

**CAROLL HOSPITAL CENTER INC & SUBSIDIARIES**

Consolidated Statements of Operations

Year ended June 30, 2015

(Dollars in thousands)

	<b>Official Statement</b>	<b>LBH Audit</b>	
	<b>9 Months Ending</b>	<b>3 Months</b>	<b>12 Months Ending</b>
	<b>March 31st, 2015</b>	<b>April - June 2015</b>	<b>June 30th, 2015</b>
Unrestricted revenues, gains and other support:			
Patient service revenue (net of contractual allowances and discounts)	191,560	63,809	255,369
Provision for bad debts	4,885	605	5,490
<b>Net patient service revenue</b>	<b>186,675</b>	<b>63,204</b>	<b>249,879</b>
Net assets released from restrictions used for operations	—	7	7
Other operating revenue	3,534	1,233	4,767
<b>Total operating revenues</b>	<b>190,209</b>	<b>64,444</b>	<b>254,653</b>
Expenses:			
Salaries and employee benefits	86,102	29,740	115,842
Supplies	29,531	11,177	40,707
Purchased services	23,760	7,650	31,410
Professional Fees	21,867	6,247	28,113
Depreciation, amortization and gain/loss on sale of assets	13,313	3,821	17,134
Repairs and maintenance	—	—	—
Interest	4,038	1,489	5,526
<b>Total expenses</b>	<b>178,610</b>	<b>60,123</b>	<b>238,733</b>
<b>Operating income</b>	<b>11,599</b>	<b>4,321</b>	<b>15,920</b>
Other income, net:			
Investment income	661	562	1,224
Other	(5,813)	661	(5,152)
<b>Total other income, net</b>	<b>(5,151)</b>	<b>1,224</b>	<b>(3,928)</b>
<b>Excess of revenues over expenses</b>	<b>\$ 6,448</b>	<b>5,545</b>	<b>11,993</b>



**KPMG LLP**  
1 East Pratt Street  
Baltimore, MD 21201-1128

July 8, 2015

LifeBridge Health, Inc.  
2401 W. Belvedere Ave.  
Baltimore, Maryland 21215

Maryland Health and Higher Educational Facilities Authority  
401 E. Pratt Street  
Suite 1224  
Baltimore, Maryland 21202

Merrill Lynch, Pierce, Fenner & Smith Incorporated  
One Bryant Park, 12<sup>th</sup> Floor  
New York, New York 10036

Ladies and Gentlemen:

We have audited the consolidated balance sheets of LifeBridge Health, Inc. and Subsidiaries (LifeBridge) and Carroll County Health Services Corporation (Carroll), (together, the Corporation), as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended which are included separately in Appendix B-1 and B-2 to the Preliminary Official Statement, dated July 8, 2015, for the \$163,625,000 Maryland Health and Higher Educational Facilities Authority Revenue Bonds, Series 2015.

In connection with the Preliminary Official Statement:

1. We are independent certified public accountants with respect to the Corporation under Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, and its interpretations and rulings.
2. We have not audited any financial statements of LifeBridge and Carroll as of any date or any period subsequent to June 30, 2014. Although we have conducted an audit for the year ended June 30, 2014, the purpose (and therefore the scope) of the audit was to enable us to express our opinion on the consolidated financial statements of LifeBridge and Carroll, separately, as of June 30, 2014 and for the year then ended, but not on the consolidated financial statements of the Corporation for any interim period within that year or any period thereafter. Therefore, we are unable to and do not express any opinion on the unaudited consolidated balance sheets as of March 31, 2015 and 2014, and the unaudited consolidated statements of operations and changes in net assets and cash flows for the nine-month periods ended March 31, 2015 and 2014, included in the Preliminary Official Statement, or on the financial position, results of



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operations, or cash flows of LifeBridge and Carroll as of any date or for any period subsequent to June 30, 2014.

3. At your request, we have read the available minutes of meetings of the Board of Directors, Budget and Finance Committee, Risk, Audit and Compliance Committee, Health Investment Committee, and the Finance and Treasury Committee as set forth in the minute books from July 1, 2014 through July 8, 2015, officials of the Corporation having advised us that the minutes of all such meetings were set forth therein.
4. With respect to the nine-month periods ended March 31, 2015 and 2014, we have:
  - (i) Read the unaudited condensed consolidated financial statements of LifeBridge and Carroll (condensed in that the consolidated financial statements omit certain required footnote disclosures as required by U.S. generally accepted accounting principles) as of March 31, 2015 and 2014 and for the nine-month periods ended March 31, 2015 and 2014, furnished to us by the Corporation and included in Appendix A-1 of the Preliminary Official Statement and agreed the amounts contained therein with the corresponding Corporation's accounting records as of March 31, 2015 and 2014, and for the nine-month periods then ended. We inquired of certain officials of LifeBridge and Carroll who have responsibility for financial and accounting matters whether the unaudited consolidated financial statements are in conformity with U.S. generally accepted accounting principles and applied on a basis substantially consistent with that of the audited consolidated financial statements of LifeBridge and Carroll included in the Preliminary Official Statement. Those officials stated that the unaudited condensed consolidated financial statements are in conformity with U.S. generally accepted accounting principles and applied on a basis substantially consistent with that of the audited consolidated financial statements of LifeBridge and Carroll included in the Preliminary Official Statement aside from the exclusion of certain required disclosures.
5. With respect to the period from April 1, 2015 to May 31, 2015, we have:
  - (i) Read the unaudited condensed consolidated financial statements of the Corporation (condensed in that the consolidated financial statements omit the statement of cash flows, statement of changes in net assets and all required footnote disclosures as required by U.S. generally accepted accounting principles) as of May 31, 2015 and 2014 and for the period from April 1, 2015 to May 31, 2015 and 2014, furnished to us by the Corporation. Officials of the Corporation have advised us that no such financial statements as of any date or for any period subsequent to May 31, 2015 were available and approved by the Finance Committee.



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- (ii) Inquired of certain officials of the Corporation who have responsibility for financial and accounting matters whether (1) the unaudited condensed consolidated financial statements referred to in paragraph 5(i) above are in conformity with U.S. generally accepted accounting principles and applied on a basis substantially consistent with that of the audited consolidated financial statements of the Corporation included in the Preliminary Official Statement (2) at May 31, 2015, there was an increase in total debt or decrease in total assets or net assets of the Corporation, as compared with amounts shown on the March 31, 2015 unaudited condensed consolidated balance sheet of LifeBridge included in the Preliminary Official Statement, or (3) for the period from April 1 to May 31, 2015, there was any decreases, as compared with the corresponding period in the preceding year of LifeBridge, in consolidated net operating revenues or excess of revenues over expenses.
  - (iii) Those officials stated that (1) the unaudited condensed consolidated financial statements referred to in paragraph 5(i) above are in conformity with U.S. generally accepted accounting principles and applied on a basis substantially consistent with that of the audited consolidated financial statements of the Corporation included in the Preliminary Official Statement. Additionally, effective April 1, 2015, the results of LifeBridge and Carroll became consolidated. The fluctuations below compare May 31, 2015 and the activity for the period of April 1 to May 31 of the Corporation in 2015 to LifeBridge during the same period of 2014, which is prior to the inclusion of Carroll's assets and liabilities, and results from operations. (2) at May 31, 2015, related to the Corporation there was an increase in total debt of approximately \$206.6 million, which management of LifeBridge states is related to the inclusion of Carroll and the \$100 million line of credit. There was not a decrease in total assets or net assets as compared with the respective amounts shown on the March 31, 2015 unaudited condensed consolidated balance sheet of LifeBridge included in Appendix A-1 to the Preliminary Official Statement; (3) for the period from April 1 to May 31, 2015, there was not a decrease, as compared with the corresponding period in the preceding year, in consolidated net operating revenues, or in excess of revenues over expenses.
6. As mentioned in 5(i), officials of the Corporation have advised us that no financial statements as of any period subsequent to May 31, 2015 are available and has been presented to the Finance Committee; accordingly, the procedures carried out by us with respect to changes in financial statement line items after May 31, 2015 have, of necessity, been even more limited than those with respect to the period referred to in 5(i) through 5(iii) above. We have inquired of certain officials of the Corporation who have responsibility for financial and accounting matters whether (1) at July 8, 2015, there was an increase in total debt or decrease in total assets or net assets of the Corporation, as compared with amounts shown on the March 31, 2015 unaudited condensed consolidated balance sheets of LifeBridge included in the Preliminary Official Statement, or (2) for the period from June 1, 2015 to July 8, 2015, there



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was any decreases, as compared with the corresponding period in the preceding year, in consolidated net operating revenues or excess of revenues over expenses.

- (i) Those officials stated that based upon the information available (1) at July 8, 2015, there was an increase in total debt of approximately \$256.6 million, however, there was not a decrease in total assets or net assets as compared with the respective amounts shown on the March 31, 2015 unaudited condensed consolidated balance sheets of LifeBridge; (2) for the period of June 1, 2015 through July 8, 2015, there was not a decrease, as compared with the corresponding period in the preceding year, in consolidated net operating revenues or excess of revenues over expenses for LifeBridge.
7. Our audits of the consolidated financial statements of the LifeBridge and Carroll for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements of LifeBridge and Carroll, separately, taken as a whole. For none of the periods referred to therein, nor for any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts such as those enumerated above or attached, and, accordingly, we express no opinion therein.
8. For purposes of this letter, we have also read the items identified by the Corporation on the attached selected pages of the Preliminary Official Statement and have performed the following procedures, which were applied as indicated with respect to the symbols explained below. For the purposes of reporting our findings, in those instances in which one or both of the compared amounts and percentages were rounded to some degree, we have nevertheless stated that we found the compared amounts and percentage to be in agreement. With respect to the items identified, we make no comment as to the appropriateness of the Corporation's determination to select those amounts to appear under the captions so presented, and we make no comment as to the Corporation's determination as to what constitutes the appropriate presentation, disclosure, or explanation of such items, or their completeness or appropriateness for purposes of the Preliminary Official Statement. Also, we make no comment as to the appropriateness or completeness of the Corporation's determination of the causes of the increases or decreases in amounts discussed in the Preliminary Official Statement.
  - (✓) Compared the dollar amount to the corresponding amount or combinations of amounts in Carroll and/or LifeBridge's audited consolidated financial statements as of and for the years ended June 30, 2014 and 2013, and found such amounts to be in agreement.
  - (R) Recalculated based on amounts in Carroll and/or LifeBridge's audited consolidated financial statements as of and for the years ended June 30, 2014 and 2013, and noted no mathematical errors.



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- (✓x) Agreed the amount to a schedule prepared by LifeBridge and/or Carroll, which was derived from LifeBridge or Carroll's general ledger or other accounting records and found them to be in agreement.
  - (Rx) Recalculated based on amounts in a schedule prepared by LifeBridge and/or Carroll, which was derived from LifeBridge or Carroll's general ledger or other accounting records, and noted no mathematical errors.
  - (✓✓) Compared the dollar amount to the corresponding amount in LifeBridge and Carroll's unaudited condensed consolidated financial statements as of March 31, 2015 and for the nine month periods ended March 31, 2015 and 2014, which was derived from the corresponding general ledger or other accounting records of LifeBridge and Carroll, and found such amounts to be in agreement.
  - (Rxx) Recalculated based on amounts in the LifeBridge and Carroll unaudited condensed consolidated financial statements as of March 31, 2015 and for the nine month periods ended March 31, 2015 and 2014, which were derived from the corresponding general ledger or other accounting records of LifeBridge and Carroll, and noted no mathematical errors.
  - (✓✓) Agreed the amount to a schedule prepared by the Corporation, and found them to be in agreement. However, we make no comment as to the reasonableness of the planned debt transaction or whether such transaction will take place.
  - (^) Footed
9. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in paragraphs 3 through 8 above; rather, the procedures enumerated therein are those that the requesting party has asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs. Also, such procedures would not necessarily reveal any material misstatement of the amounts listed above as set forth in the Preliminary Official Statement. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates to the financial statement items specified above and does not extend to any financial statements of the Corporation taken as a whole.
10. The foregoing procedures do not constitute an audit conducted in accordance with auditing standards generally accepted in the United States of America. Had we performed additional procedures or had we conducted an audit or review in accordance with standards established



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by the American Institute of Certified Public Accountants, other matters might have come to our attention that would have been reported to you.

11. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
12. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the bonds covered by the Preliminary Official Statement, and is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase or sale of securities, nor is it to be filed with or referred to in whole or in part in the Preliminary Official Statement and it may be included in the closing document or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering covered by the Preliminary Official Statement.
13. We have no responsibility to update this letter for events and circumstances occurring after July 8, 2015.

Very truly yours,

**KPMG LLP**

OFFICIAL STATEMENT DATED JULY 15, 2015

NEW ISSUE -- BOOK-ENTRY ONLY

Moody's: A1  
Standard & Poor's: A+  
See "Ratings" herein.

In the opinion of Bond Counsel to the Authority, under existing statutes, regulations and decisions (i) assuming compliance with certain covenants described herein, interest on the Series 2015 Bonds is excludable from gross income for federal income tax purposes and (ii) interest on the Series 2015 Bonds is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment; however, interest on the Series 2015 Bonds may be included in a corporation's "adjusted current earnings" in the calculation of a corporation's alternative minimum taxable income for federal income tax purposes and will be subject to the branch profits tax imposed on certain foreign corporations engaged in a trade or business in the United States of America. By the terms of the Act, the interest on the Series 2015 Bonds, the transfer of the Series 2015 Bonds and any income derived from the Series 2015 Bonds, including profits made in their sale or transfer, are forever exempt from all Maryland state and local taxes; no opinion is expressed as to estate or inheritance taxes or any other taxes not levied or assessed directly on the Series 2015 Bonds, their transfer or the income therefrom. See "Tax Matters."



MARYLAND HEALTH AND HIGHER  
EDUCATIONAL FACILITIES AUTHORITY

\$159,685,000

Revenue Bonds

LifeBridge Health Issue

Series 2015

Dated: Date of initial delivery

Due: July 1 of the years shown below

The Series 2015 Bonds are issuable only as fully registered bonds in denominations of \$5,000 and integral multiples thereof. The Series 2015 Bonds initially will be maintained under a book-entry system under which The Depository Trust Company, New York, New York ("DTC"), will act as securities depository. Purchases of the Series 2015 Bonds will be in book-entry form only. Interest on the Series 2015 Bonds from the date of delivery is payable on January 1, 2016 (approximately five months), and semiannually thereafter on each July 1 and January 1. So long as the Series 2015 Bonds are maintained under a book-entry system, payments of the principal of and premium, if any, and interest on the Series 2015 Bonds will be made when due by The Bank of New York Mellon, as trustee (the "Trustee"), to DTC in accordance with the Resolution, and the Trustee will have no obligation to make any payments to any beneficial owner of any Series 2015 Bonds. See "The Series 2015 Bonds - Book-Entry Only System."

The Series 2015 Bonds constitute special obligations of the Authority payable solely from payments by LifeBridge Health, Inc., Sinai Hospital of Baltimore, Inc., Northwest Hospital Center, Inc., Levindale Hebrew Geriatric Center and Hospital, Inc., Baltimore Jewish Health Foundation, Inc., Children's Hospital at Sinai Foundation, Inc., Carroll Hospital Center, Inc., Carroll County Health Services Corporation, Carroll Hospice, Inc., Carroll County Med-Services, Inc., Carroll Health Group, LLC and Carroll Regional Cancer Center Physicians, LLC (collectively, the "Obligated Group Members") to the Authority or the Trustee pursuant to the Loan Agreement and other amounts pledged under the Resolution. Amounts payable under the Loan Agreement are secured by a pledge of the Receipts of the Obligated Group Members and by Deeds of Trust on certain facilities and property of the Obligated Group Members. See "Security and Sources of Payment for the Series 2015 Bonds." The Series 2015 Bonds are secured equally and ratably with certain revenue bonds previously issued by the Authority on behalf of the Obligated Group Members and certain other obligations of the Obligated Group Members. See "Additional Debt - Parity Debt."

None of the State of Maryland, any political subdivision thereof or the Authority shall be obligated to pay the Series 2015 Bonds or the interest thereon except from the Revenues and other amounts pledged therefor under the Resolution, and neither the faith and credit nor the taxing power of the State of Maryland, of any political subdivision thereof or of the Authority is pledged to the payment of the principal of or the interest on the Series 2015 Bonds. The issuance of the Series 2015 Bonds does not directly or indirectly or contingently obligate, morally or otherwise, the State of Maryland, any political subdivision thereof or the Authority to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

The Series 2015 Bonds are subject to redemption and purchase prior to maturity as described herein under "The Series 2015 Bonds -- Redemption Provisions."

\$33,130,000 SERIAL BONDS

DUE	AMOUNT	INTEREST RATE	YIELD	CUSIP	DUE	AMOUNT	INTEREST RATE	YIELD	CUSIP
2018	\$ 690,000	3.00%	1.21%	574218YB3	2025	\$3,140,000	3.00%	3.03%	574218YJ6
2019	775,000	4.00	1.45	574218YC1	2026	3,570,000	5.00	3.20*	574218YK3
2020	970,000	3.00	1.72	574218YD9	2027	3,740,000	3.25	3.45	574218YL1
2021	1,815,000	5.00	1.99	574218YE7	2028	3,870,000	5.00	3.41*	574218YM9
2022	2,720,000	2.00	2.34	574218YF4	2029	2,885,000	5.00	3.51*	574218YN7
2023	2,830,000	5.00	2.55	574218YG2	2030	3,140,000	5.00	3.58*	574218YP2
2024	2,985,000	5.00	2.79	574218YH0					

\$14,260,000 4.00% Term Bonds due July 1, 2035 - Yield 4.10% - CUSIP 574218YQ0  
 \$26,325,000 5.00% Term Bonds due July 1, 2040 - Yield 3.98%\* - CUSIP 574218YR8  
 \$35,970,000 4.125% Term Bonds due July 1, 2047 - Yield 4.31% - CUSIP 574218YS6  
 \$50,000,000 5.00% Term Bonds due July 1, 2047 - Yield 4.08%\* - CUSIP 574218YT4

The Series 2015 Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of McKennon Shelton & Henn LLP, Bond Counsel to the Authority, the approval of certain legal matters by McGuireWoods LLP, Baltimore, Maryland, counsel to the Obligated Group, and Ballard Spahr LLP, Baltimore, Maryland, counsel to the Underwriters, and to certain other conditions. It is expected that the Series 2015 Bonds will be available for delivery on or about July 30, 2015.

BB&T Capital Markets

BofA Merrill Lynch  
Citigroup

M&T Securities, Inc.

\* Yield to first call date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, sales representative or other person has been authorized by Maryland Health and Higher Educational Facilities Authority (the "Authority"), the Obligated Group Members (as herein defined) or the Underwriters (as herein defined) to give any information or to make any representation other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2015 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Obligated Group Members and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority or the Underwriters. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2015 Bonds.

The Authority has either provided or reviewed the information under the headings "The Authority," "State Not Liable on Series 2015 Bonds" and "Corporate Existence of the Authority" as it relates to the Authority and will not be responsible for any other statements or information in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CUSIP numbers on the cover page of this Official Statement are subject to a copyright of the American Bankers Association. CUSIP numbers herein are provided by CUSIP Global Services, which is managed by S&P Capital IQ, a division of McGraw-Hill Financial, and none of the Authority, the Underwriters or the Obligated Group Members takes any responsibility for the accuracy thereof. CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP Global Services.

Certain statements included or incorporated by reference in this Official Statement constitute "forward looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget," "forecast" or other similar words. Such forward-looking statements include, among others, certain of the information in "Certain Bondholders' Risks" herein and in Appendix A. The achievement of certain results or other expectations in such forward looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. The Obligated Group (defined herein) does not plan to issue any updates or revisions to those forward looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur or fail to occur.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2015 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the Obligated Group Members since the date hereof.

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Appendix A --	Information Concerning LifeBridge Health, Inc.
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Appendix B-1--	Audited Consolidated Financial Statements of LifeBridge Health, Inc. and Subsidiaries
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Appendix D --	Proposed Form of Opinion of Bond Counsel

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Financial Statements and  
Selected Interim Unaudited Information

March 31, 2015 and June 30, 2014

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Balance Sheets

March 31, 2015 and June 30, 2014

(In thousands)

Assets	<u>2015</u> <u>(unaudited)</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 15,719	28,144
Short-term investments	6,904	14,800
Current portion of assets limited as to use	19,102	20,164
Patient receivables, net of allowance for uncollectible of \$10,424 in 2015 and \$9,468 in 2014	33,771	30,440
Other receivables	2,584	2,542
Inventory	4,681	4,028
Prepaid expenses	8,475	6,378
Total current assets	91,236	106,496
Property and equipment, net	182,926	170,865
Long-term investments	66,046	66,458
Long-term investments – other	19,919	20,745
Investments in joint ventures	3,260	3,696
Assets limited as to use, less current portion	27,091	21,252
Other assets	17,763	14,737
Total assets	\$ 408,241	404,249
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,682	5,717
Current obligation under capital lease	997	555
Accounts payable and accrued expenses	28,962	31,420
Accrued payroll and related taxes	14,887	12,657
Deferred revenue	624	153
Advances from third-party payors	6,758	6,505
Total current liabilities	57,910	57,007
Long-term debt, less current portion	132,708	135,963
Long-term obligation under capital lease, less current portion	7,682	598
Other liabilities	29,401	24,964
Accrued pension and postretirement benefits	5,220	7,808
Total liabilities	232,921	226,340
Net assets:		
Unrestricted:		
Unrestricted net assets	158,535	162,023
Noncontrolling interest in consolidated subsidiaries	4,879	4,511
Total unrestricted net assets	163,414	166,534
Restricted:		
Temporarily restricted	10,733	10,202
Permanently restricted	1,173	1,173
Total restricted net assets	11,906	11,375
Total net assets	175,320	177,909
Total liabilities and net assets	\$ 408,241	404,249

See accompanying notes to condensed consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Operations

Nine months ended March 31, 2015 and 2014

(In thousands)

	<b>2015</b>	<b>2014</b>
	<u><b>(unaudited)</b></u>	<u><b>(unaudited)</b></u>
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractals)	\$ 211,618	205,643
Less provision for bad debts	<u>5,486</u>	<u>7,461</u>
Net patient service revenue	206,132	198,182
Other operating revenues	15,942	16,860
Net assets released from restrictions used for operations	<u>—</u>	<u>—</u>
Total unrestricted revenues, gains, and other support	<u>222,074</u>	<u>215,042</u>
Expenses:		
Salaries and wages	95,570	91,157
Employee benefits	16,768	15,768
Departmental supplies and expenses	38,794	37,280
Professional fees	20,808	17,527
Purchased services	30,223	29,972
Depreciation and amortization	14,447	13,980
Interest	<u>4,452</u>	<u>4,518</u>
Total expenses	<u>221,062</u>	<u>210,202</u>
Operating income	1,012	4,840
Other income (expense):		
Investment income	1,725	7,413
Unrestricted gifts	1,250	741
Change in fair value of interest rate hedge, including settlement payments	(6,364)	(486)
Other, net	<u>(699)</u>	<u>(698)</u>
Excess of revenues over expenses	<u>\$ (3,076)</u>	<u>11,810</u>

See accompanying notes to condensed consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Nine month ended March 31, 2015 and year ended June 30, 2014

(In thousands)

(unaudited)

	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>	<u>Total net assets</u>
Balance at June 30, 2013	\$ 151,826	10,425	1,173	163,424
Excess of revenues over expenses	14,705	—	—	14,705
Restricted gifts, bequests, and contributions	—	2,615	—	2,615
Change in unrealized gains/losses other than trading securities	—	192	—	192
Net assets released from restrictions used for capital expenditures	3,014	(3,014)	—	—
Net assets released from restrictions used for operations	—	(16)	—	(16)
Distributions to noncontrolling owners	(1,730)	—	—	(1,730)
Contributions from noncontrolling owners	30	—	—	30
Change in funded status of pension plan and postretirement	(1,311)	—	—	(1,311)
Changes in net assets	<u>14,708</u>	<u>(223)</u>	<u>—</u>	<u>14,485</u>
Balance at June 30, 2014	<u>166,534</u>	<u>10,202</u>	<u>1,173</u>	<u>177,909</u>
Excess of revenues over expenses	(3,076)	—	—	(3,076)
Restricted gifts, bequests, and contributions	—	1,227	—	1,227
Change in unrealized gains/losses other than trading securities	—	63	—	63
Net assets released from restrictions used for capital expenditures	759	(759)	—	—
Net assets released from restrictions used for operations	—	—	—	—
Distributions to noncontrolling owners	(925)	—	—	(925)
Contributions from noncontrolling owners	122	—	—	122
Change in funded status of pension plan and postretirement	—	—	—	—
Changes in net assets	<u>(3,120)</u>	<u>531</u>	<u>—</u>	<u>(2,589)</u>
Balance at March 31, 2015	<u>\$ 163,414</u>	<u>10,733</u>	<u>1,173</u>	<u>175,320</u>

See accompanying notes to condensed consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Nine months ended March 31, 2015 and 2014

(In thousands)

(unaudited)

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Change in net assets	\$ (2,589)	12,818
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	14,447	13,980
Provision for bad debts	5,486	7,461
Change in funded status of pension plan and postretirement	—	—
Equity in earnings of joint ventures and alternative investments	(488)	(1,784)
Loss (gain) on disposition of property and equipment	—	—
Distributions to noncontrolling interest holder	925	1,130
Contributions from non controlling interest holder	(122)	(30)
Restricted gifts, bequests, and contributions	(1,227)	(1,953)
Change in net unrealized gains on investments	(987)	(2,648)
Realized gains on sales of investments	(838)	(265)
Change in unrealized and realized losses (gains) on derivative instruments	6,363	486
Changes in assets and liabilities:		
Patient and other receivables	(8,859)	(20,402)
Inventory	(653)	(152)
Prepaid expenses	(2,097)	(382)
Other assets	(3,495)	(1,426)
Accounts payable, accrued expenses, accrued payroll and related taxes, and other liabilities	(3,763)	(2,835)
Deferred revenue	471	1,002
Advances from third-party payors	253	(727)
Net cash provided by operating activities	2,827	4,273
Cash flows from investing activities:		
Purchases of property and equipment, net	(17,846)	(23,783)
Proceeds from sale of property and equipment	—	7
Investment in joint ventures	(367)	(158)
Net purchases of investments	10,646	(60)
Net purchases (sales) of assets limited as to use, net	(4,714)	(1,482)
Distributions from joint ventures	1,224	747
Payment on derivative instrument	(979)	(976)
Net cash used in investing activities	(12,036)	(25,705)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	196
Payments on long-term debt	(3,290)	(3,175)
Payments on capital lease obligation	(350)	(385)
Distributions to noncontrolling interest holder	(925)	(1,130)
Contributions from noncontrolling interest holder	122	30
Proceeds from restricted gifts, bequests, and contributions	1,227	1,953
Net cash provided by financing activities	(3,216)	(2,511)
Net decrease in cash and cash equivalents	(12,425)	(23,943)
Cash and cash equivalents, beginning of year	28,144	41,176
Cash and cash equivalents, end of year	\$ 15,719	17,233
Supplemental cash flow information:		
Interest paid	\$ 5,575	5,640
Medical office building	519	521
Additions to property and equipment for capital leases and other obligations	7,876	196

See accompanying notes to condensed consolidated financial statements.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

*Carroll County Health Services Corporation* (CCHS or the Corporation) is a private, not-for-profit, nonstock Maryland Membership Corporation. The accompanying consolidated financial statements include the accounts of the CCHS and its wholly or partially owned subsidiaries, as described below (collectively referred to as the Health System).

*Carroll Hospital Center, Inc.* (the Hospital) is a not-for-profit entity engaged in providing comprehensive healthcare services through an integrated network in Carroll County, Maryland. The Hospital is a wholly owned subsidiary of CCHS. Wholly and partially owned subsidiaries of the Hospital include the following:

- *Carroll Hospital Center Foundation, Inc.* (the Foundation) is a wholly owned subsidiary, which is a charitable organization formed with the intent of fund-raising for the Hospital and Carroll Hospice, Inc.
- *Carroll Hospice, Inc.* (CH) is a wholly owned subsidiary, which provides healthcare services to terminally ill patients.
- *Cen-Mar Assurance Co.* (the Captive or Cen-Mar) is a wholly owned subsidiary managed by Marsh Management Services (Cayman) Ltd. The Captive is an offshore, medical malpractice insurance company domiciled in the Cayman Islands.
- *Carroll County Radiology, LLC* (CCR) is a 60% owned, consolidated joint venture that provides outpatient diagnostic imaging services.

*Carroll County Med-Services, Inc.* (CCMS) is a wholly owned subsidiary of CCHS that is involved in real estate holdings, physician recruitment, and support service activities and maintains ownership interests in various joint ventures as described in note 7. Wholly owned subsidiaries of CCMS include: Carroll Health Group, LLC, which is a multi-specialty physician practice, Carroll County CMO, LLC, which is a contract management organization for physician's on CHC's medical staff that obtain fee-for-service contracts with payors, Carroll Urgent Care LLC, which owns and operates two urgent care centers in Carroll County, and Carroll PHO LLC, which is a collaboration among physicians and CHC that focuses on care coordination and health information sharing and solutions. Carroll Care Pharmacies, LLC is a 60% owned and consolidated joint venture that owns and operates retail pharmacies. Carroll Occupational Health, LLC is a 75% owned and consolidated joint venture that provides occupational health and wellness services.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

**(b) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. All majority-owned and direct member entities are consolidated. The accompanying consolidated financial statements include the accounts of CCHS. All entities where the Corporation exercises significant influence, but does not have control, are accounted for under the equity method. All other unconsolidated entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated. The data should be read in conjunction with the audited consolidated financial statements for the years ended June 30, 2014 and 2013 and related notes included in Appendix [A-1]. Information for the nine-month periods ended March 31, 2015 and 2014 is not based upon audited financial information but, in the opinion of management, is presented on a basis consistent with the audited consolidated financial statements in Appendix [A-1], and includes adjustments consisting of normal recurring adjustments necessary for a fair presentation therein. Adjustments to these financial statements, while not expected by management, may occur as a result of the more comprehensive review undertaken as part of the audit process for the fiscal year ended June 30, 2015.

**(c) Assets Limited as to Use**

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, self-insurance trust arrangements, collateral related to derivative instruments and lines of credit, pledges receivable, 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.

**(d) Long-Term Investments and Long-Term Investment – Other**

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

The Health System has investments in alternative investments, primarily hedge funds of funds totaling \$19,919 and \$20,745 at March 31, 2015 and June 30, 2014, 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 and the change in equity interest is included in investment income on the consolidated statements of operations and changes in net assets.

Investment income (interest and dividends) including realized gains and losses on investment sales are reported as other income (expense) in 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. Realized gains and losses are determined based on the specific security's original purchase price and recorded as investment income within the excess of revenues over expenses.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

Unrealized gains and losses are included as investment income within the excess of revenue over expenses.

**(e) *Derivative Instruments***

The Health System accounts for derivatives and hedging activities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. In addition, for those derivative instruments that meet the criteria of an effective fair value hedge, it requires the hedged item to be recorded at fair value.

The Health System utilizes derivative financial instruments to manage its interest rate risks associated with tax-exempt debt. The Health System does not hold or issue derivative financial instruments for trading purposes. The Health System's current derivative instruments do not qualify for hedge accounting, therefore, the changes in fair value and settlement payments made or received have been recognized in other income (expenses) on the consolidated statements of operations and changes in net assets as mark-to-market adjustments including the credit valuation adjustment.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

**(2) Assets Limited as to Use**

Assets limited as to use, stated at fair value, as of March 31, 2015 and June 30, 2014, include the following:

	2015	2014
Donor-restricted:		
Pledges receivable, less allowance of \$620 in 2015 and \$924 in 2014	\$ 5,288	7,644
Donor-restricted investments:		
Cash and cash equivalents	3,969	2,094
Government and corporate bonds	463	356
Mutual funds invested in equity securities	1,944	1,340
Investments in limited partnerships	232	184
	6,608	3,974
Cen-Mar Reserves held:		
Cash and cash equivalents	2,706	2,395
Government and corporate bonds	5,981	5,726
Mutual funds	2,181	1,409
	10,868	9,530
Funds held by trustee:		
Money market funds	40	3,265
Government and corporate bonds	5,364	3,699
	5,404	6,964

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

	<b>2015</b>	<b>2014</b>
Collateral held for derivative instruments and lines of credit and other:		
Cash and cash equivalents	\$ 13,081	7,614
Government and corporate bonds	1,266	1,644
Mutual funds invested in equity securities	3,677	4,046
	18,024	13,304
Total assets limited as to use	46,193	41,416
Less current portion	19,102	20,164
Total assets limited as to use, less current portion	\$ 27,091	21,252

Funds held by the trustee as of March 31, 2015 and June 30, 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Debt service reserve fund	\$ 3,238	3,226
Principal and interest fund	2,166	3,738
	\$ 5,404	6,964

**(3) Short-Term and Long-Term Investments**

Investments, at fair value, as of March 31, 2015 and June 30, 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Money market account and certificate of deposits	\$ 2,028	1,984
Government and corporate bonds	20,086	32,394
Mutual funds invested in equity securities	50,836	46,880
	\$ 72,950	81,258

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

Investments are classified as of March 31, 2015 and June 30, 2014 as follows:

	2015	2014
Short-term investments	\$ 6,904	14,800
Long-term investments	66,046	66,458
	\$ 72,950	81,258

**(4) Fair Value of Financial Instruments**

The Health System follows ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for the 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 the 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 Health System 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, including nonexchange-traded funds, which are typically valued utilizing the net asset valuations provided by the underlying private investment companies.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

The following table presents assets that are measured at fair value on a recurring basis as of March 31, 2015:

	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
<b>Assets:</b>				
Cash	\$ 19,447	—	—	19,447
Money market funds	2,377	—	—	2,377
Mutual funds and equity securities	56,458	2,181	—	58,639
Government and corporate bonds	28,691	4,469	—	33,160
<b>Total assets</b>	<b>\$ 106,973</b>	<b>6,650</b>	<b>—</b>	<b>113,623</b>
<b>Liabilities:</b>				
Derivative instrument	\$ —	14,659	—	14,659

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

	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
<b>Assets:</b>				
Cash	\$ 11,896	—	—	11,896
Money market funds	5,455	—	—	5,455
Mutual funds and equity securities	52,341	1,409	—	53,750
Government and corporate bonds	39,172	4,573	—	43,745
<b>Total assets</b>	<b>\$ 108,864</b>	<b>5,982</b>	<b>—</b>	<b>114,846</b>
<b>Liabilities:</b>				
Derivative instrument	\$ —	9,275	—	9,275

There were no significant transfers between Levels 1, 2 and 3 during the years ended March 31, 2015 and June 30, 2014.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

**(5) Long-Term Debt**

The fair value of outstanding tax-exempt bonds is estimated to be \$135,526 and \$141,433 as of March 31, 2015 and June 30, 2014, respectively. The fair value of other long-term debt, mortgage payable, and bank loans payable approximates its carrying value. The fair value of the Health System'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 Health System'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 Health System's bankers as well as other banks that regularly compete to provide financing to the Health System.

**(6) Retirement Plans**

The Health System sponsors a Defined Benefit Cash Balance Plan (the Plan) covering substantially all of the employees of the Hospital, CCMS, and the Foundation. The Health System's funding policy is to make contributions to the Plan based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and IRS regulations, plus such amounts as the Health System may determine to be appropriate from time to time. The Health System elected to freeze benefit accruals and participation in its defined benefit pension plan on December 31, 2006.

Net periodic pension expense was \$74 for the nine-month ended March 31, 2015 and \$550 for the year ended June 30, 2014.

**CARROLL COUNTY HEALTH SERVICES CORPORATION  
AND SUBSIDIARIES**

Notes to Financial Statements

March 31, 2015 and June 30, 2014

(In thousands)

**(7) Noncontrolling Interests**

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

	<u>Total</u>	<u>CHC unrestricted net assets</u>	<u>Noncontrolling interest</u>
Unrestricted net assets – June 30, 2013	\$ 151,826	147,079	4,747
Excess of revenues over expenses	14,705	13,241	1,464
Net assets released from restrictions used for capital expenditures	3,014	3,014	—
Change in funded status of pension plan and postretirement	(1,311)	(1,311)	—
Contributions from noncontrolling owners	30	—	30
Distributions to noncontrolling owners	(1,730)	—	(1,730)
Change in unrestricted net assets	<u>14,708</u>	<u>14,944</u>	<u>(236)</u>
Unrestricted net assets – June 30, 2014	<u>166,534</u>	<u>162,023</u>	<u>4,511</u>
Excess of revenues over expenses	(3,076)	(4,247)	1,171
Net assets released from restrictions used for capital expenditures	759	759	—
Change in funded status of pension plan and postretirement	—	—	—
Contributions from noncontrolling owners	122	—	122
Distributions to noncontrolling owners	(925)	—	(925)
Change in unrestricted net assets	<u>(3,120)</u>	<u>(3,488)</u>	<u>368</u>
Unrestricted net assets – March 31, 2015	<u>\$ 163,414</u>	<u>158,535</u>	<u>4,879</u>

**CARROLL COUNTY HEALTH SERVICES AND SUBSIDIARIES  
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES  
CONSOLIDATED HEALTH SYSTEM  
FOR THE NINE MONTHS ENDED MARCH 31st, 2015**

	Carroll Hospital Inc & Subs	Carroll County Health Services Inc	Carroll County Med Services Inc & Subs	Eliminations	TOTAL
<b>GROSS REVENUE</b>					
<b>TOTAL PATIENT REVENUE</b>	\$243,967	\$0	\$40,109	\$0	\$284,077
Allowances & Uncollectibles	-\$57,292	\$0	(\$20,654)	\$0	(\$77,946)
<b>NET PATIENT REVENUE</b>	<b>\$186,675</b>	<b>\$0</b>	<b>\$19,456</b>	<b>\$0</b>	<b>\$206,131</b>
Other Operating Revenue	\$3,534	\$87	\$14,689	-\$2,368	15,942
<b>TOTAL OPERATING REVENUE</b>	<b>\$190,209</b>	<b>\$87</b>	<b>\$34,145</b>	<b>-\$2,368</b>	<b>\$222,073</b>
<b>OPERATING EXPENSES</b>					
Salaries	\$72,229	\$0	\$23,341	\$0	\$95,570
Benefits	13,874	0	2,894	0	16,768
Professional Fees	21,867	0	870	(1,929)	20,808
Supplies	29,531	0	9,264	0	38,794
Purchased Services	23,760	55	7,436	(1,028)	30,223
Depreciation/Amortization	13,313	0	913	222	14,447
Interest	4,038	30	17	367	4,452
<b>TOTAL OPERATING EXPENSES</b>	<b>\$178,610</b>	<b>\$85</b>	<b>\$44,735</b>	<b>-\$2,368</b>	<b>\$221,062</b>
<b>INCOME FROM OPERATIONS</b>	<b>\$11,599</b>	<b>\$2</b>	<b>(\$10,590)</b>	<b>\$0</b>	<b>\$1,011</b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>					
Contributions	\$1,250	\$0	\$0	\$0	\$1,250
Fundraising Expenses	(699)	0	0	0	(699)
Non-Operating Revenue	661	192	873	0	1,725
SWAP Interest	(979)	0	0	0	(979)
Interest Rate Derivatives	(5,384)	0	0	0	(5,384)
<b>TOTAL NON-OPERATING REVENUE (EXPENSE)</b>	<b>(\$5,151)</b>	<b>\$192</b>	<b>\$873</b>	<b>\$0</b>	<b>(\$4,087)</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b>	<b>\$6,448</b>	<b>\$194</b>	<b>(\$9,718)</b>	<b>\$0</b>	<b>(\$3,076)</b>



**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Consolidated Financial Statements and  
Supplementary Financial Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

# LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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

## **Independent Auditors' Report**

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

We have audited the accompanying consolidated financial statements of LifeBridge Health, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

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



***Emphasis of Matter***

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

***Supplemental Information***

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

**KPMG LLP**

October 26, 2015

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

## Consolidated Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

<b>Liabilities and Net Assets</b>	<b>2015</b>	<b>2014</b>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 117,874	86,384
Accrued salaries, wages and benefits	80,534	63,781
Advances from third-party payors	41,780	35,966
Current portion of long-term debt and capital lease obligations	14,711	6,198
Other current liabilities	14,418	9,382
Total current liabilities	<u>269,317</u>	<u>201,711</u>
Other long-term liabilities	130,856	100,147
Long-term debt and capital lease obligations, net of current portion	<u>558,170</u>	<u>323,414</u>
Total liabilities	<u>958,343</u>	<u>625,272</u>
Net assets:		
Unrestricted	844,907	660,970
Noncontrolling interest in consolidated subsidiaries	3,922	(192)
Total unrestricted net assets	<u>848,829</u>	<u>660,778</u>
Temporarily restricted	61,660	49,703
Permanently restricted	<u>15,816</u>	<u>14,647</u>
	<u>926,305</u>	<u>725,128</u>
Total liabilities and net assets	<u>\$ 1,884,648</u>	<u>1,350,400</u>

See accompanying notes to consolidated financial statements.

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations

Years ended June 30, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

#### (1) Organization

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

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

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

Wholly owned subsidiaries of CCHS include:

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

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

#### (2) Significant Accounting Policies

##### (a) *Basis of Presentation*

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

##### (b) *Cash and Cash Equivalents*

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

##### (c) *Assets Limited as to Use*

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

##### (d) *Inventory*

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

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

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

#### **(f) Property and Equipment**

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

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

#### **(g) Deferred Financing Costs and Other Assets**

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

#### **(h) Beneficial Interest in Split Interest Agreement**

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(i) *Advances from Third-Party Payors***

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

**(j) *Self-Insurance Programs***

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

**(k) *Other Long-Term Liabilities***

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

**(l) *Donor-Restricted Gifts***

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

**(m) *Net Assets***

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

**(n) Net Patient Service Revenue**

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

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

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

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

**(o) Other Operating Revenue**

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

**(p) Grants**

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

**(q) Meaningful Use Incentives**

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

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

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

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

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

**(s) Income Taxes**

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

**(t) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(u) Excess of Revenues over Expenses**

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

**(v) Employee Pension Plan**

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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#### (3) Carroll County Health Services Corporation

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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#### (4) Investments

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

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

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

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

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

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

**(5) Pledges Receivable**

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

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

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

Total future payments are as follows:

Less than one year	\$ 8,492
One to five years	6,657
Five years and thereafter	729
	<u>\$ 15,878</u>

**(6) Property and Equipment**

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

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

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

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

**(7) Investments in Joint Ventures**

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

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

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

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**(8) Long-Term Debt and Capital Lease Obligations**

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

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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

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

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

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

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

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

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

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

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

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

**(9) M&T Bank Line of Credit**

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

**(10) Temporarily and Permanently Restricted Net Assets**

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

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

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

**(11) Employee Benefit Plans**

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

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

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

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

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

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

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

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

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

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

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

Actuarial assumptions used were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**(b) Carroll Plan**

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

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

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

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

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

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

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

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

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

Discount rate	4.47%
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Assumptions used in the determination of net periodic pension expense for the year ended June 30, 2015 were as follows:

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

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

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

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

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

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

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

CCHS follows ASU No. 2009-12, and applied its provisions to its pension plan asset portfolio. The guidance amends ASC Topic 820 and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value (NAV) or its equivalent. The alternative investments classified within Level 3 of the fair value hierarchy have been recorded using NAV.

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

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

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

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

**(c) Contributory Plans**

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

**(d) Postretirement Plan Other than Pension**

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

**(12) Regulation and Reimbursement**

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

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

#### (13) Related-Party Transactions

##### *Land Leases*

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

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

##### *Other*

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

#### (14) Income Taxes

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

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

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(15) Other Long-Term Liabilities**

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

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

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

**(16) Self-Insurance Programs**

**(a) Professional/General Liability**

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

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

**(b) Workers' Compensation**

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

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

#### (c) *Health Insurance*

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

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

#### (17) **Concentration of Credit Risk**

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

#### (18) Commitments and Contingencies

##### (a) *Litigation*

The Corporation is subject to numerous laws and regulations of federal, state, and local governments. The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Corporation's financial position.

##### (b) *Letters of Credit*

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

##### (c) *Contract Commitments*

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

##### (d) *Operating Leases*

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

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

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(19) Noncontrolling Interest**

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

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

**(20) Functional Expenses**

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

#### (21) Fair Value of Financial Instruments

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

##### (a) *Assets and Liabilities*

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

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

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

##### (b) *Long-Term Debt*

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

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

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

**LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(c) Fair Value Hierarchy**

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

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

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

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

#### **(22) Subsequent Events**

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

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

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

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

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2015

(Dollars in thousands)

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

See accompanying independent auditors' report.

## LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2015

(Dollars in thousands)

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

See accompanying independent auditors' report.