LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
LifeBridge Health, Inc.:

Report on the Financial Statements

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, 2013 and 2012, 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, 2013 and 2012, 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(v) to the consolidated financial statements, the Corporation adopted the provisions of the Financial Accounting Standards Update No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*. Our opinion is not modified with respect to this matter.

Supplemental Information

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

KPMG LLP

October 23, 2013

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	181,529	159,205
Donor-restricted investments		10,641	8,752
Assets limited as to use, current portion		11,777	19,498
Patient service receivables, net of allowance for doubtful accounts of $25,280 in 2013 and $23,560 in 2012		121,993	113,507
Other receivables		5,223	5,324
Inventory		23,393	23,467
Prepaid expenses		10,915	9,522
Pledges receivable, current portion		3,829	3,414
Total current assets		369,300	342,689
Long-term investments		341,378	310,111
Reinsurance recovery receivable		23,914	20,461
Assets limited as to use, net of current portion		39,165	37,646
Pledges receivable, net of current portion		5,219	8,518
Property and equipment, net		475,155	472,030
Deferred financing costs, net of accumulated amortization of $515 in 2013 and $396 in 2012		2,437	2,557
Beneficial interest in split interest agreement		4,088	3,930
Investment in unconsolidated affiliates		4,930	2,621
Other assets, net of accumulated amortization of $229 in 2013 and $228 in 2012		8,524	9,130
Total assets	$	1,274,110	1,209,693

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Liabilities and Net Assets		2013	2012
Current liabilities:			
Accounts payable and accrued liabilities	$	92,457	84,481
Accrued salaries, wages and benefits		55,121	52,945
Advances from third-party payors		34,756	42,313
Current portion of long-term debt and capital lease obligations		6,275	6,216
Other current liabilities		1,169	974
Total current liabilities		189,778	186,929
Other long-term liabilities		130,334	146,289
Long-term debt and capital lease obligations, net of current portion		329,450	335,486
Total liabilities		649,562	668,704
Net assets:			
Unrestricted		563,128	480,953
Noncontrolling interest in consolidated subsidiaries		(310)	(393)
Total unrestricted net assets		562,818	480,560
Temporarily restricted		47,190	45,891
Permanently restricted		14,540	14,538
		624,548	540,989
Total liabilities and net assets	$	1,274,110	1,209,693

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	2013	2012
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,034,653	995,887
Provision for bad debts	52,021	43,562
Net patient service revenue	982,632	952,325
Net assets released from restrictions used for operations	3,542	4,015
Other operating revenue	47,784	51,525
Total operating revenues	1,033,958	1,007,865
Expenses:		
Salaries and employee benefits	582,499	567,491
Supplies	170,434	163,839
Purchased services	161,712	157,924
Depreciation, amortization and gain/loss on sale of assets	59,950	57,304
Repairs and maintenance	19,274	18,426
Interest	19,916	19,619
Total expenses	1,013,785	984,603
Operating income	20,173	23,262
Other income net:		
Investment income	16,173	16,707
Unrealized gains (losses) on trading investments	17,323	(10,800)
Other	7	(355)
Total other income net	33,503	5,552
Excess of revenues over expenses	$ 53,676	28,814

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at June 30, 2011	$ 452,640	56,743	14,721	524,104
Excess of revenues over expenses	28,814	—	—	28,814
Unrealized (loss) gain on investments	—	(1,114)	4	(1,110)
Net assets released from restrictions used for the purchase of property and equipment	16,101	(16,101)	—	—
Restricted gifts and bequests	—	10,446	—	10,446
Net assets released from restrictions used for operations	—	(4,015)	—	(4,015)
Net change in value of beneficial interest in split interest agreement	—	(68)	—	(68)
Adjustment to pension liability	(17,159)	—	—	(17,159)
Other	164	—	(187)	(23)
Change in net assets	27,920	(10,852)	(183)	16,885
Net assets at June 30, 2012	480,560	45,891	14,538	540,989
Excess of revenues over expenses	53,676	—	—	53,676
Unrealized gain (loss) on investments	—	3,506	(9)	3,497
Net assets released from restrictions used for the purchase of property and equipment	10,816	(10,816)	—	—
Restricted gifts and bequests	—	11,990	14	12,004
Net assets released from restrictions used for operations	—	(3,539)	(3)	(3,542)
Net change in value of beneficial interest in split interest agreement	—	158	—	158
Adjustment to pension liability	17,594	—	—	17,594
Other	172	—	—	172
Change in net assets	82,258	1,299	2	83,559
Net assets at June 30, 2013	$ 562,818	47,190	14,540	624,548

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	83,559	16,885
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		60,027	56,977
(Gain) loss on disposal of equipment		(77)	327
Change in pension liability		(17,594)	17,159
Provision for bad debts		52,021	43,656
Realized and unrealized losses (gains) on investments		(27,081)	7,248
Restricted gifts and bequests		(12,004)	(10,446)
Change in beneficial interest of split interest agreement		(158)	68
Losses (earnings) on investments in unconsolidated affiliates		(7)	355
Change in operating assets and liabilities:			
Increase in patient service receivables, net		(60,507)	(42,764)
Decrease (increase) in other receivables		101	(224)
Increase in pledges receivable		2,884	1,212
Decrease (increase) in inventory		74	(2,105)
Decrease (increase) in prepaid expenses		(1,393)	1,083
Increase in reinsurance recovery receivable		(3,453)	(3,007)
Increase (decrease) in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits		10,152	(13,808)
Increase (decrease) in advances from third-party payors		(7,557)	5,996
Decrease in other current and long-term liabilities		1,834	12,603
Net cash provided by operating activities		80,821	91,215
Cash flows from investing activities:			
Change in donor-restricted investments		1,608	7,316
Change in long-term investments		(7,683)	(27,049)
Change in assets limited as to use		6,202	23,988
Investment in/distributions from unconsolidated affiliates, net		(2,302)	(672)
Additions to operating property		(62,048)	(78,797)
Proceeds from the sale of property		87	71
Change in other assets		(505)	(693)
Net cash used in investing activities		(64,641)	(75,836)
Cash flows from financing activities:			
Payment on debt and capital lease obligations		(5,863)	(5,303)
Proceeds from issuance of debt		3	525
Restricted gifts and bequests		12,004	10,446
Net cash provided by financing activities		6,144	5,668
Net increase in cash and cash equivalents		22,324	21,047
Cash and cash equivalents:			
Beginning of year		159,205	138,158
End of year	$	181,529	159,205
Supplemental cash flow disclosures:			
Cash paid during the year for interest	$	19,974	19,482
Cash paid during the year for income taxes		130	3
Accounts payable related to purchase of operating property		9,842	9,234

See accompanying notes to consolidated financial statements.

(1) Organization

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

LifeBridge's consolidated financial statements include the following entities:

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

> *The Baltimore Jewish Health Foundation, Inc. (BJHF)* – BJHF was formed to hold and manage investments for the purpose of providing support to Sinai. A majority of the members of BJHF's board also hold Board positions at LifeBridge and Sinai.
>
> *Children's Hospital at Sinai Foundation, Inc. (CHSF)* – CHSF was formed concurrently with the acquisition of Children's Hospital, to hold assets formerly held by Children's Hospital and its affiliates. A majority of the directors of CHSF are directors or employees of Sinai.
>
> *Sinai Clinical Professionals, LLC (SCP)* – SCP was formed on August 1, 2009 concurrently with the acquisition of the assets of Clinical Associates, P.A. SCP provides multispecialty medical care.
>
> *LifeBridge Cardiology at Quarry Lake, LLC (LCQL)* – LCQL was formed on December 10, 2010. LCQL provides cardiology services.

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

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

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

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

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

LAA – LAA provides anesthesia services to Northwest Hospital.

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

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

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

In addition, Investments holds interests in, among other entities, Cherrywood Manor LP (a nursing home located in Reisterstown, Maryland); PLMD, LLC (an ambulance transportation company); Acute Diagnostics and Services, LLC (a sleep center management company); LifeBridge Sports Medicine and Rehabilitation, LLC (a provider of physical and occupational therapy services); and National Respiratory Care, LLC (a supplier of durable medical equipment).

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

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

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

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

LifeBridge Metropolitan Physician Group, LLC – LifeBridge Metropolitan Physician Group provides obstetric and gynecology services.

LifeBridge Community Pulmonology, LLC – LifeBridge Community Pulmonology provides pulmonary services.

LifeBridge Cardiology of Mays Chapel, LLC (LB Cardio Mays Chapel) – LB Cardio Mays Chapel provides cardiology services.

LifeBridge Cardiology of Bel Air, LLC (LB Cardio Bel Air) – LB Cardio Bel Air provides cardiology services.

LifeBridge Community Pediatrics, LLC (LBPeds) – LBPeds provides pediatric services.

(2) Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All majority owned and direct member entities are consolidated. The accompanying consolidated financial statements include the accounts of LifeBridge Health, Inc. and Subsidiaries (the Corporation). All entities where the Corporation exercises significant influence, but does not 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. Amounts required to meet current liabilities of the Corporation have been reclassified in the consolidated balance sheets at June 30, 2013 and 2012.

(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) 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 $106,030 and $95,049 at June 30, 2013 and 2012, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Also included in alternative investments are BJEF's and BJHF's funds that are invested on their behalf by the Associated Jewish Charities (AJC), an affiliate of AJCF. The underlying investments for these funds include cash of $708, mutual funds of $7,590, equities of $24,327, government bonds of $2,471, and alternative investments of $16,732. Alternative investments are recorded under the equity method.

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

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

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

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

- Level 1 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) Deferred Financing Costs and Other Assets

Deferred financing costs and other assets consist primarily of deferred financing costs, notes receivable, and the cash surrender value of split dollar life insurance. The deferred financing costs are amortized using the effective-interest method over the term of the related debt. Amortization expense was $119 and $121 for the years ended June 30, 2013 and 2012, respectively. Such amortization is included in depreciation and amortization in the consolidated financial statements.

(Continued)

(h) Beneficial Interest in Split Interest Agreement

CHSF holds a 25% interest in a trust, of which management has estimated the present value of the future income stream. CHSF will receive 25% of the net annual income over the next 11 years. At the end of this period in 2024, the trust will terminate, and 25% of the principal will be distributed to CHSF. Management has reported the beneficial interest at fair value based on the fair value of the underlying trust investments.

(i) Advances from Third-Party Payors

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

(j) Self-Insurance Programs

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

(k) Other Long-Term Liabilities

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

(l) Donor-Restricted Gifts

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

(m) Net Assets

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

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by externally imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless use of the related asset is limited by externally imposed restrictions or law. Expirations of temporary restrictions of net assets (i.e., the externally stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as unrestricted operating revenue.

(n) Net Patient Service Revenue

Net patient service revenue for Sinai and Northwest (the Hospitals) and the chronic hospital component of Levindale is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered. The Hospitals have Charge Per Episode (CPE) agreements with the HSCRC. The HSCRC's Charge per Episode methodology was implemented on July 1, 2011. It is similar to the previous Charge per Case methodology. These CPE agreements establish a prospective average charge per inpatient episode, defined as hospital admissions/births, plus "all cause" readmissions within a thirty-day period. These approved CPE targets are adjusted during the rate year for actual changes in case mix. The CPE agreements allow hospitals to adjust approved unit rates, within certain limits, to achieve the average case mix adjusted CPE target for the rate year ending June 30. To the extent that the actual average CPE exceeds the case mix adjusted target, the overcharge will reduce the approved target for future years. Conversely, if the actual average CPE is below the case mix adjusted target, the undercharge will increase the approved target for future years. Under the CPE target methodology, the Hospitals monitor their average CPE compared to HSCRC case mix adjusted targets on a routine basis.

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

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

Medicaid reimburses Levindale and Courtland for services rendered in their long-term care facilities based on their actual costs, up to certain predetermined limits, and the condition and requirements of the patients. Reimbursement is at an interim rate with the final settlement determined after submission of annual cost reports and audits thereof. Estimated retroactive adjustments are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. As of June 30, 2013, Levindale had open Medicaid cost reports for the years ended June 30, 2013 and 2012, and Courtland had open Medicaid cost reports for the year ended June 30, 2013.

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

(o) Grants

Federal grants are accounted for as either 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 as temporarily restricted contributions depending on the restrictions within the grant.

(p) Meaningful Use Incentives

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

The Corporation recognizes EHR incentives when the payment is received. During the years ended June 30, 2013 and 2012, certain hospitals and physicians satisfied the meaningful use criteria. As a result, the Corporation recognized $6,571 and $8,945 of EHR incentives during fiscal years 2013 and 2012, respectively, in other operating revenue.

(q) Charity Care and Bad Debt

Sinai, Northwest, Levindale and Courtland provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The amount of charity care provided during the years ended June 30, 2013 and 2012, based on patient charges foregone, was $16,794 and $18,081, respectively. The total direct and indirect costs to provide the care amounted to approximately $14,112 and $15,589 for the years ended June 30, 2013 and 2012, respectively.

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

		2013	2012
Beginning allowance	$	23,560	23,191
Plus provision for bad debt		52,021	43,562
Less bad debt write-offs		(50,301)	(43,193)
Ending allowance	$	25,280	23,560

(r) Income Taxes

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

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

(s) 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.

(t) Excess of Revenues over Expenses

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

(u) 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.

(v) New Accounting Pronouncements

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a healthcare entity may not net insurance recoveries against related claims liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU was effective for the Corporation on July 1, 2011. The adoption of this guidance resulted in the Corporation recording an additional accrual for medical malpractice claims liability and an insurance recovery receivable of $23,914 and $20,461 on the balance sheet at June 30, 2013 and 2012, respectively. Such amounts are included in other long-term liabilities. The adoption of this guidance did not have any impact on the results of operations or cash flows of the Corporation.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires certain healthcare entities to change the presentation of its statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowance and discounts). This change applies to entities that do not assess the collectability of revenue at the time services are rendered. Additionally, enhanced disclosures about an entity's policies for recognizing and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. This ASU was effective for the Corporation on July 1, 2012. The provision for bad debt for the years ended June 30, 2013 and 2012 has been reclassified as a component of net patient service revenue in the consolidated statement of operations and changes in net assets to conform with ASU 2011-07.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.*

The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic entities to provide quantitative information about significant unobservable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. The Corporation adopted the provisions of the ASU in the year ending June 30, 2013. The adoption of ASU 2011-04 did not have a material effect on the Corporation's consolidated financial statements. See note 19 to the consolidated financial statements.

(w) Reclassifications

Certain prior year amounts in note (18) Functional Expenses have been reclassified to reflect the effects of the Accounting Pronouncement discussed in note 2(v). The result reduced the 2012 Healthcare Services expenses by the provision for bad debts of $43,562.

(3) Investments

Investments, which consist of assets limited as to use, donor-restricted investments, and long-term investments in the accompanying consolidated balance sheets, are stated at carrying value as of June 30, 2013 and 2012, and consist of the following:

		2013	2012
Assets limited as to use:			
Self-insurance fund:			
Equity securities	$	9,788	8,897
U.S. Treasury		12,648	11,760
Alternative investments		4,605	4,213
Government securities		1,912	2,031
Corporate obligations		8,854	9,854
Asset-backed securities		1,358	891
Self-insurance fund		39,165	37,646
Debt service fund:			
Cash and cash equivalents		4,951	11,701
Government securities		6,826	—
Construction fund:			
Cash and cash equivalents		—	7,797
Assets limited as to use		50,942	57,144
Less current portion		(11,777)	(19,498)
Assets limited as to use, net of current portion	$	39,165	37,646
Donor-restricted investments:			
Cash and cash equivalents	$	2,153	816
Equity securities		230	93
U.S. Treasury		1,844	1,972
Mutual funds		3,007	2,960
Government securities		2,184	1,715
Asset-backed securities		75	185
Corporate obligations		1,148	1,011
Donor-restricted investments	$	10,641	8,752
Beneficial interest in split interest agreement	$	4,088	3,930

There are other investments restricted by donors that are included in long-term investments, pledges receivable, and beneficial interest as of June 30, 2013 and 2012. Of these amounts, $37,953 and $35,815 are included in long-term investments as of June 30, 2013 and 2012, respectively:

		2013	2012
Long-term investments:			
Cash and cash equivalents	$	4,093	2,947
Mutual funds		148,633	138,481
U.S. Treasury		—	1,950
Equity securities		74,151	61,284
Government securities		1,999	3,326
Corporate obligations		11,077	11,104
Asset-backed securities		—	183
Alternative investments		101,425	90,836
	$	341,378	310,111

Investment income and gains and losses on long-term investments, donor-restricted investments, and assets limited as to use are comprised of the following for the years ended June 30, 2013 and 2012:

		2013	2012
Investment income:			
Interest income and dividends	$	9,912	12,045
Realized gains on sale of securities		6,261	4,662
Investment income		16,173	16,707
Unrealized gains (losses) on trading securities		17,323	(10,800)
Other changes in net assets:			
Changes in unrealized gains on temporarily and permanently restricted net assets		3,497	(1,110)
Total investment return	$	36,993	4,797

(4) Pledges Receivable

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

Sinai, Northwest, and Levindale have recorded total pledges as of June 30, 2013 and 2012 as follows:

		2013	2012
Gross pledges receivable	$	13,071	16,176
Less:			
Discount for time value of money		(1,557)	(1,574)
Allowance for uncollectible accounts		(2,466)	(2,670)
	$	9,048	11,932

Total future payments are as follows:

Less than one year	$	5,262
One to five years		7,081
Five years and thereafter		728
	$	13,071

(5) Property and Equipment

As described in note 11, Sinai and Levindale lease under lease agreements with an affiliate of AJCF all land, land improvements, buildings, and fixed equipment located at those entities' primary locations; LifeBridge entities own all the movable equipment. Property and equipment are classified as follows at June 30:

	Estimated useful life		2013	2012
Land		$	2,747	2,747
Land improvements	8 to 20 years		11,629	11,352
Building and improvements	10 to 40 years		658,381	611,252
Fixed equipment	8 to 20 years		52,579	55,063
Movable equipment	3 to 15 years		292,369	295,492
Construction in progress			29,764	19,775
			1,047,469	995,681
Less accumulated depreciation			(572,314)	(523,651)
Property and equipment, net		$	475,155	472,030

Depreciation, amortization, and gain/loss on sale of assets were $59,950 and $57,304 for the years ended June 30, 2013 and 2012, respectively. Of this, depreciation expense was $58,915 and $56,393 for the years ended June 30, 2013 and 2012, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of $11,186 and $13,139 for the years ended June 30, 2013 and 2012, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $14,964 and $12,970 at June 30, 2013 and 2012, respectively.

(6) Long-Term Debt and Capital Lease Obligations

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

		2013	2012
Maryland Health and Higher Educational Facilities Authority:			
Revenue Bonds Series 2008	$	272,370	275,193
Revenue Bonds Series 2011		49,920	50,695
Capital leases		10,540	12,802
Other		343	343
		333,173	339,033
Less current portion		(6,275)	(6,216)
Unamortized premium		2,602	2,722
Unamortized discount		(50)	(53)
Long-term debt, net	$	329,450	335,486

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

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

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

The Master Loan Agreement requires the Obligated Group to adhere to limitations on mergers, disposition of assets, and additional indebtedness and certain financial covenants. The financial covenants include a rate covenant, which requires the Obligated Group to achieve a debt service coverage ratio of 1.10; a liquidity covenant, which requires the Obligated Group to maintain 65 days cash on hand; and a debt to capitalization covenant, which requires the Obligated Group to maintain a debt to capitalization ratio of not more than 65%, all measured as of June 30 in each fiscal year. In the fiscal year ended June 30, 2013, the Obligated Group met all of its covenants.

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

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

	Long-term debt	Capital lease obligations
Years ending June 30:		
2014	$ 3,755	$ 3,727
2015	3,937	3,312
2016	4,130	3,184
2017	4,330	2,114
2018	4,540	1,023
Thereafter	301,598	3,000
	$ 322,290	16,360
Less interest portion		(5,820)
		$ 10,540

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

(7) Line of Credit

Sinai maintains a $5,000 line of credit with M&T Bank. As of June 30, 2013 and 2012, there were no balances outstanding on this line of credit. There is no expiration date on the line of credit.

(8) Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Healthcare services:		
Capital equipment/construction	$ 24,360	24,197
Other healthcare services:		
Service grants	113	1,014
Donor-specified healthcare services	10,676	10,111
Enrichment and research	12,041	10,569
	$ 47,190	45,891

Permanently restricted net assets of $14,540 and $14,538 at June 30, 2013 and 2012, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(9) Employee Benefit Plans

The Corporation sponsors noncontributory defined-benefit pension plans covering full-time, nonunion and union employees. Prior to January 1, 2012, these plans included the Levindale, Sinai nonunion and Sinai union pension plans. Effective January 1, 2012, the Levindale plan was merged into the Sinai nonunion plan resulting in the Corporation sponsoring two defined-benefit pension plans (the Plans). Annual contributions to the Plans are made at a level equal to or greater than the funding requirement as determined by the Plans' consulting actuary. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The following tables set forth the Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2013 and 2012:

		2013	2012
Measurement date		June 30, 2013	June 30, 2012
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	158,868	139,221
Service cost		7,517	6,709
Interest cost		6,478	7,463
Actuarial loss		(6,907)	11,858
Benefits paid		(6,313)	(5,103)
Expenses paid from assets		(425)	(312)
Plan amendments		—	(968)
Benefit obligation at end of year		159,218	158,868
Change in plan assets:			
Fair value of plan assets at beginning of year		108,818	105,075
Actual return on plan assets		14,744	(674)
Company contributions		13,508	9,832
Benefits paid		(6,313)	(5,103)
Expenses paid from assets		(425)	(312)
Fair value of plan assets at end of year		130,332	108,818
Funded status	$	(28,886)	(50,050)

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

		2013	2012
Amounts recognized in the consolidated balance sheets:			
Accounts payable and accrued liabilities	$	—	(3,283)
Other long-term liabilities		28,886	53,333
	$	28,886	50,050
Amounts recognized in unrestricted net assets:			
Net actuarial loss	$	35,518	52,670
Prior service cost		221	663
	$	35,739	53,333
Accumulated benefit obligation at the end of the year	$	145,392	141,929

Net periodic pension expense for the years ended June 30, 2013 and 2012 was as follows:

		2013	2012
Service cost	$	7,517	6,709
Interest cost		6,478	7,463
Expected return on plan assets		(8,112)	(8,127)
Amortization of net loss		3,613	1,985
Amortization of prior service cost		442	548
Net periodic benefit cost	$	9,938	8,578

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 $89 and $2,042, respectively.

Actuarial assumptions used were as follows:

	2013	2012
Assumptions used to determine annual pension expense:		
Discount rate	4.25%	5.60%
Expected return on plan assets	7.75	8.00
Rate of compensation increase	3.00	4.00
Assumptions used to determine end-of-year liabilities:		
Discount rate	4.70%	4.25%
Expected return on plan assets	7.50	8.00
Rate of compensation increase	2.50	3.00
Plan asset allocation:		
Asset category:		
Cash and cash equivalents	0.00%	1.00%
Fixed income/debt securities	25.00	26.00
Equity securities	53.00	51.00
Alternative investments	22.00	22.00
Total	100.00%	100.00%

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

	Target
Target allocation on assets:	
Equity securities	50%
Alternative investments	25
Fixed income/debt securities	25

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

Years ending June 30:		
2014	$	8,286
2015		8,816
2016		8,317
2017		9,996
2018		10,163
Thereafter		57,108

(Continued)

The fair values of pension plan assets held by PNC Institutional Investments by level at June 30, 2013 were as follows:

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 2,690	—	—	2,690
Mutual funds	46,724	—	—	46,724
Fixed income:				
Corporate bonds	—	5,049	—	5,049
Equity securities	52,459	—	—	52,459
Alternative investments	—	—	23,410	23,410
Total assets	$ 101,873	5,049	23,410	130,332

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

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

For the years ended June 30, 2013 and 2012, there were no significant transfers into or out of Levels 1, 2, or 3.

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

	Total
Balance as of June 30, 2012	$ 18,769
Additions:	
Contributions/purchases	3,162
Disbursements:	
Withdrawals/sales	—
Net change in value	1,479
Balance as of June 30, 2013	$ 23,410

The following summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2013:

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

* Fund 5 is currently in redemption

Northwest has a qualified noncontributory defined-contribution pension plan (the NW Plan) covering substantially all employees who work at least 1,000 hours per year, who have completed two years of continuous service as of the beginning of the plan year, and who have attained the age of 21 as of the beginning of the plan year. Participants in the NW Plan are 100% vested. Northwest makes annual contributions to the NW Plan equivalent to 1.5% of the participants' salaries for employees who have been in the NW Plan from 1 to 5 years, 4.0% for those in the plan from 6 to 19 years, and 6.5% thereafter. It is Northwest's policy to fund pension costs as they accrue. Pension expense was approximately $2,242 and $2,260 for the years ended June 30, 2013 and 2012, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities have supplemental 403(b) retirement plans for eligible employees. The entities may elect to match varying percentages of an employee's contribution up to a certain percentage of the employee's annual salary. The associated expense was approximately $4,638 and $4,258 for the years ended June 30, 2013 and 2012, 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 $863 and $723 for the years ended June 30, 2013 and 2012, 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 $2,861 and $2,975 for the years ended June 30, 2013 and 2012, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

(10) Regulation and Reimbursement

The Corporation provides healthcare services primarily through two general acute-care hospitals, one specialty hospital, two skilled nursing facilities, and various physician practices. The Corporation and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

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

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

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

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

(11) Related-Party Transactions

Land Leases

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

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

Other

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

(12) Income Taxes

At June 30, 2013, Investments has approximately $54,150 in net operating loss carryforwards for income tax purposes. The net operating loss carryforwards for tax purposes are available to reduce future taxable income and expire in varying periods through 2032.

The net operating loss carryforwards created a net deferred tax asset of approximately $21,362 and $28,691 as of June 30, 2013 and 2012, 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, 2013 and 2012.

(13) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2013 and 2012 are as follows:

		2013	2012
Professional liability (note 14(a))	$	69,891	61,914
Pension liability		28,886	53,333
Asset retirement obligation		3,260	3,260
Deferred compensation		5,468	4,707
Other		22,829	23,075
	$	130,334	146,289

(14) Self-Insurance Programs

(a) Professional Liability

The Corporation is self-insured, through LifeBridge Insurance, for most medical malpractice and general liability claims arising out of the operations of LifeBridge and its subsidiaries. Estimated liabilities have been recorded for both reported and incurred but not reported claims. LifeBridge Insurance purchases reinsurance from other carriers to cover its liabilities in excess of various retentions. The amounts that LifeBridge subsidiaries must transfer to LifeBridge Insurance to fund medical malpractice and general liability claims are actuarially determined and are sufficient to cover expected liabilities. Management's estimate of the liability for its medical malpractice and general liability claims, including incurred but not reported claims, is principally based on actuarial estimates performed by an independent third-party actuary. Professional liability coverage for certain employed physicians is provided by commercial insurance carriers.

(b) Workers' Compensation

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

$6,170 and $5,842 at June 30, 2013 and 2012, respectively, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

Management believes this accrual is adequate to provide for all workers' compensation claims that have been incurred through June 30, 2013. All other entities have occurrence-based commercial insurance coverage. Additionally, there are no material insurance recoveries related to workers' compensation as of June 30, 2013.

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

(c) Health Insurance

The Corporation is self-insured for employee health claims. Under the self-insurance plan, the Corporation accrued a liability of $2,172 and $2,178 at June 30, 2013 and 2012, respectively, for known claims and incurred but not reported claims, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

(15) Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012 is as follows:

	2013	2012
Medicare	30%	28%
Medicaid	7	7
BlueCross	13	13
Commercial and other	36	38
Patients	14	14
	100%	100%

(16) Commitments and Contingencies

(a) Litigation

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

(b) Letters of Credit

M&T Bank has established an open letter of credit for Sinai of $211 (which has not been drawn upon) to guarantee Sinai's obligation for liabilities assumed as a member of a risk retention group during the period 1988 to 1994. Additionally, M&T Bank has established a standby letter of credit of $2,320 to serve as collateral as required by the Maryland Office of Unemployment Insurance.

(c) Contract Commitments

There are no material contract commitments outstanding at June 30, 2013.

(d) Operating Leases

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2020. Total rental expense for the years ended June 30, 2013 and 2012 for all operating leases was approximately $11,559 and $11,473, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Years ending June 30:		
2014	$	11,226
2015		11,146
2016		11,144
2017		10,315
2018		10,322
Thereafter		9,985
	$	64,138

(17) Noncontrolling Interest

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

		LifeBridge Health, Inc.	Noncontrolling interest	Unrestricted net assets
Balance at June 30, 2011	$	452,712	(72)	452,640
Operating income		23,583	(321)	23,262
Nonoperating income		5,552	—	5,552
Excess of revenues over expenses		29,135	(321)	28,814
Change in funded status of pension plan		(17,159)	—	(17,159)
Net assets released for purchase of property and equipment		16,101	—	16,101
Other		164	—	164
Change in net assets		28,241	(321)	27,920
Balance at June 30, 2012		480,953	(393)	480,560
Operating income		20,090	83	20,173
Nonoperating income		33,503	—	33,503
Excess of revenues over expenses		53,593	83	53,676
Change in funded status of pension plan		17,594	—	17,594
Net assets released for purchase of property and equipment		10,816	—	10,816
Other		172	—	172
Change in net assets		82,175	83	82,258
Balance at June 30, 2013	$	563,128	(310)	562,818

(18) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2013 and 2012 related to providing these services are as follows:

		2013	2012
Healthcare services	$	775,612	740,056
General and administrative		238,173	244,547
	$	1,013,785	984,603

(19) Fair Value of Financial Instruments

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

(a) Assets and Liabilities

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

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

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

(b) Long-Term Debt

The Series 2008 MHHEFA Bonds bear interest at fixed rates and had a fair value of $278,305 and $288,769 at June 30, 2013 and 2012, respectively. The fair market value of the fixed rate Series 2011 MHHEFA Bonds was $55,007 and $58,023 as of June 30, 2013 and 2012, respectively. The fair value of the Corporation's long-term debt is measured using quoted offered-side prices when quoted market prices are available. If quoted market prices are not available, the fair value is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Corporation's credit standing. In determining an appropriate spread to reflect its credit standing, the Corporation considers credit default swap spreads, bond yields of other long-term debt, and interest rates currently offered for similar debt instruments of comparable maturities by the Corporation's bankers as well as other banks that regularly compete to provide financing to the Corporation.

(c) Fair Value Hierarchy

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 11,197	—	—	11,197
Equity securities and mutual funds	235,809	—	—	235,809
Treasury securities	14,492	—	—	14,492
Government securities	—	12,921	—	12,921
Asset-backed securities	—	1,433	—	1,433
Corporate obligations	—	21,079	—	21,079
Beneficial interest in split interest agreement	—	4,088	—	4,088
Total assets	$ 261,498	39,521	—	301,019

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

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

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

For the years ended June 30, 2013 and 2012, there were no significant transfers into or out of Levels 1, 2, or 3.

(20) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2013 and through October 23, 2013. On October 1, 2013, the Corporation acquired a noncontrolling interest in MNR Industries, LLC. MNR Industries, LLC owns and operates nine urgent care centers in the Baltimore metropolitan area.

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Assets		Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Current assets:								
Cash and cash equivalents	$	97,590	59,305	6,871	470	17,293	—	181,529
Donor-restricted investments		8,488	1,876	277	—	—	—	10,641
Assets limited as to use, current portion		8,532	2,832	413	—	—	—	11,777
Patient service receivables, net of allowance for doubtful accounts of $25,280		78,383	28,658	8,409	2,055	4,488	—	121,993
Other receivables		49,604	1,284	817	376	37,221	(84,079)	5,223
Inventory		19,751	3,412	99	4	127	—	23,393
Prepaid expenses		3,971	677	126	9	6,132	—	10,915
Pledges receivable, current portion		2,183	236	1,410	—	—	—	3,829
Total current assets		268,502	98,280	18,422	2,914	65,261	(84,079)	369,300
Long-term investments		141,012	79,841	26,663	—	93,862	—	341,378
Reinsurance recovery receivable		—	—	—	—	23,914	—	23,914
Assets limited as to use, net of current portion		—	—	—	—	39,165	—	39,165
Pledges receivable, net of current portion		4,038	899	282	—	—	—	5,219
Property and equipment, net		277,740	113,583	44,907	4,923	34,002	—	475,155
Deferred financing costs, net of accumulated amortization of $515		1,736	559	142	—	—	—	2,437
Beneficial interest in split interest agreement		4,088	—	—	—	—	—	4,088
Investment in unconsolidated affiliates		—	—	—	—	66,707	(61,777)	4,930
Other assets, net of accumulated amortization of $229		5,851	431	265	—	1,977	—	8,524
Total assets	$	702,967	293,593	90,681	7,837	324,888	(145,856)	1,274,110

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Liabilities and Net Assets	**Sinai Hospital Consolidated**	**Northwest Hospital**	**Levindale Hebrew Geriatric Ctr & Hospital**	**Courtland Gardens**	**Other LifeBridge Entities**	**Eliminations**	**LifeBridge Health Consolidated**
Current liabilities:							
Accounts payable and accrued liabilities	$ 90,830	21,232	8,953	1,462	54,059	(84,079)	92,457
Accrued salaries, wages, and benefits	30,890	10,553	3,145	519	10,014	—	55,121
Advances from third-party payors	26,084	5,459	3,138	75	—	—	34,756
Current portion of long-term debt and capital lease obligations	3,145	1,017	145	—	1,968	—	6,275
Other current liabilities	450	232	13	—	474	—	1,169
Total current liabilities	151,399	38,493	15,394	2,056	66,515	(84,079)	189,778
Other long-term liabilities	45,592	10,853	3,123	34	70,732	—	130,334
Long-term debt and capital lease obligations, net of current portion	233,242	78,246	9,758	—	8,204	—	329,450
Total liabilities	430,233	127,592	28,275	2,090	145,451	(84,079)	649,562
Net assets:							
Unrestricted net assets	225,672	160,585	60,400	5,747	172,501	(61,777)	563,128
Noncontrolling interest in consolidated subsidiaries	—	—	—	—	(310)	—	(310)
Total unrestricted net assets	225,672	160,585	60,400	5,747	172,191	(61,777)	562,818
Temporarily restricted	36,745	5,416	2,006	—	3,023	—	47,190
Permanently restricted	10,317	—	—	—	4,223	—	14,540
	272,734	166,001	62,406	5,747	179,437	(61,777)	624,548
Total liabilities and net assets	$ 702,967	293,593	90,681	7,837	324,888	(145,856)	1,274,110

See accompanying independent auditors’ report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2013

(Dollars in thousands)

		Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Unrestricted revenues, gains, and other support:								
Patient service revenue (net of contractual allowances and discounts)	$	676,863	230,483	76,710	14,970	35,627	—	1,034,653
Provision for bad debts		31,894	16,924	1,125	712	1,366	—	52,021
Net patient service revenue		644,969	213,559	75,585	14,258	34,261	—	982,632
Net assets released from restrictions used for operations		3,226	—	88	—	228	—	3,542
Other operating revenue		41,297	7,615	1,774	60	48,446	(51,408)	47,784
Total operating revenues		689,492	221,174	77,447	14,318	82,935	(51,408)	1,033,958
Expenses:								
Salaries and employee benefits		368,447	116,880	47,298	8,728	40,703	443	582,499
Supplies		121,894	34,399	8,917	1,059	4,165	—	170,434
Purchased services		123,119	34,830	16,892	3,969	34,753	(51,851)	161,712
Depreciation, amortization, and gain/loss on sale of assets		34,571	11,745	3,243	588	9,803	—	59,950
Repairs and maintenance		13,013	4,346	1,345	131	439	—	19,274
Interest		13,148	4,498	540	—	1,730	—	19,916
Total expenses		674,192	206,698	78,235	14,475	91,593	(51,408)	1,013,785
Operating income (loss)		15,300	14,476	(788)	(157)	(8,658)	—	20,173
Other income, net:								
Investment income		7,765	4,691	1,647	—	2,070	—	16,173
Unrealized gains on trading investments		11,202	4,447	1,249	—	425	—	17,323
Earnings on equity investments		—	—	—	—	7	—	7
Total other income, net		18,967	9,138	2,896	—	2,502	—	33,503
Excess (deficiency) of revenues over expenses	$	34,267	23,614	2,108	(157)	(6,156)	—	53,676

See accompanying independent auditors' report.