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LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

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, 2019 and 2018, 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, 2019 and 2018, 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 2 (x) to the consolidated financial statements, the Corporation adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, and ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, during the year ended June 30, 2019, on a modified retrospective basis, and retrospective basis, respectively. Our opinion is not modified with respect to these matters.

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 23, 2019

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019 and 2018

(Dollars in thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	167,802	177,954
Investments		219,672	253,389
Assets limited as to use, current portion		39,733	51,511
Patient service receivables, net		171,245	150,742
Other receivables		21,216	18,803
Inventory		34,280	33,054
Prepaid expenses		22,237	19,280
Pledges receivable, current portion		2,841	3,119
Total current assets		679,026	707,852
Board-designated investments		213,856	226,529
Long-term investments		382,848	299,076
Donor-restricted investments		56,508	61,155
Reinsurance recovery receivable		21,401	26,254
Assets limited as to use, net of current portion		59,955	31,620
Pledges receivable, net of current portion		7,567	3,108
Property and equipment, net		672,491	665,126
Beneficial interest in split interest agreement		4,997	5,294
Investment in unconsolidated affiliates		47,701	48,484
Other assets, net		77,461	82,158
Total assets	$	2,223,811	2,156,656

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019 and 2018

(Dollars in thousands)

Liabilities and Net Assets		**2019**	**2018**
Current liabilities:			
Accounts payable and accrued liabilities	$	106,640	125,302
Accrued salaries, wages and benefits		94,250	83,284
Advances from third-party payors		36,772	42,806
Current portion of long-term debt and capital lease obligations, net		14,957	14,401
Other current liabilities		29,377	26,378
Total current liabilities		281,996	292,171
Other long-term liabilities		141,448	120,285
Long-term debt and capital lease obligations, net		537,831	546,432
Total liabilities		961,275	958,888
Net assets:			
Net assets without donor restrictions		1,170,838	1,106,696
Noncontrolling interest in consolidated subsidiaries		19,785	18,396
Total net assets without donor restrictions		1,190,623	1,125,092
Net assets with donor restrictions		71,913	72,676
Total net assets		1,262,536	1,197,768
Total liabilities and net assets	$	2,223,811	2,156,656

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

(Dollars in thousands)

		2019	2018
Unrestricted revenues, gains and other support:			
Patient service revenue (net of contractual allowances and discounts)	$		1,559,747
Provision for bad debts			(54,483)
Net patient service revenue		1,521,903	1,505,264
Net assets released from restrictions used for operations		4,101	3,598
Other operating revenue		84,391	68,297
Total operating revenues		1,610,395	1,577,159
Expenses:			
Salaries and employee benefits		868,537	845,430
Supplies		267,679	266,940
Purchased services		276,338	289,484
Depreciation, amortization and gain/loss on sale of assets		86,949	80,352
Repairs and maintenance		27,448	22,397
Interest		26,312	26,779
Total expenses		1,553,263	1,531,382
Operating income		57,132	45,777
Other income (loss), net:			
Investment income		38,838	28,743
Unrealized gain on trading investments		3,181	17,274
Other		2,037	2,314
Gain on refinancing of debt		—	270
Total other income, net		44,056	48,601
Excess of revenues over expenses		101,188	94,378
Net assets released from restrictions used for the purchases of property and equipment		3,533	5,156
Net change in value of beneficial interest in split interest agreement		224	—
Adjustment to pension liability		(32,548)	25,630
Other		(6,866)	1,392
Increase in unrestricted net assets	$	65,531	126,556

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(Dollars in thousands)

		Without Donor restrictions	With Donor restrictions	Total net assets
Net assets at June 30, 2017	$	998,536	70,723	1,069,259
Excess of revenues over expenses		94,378	—	94,378
Unrealized gain on investments		—	2,127	2,127
Net assets released from restrictions used for the purchase of property and equipment		5,156	(5,156)	—
Restricted gifts and bequests		—	8,043	8,043
Net assets released from restrictions used for operations		—	(3,598)	(3,598)
Net change in value of beneficial interest in split interest agreement		—	537	537
Adjustment to pension liability		25,630	—	25,630
Other		1,392	—	1,392
Change in net assets		126,556	1,953	128,509
Net assets at June 30, 2018		1,125,092	72,676	1,197,768
Excess of revenues over expenses		101,188	—	101,188
Unrealized gain on investments		—	303	303
Net assets released from restrictions used for the purchase of property and equipment		3,533	(3,533)	—
Restricted gifts and bequests		—	6,826	6,826
Net assets released from restrictions used for operations		—	(4,101)	(4,101)
Net change in value of beneficial interest in split interest agreement		224	(298)	(74)
Adjustment to pension liability		(32,548)	—	(32,548)
Other		(6,866)	40	(6,826)
Change in net assets		65,531	(763)	64,768
Net assets at June 30, 2019	$	1,190,623	71,913	1,262,536

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 64,768	128,509
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	86,949	80,352
Gain on sale of lab business	(15,113)	—
Adjustment to pension liability	32,548	(25,630)
Provision for bad debts	—	54,483
Realized and unrealized gains on investments, net	(21,982)	(32,847)
Restricted gifts and bequests	(6,826)	(8,043)
Change in beneficial interest of split interest agreement	297	(537)
Earnings on investments in unconsolidated affiliates	(2,594)	(319)
Distributions from unconsolidated affiliates	3,532	4,315
Distributions to noncontrolling interest owners	9,722	2,446
Fair value of noncontrolling interests in acquisitions	(1,107)	(2,103)
Amortization of deferred financing costs and discounts	1,494	1,397
(Gain) loss on refinancing of debt	—	(270)
Change in operating assets and liabilities:		
Increase in patient service receivables, net	(20,503)	(59,586)
Increase in other receivables	(2,413)	(1,792)
Decrease (increase) in pledges receivable	(4,181)	1,566
Increase in inventory	(1,226)	(2,539)
Increase in prepaid expenses	(2,957)	(4,095)
Decrease (increase) in reinsurance recovery receivable	4,853	(10,706)
Increase in other assets	(5,639)	(5,372)
Increase (decrease) in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits	(8,375)	2,048
Increase (decrease) in advances from third-party payors	(6,034)	871
Increase in other current and long-term liabilities	3,057	16,454
Net cash provided by operating activities	108,270	138,602
Cash flows from investing activities:		
Change in investments and assets limited as to use	(11,688)	(161,040)
Investment in unconsolidated affiliates	(155)	(1,598)
Purchases of property and equipment	(92,176)	(104,490)
Purchases of alternative investments	(16,405)	(29,566)
Proceeds from sales of alternative investments	783	1,677
Proceeds from sales of business	15,113	—
Cash paid for acquisitions	(1,459)	(2,193)
Net cash used in investing activities	(105,987)	(297,210)
Cash flows from financing activities:		
Payment on debt and capital lease obligations	(17,043)	(167,482)
Payment of deferred financing costs	—	(1,023)
Proceeds from issuance of debt	7,504	143,105
Distributions to noncontrolling interest owners	(9,722)	(2,446)
Restricted gifts and bequests	6,826	8,043
Net cash used in financing activities	(12,435)	(19,803)
Net decrease in cash and cash equivalents	(10,152)	(178,411)
Cash and cash equivalents:		
Beginning of year	177,954	356,365
End of year	$ 167,802	177,954
Supplemental cash flow disclosures:		
Cash paid during the year for interest	$ 24,659	25,197
Cash paid during the year for income taxes	874	170
Accounts payable related to purchase of property and equipment	5,476	6,155
Adjustment to goodwill and property and equipment, net	2,566	10,742

See accompanying notes to consolidated financial statements.

(1) Organization

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

LifeBridge's subsidiaries include Sinai Hospital of Baltimore, Inc. (Sinai); Northwest Hospital Center, Inc. (Northwest); Carroll Hospital Center (Carroll), Levindale Hebrew Geriatric Center and Hospital, Inc. (Levindale); Baltimore Child Abuse Center (BCAC); 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); Courtland Gardens Nursing and Rehabilitation Center, Inc. (Courtland); LifeBridge Investments, Inc. (Investments); LifeBridge Health ACO, LLC; LifeBridge Physician Network, LLC; 8600 Liberty Road, LLC; and LifeBridge 23 Crossroads Drive Medical Office Building, LLC. 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.

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*
- *General Surgery Specialists, LLC*
- *BW Primary Care, LLC*
- *LifeBridge Community Practices, LLC*
- *The Center for Urologic Specialties, LLC*
- *LifeBridge Community Physicians, Inc. (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.

Carroll is a not-for-profit, nonstock Maryland corporation. The accompanying consolidated financial statements include the accounts of Carroll and its wholly or partially owned subsidiaries.

Wholly owned subsidiaries of Carroll include Carroll Hospital Center Foundation, Inc. (Carroll Foundation); Carroll Hospice, Inc. (CH); Carroll Regional Cancer Center Physicians, LLC (CRCCP); and Carroll Hospital Center MOB Investment, LLC. 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 PHO, LLC; and Carroll ACO, LLC. CCMS also holds interests in various health-related companies.

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(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. A portion of the designated assets set aside by the Board of Directors is contractually designated.

(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.

(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 $146,995 and $134,529 at June 30, 2019 and 2018, 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. Alternative investments are recorded under the equity method which is 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 net assets with donor restrictions, 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.
- 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) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of ASC 360, if there is an indication that the carrying value of an asset is not recoverable, the Corporation estimates the projected undiscounted cash flows, excluding interest and taxes, of the related individual entities to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance of facilities using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives. In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. The Corporation did not record a loss on impairment during the years ended June 30, 2019 and 2018.

(h) Goodwill and Other Assets, Net

Other assets consist primarily of goodwill and other intangibles related to practice acquisitions, notes receivable, and the cash surrender value of split dollar life insurance.

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination. ASC Topic 350, *Intangibles – Goodwill and Other*, requires that tangible and indefinite-lived assets, as well as goodwill must be analyzed in order to determine whether their value has been impaired.

Goodwill is assessed annually for impairment at the reporting unit. As of June 30, 2019 and 2018, the Corporation had one reporting unit, which included all subsidiaries. The Corporation first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment tests as described in Topic 350. The more-likely than-not threshold is defined as having a likelihood of more than 50%. The Corporation determined that it was not more likely than not that the fair value of its reporting unit was less than its carrying amount. Accordingly, the Corporation concluded that goodwill was not impaired as of June 30, 2019 and 2018 without having to perform the two-step impairment test.

(i) Beneficial Interest in Split Interest Agreement

CHSF holds a 25% interest in a trust, of which management has estimated the present value of the future income stream. CHSF will receive 25% of the net annual income until 2024, when 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.

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(j) 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.

(k) 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.

(l) Other Long-Term Liabilities

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

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date those promises become unconditional. The gifts are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(n) Net 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:

> *Net assets without donor restrictions* – Net assets that are not subject to externally imposed stipulations.
>
> *Net assets with donor restrictions* – 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 or they may be maintained by the Corporation in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by externally imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless use of the related asset is limited by externally imposed restrictions or law. Expirations of temporary restrictions of net assets (i.e., the externally stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as unrestricted operating revenue.

(o) 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 consideration expected to be received from patients based on rates in effect during the period in which the services are rendered over time and the Corporation's performance obligations are met. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Corporation does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Corporation has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

On January 29, 2014, the Corporation and the HSCRC agreed to implement the Global Budget Revenue (GBR) methodology for Sinai, Northwest and Levindale. The Agreement is updated annually, was in place during the years ended June 30, 2019 and 2018, and will renew for a one-year period unless it is canceled by the HSCRC or by the applicable Hospital. 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 (the GBR cap) for each fiscal 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 (subject to certain limits), service mix intensity, or mix of inpatient or outpatient services that occur 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

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undercharge versus the GBR cap, within established constraint parameters, is prospectively added to the subsequent year's GBR cap. The GBR is adjusted for changes in market share, with the market-shift adjustments made semi-annually, on January and July 1. The GBR cap is adjusted annually for inflation, changes in payor mix and uncompensated care, as well as changes in population and aging within the Corporation's service area. A hospital's GBR cap may also be adjusted based on the hospital's performance on various quality and utilization metrics established by the HSCRC.

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 performance obligations are met. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Implicit price concessions represent differences between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market factors, and other factors. Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Corporation estimates that transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Medicare reimburses Northwest and Levindale 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 (RUG's).

Medicaid reimburses Levindale for long-term care services based on Levindale's actual costs. However, beginning in January 2015, the cost data 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.

(p) Other Operating Revenue

Other operating revenue includes income of LifeBridge Health and Fitness LLC, revenue from 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. During the year ended June 30, 2019, the Corporation sold its lab business for approximately $15,100 and recognized a gain on sale of approximately $15,100, which is included in other operating revenue.

(q) 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 restricted contributions depending on the restrictions within the grant.

(r) Charity Care and Bad Debt

Sinai, Northwest, Carroll, and Levindale provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The amount of charity care provided during the years ended June 30, 2019 and 2018, based on patient charges forgone, was $8,702 and $9,993, respectively. The total direct and indirect costs to provide the care amounted to approximately $7,156 and $7,932 for the years ended June 30, 2019 and 2018, respectively.

All patient accounts are handled consistently and appropriately to maximize cash flow and to identify bad debt accounts timely. Active accounts were considered bad debt accounts in 2018 and prior when they met 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 were 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.

		2018
Beginning allowance	$	67,941
Plus provision for bad debt		54,483
Less bad debt write-offs, net of recoveries		(49,726)
Ending allowance	$	72,698

(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.

(Continued)

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 a performance indicator, 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, 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 2018, LifeBridge adopted the RP-2014 Mortality Table with generational improvements. See note 12 for further discussion. The Company reports the service cost component of pension cost in salaries and employee benefit expense and the other components of net benefit cost in other income, net.

(w) Management's Assessment and Plans

The Corporation adopted Accounting Standards Update (ASU) 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, (ASU 2014-15), which requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Management determined that there were no conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern and the Corporation will continue to meet its obligations through October 23, 2020.

(x) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation adopted ASU 2014-09 on July 1, 2018 using the modified retrospective method of transition. The Corporation performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, the Corporation performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets is treated as an implicit price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgements made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total unrestricted revenues, excess of revenues over expenses or total net assets.

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (ASU 2016-14), which amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities (NFP), require a NFP to the following:

- Reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions;
- Requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements;
- Requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and
- Retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method.

The Corporation adopted ASU No. 2016-14 in its consolidated financial statements effective June 30, 2019, applying retrospectively to all periods presented. The impact of the adoption changes the classification of net assets on the consolidated balance sheets and consolidated statements of operations and changes in net assets from three classes of net assets to two classes of net assets. The Corporation also added disclosure for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification. The impact of adopting ASU 2016-14 had no impact to total unrestricted revenues, excess of revenues over expenses or total net assets.

The FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which will require lessees to recognize most leases on-balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity’s leasing activities, and will require changes in processes and internal controls. The adoption of ASU 2016-02 is effective for fiscal year 2020. Companies can either apply this standard by either retrospectively applying the new guidance at the beginning of the earliest comparable period presented or they can use a transition method to adopt the new lease requirements by allowing entities to initially apply the requirements recognizing a cumulative effect adjustment to the opening balance of unrestricted net assets in the period of adoption.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for the Corporation for annual reporting periods beginning after December 15, 2020, and interim periods beginning after December 15, 2021 with early adoption permitted. The Corporation is currently assessing the impact that ASU 2018-15 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In May 2019, the FASB issued ASU NO. 2019-06, Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities, which extended optional alternatives on goodwill and certain intangible assets acquired in a business combination to not-for-profit entities. The alternatives allow entities to amortize goodwill on a straight-line basis over 10 years or less, test goodwill except for equity method goodwill for impairment when a triggering event occurs, test goodwill for impairment at the entity level and include in goodwill certain identifiable intangible assets acquired in a business combination. This ASU was effective upon issuance but the Company did not adopt this ASU as of June 30, 2019.

(Continued)

(3) 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, 2019 and 2018, and consist of the following:

		2019	2018
Assets limited as to use:			
Self-insurance fund:			
Mutual funds	$	39,195	17,848
Equity securities		17,829	9,017
Fixed income		—	1,818
Alternative investments		2,931	2,937
Self-insurance fund	$	59,955	31,620
Debt service fund:			
Cash and cash equivalents		14,197	16,451
Government securities		3,036	881
Debt service fund	$	17,233	17,332
Construction funds:			
Cash and cash equivalents		17,535	16,368
Government securities		4,965	17,811
		22,500	34,179
Total assets limited as to use		99,688	83,131
Less current portion		(39,733)	(51,511)
Assets limited as to use, net of current portion	$	59,955	31,620
Beneficial interest in split interest agreement	$	4,997	5,294

There are other investments restricted by donors other than pledges receivable, and beneficial interest that are included in long-term investments as of June 30, 2019 and 2018. As of June 30, 2019 and 2018 current, long-term, donor-restricted, and board-designated investments are as follows:

		2019	2018
Current, long-term, donor-restricted, and board-designated investments:			
Cash and cash equivalents	$	29,226	22,017
Mutual funds		317,019	258,202
Equity securities		178,504	180,955
Government securities		9,458	2,118
Fixed income		194,613	245,265
Alternative investments		144,064	131,592
Current, long-term, donor-restricted, and board-designated investments		872,884	840,149
Less current portion		(219,672)	(253,389)
Long-term, donor-restricted, and board-designated investments	$	653,212	586,760

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, 2019 and 2018:

		2019	2018
Investment income:			
Interest income and dividends	$	20,340	15,297
Realized gains on sale of securities		18,498	13,446
Investment income		38,838	28,743
Unrealized gains on trading securities		3,181	17,274
Other changes in net assets:			
Changes in unrealized gains on net assets with donor restrictions		303	2,127
Total investment return	$	42,322	48,144

(4) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2019 include the following (in thousands):

Cash and cash equivalents	$	167,802
Short-term investments		219,672
Patient receivables		171,245
Other receivables		21,216
Pledges receivables, current		2,841
Long-term investments (excluding alternatives investments)		238,784
	$	821,560

The Corporation has certain board-designated assets whose use is limited which are available for general expenditures within one year in the normal course of operations, pending board approval. These board-designated assets were $213,856 as of June 30, 2019, and are not included in the table above.

The Corporation has assets limited to use held by trustees, set aside for the Corporation's captive insurance subsidiary and held for donor-restricted purposes. These investments are not reflected in the amounts above.

The Corporation invests in alternative investments to increase the investment portfolio's diversification. The asset allocation of the portfolio is broadly diversified across global equity and global fixed income asset classes and alternative investment strategies and is designed to maximize the probability of achieving the Corporation's long-term investment objectives at an appropriate level of risk while maintaining a level of liquidity to meet the needs of ongoing portfolio management. The nature of alternative investments generally restricts the liquidity and availability of these investments to be available for the general expenditures of the Corporation within one year of the consolidated balance sheet. As such, these investments have been excluded from the amounts above.

As part of the Corporation liquidity management plan, cash in excess of daily requirements for general expenditures is invested in long-term investments. The Corporation's long-term investment portfolio contains money market funds and other liquid investments that can be drawn upon, if necessary, to meet the liquidity needs of the Corporation.

The Corporation maintains a $5 million revolving credit facility as discussed in Note 10. As of June 30, 2019, $5 million was available under the credit facility.

(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.

Sinai, Northwest, Carroll, and Levindale have recorded total pledges as of June 30, 2019 and 2018 as follows:

	2019	2018
Gross pledges receivable	$ 12,879	7,302
Less:		
Discount for time value of money	(656)	(328)
Allowance for uncollectible accounts	(1,815)	(747)
	$ 10,408	6,227

The pledges are due as follows:

Less than one year	$ 3,606
One to five years	9,273
Five years and thereafter	—
	$ 12,879

(6) Property and Equipment

As described in note 14, Sinai and Levindale leases from an affiliate of AJCF all land, land improvements, buildings, and fixed equipment located at those entities' primary locations; LifeBridge entities own the movable equipment. Property and equipment are classified as follows at June 30:

	Estimated useful life	2019	2018
Land		$ 22,250	21,923
Land improvements	8 to 20 years	37,234	36,915
Building and improvements	10 to 40 years	991,732	939,341
Fixed equipment	8 to 20 years	97,740	98,615
Movable equipment	3 to 15 years	587,592	547,030
		1,736,548	1,643,824
Less accumulated depreciation		(1,091,865)	(1,051,621)
		644,683	592,203
Construction in progress		27,808	72,923
Property and equipment, net		$ 672,491	665,126

Depreciation, amortization, and gain/loss on sale of assets were $86,949 and $80,352 for the years ended June 30, 2019 and 2018, respectively. Of this, depreciation expense was $83,053 and $78,901 for the years ended June 30, 2019 and 2018, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of $12,662 and $14,440 for the years ended June 30, 2019 and 2018, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $16,174 and $14,396 at June 30, 2019 and 2018, respectively.

(7) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under either the equity or cost method as appropriate, consist of the following at June 30, 2019 and 2018:

		2019		2018	
Joint Venture	Business purpose	Percentage ownership	Balance	Percentage ownership	Balance
MNR Industries, LLC	Urgent Care Centers	40 %	$ 21,662	40 %	$ 22,466
Baltimore County Radiology, LLC	Outpatient Radiology	25	7,905	25	7,119
Mt. Airy Med-Services, LLC	Real Estate	50	4,129	50	4,281
Future Care Old Court, LLC	Nursing Home	40	2,944	40	2,976
Lochearn Nursing Home, LLC	Nursing Home	10	2,000	10	2,000
Mt. Airy Plaza, LLC	Real Estate	50	1,326	50	1,471
LifeBridge Sports Medicine & Rehabilitation, LLC	Physical Therapy	50	2,158	50	1,676
Advanced Health Collaborative, LLC	Medicare Advantage Plan	25	210	25	1,526
Carroll Care Pharmacies, LLC	Pharmacies	49	1,054	49	1,028
Other Joint Ventures	Miscellaneous	5-50	4,313	5–50	3,941
Total			$ 47,701		$ 48,484

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

(8) Other Assets

As of June 30, other assets are comprised of the following balances:

		2019	2018
Goodwill	$	34,924	32,358
Investment in premier		21,073	16,232
Notes receivable		3,270	3,290
Other intangible assets		10,170	10,840
Pension asset (note 12(b))		102	9,823
Deferred compensation assets		6,823	8,768
Other		1,099	847
Other assets	$	77,461	82,158

(9) Long-Term Debt and Capital Lease Obligations

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

		2019	2018
Maryland Health and Higher Educational Facilities Authority (MHHEFA):			
Revenue Bonds Series 2011	$	3,140	4,100
Revenue Bonds Series 2012A		51,045	52,115
Revenue Bonds Series 2015		159,621	159,685
Revenue Bonds Series 2016		119,670	119,895
Revenue Bonds Series 2017		114,620	118,120
Other debt:			
M&T Bank taxable loan		31,946	36,701
Capital leases		13,021	14,787
Other		33,922	26,817
		526,985	532,220
Less current portion		(14,957)	(14,401)
Plus unamortized premium		29,628	32,680
Less deferred financing costs		(3,825)	(4,067)
Long-term debt, net	$	537,831	546,432

A single obligated group (the Obligated Group), consisting of LifeBridge, Sinai, Northwest, Levindale, BJHF, CHSF, CCHS, Carroll, CCMS, CHG, CH, and CRCCP, has been formed with respect to certain bonds issued by the Maryland Health and Higher Educational Facilities Authority (MHHEFA) and certain other obligations. Members of the Obligated Group are jointly and severally liable for all of the outstanding bonds issued by MHHEFA on behalf of LifeBridge and CCHS and their respective affiliates, together with other obligations issued on parity with such bonds.

In March 2011, MHHEFA 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%. Approximately $46,040 of the Series 2011 Bonds were repaid as part of the Series 2016 Bond offering, further discussed below.

In May 2012, MHHEFA loaned $59,780 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 with interest rates ranging from 2% to 5%, $7,505 of term bonds maturing in 2030 with an interest rate of 4%, and $25,280 of term bonds maturing in 2037 (Series 2012A Bonds) with an interest rate of 5%.

On June 26, 2015, LifeBridge entered into a $50,000 direct bank placement with M&T Bank (2015 M&T Bank Taxable 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.

On July 30, 2015, MHHEFA issued $159,685 in bonds (Series 2015 Bonds) on behalf of LifeBridge. The proceeds of the Series 2015 Bonds have been and will be used to finance and refinance the cost of construction, renovation, and equipping of certain additional facilities for the Obligated Group, to refund prior years Bonds of debt obligations. $33,130 of the bonds are serial bonds with maturity dates ranging from 2019 through 2030 and interest rates ranging from 2% to 5%. $14,260, $26,325, $35,970, and $50,000 of the bonds are term bonds that are due in 2035, 2040, 2047 and 2047, respectively, with interest rates of 4%, 5%, 4.1%, and 5%, respectively.

On October 25, 2016, MHHEFA issued $120,695 in bonds (Series 2016 Bonds) on behalf of LifeBridge Health. The proceeds of the Series 2016 Bonds were used to refinance prior Bonds. $40,465 of the bonds are serial bonds with maturity dates ranging from 2017 through 2036 and interest rates ranging from 2% to 5%. $40,640 of the bonds are term bonds that are due in 2041 with an interest rate of 4%. The remaining $39,590 of the bonds are term bonds that are due in 2047 with an interest rate of 5%.

On October 31, 2017, MHHEFA issued $118,120 in bonds (Series 2017 Bonds) on behalf of LifeBridge Health. The proceeds of the Series 2017 Bonds have been used to refund prior Bonds. $82,700 of the bonds are serial bonds with maturity dates ranging from 2019 through 2037 and interest rates ranging from 3% to 5%. $24,220 of the bonds are term bonds that are due in 2042 with an interest rate of 4%. The remaining $11,200 of the bonds are term bonds that are due in 2044 with an interest rate of 5%.

The Series 2011, 2012A, 2015, 2016, and 2017 Bonds are governed by a Master Loan Agreement. Under the Master Loan Agreement, MHHEFA 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 45 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.

(Continued)

In 2017, the Corporation acquired Springwell Partners, LLC (Springwell). Upon acquisition, the Corporation assumed the debt of Springwell. The debt consists of two term notes that were amended in February 2017. The first term note of $8,453 bears monthly interest of one month LIBOR plus 1.6% which approximates 4% as of June 30, 2019. The second term note of $5,614 bears monthly interest of 4.75%. Both term notes mature on February 5, 2022 and are secured by certain property and equipment. The outstanding principal of the two notes as of June 30, 2019 and 2018 was $13,007 and $13,405, respectively. Additionally, there is a construction loan that has been drawn on in the amount of $19,404 and $11,901 as of June 30, 2019 and 2018, respectively. This loan has an interest rate of 3.75% and a maturity date in February 2022.

Deferred financing costs are amortized using the effective-interest method over the term of the related debt. Amortization expense was $73 and $230 for the years ended June 30, 2019 and 2018, respectively. Such amortization is included in interest expense in the consolidated financial statements.

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

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

	MHHEFA and other debt	Capital lease obligations
Years ending June 30:		
2020	$ 12,607	2,258
2021	13,853	2,304
2022	43,758	2,351
2023	13,648	2,399
2024	14,118	2,447
Thereafter	415,980	3,127
	$ 513,964	14,886
Less interest portion		(1,865)
		$ 13,021

(10) M&T Bank Line of Credit

Sinai maintains a $5,000 line of credit with M&T Bank. As of June 30, 2019 and 2018, there were no balances outstanding on this line of credit.

(11) Net Assets With Donor Restrictions

Net assets without and with donor restrictions are available for the following purposes at June 30:

		2019	2018
Without donor restrictions:			
Designated by the board	$	213,856	226,529
Undesignated		976,767	898,563
With donor restrictions:			
Perpetual in nature		18,248	17,160
Purpose restricted – capital		23,303	24,970
Purpose restricted – operations		14,957	19,025
Time restricted		15,405	11,521
Net assets	$	1,262,536	1,197,768

The net assets without donor restrictions that is designated by the Board of Directors represent funds that are to be used to pay for future capital expenditures at Carroll.

(12) Employee Benefit Plans

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

The Corporation sponsors two noncontributory defined-benefit pension plans (the Sinai/Levindale Plans) covering full-time, nonunion and union employees of Sinai and Levindale. Annual contributions to the 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, 2019 and 2018:

		2019	2018
Measurement date		June 30, 2019	June 30, 2018
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	225,136	220,332
Service cost		7,704	8,036
Interest cost		9,372	8,146
Actuarial (gain) loss		22,595	(3,701)
Benefits paid		(10,030)	(7,632)
Expenses paid from assets		(855)	(45)
Benefit obligation at end of year		253,922	225,136
Change in plan assets:			
Fair value of plan assets at beginning of year		209,368	186,513
Actual return on plan assets		11,167	19,109
Company contributions		5,029	11,423
Benefits paid		(10,030)	(7,632)
Expenses paid from assets		(855)	(45)
Fair value of plan assets at end of year		214,679	209,368
Funded status	$	(39,243)	(15,768)

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

		2019	2018
Amounts recognized in the consolidated balance sheets:			
Other long-term liabilities	$	39,243	15,768
Amounts recognized in net assets without donor restrictions:			
Net actuarial loss	$	66,466	42,991
	$	66,466	42,991

The Corporation has estimated $5,029 for its defined-benefit contributions to the Sinai/Levindale Plans for the fiscal year ending June 30, 2019. The accumulated benefit obligation for the Sinai/Levindale Plans is $228,163 and $207,828 at June 30, 2019 and 2018, respectively.

Net periodic pension expense for the years ended June 30, 2019 and 2018 was as follows:

		2019	2018
Pension costs:			
Service cost	$	7,704	8,036
Interest cost		9,372	8,146
Expected return on plan assets		(14,312)	(12,594)
Amortization of net loss		4,352	3,611
Net periodic benefit cost	$	7,116	7,199

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 $4,858 and $2,265, respectively. The Company recorded $7,704 and $8,036 of the net periodic benefit cost in salary and employee benefit expense during the years ended June 30, 2019 and 2018, respectively, and recorded $(588) and $(837) in other income, net during the years ended June 30, 2019 and 2018, respectively.

Actuarial assumptions used were as follows:

	2019	2018
Assumptions used to determine annual pension expense:		
Discount rate	4.28 %	3.88 %
Expected return on plan assets	7.00	7.00
Rate of compensation increase	2.50	2.50
Assumptions used to determine end-of-year liabilities:		
Discount rate	3.67 %	4.28 %
Expected return on plan assets	7.00	7.00
Rate of compensation increase	2.50	2.50
Plan asset allocation:		
Asset category:		
Fixed income/debt securities	25.00 %	25.00 %
Equity securities/mutual funds	54.00	54.00
Alternative investments	21.00	21.00
Total	100.00 %	100.00 %

(Continued)

In selecting the expected long-term rate of return on plan assets, Sinai and Levindale considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of these plans. This included considering the Sinai/Levindale Plans' asset allocation and the expected returns likely to be earned over the life of the plans. Target asset allocation is as follows:

	Target
Target allocation on assets:	
Equity securities	52 %
Alternative investments	23
Fixed income/debt securities	25

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

Years ending June 30:	
2020	$ 13,782
2021	13,975
2022	14,110
2023	15,051
2024	14,956
2025-2029	76,459

The fair values of assets of the Sinai/Levindale Plans held by PNC Institutional Investments by level at June 30, 2019 were as follows:

	Pension benefits – plan assets			
	Level 1	Level 2	NAV	Total
Assets:				
Cash and cash equivalents	$ 7,359	—	—	7,359
Mutual funds and equity securities	125,323	—	—	125,323
Fixed income mutual funds	52,842	—	—	52,842
Alternative investments	—	—	29,155	29,155
Total assets	$ 185,524	—	29,155	214,679

The fair values of assets of the Sinai/Levindale Plans held by PNC Institutional Investments by level at June 30, 2018 were as follows:

		Pension benefits – plan assets			
		Level 1	Level 2	NAV	Total
Assets:					
Cash and cash equivalents	$	8,447	—	—	8,447
Mutual funds and equity securities		122,846	—	—	122,846
Fixed income mutual funds		51,577	—	—	51,577
Alternative investments		—	—	26,498	26,498
Total assets	$	182,870	—	26,498	209,368

For the years ended June 30, 2019 and 2018, there were no significant transfers into or out of Levels 1, 2, or 3. Changes to the fair values based on the NAV are summarized as follows:

		Total
Balance as of June 30, 2018	$	26,498
Additions:		
Contributions/purchases		1,676
Disbursements:		
Withdrawals/sales		(346)
Net change in value		1,327
Balance as of June 30, 2019	$	29,155

The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2019:

	Fund 1	Fund 2	Fund 3
Redemption timing:			
Redemption frequency	Monthly	Annually	Quarterly
Required notice	30 days	90 days	30 days
Audit reserve:			
Percentage held back for audit reserve	— %	5 %	— %

(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 describes certain actions of CCHS for the years ended June 30, 2019 and 2018.

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, 2019 and 2018:

		2019	2018
Measurement date		June 30, 2019	June 30, 2018
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	69,047	73,631
Interest cost		2,890	2,793
Actuarial gain		5,416	(4,771)
Benefits paid		(3,011)	(2,606)
Benefit obligation at end of year		74,342	69,047
Change in plan assets:			
Fair value of plan assets at beginning of year		78,870	67,718
Actual return on plan assets		(1,415)	10,178
Employer contribution		—	3,580
Benefits paid		(3,011)	(2,606)
Fair value of plan assets at end of year		74,444	78,870
Funded status	$	102	9,823

The accumulated benefit obligation for the Carroll Plan was $74,342 and $69,047 at June 30, 2019 and 2018, respectively. The pension asset of $102 and $9,823 as of June 30, 2019 and 2018, respectively, are included in other assets, respectively, in the consolidated balance sheets.

Net periodic pension expense for the years ended June 30, 2019 and 2018 was as follows:

		2019	2018
Pension expense:			
Components of net periodic pension expense:			
Interest cost	$	2,890	2,793
Expected return on plan assets		(5,414)	(4,825)
Amortization of actuarial loss		802	2,053
Net periodic pension expense	$	(1,722)	21

The estimated net actuarial loss to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year is $2,318 and $802, respectively. The Company recorded ($1,722) and $21 of the net periodic pension expense in other income, net during the years ended June 30, 2019 and 2018, respectively.

Assumptions to determine the benefit obligation as of June 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	3.67 %	4.28 %

Assumptions used in the determination of net periodic pension expense for the year ended June 30, 2019 and 2018 were as follows:

	2019	2018
Discount rate	4.28 %	3.88 %
Expected long-term rate of return on plan assets	7.00	7.00

Deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in net assets without donor restrictions, are $26,892 and $15,449 at June 30, 2019 and 2018, respectively. 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.

(Continued)

CCHS's weighted average asset allocations for the plan assets for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Cash and cash equivalents	3.0 %	5.0 %
Fixed income/debt securities	28.0	24.0
Mutual funds and equity securities	58.0	53.0
Alternative investments	11.0	18.0
	100.0 %	100.0 %

Pension plan assets are invested in accordance with the CCHS's investment policy in an attempt to maximize return with reasonable and prudent levels of risk. This structure 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, 2019:

	Pension benefits – plan assets			
	Level 1	Level 2	NAV	Total
Assets:				
Cash and cash equivalents	$ 2,086	—	—	2,086
Mutual funds/equities	42,831	—	—	42,831
Fixed income mutual funds	20,769	—	—	20,769
Alternative investments	—	—	8,758	8,758
Total assets	$ 65,686	—	8,758	74,444

The following table presents the Plan's assets measured at fair value at June 30, 2018:

	Pension benefits – plan assets			
	Level 1	Level 2	NAV	Total
Assets:				
Cash and cash equivalents	$ 3,632	—	—	3,632
Mutual funds/equities	42,024	—	—	42,024
Fixed income	—	19,374	—	19,374
Alternative investments	—	—	13,840	13,840
Total assets	$ 45,656	19,374	13,840	78,870

For the years ended June 30, 2019 and 2018, there were no significant transfers into or out of Levels 1, 2, or 3. Changes to the fair values based on the NAV are summarized as follows:

		Total
Balance as of June 30, 2018	$	13,840
Additions:		
Contributions/purchases		2,000
Disbursements:		
Withdrawals/sales		(4,661)
Net change in value		(2,421)
Balance as of June 30, 2019	$	8,758

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

The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2019:

	Fund 1	Fund 2	Fund 3
Redemption timing:			
Redemption frequency	Monthly	Annually	Quarterly
Required notice	30 days	90 days	30 days
Audit reserve:			
Percentage held back for audit reserve	— %	5 %	— %

CCHS expects to contribute $500 to the Carroll Plan during the year-ending June 30, 2020.

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

2020	$	3,158
2021		3,413
2022		3,570
2023		3,710
2024		3,845
2025–2029		21,453
	$	39,149

(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 one to five years, 4.0% for those in the plan from six to 19 years, and 6.5% thereafter. It is Northwest's policy to fund plan costs as they accrue. Plan expense was approximately $2,187 and $2,214 for the years ended June 30, 2019 and 2018, 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 $6,501 and $6,455 for the years ended June 30, 2019 and 2018, 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 $1,763 and $1,698 for the years ended June 30, 2019 and 2018, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities maintain a nonqualified deferred compensation plan for key employees and physicians. The Corporation establishes a separate deferral account on its books for each participant for each plan year. In general, participants are entitled to receive the deferred funds upon their death, attainment of the specified vesting date, or involuntary termination of their employment without cause, whichever occurs first. The related expense was approximately $2,571 and $3,128 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, Carroll has accrued a liability of $640 and $881 related to this plan.

(13) 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 Centers 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 by CMS.

In January 2019, Maryland entered a newly negotiated phase of the waiver agreement with CMS. This subsequent phase is designed to last for 10 years, with two distinct five-year periods, the first five-year period ending December 31, 2023. While elements of the initial agreement pertaining to limits on hospital per capita growth and growth of total-cost-of-care per Medicare beneficiary of Maryland compared to the nation remain unchanged, the new agreement expands the scope of the waiver to focus more on a patient's total-cost-of-care. Most notably, Maryland will be required to generate annual Medicare total-cost-of-care savings of $300 million per year by the end of 2023, with all Maryland hospitals demonstrating total-cost-of-care savings through care redesign initiatives. In addition, Maryland will continue to maintain patient quality methodologies focused on readmissions, hospital acquired conditions and potentially avoidable utilization, but will also adopt statewide measures related to national measures such as falls prevention and opioid overdoses.

(14) 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 property and equipment 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.

(Continued)

(15) Income Taxes

At June 30, 2019, Investments has approximately $56,242 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 beginning in 2020 through 2038.

The net operating loss carryforwards created a federal net deferred tax asset of approximately $11,811 and $13,760 as of June 30, 2019 and 2018, respectively and a state deferred tax asset of approximately $4,602 and $4,401 as of June 30, 2019 and 2018, 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, 2019 and 2018.

The Tax Cuts and Jobs Act (The Act) was signed into law on December 22, 2017. The Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21% and eliminating certain deductions. The Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property.

The Act repeals the corporate Alternative Minimum Tax (AMT) regime for tax years beginning after December 31, 2017. For tax years beginning in 2018, 2019, and 2020, the AMT credit carryforward can be utilized to offset regular tax with any remaining AMT carryforwards eligible for a refund of 50%. Any remaining AMT credit carryforwards will become fully refundable beginning in the 2021 tax year. The Corporation expects $27 of the AMT receivable to be refunded upon filing its June 30, 2019 tax return.

The provision for income taxes varies from the amount computed by applying the statutory federal income tax rate to income before income taxes primarily due to the impact of nondeductible expenses and changes in valuation allowance.

(16) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2019 and 2018 are as follows:

		2019	2018
Professional/general liability (note 17(a))	$	59,839	57,795
Pension liability		39,883	16,649
Medical office building		29,488	30,722
Asset retirement obligation		3,260	3,260
Deferred compensation		6,473	7,644
Other		2,505	4,215
	$	141,448	120,285

At June 30, 2019 and 2018, there was $24,322 and $22,388 included in other current liabilities related to professional liabilities, respectively.

(17) Self-Insurance Programs

(a) Professional/General Liability

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

LifeBridge Insurance purchases reinsurance coverage from other highly rated insurance carriers to cover their liabilities in excess of various retentions. The amounts that LifeBridge subsidiaries must transfer to LifeBridge Insurance to fund professional and general liability claims are actuarially determined and are sufficient to cover expected liabilities. Management's estimate of the liability for professional 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. The receivable for the expected reinsurance receivable is recorded within other assets on the consolidated balance sheets. Amounts in excess of the self-insured limits are insured by highly rated commercial insurance companies.

(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.

LifeBridge has accrued a liability for known and incurred but not reported claims of $7,422 and $7,227 at June 30, 2019 and 2018, respectively. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. Management believes these accruals are adequate to provide for all workers' compensation claims that have been incurred through June 30, 2019.

All other entities have occurrence-based commercial insurance coverage. There are no material insurance recoveries related to workers' compensation claims under those policies as of June 30, 2019 and 2018.

LifeBridge maintains stop-loss policies on workers' compensation claims. The Corporation is insured for individual claims exceeding $450.

(c) Health Insurance

LifeBridge is self-insured for employee health claims. LifeBridge has accrued a liability of $6,332 and $6,677 at June 30, 2019 and 2018, respectively, for known claims and incurred but not reported claims. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

(18) Net Patient Service Revenue and Patient Receivables

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, 2019 and 2018 is as follows:

	2019	2018
Medicare	31 %	30 %
Medicaid	9	11
BlueCross	10	10
Commercial and other	42	40
Self-pay	8	9
	100 %	100 %

The mix of net patient service revenue for the Corporation for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Medicare	44 %	43 %
Medicaid	5	6
BlueCross	12	11
Commercial and other	35	37
Self-pay	4	3
	100 %	100 %

As a result of certain changes required by ASU 2014-09, the majority of the Corporation's provision for uncollectible accounts is recorded as a direct reduction to net patient service revenue instead of being presented as a separate line item on the consolidated statements of operations and changes in net assets. The adoption of ASU 2014-09 has not impact on the Corporation's patient receivables as it was historically recorded net of allowance for uncollectible accounts and contractual adjustments on the consolidated balance sheets.

(19) 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.

(Continued)

(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 $2,546 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 $440 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 $84 to serve as collateral as required by the City of Baltimore for the completion of certain construction work at Sinai. M&T has established standby letters of credit of $94, $76, and $42 to serve as collateral as required by Baltimore County for the completion of certain construction work at Northwest.

(c) Operating Leases

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2030. Total rental expense for the years ended June 30, 2019 and 2018 for all operating leases was approximately $31,205 and $25,671, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Years ending June 30:		
2020	$	29,345
2021		26,902
2022		24,758
2023		22,795
2024		21,757
Thereafter		18,663
	$	144,220

(20) Noncontrolling Interest

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

		LifeBridge Health, Inc.	Noncontrolling interest	Unrestricted net assets
Balance at June 30, 2017	$	983,910	14,626	998,536
Operating income		42,652	3,125	45,777
Nonoperating income		48,601	—	48,601
Excess of revenues over expenses		91,253	3,125	94,378
Change in funded status of pension plan		25,630	—	25,630
Net assets released for purchase of property and equipment		5,156	—	5,156
Other		747	645	1,392
Change in net assets		122,786	3,770	126,556
Balance at June 30, 2018		1,106,696	18,396	1,125,092
Operating income		47,111	10,021	57,132
Nonoperating income		44,056	—	44,056
Excess of revenues over expenses		91,167	10,021	101,188
Change in funded status of pension plan		(32,548)	—	(32,548)
Net assets released for purchase of property and equipment		3,533	—	3,533
Other		1,990	(8,632)	(6,642)
Change in net assets		64,142	1,389	65,531
Balance at June 30, 2019	$	1,170,838	19,785	1,190,623

(Continued)

(21) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2019 and 2018 related to providing these services are as follows:

		2019			
		Healthcare Services	Other Services	General and Administrative	Total
Salaries and benefits	$	623,266	2,081	243,190	868,537
Supplies		192,397	332	74,950	267,679
Purchased services		197,305	1,658	77,375	276,338
Depreciation, amortization and gain/loss on sale of assets		61,789	814	24,346	86,949
Repairs and maintenance		19,247	516	7,685	27,448
Interest		18,945	—	7,367	26,312
	$	1,112,949	5,401	434,913	1,553,263

		2018			
		Healthcare Services	Other Services	General and Administrative	Total
Salaries and benefits	$	606,784	1,953	236,693	845,430
Supplies		191,874	327	74,739	266,940
Purchased services		206,590	1,864	81,030	289,484
Depreciation, amortization and gain/loss on sale of assets		57,046	819	22,487	80,352
Repairs and maintenance		15,840	290	6,267	22,397
Interest		19,281	—	7,498	26,779
	$	1,097,415	5,253	428,714	1,531,382

The consolidated financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages and benefits, which include allocations on the basis of estimates of time and effort.

(22) 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) Fair Value Hierarchy

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 60,958	—	—	60,958
Equity securities and mutual funds	552,547	—	—	552,547
Government securities	—	17,458	—	17,458
Fixed income securities	—	194,614	—	194,614
Beneficial interest in split-interest agreement	—	4,997	—	4,997
Total assets	$ 613,505	217,069	—	830,574

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2018:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	54,836	—	—	54,836
Equity securities and mutual funds		466,022	—	—	466,022
Government securities		—	20,810	—	20,810
Fixed income securities		—	247,083	—	247,083
Beneficial interest in split-interest agreement		—	5,294	—	5,294
Total assets	$	520,858	273,187	—	794,045

See note 2(e) for information on the Corporation's alternative investments that are recorded under the equity method and are not reported above.

For the years ended June 30, 2019 and 2018, there were no significant transfers into or out of Levels 1, 2, or 3.

(23) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2019 and through October 23, 2019. On August 19, 2019, LifeBridge Health, Inc. ("LifeBridge") entered into a Master Affiliation Agreement (the "MAA") with Bon Secours Mercy Health, Inc., Bon Secours Baltimore Health Corporation and Bon Secours Hospital Baltimore, Inc. ("BSH"), pursuant to which LifeBridge will become the sole member of BSH. As consideration for the acquisition, LifeBridge will pay $25 million to a non-profit subsidiary of Bon Secours Mercy Health. The payments will be made in annual increments beginning January 1, 2021, with the final portion payable on or before January 1, 2025. It is anticipated that the closing of the transactions contemplated by the MAA will occur on or about November 1, 2019.

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2019

(Dollars in thousands)

Assets	Sinai Hospital Consolidated	Northwest Hospital	Carroll Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Current assets:							
Cash and cash equivalents	$ 38,736	30,354	48,204	8,550	41,958	—	167,802
Investments	13,715	3,431	—	276	202,250	—	219,672
Assets limited as to use, current portion	21,906	5,393	3,315	210	8,909	—	39,733
Patient service receivables, net	92,349	28,648	23,918	8,848	17,482	—	171,245
Other receivables	34,072	9,992	20,519	929	55,429	(99,725)	21,216
Inventory	24,011	6,152	3,540	316	261	—	34,280
Prepaid expenses	5,998	1,498	1,250	133	13,358	—	22,237
Pledges receivable, current portion	1,504	85	1,121	131	—	—	2,841
Total current assets	232,291	85,553	101,867	19,393	339,647	(99,725)	679,026
Board-designated investments	—	—	—	—	213,856	—	213,856
Long-term investments	65,136	545	83,285	—	233,882	—	382,848
Donor-restricted investments	13,715	—	5,027	—	37,766	—	56,508
Reinsurance recovery receivable	—	—	—	—	21,401	—	21,401
Assets limited as to use, net of current portion	—	—	—	—	59,955	—	59,955
Pledges receivable, net of current portion	4,479	287	2,676	125	—	—	7,567
Property and equipment, net	213,799	103,208	122,220	40,380	192,884	—	672,491
Beneficial interest in split interest agreement	4,997	—	—	—	—	—	4,997
Investment in unconsolidated affiliates	—	—	630	—	224,336	(177,265)	47,701
Other assets, net of accumulated amortization	17,656	3,576	16,598	73	39,558	—	77,461
Total assets	$ 552,073	193,169	332,303	59,971	1,363,285	(276,990)	2,223,811

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2019

(Dollars in thousands)

Liabilities and Net Assets		Sinai Hospital Consolidated	Northwest Hospital	Carroll Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Current liabilities:								
Accounts payable and accrued liabilities	$	56,434	10,000	28,610	4,593	106,729	(99,726)	106,640
Accrued salaries, wages, and benefits		38,682	8,134	11,656	3,572	32,206	—	94,250
Advances from third-party payors		24,903	6,746	4,340	752	31	—	36,772
Current portion of long-term debt and capital lease obligations, net		3,546	1,158	2,194	209	7,850	—	14,957
Other current liabilities		1,834	602	266	—	26,675	—	29,377
Total current liabilities		125,399	26,640	47,066	9,126	173,491	(99,726)	281,996
Other long-term liabilities		54,228	9,949	15,836	5,071	56,364	—	141,448
Long-term debt and capital lease obligations, net		248,878	81,453	126,832	9,703	70,965	—	537,831
Total liabilities		428,505	118,042	189,734	23,900	300,820	(99,726)	961,275
Net assets:								
Net assets without donor restrictions		75,519	67,131	80,814	35,470	1,047,108	(135,204)	1,170,838
Noncontrolling interest in consolidated subsidiaries		—	—	3,832	—	8,013	7,940	19,785
Total net assets without donor restrictions		75,519	67,131	84,646	35,470	1,055,121	(127,264)	1,190,623
Net assets with donor restrictions		48,049	7,996	57,923	601	7,344	(50,000)	71,913
Total net assets		123,568	75,127	142,569	36,071	1,062,465	(177,264)	1,262,536
Total liabilities and net assets	$	552,073	193,169	332,303	59,971	1,363,285	(276,990)	2,223,811

See accompanying independent auditors' report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2019

(Dollars in thousands)

	Sinai Hospital Consolidated	Northwest Hospital	Carroll Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Unrestricted revenues, gains, and other support:							
Net patient service revenue	$ 766,257	260,346	237,616	77,444	180,240	—	1,521,903
Net assets released from restrictions used for operations	3,588	—	40	146	327	—	4,101
Other operating revenue	34,006	4,461	10,294	1,398	78,005	(43,773)	84,391
Total operating revenues	803,851	264,807	247,950	78,988	258,572	(43,773)	1,610,395
Expenses:							
Salaries and employee benefits	408,222	134,771	125,621	49,105	150,418	400	868,537
Supplies	166,663	48,667	22,401	6,427	23,521	—	267,679
Purchased services	160,325	44,667	61,187	17,654	36,678	(44,173)	276,338
Depreciation, amortization, and gain/loss on sale of assets	32,247	12,270	13,977	2,977	25,478	—	86,949
Repairs and maintenance	16,428	4,913	2,914	1,152	2,041	—	27,448
Interest	996	718	5,517	23	19,058	—	26,312
Total expenses	784,881	246,006	231,617	77,338	257,194	(43,773)	1,553,263
Operating income	18,970	18,801	16,333	1,650	1,378	—	57,132
Other income (loss), net:							
Investment income	22,528	5,392	8,876	1,327	715	—	38,838
Unrealized gains (losses) on trading investments	(1,064)	(117)	1,805	(66)	2,623	—	3,181
Other	722	(21)	2,071	120	(855)	—	2,037
Total other income, net	22,186	5,254	12,752	1,381	2,483	—	44,056
Excess of revenues over expenses	$ 41,156	24,055	29,085	3,031	3,861	—	101,188

See accompanying independent auditors' report.