequency | Quarterly | Quarterly | Quarterly | Annually | Monthly |
| Required notice | 33 days | 65 days | 65 days | 45 days | 30 days |
| Audit reserve: | | | | | |
| Percentage held back for audit reserve | 10% | 5% | 10% | —% | —% |

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(b) Carroll Plan

CCHS sponsors a Defined Benefit Cash Balance Plan (the Carroll Plan) covering employees of Carroll, CCMS, and Carroll Foundation. CCHS's funding policy is to make contributions to the Carroll Plan based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code, plus such amounts as CCHS may determine to be appropriate from time to time. Under the cash balance plan structure, the benefits under the Carroll Plan are determined based on employee tenure rather than age. CCHS elected to freeze benefit accruals and participation in the Carroll Plan on December 31, 2006.

The information below includes the activity of CCHS for the year ended June 30, 2015. As discussed in footnote 3, the statements of operations only includes the CCHS activity for the period April 1, 2015 to June 30, 2015.

The following tables set forth the changes in the projected benefit obligation, the changes in the Carroll Plan's assets, the Carroll Plan's funded status, the amounts recognized in the consolidated financial statements, and the Carroll Plan's net periodic pension cost as of June 30, 2015:

| Measurement date | June 30, 2015 |
|--|-------------------|
| Change in projected benefit obligation: | |
| Projected benefit obligation at July 1, 2014 | \$ 66,031 |
| Interest cost | 2,755 |
| Actuarial loss | 1,919 |
| Benefits paid | <u>(2,207)</u> |
| Projected benefit obligation at end of year | <u>68,498</u> |
| Change in plan assets: | |
| Fair value of plan assets at beginning of year | 58,548 |
| Actual return on plan assets | 1,190 |
| Employer contribution | 3,600 |
| Benefits paid | <u>(2,207)</u> |
| Fair value of plan assets at end of year | <u>61,131</u> |
| Funded status | <u>\$ (7,367)</u> |

The accumulated benefit obligation for the Plan was \$68,498 at June 30, 2015.

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Net periodic pension expense for the year ended June 30, 2015 was as follows:

| | |
|---|---------------------|
| Components of net periodic pension expense: | |
| Interest cost | \$ 2,755 |
| Expected return on plan assets | (4,140) |
| Amortization of actuarial loss | <u>1,484</u> |
| Net periodic pension expense | <u><u>\$ 99</u></u> |

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year is \$1,869.

Assumptions to determine the benefit obligation as of June 30, 2015 (the measurement date) were as follows:

| | |
|---------------|-------|
| Discount rate | 4.47% |
|---------------|-------|

Assumptions used in the determination of net periodic pension expense for the year ended June 30, 2015 were as follows:

| | |
|--|-------|
| Discount rate | 4.25% |
| Expected long-term rate of return on plan assets | 7.00 |

Deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in unrestricted net assets, are \$24,742 at June 30, 2015. Deferred pension costs represent unrecognized actuarial losses or unexpected changes in the projected benefit obligation and plan assets over time primarily due to changes in assumed discount rates and investment experience. The amount of deferred pension costs expected to be recognized as a component of net periodic pension costs during the year ended June 30, 2016 is \$559.

CCHS's weighted average asset allocations for the plan assets as of June 30, 2015 were as follows:

| | |
|------------------------------------|----------------------|
| Mutual funds and equity securities | 30.0% |
| Government and corporate bonds | 45.0 |
| Alternative investments | 18.0 |
| Cash and cash equivalents | <u>7.0</u> |
| | <u><u>100.0%</u></u> |

Pension plan assets are invested in accordance with the CCHS's investment policy statement objectives in an attempt to maximize return with reasonable and prudent levels of risk. This structure

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includes various assets classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. CCHS periodically reviews performance to test progress toward attainment of longer term targets, to compare results with appropriate indices and peer groups, and to assess overall investment risk levels.

The following table presents the Plan’s assets measured at fair value at June 30, 2015:

| | Pension benefits – plan assets | | | |
|---------------------------|---------------------------------------|--------|--------|--------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 4,205 | — | — | 4,205 |
| Mutual funds | 34,102 | — | — | 34,102 |
| Fixed income | — | 12,199 | — | 12,199 |
| Equity Securities | — | — | — | — |
| Alternative investments | — | — | 10,625 | 10,625 |
| | | | | |
| Total assets | \$ 38,307 | 12,199 | 10,625 | 61,131 |

During fiscal year 2015, Level 3 investments within the pension plan assets decreased by \$78. This decrease was the result of purchases of \$0, redemptions of \$447 and gain on earnings in investments of \$369. There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2015 and 2014.

CCHS follows ASU No. 2009-12, and applied its provisions 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 (NAV) or its equivalent. The alternative investments classified within Level 3 of the fair value hierarchy have been recorded using NAV.

The Carroll Plan invests in alternative investments which are primarily hedge fund of funds and real estate funds.

For the alternative investments, redemption requests can be made either quarterly or annually. The notice required in order to make a redemption is within a range of 65 to 100 days. The audit reserve requirements are 10% for each fund. There are generally no gate provisions with the exception of one fund which has a gate of 25% of net asset value (NAV).

CCHS expects to contribute \$3,600 to the Carroll Plan in 2016.

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The following benefit payments, which reflect future services, as appropriate, are expected to be paid from the Plan's assets during the years ending June 30:

| | | |
|-----------|----|---------------|
| 2016 | \$ | 2,587 |
| 2017 | | 2,684 |
| 2018 | | 2,817 |
| 2019 | | 2,992 |
| 2020 | | 3,212 |
| 2021–2025 | | 18,660 |
| | \$ | <u>32,952</u> |

CCHS expensed total employee contributions of \$290 for the three months April-June 2015.

(c) ***Contributory Plans***

Northwest has a qualified noncontributory defined-contribution pension plan (the NW Plan) covering substantially all employees who work at least 1,000 hours per year, who have completed two years of continuous service as of the beginning of the plan year, and who have attained the age of 21 as of the beginning of the plan year. Participants in the NW Plan are 100% vested. Northwest makes annual contributions to the NW Plan equivalent to 1.5% of the participants' salaries for employees who have been in the NW Plan from 1 to 5 years, 4.0% for those in the plan from 6 to 19 years, and 6.5% thereafter. It is Northwest's policy to fund plan costs as they accrue. Plan expense was approximately \$2,794 and \$2,236 for the years ended June 30, 2015 and 2014, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities have supplemental 403(b) retirement plans for eligible employees. The entities may elect to match varying percentages of an employee's contribution up to a certain percentage of the employee's annual salary. The associated expense was approximately \$4,774 and \$4,687 for the years ended June 30, 2015 and 2014, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain companies under Community Physicians and Investments maintain a defined-contribution plan for employees meeting certain eligibility requirements. Eligible employees can also make contributions. Under the plan, the employer may elect to match a percentage of eligible employees' contributions each year. The related expense was approximately \$1,668 and \$1,205 for the years ended June 30, 2015 and 2014, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities maintain a nonqualified deferred compensation plan for key employees and physicians. The Corporation establishes a separate deferral account on its books for each participant for each plan year. In general, participants are entitled to receive the deferred funds upon their death, attainment of the specified vesting date, or involuntary termination of their employment without cause, whichever occurs first. The related expense was approximately \$3,469 and \$2,836 for the years ended

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June 30, 2015 and 2014, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

(d) *Postretirement Plan Other than Pension*

Carroll sponsors a postretirement plan other than pension for employees. Carroll employees retired from active employment at 65 years of age or older or at 55 years of age after earning at least 10 years of vesting service are eligible for health and prescription drug benefits under Carroll's self-insured health plan. Effective January 1, 2009, individuals are no longer permitted to participate in this Plan once they are Medicare eligible. Plan participants contribute premiums to the Plan in amounts determined by Carroll for Pre-Medicare and post-Medicare age retirees. At June 30, 2015, Carroll has accrued a liability of \$376 related to this Plan.

(12) Regulation and Reimbursement

The Corporation and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the Federal Medicare and State Medicaid programs;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission (HSCRC);
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

Such inherent risks require the use of certain management estimates in the preparation of the Corporation's consolidated financial statements, and it is reasonably possible that a change in such estimates may occur.

The Medicare and Medicaid programs represent a substantial portion of the Corporation's revenues, and the Corporation's operations are subject to a variety of other federal, state, and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Corporation. Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation.

The current rate of reimbursement for hospital services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicaid and Medicare Services (CMS) and the State of Maryland. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act.

In January 2014, CMS approved Maryland's new waiver for a five-year period beginning January 1, 2014 for inpatient and outpatient hospital services. The new waiver ties hospital per capita revenue growth to the state's historic economic growth rate of 3.58% per annum and requires that Medicare spending per capita in

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Maryland not exceed the national average by more than 1%. It also requires Maryland to generate Medicare savings of \$330 million over five years. The new waiver also imposes quality measures and encourages population health management.

(13) Related-Party Transactions

Land Leases

Sinai and Levindale are constituent agencies of AJCF, a charitable corporation.

The legal title to substantially all land, land improvements, buildings, and fixed equipment included in Sinai's and Levindale's operating property is held by an affiliate of AJCF. Sinai and Levindale have entered into leases with the AJCF affiliate with respect to these assets. The leases allow Sinai and Levindale to conduct their business on the property as currently conducted. Rent under each lease is \$1.00 per year. The leases may not be terminated before December 31, 2050.

Other

In addition to its arrangement with AJCF, Sinai receives services from certain other constituent agencies of AJCF.

(14) Income Taxes

At June 30, 2015, Investments has approximately \$54,912 in net operating loss carryforwards for income tax purposes. The net operating loss carryforwards for tax purposes are available to reduce future taxable income and expire in varying periods through 2035.

The net operating loss carryforwards created a federal net deferred tax asset of approximately \$18,670 and \$20,915 as of June 30, 2015 and 2014, respectively, and a state deferred tax asset of approximately \$2,996 and \$3,349 as of June 30, 2015 and 2014, respectively. Management has determined that it is more likely than not that Investments will not be able to utilize the deferred tax assets; therefore, a full valuation allowance was recorded against the net deferred assets as of June 30, 2015 and 2014.

At June 30, 2015, CCHS has approximately \$56,534 of net operating loss carryforwards, primarily at CCMS, that will expire through 2033. The net operating loss carryforwards created a net deferred tax asset of approximately \$24,801 and \$19,042 as of June 30, 2015 and 2014, respectively. Management has determined that it is more likely than not that CCHS will not be able to utilize the deferred tax assets; therefore, a full valuation allowance has been recorded against the deferred tax asset as of June 30, 2015 and 2014. It has not yet been determined if the CCHS operating losses are subject to usage limitations under certain Internal Revenue Code provisions.

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(15) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|----------------|
| Professional/general liability (note 16(a)) | \$ 51,924 | 51,959 |
| Pension liability | 34,894 | 17,719 |
| Medical office building | 34,256 | 21,257 |
| Asset retirement obligation | 3,260 | 3,260 |
| Deferred compensation | 4,864 | 4,959 |
| Other | 1,658 | 993 |
| | <u>\$ 130,856</u> | <u>100,147</u> |

At June 30, 2015, there was \$12,121 included in other current liabilities related to professional liabilities.

(16) Self-Insurance Programs

(a) *Professional/General Liability*

The Corporation is self-insured, through LifeBridge Insurance and Cen-Mar, for most medical malpractice and general liability claims arising out of the operations of LifeBridge and its subsidiaries. Estimated liabilities have been recorded for both reported and incurred but not reported claims.

LifeBridge Insurance and Cen-Mar purchase reinsurance coverage from other carriers to cover their liabilities in excess of various retentions. The amounts that LifeBridge subsidiaries must transfer to LifeBridge Insurance and Cen-Mar to fund medical malpractice and general liability claims are actuarially determined and are sufficient to cover expected liabilities. Management's estimate of the liability for medical malpractice and general liability claims, including incurred but not reported claims, is principally based on actuarial estimates performed by an independent third-party actuary. Professional liability coverage for certain employed physicians is provided by commercial insurance carriers.

(b) *Workers' Compensation*

Sinai, Northwest, Levindale, LAA, and CCMS and its subsidiaries are insured for workers' compensation liability through a combination of self-insurance and excess insurance. Losses for asserted and unasserted claims are accrued based on estimates derived from past experiences, as well as other considerations including the nature of each claim or incident, relevant trend factors, and estimates of incurred but not reported amounts.

Legacy LifeBridge has accrued a liability for known and incurred but not reported claims of \$5,905 and \$6,439 at June 30, 2015 and 2014, respectively, and CCHS has accrued a liability for known and incurred but not reported claims of \$994 as of June 30, 2015. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. Management believes

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these accruals are is adequate to provide for all workers' compensation claims that have been incurred through June 30, 2015.

All other entities have occurrence-based commercial insurance coverage. There are no material insurance recoveries related to workers' compensation as of June 30, 2015.

Legacy LifeBridge and CCHS maintain stop-loss policies on workers' compensation claims. Legacy LifeBridge is insured for individual claims exceeding \$450. CCHS is insured for individual claims exceeding \$500.

(c) **Health Insurance**

Legacy LifeBridge and CCHS are self-insured for employee health claims. Legacy LifeBridge has accrued a liability of \$2,167 and \$2,178 at June 30, 2015 and 2014, respectively, for known claims and incurred but not reported claims, and CCHS has accrued a liability of \$1,350 at June 30, 2015 for known and incurred but not reported claims. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

CCHS maintains a stop-loss policy on health insurance claims. CCHS is insured for individual claims exceeding \$350.

(17) **Concentration of Credit Risk**

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014 is as follows:

| | <u>2015</u> | <u>2014</u> |
|----------------------|-------------|-------------|
| Medicare | 27% | 29% |
| Medicaid | 10 | 10 |
| BlueCross | 13 | 12 |
| Commercial and other | 40 | 40 |
| Self-pay | 10 | 9 |
| | <u>100%</u> | <u>100%</u> |

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The mix of net patient service revenue for the Corporation for the years ended June 30, 2015 and 2014 is as follows:

| | <u>2015</u> | <u>2014</u> |
|----------------------|-------------|-------------|
| Medicare | 41% | 41% |
| Medicaid | 5 | 6 |
| BlueCross | 14 | 15 |
| Commercial and other | 36 | 34 |
| Self-pay | 4 | 4 |
| | <u>100%</u> | <u>100%</u> |

(18) Commitments and Contingencies

(a) *Litigation*

The Corporation is subject to numerous laws and regulations of federal, state, and local governments. The Corporation'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. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Corporation's financial position.

(b) *Letters of Credit*

M&T Bank has established an open letter of credit for Sinai of \$211 (which has not been drawn upon) to guarantee Sinai's obligation for liabilities assumed as a member of a risk retention group during the period 1988 to 1994. Additionally, M&T Bank has established a standby letter of credit of \$2,384 to serve as collateral as required by the Maryland Office of Unemployment Insurance. M&T Bank has established a standby letter of credit for Levindale of \$441 as required by the State of Maryland Department of Labor, Licensing, and Regulation. M&T Bank has established a standby letter of credit for LifeBridge Health & Fitness of \$200 as required by the State of Maryland Office of the Attorney General. M&T Bank has established a standby letter of credit of \$52 to serve as collateral as required by the City of Baltimore for the completion of certain construction work at Sinai.

(c) *Contract Commitments*

There are no material contract commitments outstanding at June 30, 2015.

(d) *Operating Leases*

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2020. Total rental expense for the years ended June 30,

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2015 and 2014 for all operating leases was approximately \$21,540 and \$14,761, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

| | | |
|-----------------------|----|----------------------|
| Years ending June 30: | | |
| 2016 | \$ | 18,467 |
| 2017 | | 16,698 |
| 2018 | | 15,185 |
| 2019 | | 14,439 |
| 2020 | | 13,436 |
| Thereafter | | <u>13,937</u> |
| | \$ | <u><u>92,162</u></u> |

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(19) Noncontrolling Interest

The reconciliation of a noncontrolling interest reported in unrestricted net assets is as follows:

| | <u>LifeBridge Health, Inc.</u> | <u>Noncontrolling interest</u> | <u>Unrestricted net assets</u> |
|--|------------------------------------|------------------------------------|------------------------------------|
| Balance at June 30, 2013 | \$ 563,128 | (310) | 562,818 |
| Operating income | 31,135 | 118 | 31,253 |
| Nonoperating income | 53,701 | — | 53,701 |
| Excess of revenues over expenses | 84,836 | 118 | 84,954 |
| Change in funded status of pension plan | 7,623 | — | 7,623 |
| Net assets released for purchase of property and equipment | 5,202 | — | 5,202 |
| Other | 181 | — | 181 |
| Change in net assets | 97,842 | 118 | 97,960 |
| Balance at June 30, 2014 | 660,970 | (192) | 660,778 |
| Operating income | 50,276 | 470 | 50,746 |
| Nonoperating income | 14,746 | — | 14,746 |
| Excess of revenues over expenses | 65,022 | 470 | 65,492 |
| CCHS acquisition | 130,388 | 3,644 | 134,032 |
| Change in funded status of pension plan | (16,548) | — | (16,548) |
| Net assets released for purchase of property and equipment | 5,347 | — | 5,347 |
| Other | (272) | — | (272) |
| Change in net assets | 183,937 | 4,114 | 188,051 |
| Balance at June 30, 2015 | \$ <u>844,907</u> | <u>3,922</u> | <u>848,829</u> |

(20) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2015 and 2014 related to providing these services are as follows:

| | <u>2015</u> | <u>2014</u> |
|----------------------------|---------------------|------------------|
| Healthcare services | \$ 875,650 | 793,874 |
| General and administrative | 286,733 | 252,658 |
| | \$ <u>1,162,383</u> | <u>1,046,532</u> |

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(21) Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

(a) *Assets and Liabilities*

Cash and cash equivalents, patient service receivables, other receivables, inventory, prepaid expenses, pledges receivable, accounts payable and accrued liabilities, advances to third-party payors, and other current liabilities – The carrying amounts reported in the consolidated balance sheet approximate the related fair values.

Investments (donor-restricted, assets limited as to use, and long-term), and beneficial interest in split interest agreements – Fair values are based on quoted market prices of individual securities or investments if available, or are estimated using quoted market prices for similar securities or investment managers' best estimate of underlying fair value.

Investment in unconsolidated affiliates – Investments in unconsolidated affiliates are not readily marketable. Therefore, it is not practicable to estimate their fair value and such investments are recorded in accordance with the equity method or at cost.

(b) *Long-Term Debt*

The Series 2008 MHHEFA Bonds bear interest at fixed rates and had a fair value of \$273,529 and \$276,718 at June 30, 2015 and 2014, respectively. The fair market value of the fixed rate Series 2011 MHHEFA Bonds was \$55,110 and \$55,387 as of June 30, 2015 and 2014, respectively. The fair market value of the variable rate Series 2006 MHHEFA Bonds was \$35,582 as of June 30, 2015. The fair market value of the fixed rate Series 2012A MHHEFA Bonds was \$60,244 as of June 30, 2015.

The fair value of other long-term debt, mortgage payable, and bank loans payable approximates its carrying value.

The fair value of the Corporation's long-term MHHEFA debt is measured using quoted offered-side prices when quoted market prices are available. If quoted market prices are not available, the fair value is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Corporation's credit standing. In determining an appropriate spread to reflect its credit standing, the Corporation considers credit default swap spreads, bond yields of other long-term debt, and interest rates currently offered for similar debt instruments of comparable maturities by the Corporation's bankers as well as other banks that regularly compete to provide financing to the Corporation.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(c) ***Fair Value Hierarchy***

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2015:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|----------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 76,755 | — | — | 76,755 |
| Equity securities and mutual funds | 318,878 | — | — | 318,878 |
| Treasury securities | 14,627 | — | — | 14,627 |
| Government securities | — | 21,206 | — | 21,206 |
| Fixed income | — | 39,453 | — | 39,453 |
| Beneficial interest in split-interest agreement | — | 4,628 | — | 4,628 |
| Total assets | <u>\$ 410,260</u> | <u>65,287</u> | <u>—</u> | <u>475,547</u> |

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2014:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|----------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 18,087 | — | — | 18,087 |
| Equity securities and mutual funds | 259,371 | — | — | 259,371 |
| Treasury securities | 12,330 | — | — | 12,330 |
| Government securities | — | 8,037 | — | 8,037 |
| Fixed income | — | 23,053 | — | 23,053 |
| Beneficial interest in split-interest agreement | — | 4,633 | — | 4,633 |
| Total assets | <u>\$ 289,788</u> | <u>35,723</u> | <u>—</u> | <u>325,511</u> |

See note 2(e) for information on investments of the Corporation that are treated under the equity method and are not reported above.

For the years ended June 30, 2015 and 2014, there were no significant transfers into or out of Levels 1, 2, or 3.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(22) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2015 and through October 26, 2015. The Corporation did not have any subsequent events during this period that were required to be recognized or disclosed other than those disclosed below.

On July 1, 2015, LifeBridge purchased the building that houses the fitness center occupied by LifeBridge Health and Fitness LLC, a subsidiary of Investments, and entered into an agreement to purchase a medical office building in its service area. The cost of these acquisitions is approximately \$24,000 in the aggregate.

On July 30, 2015, the Authority issued approximately \$159,685 in bonds (Series 2015 Bonds) on behalf of LifeBridge Health. The proceeds of the Series 2015 Bonds will be used to finance and refinance the cost of construction, renovation, and equipping of certain additional facilities for the Obligated Group, to refund a portion of the Series 2008 Bonds and the Authority's Carroll Issue, Series 2006 bonds, and refinance the portion of the Bank of America Line of Credit that had been used to repay Carroll's loan from BB&T Bank. The remaining Bank of America line of credit was repaid by the Corporation in July.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

| Assets | Sinai Hospital Consolidated | Northwest Hospital | Carroll Hospital | Levindale Hebrew Geriatric Ctr & Hospital | Courtland Gardens | Other LifeBridge Entities | Eliminations | LifeBridge Health Consolidated |
|---|-----------------------------------|-----------------------|---------------------|--|----------------------|---------------------------------|--------------|--------------------------------------|
| Current assets: | | | | | | | | |
| Cash and cash equivalents | \$ 143,163 | 84,460 | 15,834 | 15,385 | 256 | 97,875 | — | 356,973 |
| Investments | 13,194 | 3,383 | 6,908 | 276 | — | — | — | 23,761 |
| Assets limited as to use, current portion | 8,675 | 2,879 | 14,907 | 420 | — | 3,684 | — | 30,565 |
| Patient service receivables, net of allowance for doubtful accounts | 72,711 | 24,829 | 22,301 | 7,311 | 6 | 15,054 | — | 142,212 |
| Other receivables | 43,438 | 2,838 | 2,437 | 1,990 | 8,370 | 52,791 | (101,700) | 10,164 |
| Inventory | 20,996 | 5,191 | 3,035 | 181 | — | 79 | — | 29,482 |
| Prepaid expenses | 4,379 | 1,548 | 6,072 | 366 | — | 6,714 | — | 19,079 |
| Pledges receivable, current portion | 2,949 | 663 | 2,893 | 188 | — | — | — | 6,693 |
| Total current assets | 309,505 | 125,791 | 74,387 | 26,117 | 8,632 | 176,197 | (101,700) | 618,929 |
| Board-designated investments | 96,124 | 57,763 | — | 17,013 | — | 79,100 | — | 250,000 |
| Long-term investments | 48,432 | 29,104 | 132,722 | 8,572 | — | 39,855 | — | 258,685 |
| Donor-restricted investments | 13,194 | 3,383 | 4,791 | 276 | — | — | — | 21,644 |
| Reinsurance recovery receivable | — | — | 7,169 | — | — | 8,766 | — | 15,935 |
| Assets limited as to use, net of current portion | — | — | 3,225 | — | — | 29,962 | — | 33,187 |
| Pledges receivable, net of current portion | 2,738 | 261 | 2,125 | 353 | — | — | — | 5,477 |
| Property and equipment, net | 247,220 | 114,041 | 126,828 | 42,330 | — | 64,724 | — | 595,143 |
| Deferred financing costs, net of accumulated amortization | 1,571 | 506 | 1,813 | 127 | — | 56 | — | 4,073 |
| Beneficial interest in split interest agreement | 4,628 | — | — | — | — | — | — | 4,628 |
| Investment in unconsolidated affiliates | — | — | 726 | — | — | 149,676 | (116,537) | 33,865 |
| Other assets, net of accumulated amortization | 10,675 | 1,599 | 14,791 | 60 | — | 15,957 | — | 43,082 |
| Total assets | \$ 734,087 | 332,448 | 368,577 | 94,848 | 8,632 | 564,293 | (218,237) | 1,884,648 |

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

| Liabilities and Net Assets | Sinai Hospital Consolidated | Northwest Hospital | Carroll Hospital | Levindale Hebrew Geriatric Ctr & Hospital | Courtland Gardens | Other LifeBridge Entities | Eliminations | LifeBridge Health Consolidated |
|--|-----------------------------------|-----------------------|---------------------|--|----------------------|---------------------------------|--------------|--------------------------------------|
| Current liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 72,749 | 17,628 | 52,884 | 7,338 | 352 | 68,623 | (101,700) | 117,874 |
| Accrued salaries, wages, and benefits | 30,675 | 11,745 | 9,361 | 3,026 | — | 25,727 | — | 80,534 |
| Advances from third-party payors | 24,613 | 6,821 | 6,732 | 3,604 | 10 | — | — | 41,780 |
| Current portion of long-term debt and capital lease obligations | 2,983 | 990 | 1,888 | 157 | — | 8,693 | — | 14,711 |
| Other current liabilities | 991 | 278 | 12,333 | 13 | — | 803 | — | 14,418 |
| Total current liabilities | 132,011 | 37,462 | 83,198 | 14,138 | 362 | 103,846 | (101,700) | 269,317 |
| Other long-term liabilities | 43,077 | 10,607 | 23,178 | 4,162 | 34 | 49,798 | — | 130,856 |
| Long-term debt and capital lease obligations, net of current portion | 227,156 | 76,152 | 94,916 | 9,450 | — | 150,496 | — | 558,170 |
| Total liabilities | 402,244 | 124,221 | 201,292 | 27,750 | 396 | 304,140 | (101,700) | 958,343 |
| Net assets: | | | | | | | | |
| Unrestricted net assets | 279,892 | 200,801 | 103,621 | 66,180 | 8,236 | 252,714 | (66,537) | 844,907 |
| Noncontrolling interest in consolidated subsidiaries | — | — | 3,868 | — | — | 54 | — | 3,922 |
| Total unrestricted net assets | 279,892 | 200,801 | 107,489 | 66,180 | 8,236 | 252,768 | (66,537) | 848,829 |
| Temporarily restricted | 41,531 | 7,426 | 58,625 | 918 | — | 3,160 | (50,000) | 61,660 |
| Permanently restricted | 10,420 | — | 1,173 | — | — | 4,223 | — | 15,816 |
| Total liabilities and net assets | \$ 734,087 | 332,448 | 368,579 | 94,848 | 8,632 | 564,291 | (218,237) | 1,884,648 |

See accompanying independent auditors' report.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2015

(Dollars in thousands)

| | <u>Sinai Hospital Consolidated</u> | <u>Northwest Hospital</u> | <u>Carroll Hospital</u> | <u>Levindale Hebrew Geriatric Ctr & Hospital</u> | <u>Courtland Gardens</u> | <u>Other LifeBridge Entities</u> | <u>Eliminations</u> | <u>LifeBridge Health Consolidated</u> |
|---|--|-------------------------------|-----------------------------|--|------------------------------|--|---------------------|---|
| Unrestricted revenues, gains, and other support: | | | | | | | | |
| Patient service revenue (net of contractual allowances and discounts) | \$ 708,803 | 242,622 | 63,809 | 76,730 | 2,159 | 107,422 | — | 1,201,545 |
| Provision for bad debts | 31,010 | 16,247 | 605 | 3,338 | 186 | 3,459 | — | 54,845 |
| Net patient service revenue | 677,793 | 226,375 | 63,204 | 73,392 | 1,973 | 103,963 | — | 1,146,700 |
| Net assets released from restrictions used for operations | 3,179 | — | 7 | 35 | — | 444 | — | 3,665 |
| Other operating revenue | 46,983 | 7,232 | 1,233 | 860 | 29 | 58,487 | (52,060) | 62,764 |
| Total operating revenues | 727,955 | 233,607 | 64,444 | 74,287 | 2,002 | 162,894 | (52,060) | 1,213,129 |
| Expenses: | | | | | | | | |
| Salaries and employee benefits | 362,346 | 122,469 | 29,740 | 47,727 | 1,694 | 97,831 | 531 | 662,338 |
| Supplies | 129,199 | 36,038 | 11,177 | 6,735 | 152 | 12,086 | — | 195,387 |
| Purchased services | 139,568 | 38,355 | 13,896 | 13,212 | 865 | 47,935 | (52,591) | 201,240 |
| Depreciation, amortization, and gain/loss on sale of assets | 33,340 | 11,509 | 3,821 | 3,296 | 81 | 10,910 | — | 62,957 |
| Repairs and maintenance | 13,819 | 4,323 | — | 987 | 41 | 604 | — | 19,774 |
| Interest | 12,210 | 4,459 | 1,489 | 529 | — | 2,000 | — | 20,687 |
| Total expenses | 690,482 | 217,153 | 60,123 | 72,486 | 2,833 | 171,366 | (52,060) | 1,162,383 |
| Operating income (loss) | 37,473 | 16,454 | 4,321 | 1,801 | (831) | (8,472) | — | 50,746 |
| Other income (loss), net: | | | | | | | | |
| Investment income | 9,490 | 8,384 | 545 | 742 | — | 2,000 | — | 21,161 |
| Unrealized gains on trading investments | (1,762) | (6,046) | 17 | (1,762) | — | (1,425) | — | (10,978) |
| Other | — | — | 661 | — | 3,409 | 493 | — | 4,563 |
| Total other income (loss), net | 7,728 | 2,338 | 1,223 | (1,020) | 3,409 | 1,068 | — | 14,746 |
| Excess (deficiency) of revenues over expenses before inherent contributions | 45,201 | 18,792 | 5,544 | 781 | 2,578 | (7,404) | — | 65,492 |
| Inherent contribution – CCHS | — | — | — | — | — | 134,032 | — | 134,032 |
| Excess of revenues over expenses | \$ 45,201 | 18,792 | 5,544 | 781 | 2,578 | 126,628 | — | 199,524 |

See accompanying independent auditors' report.