KPMG

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2011 and 2010

(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.:

We have audited the accompanying consolidated balance sheets of LifeBridge Health, Inc. and Subsidiaries (the Corporation) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2011 and 2010 and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of LifeBridge Health, Inc. and Subsidiaries taken as a whole. The consolidating information included in schedules 1 and 2 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as whole.

KPMG LLP

October 27, 2011

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2011 and 2010

(Dollars in thousands)

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	138,158	112,332
Donor restricted investments		17,178	16,588
Assets limited as to use, current portion		34,671	12,304
Patient service receivables, net of allowance for doubtful accounts of $23,191 in 2011 and $23,779 in 2010		114,399	108,476
Other receivables		5,100	4,855
Inventory		21,362	19,913
Prepaid expenses		10,605	10,888
Pledges receivable, current portion		4,081	3,030
Total current assets		345,554	288,386
Long-term investments		289,200	230,225
Assets limited as to use, net of current portion		46,461	37,796
Pledges receivable, net of current portion		9,063	7,848
Property and equipment, net		440,790	401,301
Deferred financing costs, net of accumulated amortization of $275 in 2011 and $183 in 2010		2,678	1,814
Beneficial interest in split interest agreement		3,998	3,379
Investment in unconsolidated affiliates		2,304	2,177
Other assets, net of accumulated amortization of $97 in 2011 and $69 in 2010		8,568	7,184
Total assets	$	1,148,616	980,110

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2011 and 2010

(Dollars in thousands)

Liabilities and Net Assets		**2011**	**2010**
Current liabilities:			
Accounts payable and accrued liabilities	$	83,950	67,454
Accrued salaries, wages and benefits		57,599	48,979
Advances from third-party payors		36,317	29,910
Current portion of long-term debt and capital lease obligations		5,235	5,043
Other current liabilities		946	1,210
Total current liabilities		184,047	152,596
Other long-term liabilities		99,101	98,260
Long-term debt and capital lease obligations, net of current portion		341,364	295,756
Total liabilities		624,512	546,612
Net assets:			
Unrestricted		452,712	371,514
Noncontrolling interest in consolidated subsidiaries		(72)	—
Total unrestricted net assets		452,640	371,514
Temporarily restricted		56,743	48,064
Permanently restricted		14,721	13,920
		524,104	433,498
Total liabilities and net assets	$	1,148,616	980,110

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	954,761	928,867
Net assets released from restrictions used for operations		3,680	3,122
Other operating revenue		32,005	32,156
Total operating revenues		990,446	964,145
Expenses:			
Salaries and employee benefits		530,303	509,009
Supplies		158,210	168,962
Purchased services		151,141	149,773
Depreciation, amortization and gain/loss on sale of assets		54,787	54,493
Repairs and maintenance		17,001	15,742
Provision for bad debts		41,909	46,558
Interest		16,029	15,564
Total expenses		969,380	960,101
Operating income		21,066	4,044
Other income net:			
Investment income		18,871	14,154
Unrealized gains on trading investments		22,851	9,520
Earnings on investments in unconsolidated affiliates		1,090	398
Total other income net		42,812	24,072
Excess of revenues over expenses	$	63,878	28,116

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at June 30, 2009	$	348,168	43,986	13,821	405,975
Excess of revenues over expenses		28,116	—	—	28,116
Unrealized gain on investments		—	1,860	13	1,873
Net assets released from restrictions used for the purchase of property and equipment		2,902	(2,902)	—	—
Restricted gifts and bequests		—	8,206	—	8,206
Net assets released from restrictions used for operations		—	(3,122)	—	(3,122)
Net change in value of beneficial interest in split interest agreement		—	123	—	123
Adjustment to pension liability		(7,852)	—	—	(7,852)
Other		180	(87)	86	179
Change in net assets		23,346	4,078	99	27,523
Net assets at June 30, 2010		371,514	48,064	13,920	433,498
Excess of revenues over expenses		63,878	—	—	63,878
Unrealized gain on investments		—	5,017	25	5,042
Net assets released from restrictions used for the purchase of property and equipment		5,969	(5,969)	—	—
Restricted gifts and bequests		—	13,461	14	13,475
Net assets released from restrictions used for operations		—	(3,680)	—	(3,680)
Net change in value of beneficial interest in split interest agreement		—	619	—	619
Adjustment to pension liability		10,582	—	—	10,582
Other		697	(769)	762	690
Change in net assets		81,126	8,679	801	90,606
Net assets at June 30, 2011	$	452,640	56,743	14,721	524,104

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	90,606	27,523
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		54,611	54,871
Loss (gain) on disposal of equipment		176	(378)
Change in pension liability		(10,582)	7,852
Provision for bad debts		41,909	46,558
Realized and unrealized gains on investments		(33,814)	(14,284)
Restricted gifts and bequests		(13,475)	(8,206)
Change in beneficial interest of split interest agreement		(619)	(123)
Earnings on investments in unconsolidated affiliates		(1,090)	(398)
Change in minority interest in subsidiaries		(72)	—
Change in operating assets and liabilities:			
Increase in patient service receivables, net		(47,832)	(41,293)
(Increase) decrease in other receivables		(245)	1,892
(Increase) decrease in pledges receivable		(2,266)	634
Increase in inventory		(1,449)	(4,553)
Decrease (increase) in prepaid expenses		283	(2,438)
Increase (decrease) in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits		9,193	(16,054)
Increase (decrease) increase in advances from third-party payors		6,407	(1,537)
Increase in other current and long-term liabilities		1,259	2,214
Net cash provided by operating activities		93,000	52,280
Cash flows from investing activities:			
Decrease (increase) in donor restricted investments		4,452	(130)
Increase in long-term investments		(30,203)	(26,684)
(Increase) decrease in assets limited as to use		(31,032)	21,293
Distributions from (investment in) unconsolidated affiliates		1,035	(193)
Additions to operating property		(66,810)	(58,253)
Proceeds from the sale of property		11	545
Acquisition of physician practices		—	(2,950)
(Increase) decrease in other assets		(2,677)	29
Net cash used in investing activities		(125,224)	(66,343)
Cash flows from financing activities:			
Payment on debt and capital lease obligations		(5,107)	(4,865)
Proceeds from issuance of debt		50,639	—
Cash paid for debt issuance costs		(957)	—
Restricted gifts and bequests		13,475	8,206
Net cash provided by financing activities		58,050	3,341
Net increase (decrease) in cash and cash equivalents		25,826	(10,722)
Cash and cash equivalents:			
Beginning of year		112,332	123,054
End of year	$	138,158	112,332
Supplemental cash flow disclosures:			
Cash paid during the year for interest	$	15,529	15,637
Cash paid during the year for income taxes		6	4
Additions to property and equipment in exchange for capital lease obligations		407	836
Accounts payable related to purchase of operating property		15,923	10,195

See accompanying notes to consolidated financial statements.

(1) Organization

On October 1, 1998, Sinai Health System, Inc. merged with Northwest Health System, Inc. to form LifeBridge Health, Inc. (LifeBridge). 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. (Children's Hospital), The Baltimore Jewish Eldercare Foundation, Inc. (BJEF), LifeBridge Anesthesia Associates, LLC (LAA), LifeBridge Insurance Company, Ltd. (LifeBridge Insurance), and LifeBridge Investments, Inc. (Investments). Sinai and Levindale are constituent agencies of THE ASSOCIATED: Jewish Community Federation of Baltimore, Inc. (AJCF), a charitable corporation.

LifeBridge's consolidated financial statements include the following entities:

Sinai – Sinai, a not-for-profit acute care facility, provides inpatient, outpatient, emergency, and physician services for residents of Central Maryland and surrounding areas. The following entities are consolidated with Sinai:

Baltimore Jewish Health Foundation (BJHF) – BJHF was formed to hold and manage investments for the purpose of providing support to Sinai. A majority of the members of BJHF's board also hold Board positions at LifeBridge and Sinai.

Children's Hospital at Sinai Foundation (CHSF) – CHSF was formed concurrently with the acquisition of Children's Hospital, to hold assets formerly held by Children's Hospital and its affiliates. A majority of the directors of CHSF are directors or employees of Sinai.

Sinai Clinical Professional, LLC (SCP) – SCP was formed August 1, 2009 concurrently with the acquisition of the assets of Clinical Associates, P.A. SCP provides multi-specialty medical care.

LifeBridge Cardiology at Quarry Lake, LLC (LCQL) – LCQL was formed on December 10, 2010. LCQL provides cardiology services.

Northwest – Northwest, a not-for-profit acute care and sub-acute care facility, provides inpatient, outpatient, emergency, and physician services for residents of Central Maryland and surrounding areas.

Levindale – Levindale is a not-for-profit specialty hospital/skilled nursing facility which provides specialty/long-stay hospital care, rehabilitation hospital care, comprehensive nursing care, psychiatric care, and outpatient adult daycare services.

Courtland Gardens Nursing and Rehabilitation Center, Inc. (Courtland) – Courtland, a not-for-profit subsidiary of Levindale, operates a skilled nursing facility. This entity was formerly known as Jewish Convalescent and Nursing Home Society, Inc. and officially changed its name to Courtland in April 2009.

Children's Hospital – LifeBridge acquired Children's Hospital and various affiliated corporations in May 1999, and soon thereafter Children's Hospital discontinued operations. LifeBridge subsequently sold substantially all of the facilities formerly operated by Children's Hospital and its affiliates.

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BJEF – *BJEF* was formed to hold and manage investments for the purpose of providing support to Levindale.

LAA – LAA provides anesthesia services to Northwest Hospital.

LifeBridge Insurance – LifeBridge Insurance is a captive insurance company incorporated in the Cayman Islands.

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

> *Practice Dynamics, Inc. (PDI)* – PDI is a management service organization that provides management services to Sinai, Northwest, and affiliated and independent community-based medical practices in the State of Maryland.
>
> *LifeBridge Health and Fitness, LLC (LBHF)* – LBHF operates a fitness and wellness center in Pikesville, Maryland.
>
> *Sinai Eldersburg Real Estate, LLC (SERE)* – SERE operates the Northwest Hospital Medical Care Center, a medical office building in Eldersburg, Maryland.
>
> *Surgical Oncology Associates, Inc. (SOA)* – SOA is a for-profit corporation that provides medical and surgical care.
>
> *David L. Zisow, LLC (Zisow)* – Zisow provides medical and surgical care.
>
> *General Surgery Specialists, LLC (GSS)* – GSS provides surgical care.
>
> *BW Primary Care, LLC (BWPC)* – BWPC provides medical care.
>
> *LifeBridge Community Practices*, LLC (LCP) – LCP was formed August 1, 2009 concurrently with the acquisition of the assets of Clinical Associates, P.A. LCP provides management and other services to SCP.
>
> The Center for Urologic Specialties, LLC (URS) – URS provides medical and surgical urologic care.
>
> LifeBridge Roundwood Practices, LLC (LRP) – LRP was formed on August 31, 2010. The company provides cardiology services.
>
> *Homecare Maryland, LLC (HCM)* – HCM was formed in January 2011 as a 51% owned subsidiary of Investments. HCM provides various services including skilled nursing care and physical and occupational therapy to patients in Baltimore, Harford, and Cecil Counties as well as Baltimore City.

In addition, Investments holds interests in, among other entities, Cherrywood Limited Partnership (a nursing home located in Reisterstown, Maryland), PLMD, LLC (an ambulance transportation company) and Northwest Baltimore Radiation Therapy Regional Center, LLC.

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On August 1, 2009 LifeBridge acquired substantially all of the assets of, and hired substantially all of the physicians and other employees of, Clinical Associates, P.A. (Clinical), a multi-specialty medical group, for $2,950, which approximates the fair market value of Clinical's net assets purchased. LifeBridge accounted for the acquisition under the purchase method of accounting in accordance with U.S. generally accepted accounting principles. Accordingly, LifeBridge recorded goodwill of $2,423 which was subsequently written off, and is included in depreciation, amortization, and gain/loss on the sale of assets in the accompanying consolidated statements of operations as of June 30, 2010. Substantially all of the business formerly conducted by Clinical has been carried on by SCP and LCP.

(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 majority owned 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 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) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

(d) 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. Amounts required to meet current liabilities of the Corporation have been reclassified in the consolidated balance sheets at June 30, 2011 and 2010.

(e) 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.

(f) Investments and Assets Limited as to Use or Restricted

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 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 $50,767 and $34,694 at June 30, 2011 and 2010, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Alternative investments are recorded under the equity method.

Investments in unconsolidated affiliates are accounted for under the cost or equity method of accounting as appropriate and are included in other assets in the consolidated balance sheets. The Corporation utilizes the equity method of accounting for its investments in entities over which it exercises significant influence. The Corporation's equity income or loss is recognized in other income (expense), net within excess of revenue over expenses.

Investments limited as to use or restricted include assets held by trustees under bond indenture, self-insurance trust arrangements, 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. Amounts from these funds required to meet current liabilities have been classified in the consolidated balance sheets as current assets. 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 are 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 (expense), net within the excess of revenue over expenses.

(g) 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.

(h) Deferred Financing Costs and Other Assets

Deferred financing costs and other assets consists primarily of deferred financing costs, 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 $93 and $76 for the years ended June 30, 2011 and 2010, respectively. Such amortization is included in depreciation and amortization in the consolidated financial statements.

(i) Beneficial Interest in Split Interest Agreement

CHSF holds a twenty-five percent interest in a trust, of which management has estimated the present value of the future income stream. CHSF will receive twenty-five percent of the net annual income over the next thirteen years. At the end of this period in 2024, the trust will terminate, and twenty-five percent 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.

(j) Advances from Third-Party Payors

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

(k) Self-Insurance Programs

The Corporation maintains self-insurance programs for medical malpractice 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.

(l) Other Long-Term Liabilities

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

(m) 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

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assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(n) Net Patient Service Revenue

Net patient service revenue for Sinai and Northwest (the Hospitals) 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. The Hospitals have charge per case (CPC) agreements with the HSCRC that are renewed annually. These CPC agreements establish a prospectively approved average charge per inpatient case (defined as hospital admissions plus births) and an estimated case mix index. These approved CPC targets are adjusted during the rate year for actual changes in case mix. The CPC agreements allow hospitals to adjust approved unit rates, within certain limits, to achieve the average charge per case target for each rate year ending June 30. To the extent that the actual average charge per case exceeds the target, the overcharge will reduce the approved target for future years. Under the CPC target methodology, the Hospitals monitor their average CPC compared to HSCRC case mix adjusted targets on a monthly basis. In 2010, the HSCRC implemented a charge per visit (CPV) methodology for hospital-based outpatient services, which is similar in nature to the CPC inpatient methodology discussed above. The CPV methodology establishes prospectively approved average charges per outpatient visit for approximately 73% of outpatient services provided. The remaining outpatient services are charged using the established HSCRC unit rates.

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 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, up to certain predetermined limits, and the condition and requirements of the patients. Reimbursement is at an interim rate with the final settlement determined after submission of annual cost reports and audits thereof. Estimated retroactive adjustments are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. At June 30, 2011, Levindale and Courtland had open Medicaid cost reports for the years ended June 30, 2011 and 2010.

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

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(o) Charity Care

Sinai, Northwest, and Levindale 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 2011 and 2010, based on patient charges foregone, was $15,801 and $17,966, respectively.

(p) 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.

LAA, LifeBridge Insurance, and Investments and its incorporated subsidiaries account for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

(q) 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 reported period. Actual results could differ from those estimates.

(r) 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.

(s) 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.

(t) Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended June 30, 2011, the Corporation evaluated subsequent events through October 27, 2011, representing the date on which the accompanying audited consolidated financial statements were issued.

(u) New Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29), which requires an entity to disclose pro forma information for material business combinations that occurred in the current reporting period. If comparative financial statements are presented, the disclosures should include pro forma revenue and earnings of the combined entity as though the business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The adoption of ASU 2010-29 is effective for business combinations on or after July 1, 2011. The adoption of ASU 2010-29 is not expected to have an impact on the Corporation's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-07, *Not-for-Profit Entities (Topic 958), Not-for Profit Entities: Mergers and Acquisitions* (ASU 2010-07), which codified previous guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. ASU 2010-07 also amends previous guidance for the reporting of goodwill and other intangibles and noncontrolling interests in consolidated financial statements to make their provisions fully applicable to not-for-profit entities. This guidance requires that goodwill be tested annually for impairment and an impairment loss be recognized if it is determined that the carrying amount of the reporting unit's net assets exceeds its fair value. No adjustments to the carrying value of previously recognized goodwill were recorded during the year ended June 30, 2011. The guidance also requires the presentation of noncontrolling interests in the net assets of consolidated subsidiaries as a separate component of the appropriate class of net assets in the consolidated balance sheets and that the amount of consolidated excess of revenues over expenses attributable to the noncontrolling interest be disclosed. The provisions of the standard related to the presentation and disclosure of noncontrolling interests are to be applied retrospectively to all periods presented. The adoption of this standard did not have a material impact on the Corporation's consolidated financial statements, other than the following:

a) Noncontrolling interests were reclassified from other long-term liabilities to unrestricted net assets, separate from the Corporation's unrestricted net assets.

b) Consolidated excess of revenues over expenses includes excess of revenues over expenses attributable to both the Corporation and noncontrolling interests.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC Topic 820, *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurements. Effective fiscal year 2010, ASU 2010-06 requires disclosure of the amounts of significant transfers between Level I and Level II investments and the reasons for such transfers, the reasons for any transfers in or out of Level III investments, and disclosure of the policy for determining when transfers among levels are recognized. ASU 2010-06 also clarifies that disclosures should be provided for each class of assets and liabilities and clarifies the requirement to disclose information about the valuation techniques and inputs used in estimating Level II and Level III measurements. Effective in fiscal year 2011, ASU 2010-06 also requires that information in the reconciliation of recurring Level III measurements about purchases, sales, issuances and settlements be provided on a gross basis. The adoption of ASU 2010-06 only required additional disclosures and did not have an impact on the consolidated financial statements. As the Corporation does not have significant transfers between Levels, or any Level III measurements, no additional disclosures were necessary.

(v) Reclassifications

Certain prior year amounts have been reclassified to conform to current period presentation, the effect of which is not material.

(Dollars in thousands)

(3) Investments

Investments, which consist of assets limited as to use, donor-restricted investments, and long term investments in the accompanying consolidated balance sheets, are stated at fair value as of June 30, 2011 and 2010, and consist of the following:

		2011	2010
Assets limited as to use:			
Self-insurance fund:			
Mutual funds	$	—	3,294
Equity securities		9,751	4,922
U.S. Treasury		14,098	14,491
Alternative investments		2,249	2,088
Government securities		1,991	852
Corporate obligations		10,687	12,149
Self-insurance fund		38,776	37,796
Debt service fund:			
Mutual funds		10,150	9,394
Construction fund:			
Mutual funds		12,698	2,910
Government securities		19,508	—
Assets limited as to use		81,132	50,100
Less current portion		(34,671)	(12,304)
Assets limited as to use, net of current portion	$	46,461	37,796
Donor-restricted investments:			
Cash and cash equivalents	$	2,459	16,588
U.S. Treasury		4,412	—
Mutual funds		5,020	—
Government securities		2,803	—
Corporate obligations		2,484	—
Donor-restricted investments	$	17,178	16,588

(Dollars in thousands)

The remaining investments restricted by donors are included in long term investments, pledges receivable, and beneficial interest as of June 30, 2011 and 2010, respectively. Of these amounts, $37,144 and $31,139 are included in long term investments as of June 30, 2011 and 2010, respectively:

		2011	2010
Long-term investments:			
Cash and cash equivalents	$	1,099	1,382
Money market		1,743	2,654
Mutual funds		132,723	107,901
U.S. Treasury		126	—
Equity securities		81,456	65,993
Government securities		1,409	1,025
Corporate obligations		16,568	16,637
Real estate investment trust		5,558	2,027
Alternative investments		48,518	32,606
	$	289,200	230,225

Investment income and gains and losses on long-term investments, donor restricted investments, and assets limited as to use are comprised of the following for the years ended June 30, 2011 and 2010:

		2011	2010
Investment income:			
Interest income and dividends	$	12,950	11,263
Realized gains on sale of securities		5,921	2,891
Investment income		18,871	14,154
Unrealized gains on trading securities		22,851	9,520
Other changes in net assets:			
Changes in unrealized gains on temporarily and permanently restricted net assets		5,042	1,873
Total investment return	$	46,764	25,547

(4) 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.

(Dollars in thousands)

Sinai, Northwest, and Levindale have recorded total pledges as of June 30, 2011 and 2010 as follows:

		2011	2010
Gross pledges receivable	$	18,039	15,508
Less:			
Discount for time value of money		(1,926)	(2,290)
Allowance for uncollectible accounts		(2,969)	(2,340)
	$	13,144	10,878

Total future payments are as follows:

Less than one year	$	5,384
One to five years		10,269
Five years and thereafter		2,386
	$	18,039

(5) Property and Equipment

As described in note 10, Sinai and Levindale lease under lease agreements with AJCF all land, land improvements, buildings, and fixed equipment located at those entities' primary locations; LifeBridge entities own all the movable equipment. Property and equipment are classified as follows at June 30:

	Estimated useful life		2011	2010
Land		$	2,747	2,747
Land improvements	8 to 20 years		9,134	9,261
Building and improvements	10 to 40 years		533,287	506,870
Fixed equipment	8 to 20 years		54,934	63,400
Movable equipment	3 to 15 years		268,562	254,967
Construction in progress			63,783	31,159
			932,447	868,404
Less accumulated depreciation			(491,657)	(467,103)
Property and equipment, net		$	440,790	401,301

Depreciation, amortization, and gain/loss on sale of assets was $54,787 and $54,493 for the years ended June 30, 2011 and 2010, respectively. Of this, depreciation expense was $53,364 and $52,462 for the years ended June 30, 2011 and 2010, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of $15,483 and $17,249 for the years ended June 30, 2011 and 2010, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $10,583 and $7,981 at June 30, 2011 and 2010, respectively.

(Dollars in thousands)

(6) Long-Term Debt and Capital Lease Obligations

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

		2011	2010
Maryland Health and Higher Educational Facilities Authority			
Revenue Bonds Series 2008	$	277,880	280,440
Revenue Bonds Series 2011		50,695	—
Capital leases		15,234	17,379
		343,809	297,819
Less current portion		(5,235)	(5,043)
Unamortized premium		2,846	2,980
Unamortized discount		(56)	—
Long-term debt, net	$	341,364	295,756

In January 2008, the Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) issued $285,815 in bonds (Series 2008 Bonds) on behalf of LifeBridge and several of its subsidiaries (the Obligated Group). The Obligated Group under the Master Loan Agreement includes LifeBridge, Sinai, Northwest, Levindale, CHSF, and BJHF. Each member of the Obligated Group is jointly and severally liable for repayment of the obligations under the Master Loan Agreement.

The proceeds of the Series 2008 Bonds were loaned to the Obligated Group pursuant to the Master Loan Agreement. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The agreement provides for principal payments on July 1 of each year, beginning on July 1, 2008 and continuing through 2047. The Series 2008 loan bears interest at a weighted fixed rate of 5.35%.

In March 2011, the Authority issued $50,695 in bonds (Series 2011 Bonds) to the Obligated Group members pursuant to a Master Loan Agreement with MHHEFA. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The agreement provides for principal payments on July 1 of each year, beginning on July 1, 2011 and continuing through 2041. The Series 2011 loan bears interest at a weighted fixed rate of 5.99%.

The Master Loan Agreement requires the Obligated Group to adhere to certain covenants, including limitations on mergers, disposition of assets, 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 as of the last day of each fiscal year, and a liquidity covenant, which requires the Obligated Group to maintain 65 days cash on hand, measured as of June 30 in each fiscal year. In the fiscal year ended June 30, 2011, the Obligated Group met all of its covenants.

(Dollars in thousands)

Capital Leases

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

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

		Long-term debt	Capital lease obligations
2012	$	2,685	4,203
2013		3,600	3,803
2014		3,755	3,640
2015		3,935	3,273
2016		4,130	3,184
Thereafter		310,470	6,120
	$	328,575	24,223
Less: interest portion			(8,989)
			$ 15,234

The debt arrangements contain requirements as to maintenance of minimum levels of net assets, debt service, and cash flows.

(7) Line of Credit

Sinai maintains a $5,000 line of credit with M&T Bank. As of June 30, 2011 and 2010, there were no balances outstanding on this line of credit.

(8) Temporarily and Permanently Restricted Net Assets

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

		2011	2010
Healthcare services:			
Capital equipment/construction	$	34,740	32,240
Other healthcare services:			
Service grants		596	611
Donor-specified healthcare services		10,864	5,442
Enrichment and research		10,543	9,771
	$	56,743	48,064

(Continued)

(Dollars in thousands)

Permanently restricted net assets of $14,721 and $13,920 at June 30, 2011 and 2010, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(9) Employee Benefit Plans

Sinai and Levindale have noncontributory defined benefit pension plans (the Plans) covering full-time, nonunion employees. Sinai also has a similar plan covering union employees. Annual contributions to the Plans are made at a level equal to or greater than the funding requirement as determined by the 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 table sets forth the Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2011 and 2010:

		2011	2010
Measurement date		June 30, 2011	June 30, 2010
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	127,012	106,971
Service cost		6,327	5,496
Interest cost		6,680	6,328
Actuarial loss		3,892	12,737
Benefits paid		(4,287)	(4,139)
Expenses paid from assets		(403)	(381)
Benefit obligation at end of year		139,221	127,012
Change in plan assets:			
Fair value of plan assets at beginning of year		80,839	63,218
Actual return on plan assets		17,017	6,752
Company contributions		11,909	15,389
Benefits paid		(4,287)	(4,139)
Expenses paid from assets		(403)	(381)
Fair value of plan assets at end of year		105,075	80,839
Funded status	$	(34,146)	(46,173)

(Dollars in thousands)

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

		2011	2010
Amounts recognized in the consolidated balance sheets:			
Other current assets, net	$	(2,031)	(586)
Other long-term liabilities		36,177	46,759
	$	34,146	46,173
Amounts recognized in unrestricted net assets:			
Net actuarial loss	$	33,997	43,978
Prior service cost		2,180	2,781
	$	36,177	46,759
Accumulated benefit obligation at the end of the year	$	119,793	108,604

Net periodic pension expense for the years ended June 30, 2011 and 2010 was as follows:

		2011	2010
Service cost	$	6,327	5,496
Interest cost		6,680	6,328
Expected return on plan assets		(6,217)	(4,969)
Amortization of net loss		3,073	2,434
Amortization of prior service cost		601	601
Net periodic benefit cost	$	10,464	9,890

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 $601 and $1,986, respectively.

(Continued)

(Dollars in thousands)

Actuarial assumptions used were as follows:

	2011	2010
Assumptions used to determine annual pension expense:		
Discount rate	5.50%	6.20%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00
Assumptions used to determine end-of-year liabilities:		
Discount rate	5.60%	5.50%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00
Plan asset allocation:		
Asset category:		
Cash and cash equivalents	1.00%	2.00%
Fixed income/debt securities	25.00	28.00
Equities and mutual funds	56.00	52.00
Other	18.00	18.00
Total	100.00%	100.00%

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 plans. This included considering the trust's asset allocation and the expected returns likely to be earned over the life of the plans:

	Target
Target allocation on assets:	
Equity securities and alternative investments	75%
Debt securities	25

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

Years ending June 30:	
2012	$ 5,591
2013	5,953
2014	5,366
2015	8,216
2016	7,788
2017 – 2021	52,236

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 1½% of the participants' salaries for employees who have been in the NW Plan from 1 to 5 years, 4% for those in the plan from 6 to 19 years, and 6½% thereafter. It is Northwest's policy to fund pension costs as they accrue. Pension expense was approximately $1,897 and $1,706 for the years ended June 30, 2011 and 2010, 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.

Certain companies under Investments maintain a defined contribution plan for employees meeting certain eligibility requirements. Eligible employees can also make contributions. Under the plan, Investments may elect to match a percentage of eligible employees' contributions each year.

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.

(10) Regulation and Reimbursement

The Corporation provides general acute health care services primarily through two general acute-care hospitals, one specialty hospital, and two skilled nursing facilities. 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 state reimbursement 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 services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicaid and Medicare Services and the HSCRC. 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 and will continue as long as all third-party payors elect to be reimbursed in Maryland under this program and the rate of increase for costs per hospital inpatient admission in Maryland is below the national average.

(11) Related-Party Transactions

(a) 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.

(b) Other

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

(12) Income Taxes

At June 30, 2011, Investments has approximately $73,218 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 2031.

The net operating loss carryforwards created a net deferred tax asset of approximately $28,958 and $29,033 as of June 30, 2011 and 2010, 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, 2011 and 2010.

(Dollars in thousands)

(13) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2011 and 2010 are as follows:

		2011	2010
Professional liability (note 13)	$	43,701	43,189
Pension liability		36,177	46,759
Asset retirement obligation		3,260	3,260
Deferred compensation		4,429	3,791
Other		11,534	1,261
	$	99,101	98,260

(14) Self-Insurance Programs

(a) Professional Liability

The Corporation is self-insured, through LifeBridge Insurance, 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 purchases re-insurance from other carriers to cover its liabilities in excess of various retentions. The amounts that LifeBridge subsidiaries must transfer to LifeBridge Insurance 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 its 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.

(b) Workers' Compensation

Sinai, Northwest, Levindale, and LAA 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. The Corporation has accrued a liability for known and incurred but not reported claims of $5,497 and $4,807 at June 30, 2011 and 2010, respectively, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

Management believes this accrual is adequate to provide for all workers' compensation claims that have been incurred through June 30, 2011. All other entities have occurrence-based commercial insurance coverage.

The Corporation maintains a stop-loss policy on workers' compensation claims. The Corporation is insured for individual claims exceeding $350. Effective July 15, 2011, the Maryland Workers' Compensation Commission approved an increase in the retention amount for LifeBridge from $350 to $600.

(Dollars in thousands)

(c) Health Insurance

The Corporation is self-insured for employee health claims. Under the self-insurance plan, the Corporation accrued a liability of $2,048 and $2,044 at June 30, 2011 and 2010, respectively, for known claims and incurred but not reported claims, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

(15) 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, 2011 and 2010 is as follows:

	2011	2010
Medicare	28%	28%
Medicaid	9	11
Blue Cross	14	14
Commercial and other	36	35
Patients	13	12
	100%	100%

(16) 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 $2,244 to serve as collateral as required by the Maryland Office of Unemployment Insurance.

(c) Contract Commitments

On March 31, 2011, a construction contract was entered into for an expansion and renovation of a retail pharmacy and related space at Sinai. The guaranteed maximum price for this construction project was $2,086, subject to revisions due to project modifications. Approximately $1,227 remains outstanding as of June 30, 2011.

(Continued)

(Dollars in thousands)

On August 2, 2010, a construction contract was entered into for the expansion and renovation for an inpatient pediatric unit and related space at Sinai. The guaranteed maximum price for this construction project totals $18,870, subject to revisions due to project modifications. At June 30, 2011, approximately $10,595 remains outstanding under this commitment.

On February 18, 2010, the Corporation entered into a construction contract for the expansion and renovation of operating rooms and support departments on Sinai's fourth floor. The guaranteed maximum price for this construction project totals $4,867, subject to revisions due to project modifications. At June 30, 2011, approximately $1,059 remains outstanding under this commitment.

On December 8, 2009, a construction contract was entered into for a build out and expansion of a three story long-term care building at Levindale. The guaranteed maximum price for this construction project totals $22,564 subject to revisions due to project modifications. Approximately $8,375 remains outstanding at June 30, 2011.

(d) Operating Leases

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2016. Total rental expense for the years ended June 30, 2011 and 2010 for all operating leases was approximately $13,427 and $13,337, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Year ending June 30:		
2012	$	12,250
2013		11,416
2014		11,146
2015		10,801
2016		10,801
Thereafter		10,696
	$	67,110

(Dollars in thousands)

(17) Noncontrolling Interest

In 2011, the Corporation adopted new accounting guidance (applied retroactively to June 30, 2010) that requires a not-for-profit reporting entity to account for and present noncontrolling interests in a consolidated subsidiary as separate component of the appropriate class of consolidated net assets (equity). The reconciliation of a noncontrolling interest reported in unrestricted net assets is as follows:

	LifeBridge Health, Inc.	Noncontrolling interest	Unrestricted net assets
Balance at June 30, 2010	$ 371,514	—	371,514
Operating income	21,666	(600)	21,066
Nonoperating income	42,812	—	42,812
Excess of revenues over expenses	64,478	(600)	63,878
Change in funded status of pension plan	10,582	—	10,582
Net assets released for purchase of property and equipment	5,969	—	5,969
Other	697	—	697
Noncontrolling interest beginning net assets	(528)	528	—
Change in net assets	81,198	(72)	81,126
Balance at June 30, 2011	$ 452,712	(72)	452,640

(18) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2011 and 2010 related to providing these services are as follows:

	2011	2010
Healthcare services	$ 748,131	751,056
General and administrative	221,249	209,045
	$ 969,380	960,101

(19) 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 carrying amount and fair value of $251,946 and $286,181 at June 30, 2011 and 2010, respectively. The fair market value of the fixed rate Series 2011 MHHEFA Bonds was $52,496 as of June 30, 2011. The fair value of the Corporation's long-term 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.

(c) Fair Value Hierarchy

The Corporation adopted ASC Topic 820, *Fair Value Measurements and Disclosures*, on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 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 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

(Dollars in thousands)

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 3,558	—	—	3,558
Money market	1,743	—	—	1,743
Equity securities and mutual funds	251,798	—	—	251,798
Real estate investment trust	—	5,558	—	5,558
Treasury securities	18,636	—	—	18,636
Government securities	25,711	—	—	25,711
Corporate obligations	—	29,739	—	29,739
Total assets	$ 301,446	35,297	—	336,743

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 17,970	—	—	17,970
Money market	2,654	—	—	2,654
Equity securities and mutual funds	194,414	—	—	194,414
Real estate investment trust	—	2,027	—	2,027
Treasury securities	14,491	—	—	14,491
Government securities	1,877	—	—	1,877
Corporate obligations	—	28,786	—	28,786
Total assets	$ 231,406	30,813	—	262,219

(Continued)

(Dollars in thousands)

The fair values of pension plan assets held by PNC Institutional Investments by level at June 30, 2011 were as follows:

	Pension benefits – Plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 1,556	—	—	1,556
Fixed income:				
Short/intermediate bonds	—	15,221	—	15,221
Global fixed income	—	5,560	—	5,560
Convertible bonds	—	5,453	—	5,453
Equities:				
Large cap value	21,212	—	—	21,212
International equity	13,415	—	—	13,415
Large cap growth	13,043	—	—	13,043
Large cap core	10,867	—	—	10,867
Alternatives:				
Hedge funds	—	—	13,108	13,108
Commodities	—	—	5,640	5,640
Total assets	$ 60,093	26,234	18,748	105,075

The fair values of pension plan assets held by PNC Institutional Investments by level at June 30, 2010 were as follows:

	Pension benefits – Plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 1,999	—	—	1,999
Fixed income:				
Short/intermediate bonds	—	13,555	—	13,555
Global fixed income	—	4,814	—	4,814
Convertible bonds	—	4,033	—	4,033
Equities:				
Large cap value	15,737	—	—	15,737
International equity	9,841	—	—	9,841
Large cap growth	8,735	—	—	8,735
Large cap core	7,602	—	—	7,602
Alternatives:				
Hedge funds	—	—	10,230	10,230
Commodities	—	—	4,293	4,293
Total assets	$ 43,914	22,402	14,523	80,839

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2011

(Dollars in thousands)

Assets		Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Current assets:								
Cash and cash equivalents	$	72,833	41,867	9,920	1,055	12,483	—	138,158
Donor restricted investments		15,905	268	1,005	—	—	—	17,178
Assets limited as to use, current portion		27,221	7,265	185	—	—	—	34,671
Patient service receivables, net of allowance for doubtful accounts of $23,191 in 2011		75,388	27,715	7,500	1,740	2,056	—	114,399
Other receivables		15,034	776	337	40	13,766	(24,853)	5,100
Inventory		18,342	2,974	13	4	29	—	21,362
Prepaid expenses		3,576	501	133	13	6,382	—	10,605
Pledges receivable, current portion		2,265	401	1,415	—	—	—	4,081
Total current assets		230,564	81,767	20,508	2,852	34,716	(24,853)	345,554
Long-term investments		127,216	72,105	24,799	—	65,080	—	289,200
Assets limited as to use, net of current portion		6,027	1,658	—	—	38,776	—	46,461
Pledges receivable, net of current portion		5,657	669	2,737	—	—	—	9,063
Property and equipment, net		256,740	110,395	35,612	4,231	33,812	—	440,790
Deferred financing costs, net of accumulated amortization of $275		1,907	614	157	—	—	—	2,678
Beneficial interest in split interest agreement		3,998	—	—	—	—	—	3,998
Investment in unconsolidated affiliates		—	—	—	—	119,007	(116,703)	2,304
Other assets, net of accumulated amortization of $1,062		4,622	561	257	—	3,128	—	8,568
Total assets	$	636,731	267,769	84,070	7,083	294,519	(141,556)	1,148,616

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2011

(Dollars in thousands)

Liabilities and Net Assets	Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Current liabilities:							
Accounts payable and accrued liabilities	$ 59,222	24,237	8,774	564	16,006	(24,853)	83,950
Accrued salaries, wages, and benefits	35,787	9,073	2,833	428	9,478	—	57,599
Advances from third-party payors	27,514	5,616	3,112	75	—	—	36,317
Current portion of long-term debt and capital lease obligations	2,776	793	23	—	1,643	—	5,235
Other current liabilities	319	220	13	—	394	—	946
Total current liabilities	125,618	39,939	14,755	1,067	27,521	(24,853)	184,047
Other long term liabilities	35,965	11,292	7,213	34	44,597	—	99,101
Long-term debt and capital lease obligations, net of current portion	239,786	80,270	10,046	—	11,262	—	341,364
Total liabilities	401,369	131,501	32,014	1,101	83,380	(24,853)	624,512
Net assets:							
Unrestricted							
Unrestricted net assets	179,547	133,018	46,895	5,982	203,973	(116,703)	452,712
Noncontrolling interest in consolidated subsidiaries	—	—	—	—	(72)	—	(72)
Total unrestricted net assets	179,547	133,018	46,895	5,982	203,901	(116,703)	452,640
Temporarily restricted	45,317	3,250	5,161	—	3,015	—	56,743
Permanently restricted	10,498	—	—	—	4,223	—	14,721
	235,362	136,268	52,056	5,982	211,139	(116,703)	524,104
Total liabilities and net assets	$ 636,731	267,769	84,070	7,083	294,519	(141,556)	1,148,616

See accompanying independent auditors' report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2011

(Dollars in thousands)

	Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Unrestricted revenues, gains and other support:							
Net patient service revenue	$ 640,672	213,853	69,659	14,554	16,023	—	954,761
Net assets released from restrictions used for operations	3,342	—	21	—	317	—	3,680
Other operating revenue	30,941	1,313	1,823	84	44,520	(46,676)	32,005
Total operating revenues	674,955	215,166	71,503	14,638	60,860	(46,676)	990,446
Expenses:							
Salaries and employee benefits	339,791	108,530	45,876	8,707	27,344	55	530,303
Supplies and drugs	113,483	31,471	9,778	949	2,529	—	158,210
Purchased services	121,136	32,332	13,645	2,902	27,857	(46,731)	151,141
Depreciation, amortization and gain/loss on sale of assets	30,278	9,932	2,374	535	11,668	—	54,787
Repairs and maintenance	11,612	3,642	1,138	109	500	—	17,001
Provision for bad debts	24,499	14,506	1,161	723	1,020	—	41,909
Interest	10,514	3,595	118	—	1,802	—	16,029
Total expenses	651,313	204,008	74,090	13,925	72,720	(46,676)	969,380
Operating income (loss)	23,642	11,158	(2,587)	713	(11,860)	—	21,066
Other income, net:							
Investment income	8,944	5,798	1,610	—	2,519	—	18,871
Unrealized gains on trading investments	11,622	6,896	2,285	—	2,048	—	22,851
Earnings on equity investments	—	—	—	—	1,090	—	1,090
Total other income, net	20,566	12,694	3,895	—	5,657	—	42,812
Excess (deficiency) of revenues over expenses	$ 44,208	23,852	1,308	713	(6,203)	—	63,878

See accompanying independent auditors' report.