KPMG

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2012 and 2011

(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, 2012 and 2011 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 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 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 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 consolidated financial position of LifeBridge Health, Inc. and Subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were 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 audits 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 24, 2012

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	159,205	138,158
Donor-restricted investments		8,752	17,178
Assets limited as to use, current portion		19,498	34,671
Patient service receivables, net of allowance for doubtful accounts of $23,560 in 2012 and $23,191 in 2011		113,507	114,399
Other receivables		5,324	5,100
Inventory		23,467	21,362
Prepaid expenses		9,522	10,605
Pledges receivable, current portion		3,414	4,081
Total current assets		342,689	345,554
Long-term investments		310,111	289,200
Reinsurance recovery receivable		20,461	17,454
Assets limited as to use, net of current portion		37,646	46,461
Pledges receivable, net of current portion		8,518	9,063
Property and equipment, net		472,030	440,790
Deferred financing costs, net of accumulated amortization of $396 in 2012 and $275 in 2011		2,557	2,678
Beneficial interest in split interest agreement		3,930	3,998
Investment in unconsolidated affiliates		2,621	2,304
Other assets, net of accumulated amortization of $228 in 2012 and $97 in 2011		9,130	8,568
Total assets	$	1,209,693	1,166,070

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Liabilities and Net Assets		2012	2011
Current liabilities:			
Accounts payable and accrued liabilities	$	84,481	83,950
Accrued salaries, wages and benefits		52,945	57,599
Advances from third-party payors		42,313	36,317
Current portion of long-term debt and capital lease obligations		6,216	5,235
Other current liabilities		974	946
Total current liabilities		186,929	184,047
Other long-term liabilities		146,289	116,555
Long-term debt and capital lease obligations, net of current portion		335,486	341,364
Total liabilities		668,704	641,966
Net assets:			
Unrestricted		480,953	452,712
Noncontrolling interest in consolidated subsidiaries		(393)	(72)
Total unrestricted net assets		480,560	452,640
Temporarily restricted		45,891	56,743
Permanently restricted		14,538	14,721
		540,989	524,104
Total liabilities and net assets	$	1,209,693	1,166,070

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	995,887	954,761
Net assets released from restrictions used for operations		4,015	3,680
Other operating revenue		51,619	32,005
Total operating revenues		1,051,521	990,446
Expenses:			
Salaries and employee benefits		567,491	530,303
Supplies		163,839	158,210
Purchased services		157,924	151,141
Depreciation, amortization and gain/loss on sale of assets		57,304	54,787
Repairs and maintenance		18,426	17,001
Provision for bad debts		43,656	41,909
Interest		19,619	16,029
Total expenses		1,028,259	969,380
Operating income		23,262	21,066
Other income net:			
Investment income		16,707	18,871
Unrealized (losses) gains on trading investments		(10,800)	22,851
(Losses) earnings on investments in unconsolidated affiliates		(355)	1,090
Total other income net		5,552	42,812
Excess of revenues over expenses	$	28,814	63,878

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
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
Excess of revenues over expenses		28,814	—	—	28,814
Unrealized (loss) gain on investments		—	(1,114)	4	(1,110)
Net assets released from restrictions used for the purchase of property and equipment		16,101	(16,101)	—	—
Restricted gifts and bequests		—	10,446	—	10,446
Net assets released from restrictions used for operations		—	(4,015)	—	(4,015)
Net change in value of beneficial interest in split interest agreement		—	(68)	—	(68)
Adjustment to pension liability		(17,159)	—	—	(17,159)
Other		164	—	(187)	(23)
Change in net assets		27,920	(10,852)	(183)	16,885
Net assets at June 30, 2012	$	480,560	45,891	14,538	540,989

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	16,885	90,606
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		56,977	54,611
Loss on disposal of equipment		327	176
Change in pension liability		17,159	(10,582)
Provision for bad debts		43,656	41,909
Realized and unrealized losses (gains) on investments		7,248	(33,814)
Restricted gifts and bequests		(10,446)	(13,475)
Change in beneficial interest of split interest agreement		68	(619)
Losses (earnings) on investments in unconsolidated affiliates		355	(1,090)
Change in operating assets and liabilities:			
Increase in patient service receivables, net		(42,764)	(47,832)
Increase in other receivables		(224)	(245)
Decrease (increase) in pledges receivable		1,212	(2,266)
Increase in inventory		(2,105)	(1,449)
Decrease in prepaid expenses		1,083	283
Increase in reinsurance recovery receivable		(3,007)	(2,360)
(Decrease) increase in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits		(13,808)	9,193
Increase in advances from third-party payors		5,996	6,407
Increase in other current and long-term liabilities		12,603	3,619
Net cash provided by operating activities		91,215	93,072
Cash flows from investing activities:			
Change in donor-restricted investments		7,316	4,452
Change in long-term investments		(27,049)	(30,203)
Change in assets limited as to use		23,988	(31,032)
(Investment in) distributions from unconsolidated affiliates		(672)	963
Additions to operating property		(78,797)	(66,810)
Proceeds from the sale of property		71	11
Change in other assets		(693)	(2,677)
Net cash used in investing activities		(75,836)	(125,296)
Cash flows from financing activities:			
Payment on debt and capital lease obligations		(5,303)	(5,107)
Proceeds from issuance of debt		525	50,639
Cash paid for debt issuance costs		—	(957)
Restricted gifts and bequests		10,446	13,475
Net cash provided by financing activities		5,668	58,050
Net increase in cash and cash equivalents		21,047	25,826
Cash and cash equivalents:			
Beginning of year		138,158	112,332
End of year	$	159,205	138,158
Supplemental cash flow disclosures:			
Cash paid during the year for interest	$	19,482	15,529
Cash paid during the year for income taxes		3	6
Additions to property and equipment in exchange for capital lease obligations		—	407
Accounts payable related to purchase of operating property		9,234	15,923

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), LifeBridge Investments, Inc. (Investments), and LifeBridge Community Physicians, Inc. (Community Physicians). 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:

> *The Baltimore Jewish Health Foundation, Inc. (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, Inc. (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 Professionals, LLC (SCP)* – SCP was formed on August 1, 2009 concurrently with the acquisition of the assets of Clinical Associates, P.A. SCP provides multispecialty 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 subacute 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 and skilled nursing facility, which provides specialty/long-stay hospital care, rehabilitation hospital care, comprehensive nursing care, psychiatric care, and outpatient adult day 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.

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.

David L. Zisow M.D., 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 on 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) – In January 2011, Investments acquired a 51% interest in HCM. 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 Manor LP (a nursing home located in Reisterstown, Maryland); PLMD, LLC (an ambulance transportation company); Acute Diagnostics and Services, LLC (a sleep center management company); LifeBridge Sports Medicine and Rehabilitation, LLC (a provider of physical and occupational therapy services); and National Respiratory Care, LLC (a supplier of durable medical equipment).

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Community Physicians – Community Physicians is a for-profit corporation that provides physician and related services through several subsidiaries, including:

LifeBridge Cardiology of Carroll County, LLC (LCCC) – LCCC provides cardiology services.

LifeBridge Suburban Physician Group, LLC (LSPG) – LSPG provides primary and specialty physician services.

Woodholme Cardiology, LLC (Woodholme) – Woodholme provides cardiology services.

(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) 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 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.

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(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, 2012 and 2011.

(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) 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 $95,049 and $84,990 at June 30, 2012 and 2011, 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 investment funds of the Associated Jewish Charities (AJC). The underlying investments for these funds include cash of $77, mutual funds of $6,610, equities of $23,695, government bonds of $2,733, corporate bonds of $145, and alternative investments of $14,450. 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 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 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 (expense), 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 – Unadjusted quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities.
- Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.
- Level 3 – Prices or valuations that require inputs that are significant to the fair value measurement and are unobservable.

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.

(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 consist 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 $121 and $93 for the years ended June 30, 2012 and 2011, respectively. Such amortization is included in depreciation and amortization in the consolidated financial statements.

(i) 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 12 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.

(j) Advances from Third-Party Payors

Advances from third-party payors are representative of advance funding from CareFirst, BlueCross, 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 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 Episode (CPE) agreements with the HSCRC. The HSCRC's Charge per Episode methodology was implemented on July 1, 2011. It is similar to the previous Charge per Case methodology. These CPE agreements establish a prospective average charge per inpatient episode, defined as hospital admissions/births, plus "all cause" readmissions within a thirty day period. These approved CPE targets are adjusted during the rate year for actual changes in case mix. The CPE agreements allow hospitals to adjust approved unit rates, within certain limits, to achieve the average case mix adjusted

CPE target for the rate year ending June 30. To the extent that the actual average CPE exceeds the case mix adjusted target, the overcharge will reduce the approved target for future years. Conversely, if the actual average CPE is below the case mix adjusted target, the undercharge will increase the approved target for future years. Under the CPE target methodology, the Hospitals monitor their average CPE compared to HSCRC case mix adjusted targets on a routine basis.

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, 2012, Levindale and Courtland had open Medicaid cost reports for the years ended June 30, 2012 and 2011.

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

(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 2012 and 2011, based on patient charges foregone, was $18,081 and $15,801, respectively. The total direct and indirect costs to provide the care amounted to approximately $15,589 and $13,624 for the years ended June 30, 2012 and 2011, 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.

LifeBridge Insurance, Community Physicians, and Investments and its incorporated 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.

(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 reporting 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) New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect cost of providing charity care, and requires disclosure of the method used to identify or determine such costs. This ASU was effective for the Corporation on July 1, 2011. The adoption did not impact the financial position or results of operations of the Corporation.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a healthcare entity may not net insurance recoveries against related claims liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU was effective for the Corporation on July 1, 2011. The adoption of this guidance resulted in the Corporation recording an additional accrual for medical malpractice claims liability and an insurance recovery receivable of $20,461 and $17,454 on the balance sheet at June 30, 2012 and 2011, respectively. Such amounts are included in other long-term liabilities. The adoption of this guidance did not have any impact on the results of operations or cash flows of the Corporation. The Corporation elected retrospective adoption of the pronouncement.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires a healthcare entity to change the presentation of its statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowance and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Corporation beginning July 1, 2012.

(u) Reclassifications

Certain prior year amounts have been reclassified to conform to current period presentation. The reclassification has no impact on previously reported net assets or change in net assets.

(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 carrying value as of June 30, 2012 and 2011, and consist of the following:

		2012	2011
Assets limited as to use:			
Self-insurance fund:			
Equity securities	$	8,897	9,751
U.S. Treasury		11,760	14,098
Alternative investments		4,213	2,249
Government securities		2,031	1,298
Corporate obligations		9,854	10,687
Asset-backed securities		891	693
Self-insurance fund		37,646	38,776
Debt service fund:			
Cash and cash equivalents		11,701	10,150
Construction fund:			
Cash and cash equivalents		7,797	12,698
Government securities		—	19,508
Assets limited as to use		57,144	81,132
Less current portion		(19,498)	(34,671)
Assets limited as to use, net of current portion	$	37,646	46,461
Donor-restricted investments:			
Cash and cash equivalents	$	816	2,459
Equity securities		93	—
U.S. Treasury		1,972	4,412
Mutual funds		2,960	5,020
Government securities		1,715	2,803
Asset-backed securities		185	—
Corporate obligations		1,011	2,484
Donor-restricted investments	$	8,752	17,178
Beneficial interest in split interest agreement	$	3,930	3,998

The remaining investments restricted by donors are included in long-term investments, pledges receivable, and beneficial interest as of June 30, 2012 and 2011. Of these amounts, $35,815 and $37,144 are included in long-term investments as of June 30, 2012 and 2011, respectively:

		2012	2011
Long-term investments:			
Cash and cash equivalents	$	2,947	2,825
Mutual funds		138,481	130,662
U.S. Treasury		1,950	126
Equity securities		61,284	60,242
Government securities		3,326	1,409
Corporate obligations		11,104	11,195
Asset-backed securities		183	—
Alternative investments		90,836	82,741
	$	310,111	289,200

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, 2012 and 2011:

		2012	2011
Investment income:			
Interest income and dividends	$	12,045	12,950
Realized gains on sale of securities		4,662	5,921
Investment income		16,707	18,871
Unrealized gains on trading securities		(10,800)	22,851
Other changes in net assets:			
Changes in unrealized gains on temporarily and permanently restricted net assets		(1,110)	5,042
Total investment return	$	4,797	46,764

(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.

Sinai, Northwest, and Levindale have recorded total pledges as of June 30, 2012 and 2011 as follows:

		2012	2011
Gross pledges receivable	$	16,176	18,039
Less:			
Discount for time value of money		(1,574)	(1,926)
Allowance for uncollectible accounts		(2,670)	(2,969)
	$	11,932	13,144

Total future payments are as follows:

Less than one year	$	4,747
One to five years		9,933
Five years and thereafter		1,496
	$	16,176

(5) Property and Equipment

As described in note 11, 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		2012	2011
Land		$	2,747	2,747
Land improvements	8 to 20 years		11,352	9,134
Building and improvements	10 to 40 years		611,252	533,287
Fixed equipment	8 to 20 years		55,063	54,934
Movable equipment	3 to 15 years		295,492	268,562
Construction in progress			19,775	63,783
			995,681	932,447
Less accumulated depreciation			(523,651)	(491,657)
Property and equipment, net		$	472,030	440,790

Depreciation, amortization, and gain/loss on sale of assets were $57,304 and $54,787 for the years ended June 30, 2012 and 2011, respectively. Of this, depreciation expense was $56,393 and $53,364 for the years ended June 30, 2012 and 2011, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of $13,139 and $15,483 for the years ended June 30, 2012 and 2011, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $12,970 and $10,583 at June 30, 2012 and 2011, respectively.

(6) Long-Term Debt and Capital Lease Obligations

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

		2012	2011
Maryland Health and Higher Educational Facilities Authority:			
Revenue Bonds Series 2008	$	275,193	277,880
Revenue Bonds Series 2011		50,695	50,695
Capital leases		12,802	15,234
Other		343	—
		339,033	343,809
Less current portion		(6,216)	(5,235)
Unamortized premium		2,722	2,846
Unamortized discount		(53)	(56)
Long-term debt, net	$	335,486	341,364

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 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, 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 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 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, 2012, the Obligated Group met all of its covenants.

(Continued)

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
2013	$ 3,600	3,856
2014	3,755	3,726
2015	3,935	3,296
2016	4,130	3,184
2017	4,330	2,114
Thereafter	306,138	4,000
	$ 325,888	20,176
Less interest portion		(7,374)
		$ 12,802

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, 2012 and 2011, there were no balances outstanding on this line of credit. There is no expiration date on the line of credit.

(8) Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Healthcare services:		
Capital equipment/construction	$ 24,197	34,740
Other healthcare services:		
Service grants	1,014	596
Donor-specified healthcare services	10,111	10,864
Enrichment and research	10,569	10,543
	$ 45,891	56,743

Permanently restricted net assets of $14,538 and $14,721 at June 30, 2012 and 2011, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(9) Employee Benefit Plans

As of June 30, 2011, the Corporation sponsored three noncontributory defined-benefit pension plans covering full-time, nonunion and union employees. These plans included the Levindale, Sinai nonunion and Sinai union pension plans. Effective January 1, 2012, the Levindale plan was merged into the Sinai nonunion plan resulting in the Corporation sponsoring two pension plans (the Plans). 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 tables set forth the Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2012 and 2011:

		2012	2011
Measurement date		June 30, 2012	June 30, 2011
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	139,221	127,012
Service cost		6,709	6,327
Interest cost		7,463	6,680
Actuarial loss		11,858	3,892
Benefits paid		(5,103)	(4,287)
Expenses paid from assets		(312)	(403)
Plan amendments		(968)	—
Benefit obligation at end of year		158,868	139,221
Change in plan assets:			
Fair value of plan assets at beginning of year		105,075	80,839
Actual return on plan assets		(674)	17,017
Company contributions		9,832	11,909
Benefits paid		(5,103)	(4,287)
Expenses paid from assets		(312)	(403)
Fair value of plan assets at end of year		108,818	105,075
Funded status	$	(50,050)	(34,146)

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

		2012	2011
Amounts recognized in the consolidated balance sheets:			
Other current assets, net	$	(3,283)	(2,031)
Other long-term liabilities		53,333	36,177
	$	50,050	34,146
Amounts recognized in unrestricted net assets:			
Net actuarial loss	$	52,670	33,997
Prior service cost		663	2,180
	$	53,333	36,177
Accumulated benefit obligation at the end of the year	$	141,929	119,793

Net periodic pension expense for the years ended June 30, 2012 and 2011 was as follows:

		2012	2011
Service cost	$	6,709	6,327
Interest cost		7,463	6,680
Expected return on plan assets		(8,127)	(6,217)
Amortization of net loss		1,985	3,073
Amortization of prior service cost		548	601
Net periodic benefit cost	$	8,578	10,464

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 $3,613 and $442, respectively.

Actuarial assumptions used were as follows:

	2012	2011
Assumptions used to determine annual pension expense:		
Discount rate	5.60%	5.50%
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	4.25%	5.60%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	3.00	4.00
Plan asset allocation:		
Asset category:		
Cash and cash equivalents	1.00%	1.00%
Fixed income/debt securities	26.00	25.00
Equities	51.00	56.00
Other	22.00	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:	
2013	$ 5,180
2014	4,811
2015	6,452
2016	6,560
2017	7,683
2018 – 2021	49,674

The fair values of pension plan assets held by PNC Institutional Investments by level at June 30, 2012 were as follows:

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 3,239	—	—	3,239
Mutual funds	40,552	—	—	40,552
Fixed income:				
Corporate bonds	—	4,504	—	4,504
Equity securities	41,754	—	—	41,754
Alternative investments	—	—	18,769	18,769
Total assets	$ 85,545	4,504	18,769	108,818

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	$ 3,835	—	—	3,835
Mutual funds	39,836	—	—	39,836
Fixed income:				
Corporate bonds	—	4,711	—	4,711
Equity securities	43,561	—	—	43,561
Alternative investments	—	—	13,132	13,132
Total assets	$ 87,232	4,711	13,132	105,075

For the years ended June 30, 2012 and 2011, 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, 2011	$ 13,132
Additions:	
Contributions/purchases	5,960
Disbursements:	
Withdrawals/sales	(3)
Net change in value	(320)
Balance as of June 30, 2012	$ 18,769

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2012:

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5
Redemption timing:					
Redemption frequency	Quarterly	Quarterly	Quarterly	Quarterly	*
Required notice	33 days	95 days	65 days	65 days	
Audit reserve:					
Percentage held back for audit reserve	10%	10%	10%	5%	
Gates:					
Potential gate holdback	—	—	—	—	
Potential gate release time frame	—	—	—	—	

* Fund 5 is currently in redemption

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 $2,260 and $1,897 for the years ended June 30, 2012 and 2011, 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 $4,258 and $48 for the years ended June 30, 2012 and 2011, 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, Investments may elect to match a percentage of eligible employees' contributions each year. The related expense was approximately $723 and $363 for the years ended June 30, 2012 and 2011, 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 $2,975 and $2,705 for the years ended June 30, 2012 and 2011, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

(10) Regulation and Reimbursement

The Corporation provides general acute healthcare 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.

(Continued)

(12) Income Taxes

At June 30, 2012, Investments has approximately $72,543 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 2032.

The net operating loss carryforwards created a net deferred tax asset of approximately $28,691 and $28,958 as of June 30, 2012 and 2011, 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, 2012 and 2011.

(13) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2012 and 2011 are as follows:

		2012	2011
Professional liability (note 14(a))	$	61,914	61,155
Pension liability		53,333	36,177
Asset retirement obligation		3,260	3,260
Deferred compensation		4,707	4,429
Other		23,075	11,534
	$	146,289	116,555

(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 reinsurance 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. Professional liability coverage for certain employed physicians is provided by commercial insurance carriers.

(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 $5,842 and $5,497 at June 30, 2012 and 2011, 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, 2012. All other entities have occurrence-based commercial insurance coverage. Additionally, there are no material insurance recoveries related to workers' compensation as of June 30, 2012.

The Corporation maintains a stop-loss policy on workers' compensation claims. The Corporation is insured for individual claims exceeding $450. Effective July 15, 2011, the Maryland Workers' Compensation Commission approved an increase in the retention amount for LifeBridge from $350 to $450.

(c) Health Insurance

The Corporation is self-insured for employee health claims. Under the self-insurance plan, the Corporation accrued a liability of $2,178 and $2,048 at June 30, 2012 and 2011, 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, 2012 and 2011 is as follows:

	2012	2011
Medicare	28%	28%
Medicaid	7	9
BlueCross	13	14
Commercial and other	38	36
Patients	14	13
	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 $2,260 to serve as collateral as required by the Maryland Office of Unemployment Insurance.

(c) Contract Commitments

On August 2, 2010, a construction contract was entered into for the expansion and renovation of an inpatient pediatric unit and related space at Sinai. The guaranteed maximum price for this construction project totals $19,878, subject to revisions due to project modifications. At June 30, 2012, approximately $2,646 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 $24,068 subject to revisions due to project modifications. Approximately $593 remains outstanding at June 30, 2012.

(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, 2012 and 2011 for all operating leases was approximately $11,473 and $13,427, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Year ending June 30:		
2013	$	9,714
2014		9,470
2015		9,323
2016		9,322
2017		8,474
Thereafter		8,474
	$	54,777

(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 a 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
Operating income	23,583	(321)	23,262
Nonoperating income	5,552	—	5,552
Excess of revenues over expenses	29,135	(321)	28,814
Change in funded status of pension plan	(17,159)	—	(17,159)
Net assets released for purchase of property and equipment	16,101	—	16,101
Other	164	—	164
Change in net assets	28,241	(321)	27,920
Balance at June 30, 2012	$ 480,953	(393)	480,560

(18) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2012 and 2011 related to providing these services are as follows:

		2012	2011
Healthcare services	$	783,712	748,131
General and administrative		244,547	221,249
	$	1,028,259	969,380

(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 $288,769 and $251,946 at June 30, 2012 and 2011, respectively. The fair market value of the fixed rate Series 2011 MHHEFA Bonds was $58,023 as of June 30, 2012. 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.

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 23,261	—	—	23,261
Equity securities and mutual funds	211,715	—	—	211,715
Treasury securities	15,682	—	—	15,682
Government securities	—	7,072	—	7,072
Asset-backed securities	—	1,259	—	1,259
Corporate obligations	—	21,969	—	21,969
Beneficial interest in split interest agreement	—	3,930	—	3,930
Total assets	$ 250,658	34,230	—	284,888

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	$ 28,132	—	—	28,132
Equity securities and mutual funds	206,603	—	—	206,603
Treasury securities	18,636	—	—	18,636
Government securities	—	25,018	—	25,018
Asset-backed securities	—	693	—	693
Corporate obligations	—	23,438	—	23,438
Beneficial interest in split interest agreement	—	3,998	—	3,998
Total assets	$ 253,371	53,147	—	306,518

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

For the years ended June 30, 2012 and 2011, there were no significant transfers into or out of Levels 1, 2, or 3.

(20) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2012 and through October 24, 2012. The Corporation did not have any subsequent events that were required to be recognized or disclosed during this period.

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2012

(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	$	92,364	48,034	4,277	709	13,821	—	159,205
Donor-restricted investments		7,936	539	277	—	—	—	8,752
Assets limited as to use, current portion		12,628	6,458	412	—	—	—	19,498
Patient service receivables, net of allowance for doubtful accounts of $23,560		75,313	25,688	7,389	2,141	2,976	—	113,507
Other receivables		32,413	982	556	23	27,466	(56,116)	5,324
Inventory		19,825	3,518	77	4	43	—	23,467
Prepaid expenses		2,981	483	143	15	5,900	—	9,522
Pledges receivable, current portion		1,638	230	1,546	—	—	—	3,414
Total current assets		245,098	85,932	14,677	2,892	50,206	(56,116)	342,689
Long-term investments		129,647	73,044	24,518	—	82,902	—	310,111
Reinsurance recovery receivable		—	—	—	—	20,461	—	20,461
Assets limited as to use, net of current portion		—	—	—	—	37,646	—	37,646
Pledges receivable, net of current portion		5,986	822	1,710	—	—	—	8,518
Property and equipment, net		279,335	108,031	46,135	4,901	33,628	—	472,030
Deferred financing costs, net of accumulated amortization of $396		1,821	586	150	—	—	—	2,557
Beneficial interest in split interest agreement		3,930	—	—	—	—	—	3,930
Investment in unconsolidated affiliates		—	—	—	—	61,996	(59,375)	2,621
Other assets, net of accumulated amortization of $228		5,221	257	214	—	3,438	—	9,130
Total assets	$	671,038	268,672	87,404	7,793	290,277	(115,491)	1,209,693

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2012

(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	$	78,755	18,476	7,207	1,322	34,837	(56,116)	84,481
Accrued salaries, wages, and benefits		29,163	9,692	2,863	458	10,769	—	52,945
Advances from third-party payors		32,062	7,064	3,112	75	—	—	42,313
Current portion of long-term debt and capital lease obligations		3,179	988	142	—	1,907	—	6,216
Other current liabilities		387	249	13	—	325	—	974
Total current liabilities		143,546	36,469	13,337	1,855	47,838	(56,116)	186,929
Other long-term liabilities		65,943	11,021	6,664	34	62,627	—	146,289
Long-term debt and capital lease obligations, net of current portion		236,476	79,277	9,904	—	9,829	—	335,486
Total liabilities		445,965	126,767	29,905	1,889	120,294	(56,116)	668,704
Net assets:								
Unrestricted:								
Unrestricted net assets		178,563	138,240	53,966	5,904	163,655	(59,375)	480,953
Noncontrolling interest in consolidated subsidiaries		—	—	—	—	(393)	—	(393)
Total unrestricted net assets		178,563	138,240	53,966	5,904	163,262	(59,375)	480,560
Temporarily restricted		36,195	3,665	3,533	—	2,498	—	45,891
Permanently restricted		10,315	—	—	—	4,223	—	14,538
		225,073	141,905	57,499	5,904	169,983	(59,375)	540,989
Total liabilities and net assets	$	671,038	268,672	87,404	7,793	290,277	(115,491)	1,209,693

See accompanying independent auditors’ report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(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	$	664,385	220,022	70,453	14,533	26,494	—	995,887
Net assets released from restrictions used for operations		2,688	—	899	—	428	—	4,015
Other operating revenue		44,096	6,914	1,556	112	51,583	(52,642)	51,619
Total operating revenues		711,169	226,936	72,908	14,645	78,505	(52,642)	1,051,521
Expenses:								
Salaries and employee benefits		364,308	115,402	44,812	9,388	33,410	171	567,491
Supplies		116,906	34,152	8,197	922	3,662	—	163,839
Purchased services		124,923	32,260	14,503	3,234	35,817	(52,813)	157,924
Depreciation, amortization, and gain/loss on sale of assets		32,689	11,724	3,063	562	9,266	—	57,304
Repairs and maintenance		12,729	3,877	1,189	139	492	—	18,426
Provision for bad debts		26,489	14,559	621	478	1,509	—	43,656
Interest		13,009	4,523	327	—	1,760	—	19,619
Total expenses		691,053	216,497	72,712	14,723	85,916	(52,642)	1,028,259
Operating income (loss)		20,116	10,439	196	(78)	(7,411)	—	23,262
Other income, net:								
Investment income		7,838	5,445	794	—	2,630	—	16,707
Unrealized gains on trading investments		(4,824)	(4,188)	(456)	—	(1,332)	—	(10,800)
Earnings on equity investments		—	—	—	—	(355)	—	(355)
Total other income, net		3,014	1,257	338	—	943	—	5,552
Excess (deficiency) of revenues over expenses	$	23,130	11,696	534	(78)	(6,468)	—	28,814

See accompanying independent auditors' report.