LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of LifeBridge Health, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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, 2017 and 2016, 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.

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 18, 2017

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017 and 2016

(Dollars in thousands)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	356,365	322,937
Investments		24,583	23,352
Assets limited as to use, current portion		68,496	67,660
Patient service receivables, net of allowance for doubtful accounts of $67,941 in 2017 and $62,213 in 2016		145,639	141,651
Other receivables		17,011	11,508
Inventory		30,515	31,514
Prepaid expenses		15,185	18,761
Pledges receivable, current portion		2,671	3,296
Total current assets		660,465	620,679
Board-designated investments		238,677	243,289
Long-term investments		315,320	253,757
Donor-restricted investments		21,389	20,541
Reinsurance recovery receivable		15,548	15,694
Assets limited as to use, net of current portion		33,039	43,601
Pledges receivable, net of current portion		5,122	3,405
Property and equipment, net		651,173	629,477
Beneficial interest in split interest agreement		4,757	4,477
Investment in unconsolidated affiliates		50,882	44,040
Other assets, net		63,941	48,142
Total assets	$	2,060,313	1,927,102

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017 and 2016

(Dollars in thousands)

Liabilities and Net Assets		**2017**	**2016**
Current liabilities:			
Accounts payable and accrued liabilities	$	128,730	119,225
Accrued salaries, wages and benefits		79,444	80,361
Advances from third-party payors		41,935	46,246
Current portion of long-term debt and capital lease obligations, net		13,928	12,921
Other current liabilities		20,135	16,871
Total current liabilities		284,172	275,624
Other long-term liabilities		135,704	167,009
Long-term debt and capital lease obligations, net		571,178	560,422
Total liabilities		991,054	1,003,055
Net assets:			
Unrestricted		983,910	849,676
Noncontrolling interest in consolidated subsidiaries		14,626	5,099
Total unrestricted net assets		998,536	854,775
Temporarily restricted		54,532	53,385
Permanently restricted		16,191	15,887
		1,069,259	924,047
Total liabilities and net assets	$	2,060,313	1,927,102

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	2017	2016
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,508,948	1,473,620
Provision for bad debts	(47,341)	(56,982)
Net patient service revenue	1,461,607	1,416,638
Net assets released from restrictions used for operations	3,879	3,537
Other operating revenue	61,568	57,250
Total operating revenues	1,527,054	1,477,425
Expenses:		
Salaries and employee benefits	809,022	795,094
Supplies	258,614	253,599
Purchased services	278,077	254,211
Depreciation, amortization and gain/loss on sale of assets	77,214	75,699
Repairs and maintenance	21,306	20,538
Interest	28,567	28,574
Total expenses	1,472,800	1,427,715
Operating income	54,254	49,710
Other income (loss), net:		
Investment income	30,908	16,028
Unrealized gain (loss) on trading investments	36,654	(22,110)
Other	(10)	779
Loss on refinancing of debt	(10,802)	(3,720)
Total other income (expense), net	56,750	(9,023)
Excess of revenues over expenses	$ 111,004	40,687

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at June 30, 2015	$ 848,829	61,660	15,816	926,305
Excess of revenues over expenses	40,687	—	—	40,687
Unrealized loss on investments	—	(1,842)	(5)	(1,847)
Net assets released from restrictions used for the purchase of property and equipment	7,613	(7,613)	—	—
Restricted gifts and bequests	—	4,908	76	4,984
Net assets released from restrictions used for operations	—	(3,537)	—	(3,537)
Net change in value of beneficial interest in split interest agreement	—	(151)	—	(151)
Adjustment to pension liability	(41,513)	—	—	(41,513)
Other	(841)	(40)	—	(881)
Change in net assets	5,946	(8,275)	71	(2,258)
Net assets at June 30, 2016	854,775	53,385	15,887	924,047
Excess of revenues over expenses	111,004	—	—	111,004
Unrealized gain on investments	—	3,305	—	3,305
Net assets released from restrictions used for the purchase of property and equipment	4,147	(4,147)	—	—
Restricted gifts and bequests	—	5,640	304	5,944
Net assets released from restrictions used for operations	—	(3,879)	—	(3,879)
Net change in value of beneficial interest in split interest agreement	—	280	—	280
Adjustment to pension liability	20,341	—	—	20,341
Fair value of noncontrolling interests in acquisitions	9,754	—	—	9,754
Other	(1,485)	(52)	—	(1,537)
Change in net assets	143,761	1,147	304	145,212
Net assets at June 30, 2017	$ 998,536	54,532	16,191	1,069,259

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	145,212	(2,258)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		77,193	76,059
Loss (gain) on disposal of equipment		21	(360)
Change in pension liability		(20,341)	41,513
Provision for bad debts		47,341	56,982
Realized and unrealized gains (loss) on investments, net		(63,501)	17,593
Restricted gifts and bequests		(5,944)	(4,984)
Change in beneficial interest of split interest agreement		(280)	151
Earnings on investments in unconsolidated affiliates		(3,527)	(3,277)
Distributions to noncontrolling interest owners		2,400	—
Fair value of noncontrolling interests in acquisitions		(9,754)	—
Amortization of deferred financing costs and discounts		894	—
Loss on refinancing of debt		10,802	3,720
Change in operating assets and liabilities:			
Increase in patient service receivables, net		(51,329)	(56,421)
Increase in other receivables		(5,503)	(1,344)
Decrease (increase) in pledges receivable		(1,092)	5,469
Decrease (increase) in inventory		999	(2,032)
Decrease in prepaid expenses		3,576	318
Decrease in reinsurance recovery receivable		146	241
Increase in other assets		(5,155)	(5,637)
(Increase) decrease in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits		9,457	(7,481)
(Decrease) increase in advances from third-party payors		(4,311)	4,466
Decrease in other current and long-term liabilities		(8,195)	(2,907)
Net cash provided by operating activities		119,109	119,811
Cash flows from investing activities:			
Change in donor-restricted investments		3,764	1,103
Change in current and long-term investments		707	(3,698)
Change in assets limited as to use		(38,021)	(49,356)
Investment in/distributions from unconsolidated affiliates, net		(3,315)	(6,898)
Additions to operating property		(75,064)	(101,221)
Purchases of alternative investments		(3,939)	—
Proceeds from sales of alternative investments		51,686	—
Proceeds from the sale of property		—	360
Cash paid for acquisitions		(11,047)	—
Net cash used in investing activities		(75,229)	(159,710)
Cash flows from financing activities:			
Payment on debt and capital lease obligations		(144,708)	(182,127)
Payment of deferred financing costs		(1,176)	—
Proceeds from issuance of debt		131,888	183,006
Distributions to noncontrolling interest owners		(2,400)	—
Restricted gifts and bequests		5,944	4,984
Net cash (used in) provided by financing activities		(10,452)	5,863
Net increase (decrease) in cash and cash equivalents		33,428	(34,036)
Cash and cash equivalents:			
Beginning of year		322,937	356,973
End of year	$	356,365	322,937
Supplemental cash flow disclosures:			
Cash paid during the year for interest	$	20,569	24,444
Cash paid during the year for income taxes		72	52
Accounts payable related to purchase of operating property		7,791	8,659

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); Levindale Hebrew Geriatric Center and Hospital, Inc. (Levindale); Children's Hospital of Baltimore City, Inc.; The Baltimore Jewish Health Foundation, Inc. (BJHF); The Baltimore Jewish Eldercare Foundation, Inc. (BJEF); Children's Hospital at Sinai Foundation, Inc. (CHSF); LifeBridge Anesthesia Associates, LLC (LAA); LifeBridge Insurance Company, Ltd. (LifeBridge Insurance); 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.

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

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.

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

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.

(Continued)

Prior to June 30, 2016, Carroll owned Cen-Mar Assurance Company (Cen-Mar). Cen-Mar was merged into LifeBridge Insurance on June 30, 2016.

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.

(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.

(Continued)

The Corporation has investments in alternative investments, primarily funds of hedge funds, totaling $99,451 and $138,838 at June 30, 2017 and 2016, 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 temporarily or permanently restricted net assets, in accordance with donor-imposed restrictions. Realized gains and losses are determined based on the specific security's original purchase price. Unrealized gains and losses are included in other income, net within the excess of revenue over expenses.

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

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- 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, 2017 and 2016.

(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.

(Continued)

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, 2017 and 2016, 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, 2017 and 2016 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.

(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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(n) Net 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.

(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 actual charges to patients based on rates in effect during the period in which the services are rendered. On January 29, 2014, the Corporation and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology, effective July 1, 2013, for Sinai, Northwest and Levindale. The term of the Agreement continued through June 30, 2017 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 undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. Beginning in fiscal year 2017, the GBR is adjusted for changes in market share. Effective with fiscal year 2017, market-shift adjustments will be made semi-annually, on January and July 1. The GBR cap is adjusted annually for inflation, changes in payor mix and uncompensated care, and changes in population 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 from time to time by the HSCRC.

Prior to implementation of the GBR methodology, Carroll and the HSCRC agreed to a three year contract for Carroll to implement the Total Patient Revenue (TPR) methodology effective July 1, 2010, which was renewed for an additional three year period effective July 1, 2013. Similar to the GBR, the TPR agreement establishes a prospective, fixed revenue base, the "TPR cap," for the upcoming year. Effective in fiscal year 2017, all TPR agreements have been terminated and reinstituted as GBR agreements using the same parameters described above.

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 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.

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.

During 2017, the Corporation changed its policy for recording pharmacy revenues to record them in net patient service revenues from other operating revenues. The Corporation determined that this change is appropriate as the majority of pharmacy revenues are derived from the Corporation's patients. Accordingly, the Corporation reclassified approximately $37,810 from other operating revenues to net patient service revenues during the year ended June 30, 2016. The change did not impact total operating revenues, operating income or the excess of revenues over expenses.

(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.

(Dollars in thousands)

(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 temporarily 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, 2017 and 2016, based on patient charges forgone, was $11,394 and $11,720, respectively. The total direct and indirect costs to provide the care amounted to approximately $9,274 and $10,044 for the years ended June 30, 2017 and 2016, 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.

		2017	2016
Beginning allowance	$	62,213	58,346
Plus provision for bad debt		47,341	56,982
Less bad debt write-offs, net of recoveries		(41,613)	(53,115)
Ending allowance	$	67,941	62,213

(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 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 2017, LifeBridge adopted the RP-2014 Mortality Table with generational improvements. See note 11 for further discussion.

(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) during 2017. ASU 2014-15 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 18, 2018.

(x) New Accounting Pronouncements

In 2017, the Corporation adopted Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The presentation of debt issuance costs on the balance sheet has been changed from an asset to a direct reduction of debt, similar to the presentation of debt discounts. As a result of this change, $4,060 and $4,137 of deferred financing costs were classified as a direct reduction of debt at June 30, 2017 and 2016. The related consolidated statements of operations and changes in net assets for the periods were not affected by the adoption of ASU 2015-03.

In 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715).* The ASU attempts to improve the presentation of net periodic pension and postretirement benefit costs. The ASU does not prescribe where the amount of net benefit cost should be presented in an employer's statement of operations, but it does require that the service cost component be presented in the same line item as other employee compensation costs and that the remaining components be presented separately from those line items and outside of operations. It also stipulates that only the service cost component is eligible for capitalization in assets, as applicable. The new standard is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. In fiscal 2017, the Corporation retrospectively adopted the standard, which resulted in no reclassification of net periodic benefit cost from salaries and employee benefits to pension costs other than service costs within other income (loss) for the years ended June 30, 2017 and 2016.

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. ASU 2014-09 is effective for fiscal year 2019. The Corporation expects to record a decrease in net patient service revenue related to self-pay patients and a corresponding decrease in bad debt expense upon the adoption of the standard.

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 fiscal year 2020, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The Corporation is currently assessing the impact of the adoption of ASU No. 2016-02 which is expected to have a material impact on its financial position.

(Dollars in thousands)

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 adoption of ASU 2016-14 is effective in fiscal year 2019, and is applied retrospectively in the year of adoption. The Corporation does not anticipate that the adoption of this ASU will have a material impact on its financial position and results of operations.

(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, 2017 and 2016, and consist of the following:

		2017	2016
Assets limited as to use:			
Self-insurance fund:			
Mutual funds	$	19,163	22,060
Equity securities		9,411	9,210
U.S. Treasury		—	944
Fixed income		1,859	8,789
Alternative investments		2,606	2,598
Self-insurance fund		33,039	43,601

(Dollars in thousands)

		2017	2016
Debt service fund:			
Cash and cash equivalents	$	7,374	12,376
Government securities		7,479	1,888
Debt service fund		14,853	14,264
Construction funds:			
Cash and cash equivalents		24,395	8,222
Government securities		29,248	45,174
		53,643	53,396
Total assets limited as to use		101,535	111,261
Less current portion		(68,496)	(67,660)
Assets limited as to use, net of current portion	$	33,039	43,601
Donor-restricted investments:			
Cash and cash equivalents	$	4,703	4,825
Mutual funds		5,963	5,649
Equity securities		2,464	2,585
U.S. Treasury		4,333	3,557
Government securities		2,533	3,016
Fixed income		984	566
Alternative investments		409	343
Donor-restricted investments	$	21,389	20,541
Beneficial interest in split interest agreement	$	4,757	4,477

(Continued)

(Dollars in thousands)

There are other investments restricted by donors other than pledges receivable, donor-restricted investments, and beneficial interest that are included in long-term investments as of June 30, 2017 and 2016. As of June 30, 2017 and 2016 current, long-term, and board-designated investments are as follows:

		2017	2016
Current, long-term, and board-designated investments:			
Cash and cash equivalents	$	37,331	8,747
Mutual funds		162,576	177,303
Equity securities		186,741	159,173
Government securities		6,780	10,111
Fixed income		88,307	29,167
Alternative investments		96,845	135,897
Current, long-term and board-designated investments		578,580	520,398
Less current portion		(24,583)	(23,352)
Long-term and board-designated investments	$	553,997	497,046

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, 2017 and 2016:

		2017	2016
Investment income:			
Interest income and dividends	$	7,366	9,516
Realized gains on sale of securities		23,542	6,512
Investment income		30,908	16,028
Unrealized gains (losses) on trading securities		36,654	(22,110)
Other changes in net assets:			
Changes in unrealized gains (losses) on temporarily and permanently restricted net assets		3,305	(1,847)
Total investment return	$	70,867	(7,929)

(4) Pledges Receivable

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

(Dollars in thousands)

Sinai, Northwest, Carroll, and Levindale have recorded total pledges as of June 30, 2017 and 2016 as follows:

		2017	2016
Gross pledges receivable	$	9,259	9,051
Less:			
Discount for time value of money		(517)	(782)
Allowance for uncollectible accounts		(949)	(1,568)
	$	7,793	6,701

Total anticipated future payments are as follows:

Less than one year	$	3,341
One to five years		5,915
Five years and thereafter		3
	$	9,259

(5) Property and Equipment

As described in note 13, 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		2017	2016
Land		$	24,175	11,657
Land improvements	8 to 20 years		36,322	35,931
Building and improvements	10 to 40 years		927,766	863,963
Fixed equipment	8 to 20 years		107,785	101,411
Movable equipment	3 to 15 years		499,839	479,705
			1,595,887	1,492,667
Less accumulated depreciation			(995,195)	(926,430)
			600,692	566,237
Construction in progress			50,481	63,240
Property and equipment, net		$	651,173	629,477

(Dollars in thousands)

Depreciation, amortization, and gain/loss on sale of assets were $77,214 and $75,699 for the years ended June 30, 2017 and 2016, respectively. Of this, depreciation expense was $76,815 and $75,546 for the years ended June 30, 2017 and 2016, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of $16,452 and $18,774 for the years ended June 30, 2017 and 2016, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $14,128 and $11,806 at June 30, 2017 and 2016, respectively.

During 2017, the Corporation acquired a skilled nursing facility and two surgical centers for approximately $11,000. These acquisitions did not significantly impact the Corporation's total assets, liabilities, net assets, total operating revenues, operating income or the excess of revenues over expenses.

(6) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under the equity method, consist of the following at June 30, 2017 and 2016:

		2017		2016	
Joint Venture	**Business purpose**	**Percentage ownership**	**Balance**	**Percentage ownership**	**Balance**
MNR Industries, LLC	Urgent Care Centers	40 %	$ 24,587	40 %	$ 23,291
Baltimore County Radiology, LLC	Outpatient Radiology	25	7,148	25	5,724
Mt. Airy Med-Services, LLC	Real Estate	50	4,419	50	4,952
Future Care Old Court, LLC	Nursing Home	40	2,965	—	—
Lochearn Nursing Home, LLC	Nursing Home	10	2,000	10	1,997
Mt. Airy Plaza, LLC	Real Estate	50	1,594	50	1,628
LifeBridge Sports Medicine & Rehabilitation, LLC	Physical Therapy	50	1,173	50	1,303
Advanced Health Collaborative, LLC	Medicare Advantage Plan	25	1,266	—	—
Carroll Care Pharmacies, LLC	Pharmacies	49	944	49	1,037
Other Joint Ventures	Miscellaneous	5–50	4,786	5–50	4,108
Total			$ 50,882		$ 44,040

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.

(Dollars in thousands)

(7) Other Assets

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

	2017	2016
Goodwill	$ 16,902	2,108
Investment in Premier	12,496	10,264
Notes Receivable	11,442	12,249
Other Intangible Assets	11,510	12,150
Deferred compensation assets	9,181	8,896
Other	2,410	2,475
Other assets	$ 63,941	48,142

(8) Long-Term Debt and Capital Lease Obligations

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

	2017	2016
Maryland Health and Higher Educational Facilities Authority (MHHEFA):		
Revenue Bonds Series 2008	$ 155,380	237,590
Revenue Bonds Series 2011	5,015	47,465
Revenue Bonds Series 2012A	53,670	55,152
Revenue Bonds Series 2015	159,685	159,685
Revenue Bonds Series 2016	120,695	—
Other debt:		
M&T Bank taxable loan	41,345	45,905
Capital leases	16,545	18,501
Other	14,454	539
	566,789	564,837
Less current portion	(13,928)	(12,921)
Plus unamortized premium	22,380	12,685
Less deferred Financing Costs	(4,060)	(4,137)
Less unamortized discount	(3)	(42)
Long-term debt, net	$ 571,178	560,422

(Continued)

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 January 2008, MHHEFA loaned $285,815 from the proceeds of bonds (Series 2008 Bonds) to LifeBridge and certain of its subsidiaries. Portions of the Series 2008 Bonds are payable on July 1 of each year through 2047. The Series 2008 Bonds bear interest at a weighted fixed rate of 5.35%. Approximately, $27,640 of the Series 2008 Bonds were repaid as part of the Series 2015 Bond offering, further discussed below. Approximately $74,655 of the Series 2008 Bonds were repaid as part of the Series 2016 Bond offering, further discussed below.

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 a portion of the Series 2008 Bonds and the Authority’s Carroll Issue, Series 2006 bonds, and refinance the portion of a line of credit from Bank of America that had been used to repay Carroll’s loan from BB&T Bank. The remaining Bank of America line of credit was repaid by the Corporation. $33,130 of the bonds are serial bonds with maturity dates ranging from 2018 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 the Series 2008 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%.

(Dollars in thousands)

The Series 2008, 2011, 2012A, 2015, and 2016 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 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 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 2.7% as of June 30, 2017. The second term note of $5,614 bears monthly interest of 4.75%. Both term notes mature February 5, 2022 and one secured by certain property and equipment. The outstanding principal of the two notes as of June 30, 2017 was $13,978.

Deferred financing costs are amortized using the effective-interest method over the term of the related debt. Amortization expense was $1,168 and $513 for the years ended June 30, 2017 and 2016, 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:		
2018	$ 12,689	2,240
2019	11,924	2,214
2020	12,455	2,258
2021	13,031	2,304
2022	25,507	2,351
Thereafter	474,638	7,973
	$ 550,244	19,340
Less interest portion		(2,795)
		$ 16,545

(9) M&T Bank Line of Credit

Sinai maintains a $5,000 line of credit with M&T Bank. As of June 30, 2017 and 2016, there were no balances outstanding on this line of credit.

(Continued)

(Dollars in thousands)

(10) Temporarily and Permanently Restricted Net Assets

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

		2017	2016
Healthcare services:			
Capital equipment/construction	$	24,358	23,160
Other healthcare services:			
Service grants		415	496
Donor-specified healthcare services		14,216	14,452
Enrichment and research		15,543	15,277
	$	54,532	53,385

Permanently restricted net assets of $16,191 and $15,887 at June 30, 2017 and 2016, respectively, are to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(11) Employee Benefit Plans

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

The Corporation sponsors 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, 2017 and 2016:

		2017	2016
Measurement date		June 30, 2017	June 30, 2016
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	214,725	185,808
Service cost		8,263	7,729
Interest cost		5,972	8,085
Actuarial loss		1,582	19,264
Benefits paid		(10,006)	(5,815)
Expenses paid from assets		(204)	(346)
Benefit obligation at end of year		220,332	214,725

(Dollars in thousands)

		2017	2016
Change in plan assets:			
Fair value of plan assets at beginning of year	$	157,577	158,657
Actual return on plan assets		22,425	(5,461)
Company contributions		16,721	10,542
Benefits paid		(10,006)	(5,815)
Expenses paid from assets		(204)	(346)
Fair value of plan assets at end of year		186,513	157,577
Funded status	$	(33,819)	(57,148)

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

		2017	2016
Amounts recognized in the consolidated balance sheets:			
Other long-term liabilities	$	33,819	57,148
Amounts recognized in unrestricted net assets:			
Net actuarial loss	$	58,991	74,421
Prior service cost		—	—
	$	58,991	74,421

The Corporation has estimated $11,423 for its defined-benefit contributions to the Sinai/Levindale Plans for the fiscal year ending June 30, 2018. The accumulated benefit obligation for the Sinai/Levindale Plans is $201,702 and $196,562 at June 30, 2017 and 2016, respectively.

Net periodic pension expense for the years ended June 30, 2017 and 2016 was as follows:

		2017	2016
Pension costs:			
Service cost	$	8,263	7,729
Interest cost		5,972	8,085
Expected return on plan assets		(10,969)	(10,963)
Amortization of net loss		5,555	2,353
Amortization of prior service cost		—	44
Net periodic benefit cost	$	8,821	7,248

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year are $3,928 and $0, respectively.

(Continued)

(Dollars in thousands)

Actuarial assumptions used were as follows:

	2017	2016
Assumptions used to determine annual pension expense:		
Discount rate	3.68 %	4.47 %
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	3.85 %	3.68 %
Expected return on plan assets	7.00	7.00
Rate of compensation increase	2.50	2.50
Plan asset allocation:		
Asset category:		
Cash and cash equivalents	— %	2.00 %
Fixed income/debt securities	26.00	26.00
Equity securities/mutual funds	56.00	47.00
Alternative investments	18.00	25.00
Total	100.00 %	100.00 %

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

(Continued)

(Dollars in thousands)

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

Years ending June 30:		
2018	$	11,668
2019		11,689
2020		12,215
2021		12,084
2022		12,346
Thereafter		68,857

The fair values of assets of the Sinai/Levindale Plans held by PNC Institutional Investments by level at June 30, 2017 were as follows:

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 8,901	—	—	8,901
Mutual funds	73,860	—	—	73,860
Fixed income securities	—	7,017	—	7,017
Equity securities	79,158	—	—	79,158
Alternative investments	—	—	17,577	17,577
Total assets	$ 161,919	7,017	17,577	186,513

The fair values of assets of the Sinai/Levindale Plans held by PNC Institutional Investments by level at June 30, 2016 were as follows:

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 4,860	—	—	4,860
Mutual funds	54,886	—	—	54,886
Fixed income securities	—	5,635	—	5,635
Equity securities	56,382	—	—	56,382
Alternative investments	—	—	35,814	35,814
Total assets	$ 116,128	5,635	35,814	157,577

(Dollars in thousands)

For the years ended June 30, 2017 and 2016, 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, 2016	$	35,814
Additions:		
Contributions/purchases		8,119
Disbursements:		
Withdrawals/sales		(19,730)
Net change in value		(6,626)
Balance as of June 30, 2017	$	17,577

The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2017:

	Fund 1	Fund 2	Fund 3
Redemption timing:			
Redemption frequency	Quarterly	Monthly	Annually
Required notice	65 days	30 days	90 days
Audit reserve:			
Percentage held back for audit reserve	10 %	— %	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, 2017 and 2016.

(Dollars in thousands)

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, 2017 and 2016:

		2017	2016
Measurement date		June 30, 2017	June 30, 2016
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	76,619	68,498
Interest cost		2,345	3,004
Actuarial loss		(3,032)	7,514
Benefits paid		(2,301)	(2,397)
Benefit obligation at end of year		73,631	76,619
Change in plan assets:			
Fair value of plan assets at beginning of year		64,073	61,131
Actual return on plan assets		3,876	1,739
Employer contribution		2,070	3,600
Benefits paid		(2,301)	(2,397)
Fair value of plan assets at end of year		67,718	64,073
Funded status	$	(5,913)	(12,546)

The accumulated benefit obligation for the Carroll Plan was $73,631 and $76,619 at June 30, 2017 and 2016, respectively. The pension obligations of $5,913 and $12,546 as of June 30, 2017 and 2016, respectively, are included in other long-term liabilities in the consolidated balance sheets.

Net periodic pension expense for the years ended June 30, 2017 and 2016 was as follows:

		2017	2016
Pension expense:			
Components of net periodic pension expense:			
Interest cost	$	2,345	3,004
Expected return on plan assets		(4,464)	(4,315)
Amortization of actuarial loss		2,499	1,870
Net periodic pension expense	$	380	559

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year is $2,111 and $0, respectively.

(Dollars in thousands)

Assumptions to determine the benefit obligation as of June 30, 2017 and 2016 were as follows:

	2017	**2016**
Discount rate	3.87 %	3.72 %

Assumptions used in the determination of net periodic pension expense for the year ended June 30, 2017 and 2016 were as follows:

	2017	**2016**
Discount rate	3.72 %	4.47 %
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 unrestricted net assets, are $28,019 and $32,962 at June 30, 2017 and 2016, 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.

CCHS's weighted average asset allocations for the plan assets for the years ended June 30, 2017 and 2016 were as follows:

	2017	**2016**
Cash and cash equivalents	6.0 %	8.0 %
Fixed income/debt securities	18.0	22.0
Mutual funds and equity securities	49.0	53.0
Alternative investments	27.0	17.0
	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.

(Continued)

(Dollars in thousands)

The following table presents the Plan's assets measured at fair value at June 30, 2017:

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 3,995	—	—	3,995
Mutual funds	32,988	—	—	32,988
Fixed income	—	12,437	—	12,437
Alternative investments	—	—	18,298	18,298
Total assets	$ 36,983	12,437	18,298	67,718

The following table presents the Plan's assets measured at fair value at June 30, 2016:

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 5,366	—	—	5,366
Mutual funds	34,179	—	—	34,179
Fixed income	—	13,716	—	13,716
Alternative investments	—	—	10,812	10,812
Total assets	$ 39,545	13,716	10,812	64,073

During fiscal year 2017, Level 3 investments within the pension plan assets increased by $7,486. This increase was the result of purchases of $14,772, redemptions of $3,391 and losses in investments of $3,895. During fiscal year 2016, Level 3 investments within the pension plan assets increased by $7. This increase was the result of purchases of $3,391, redemptions of $2,828 and losses in investments of $556. There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2017 and 2016.

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

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

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

(Dollars in thousands)

CCHS expects to contribute $3,580 to the Carroll Plan during the year-ending June 30, 2018.

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:

2018	$	2,905
2019		3,047
2020		3,243
2021		3,426
2022		3,589
2023–2027		20,087
	$	36,297

CCHS expensed total employer contributions of $1,280 and $1,291 for the years ended June 30, 2017 and 2016, respectively.

(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 $2,181 and $2,849 for the years ended June 30, 2017 and 2016, 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 $4,810 and $4,710 for the years ended June 30, 2017 and 2016, 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 $850 and $1,630 for the years ended June 30, 2017 and 2016, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

(Continued)

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 $4,189 and $4,823 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, Carroll has accrued a liability of $425 related to this plan.

(12) Regulation and Reimbursement

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

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

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

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

The current rate of reimbursement for hospital services to patients under the Medicare and Medicaid programs is based on an agreement between the 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 2014, CMS approved Maryland's new waiver for a five-year period beginning January 1, 2014 for inpatient and outpatient hospital services. The new waiver required Maryland to adopt a payment structure that incentivizes efficient utilization of hospital resources, limits hospital per capita growth in all-payer and Medicare spending, generate Medicare savings of $330 million over five years, limit growth in total cost of care per Medicare beneficiary, reduce hospital readmissions, and reduce certain hospital-acquired conditions.

(13) Related-Party Transactions

Land Leases

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

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

Other

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

(14) Income Taxes

At June 30, 2017, Investments has approximately $60,226 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 2037.

The net operating loss carryforwards created a federal net deferred tax asset of approximately $20,477 and $21,087 as of June 30, 2017 and 2016, respectively, and a state deferred tax asset of approximately $3,340 and $3,358 as of June 30, 2017 and 2016, 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, 2017 and 2016.

At June 30, 2017, Carroll has approximately $75,656 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 2037.

(Continued)

(Dollars in thousands)

The net operating loss carryforwards created a federal net deferred tax asset of approximately $25,723 and $21,621 as of June 30, 2017 and 2016, respectively, and a state deferred tax asset of approximately $4,120 and $3,463 as of June 30, 2017 and 2016, respectively. Management has determined that it is more likely than not that Carroll 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, 2017 and 2016.

(15) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2017 and 2016 are as follows:

		2017	2016
Professional/general liability (note 16(a))	$	46,598	52,174
Pension liability		40,157	70,119
Medical office building		31,924	33,128
Asset retirement obligation		3,260	3,260
Deferred compensation		8,208	6,967
Other		5,557	1,361
	$	135,704	167,009

At June 30, 2017 and 2016, there was $16,303 and $13,023 included in other current liabilities related to professional liabilities, respectively.

(16) Self-Insurance Programs

(a) Professional/General Liability

The Corporation is self-insured, through LifeBridge Insurance (and Cen-Mar prior to June 30, 2016), for most medical malpractice and general liability claims arising out of the operations of LifeBridge and its subsidiaries. Estimated liabilities have been recorded for both reported and incurred but not reported claims.

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

(Dollars in thousands)

(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 $8,032 and $7,005 at June 30, 2017 and 2016, 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, 2017.

All other entities have occurrence-based commercial insurance coverage. There are no material insurance recoveries related to workers' compensation as of June 30, 2017.

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 $3,721 and $3,655 at June 30, 2017 and 2016, 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.

(17) Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2017 and 2016 is as follows:

	2017	2016
Medicare	31 %	30 %
Medicaid	8	9
BlueCross	10	12
Commercial and other	41	40
Self-pay	10	9
	100 %	100 %

(Dollars in thousands)

The mix of net patient service revenue for the Corporation for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Medicare	42 %	42 %
Medicaid	6	7
BlueCross	12	14
Commercial and other	37	33
Self-pay	3	4
	100 %	100 %

(18) Commitments and Contingencies

(a) Litigation

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

(b) Letters of Credit

M&T Bank has established an open letter of credit for Sinai of $211 (which has not been drawn upon) to guarantee Sinai's obligation for liabilities assumed as a member of a risk retention group during the period 1988 to 1994. Additionally, M&T Bank has established a standby letter of credit of $2,399 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 $421 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 standby letters of credit of $52 and 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, $42 and $4 to serve as collateral as required by Baltimore County for the completion of certain construction work at Northwest.

(Dollars in thousands)

(c) Operating Leases

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2026. Total rental expense for the years ended June 30, 2017 and 2016 for all operating leases was approximately $27,342 and $24,135, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Years ending June 30:		
2018	$	17,663
2019		17,307
2020		16,052
2021		14,545
2022		13,198
Thereafter		17,657
	$	96,422

(19) 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, 2015	$	844,907	3,922	848,829
Operating income		48,533	1,177	49,710
Nonoperating loss		(9,023)	—	(9,023)
Excess of revenues over expenses		39,510	1,177	40,687
Change in funded status of pension plan		(41,513)	—	(41,513)
Net assets released for purchase of property and equipment		7,613	—	7,613
Other		(841)	—	(841)
Change in net assets		4,769	1,177	5,946
Balance at June 30, 2016		849,676	5,099	854,775

(Dollars in thousands)

		LifeBridge Health, Inc.	Noncontrolling interest	Unrestricted net assets
Operating income	$	52,081	2,173	54,254
Nonoperating income		56,750	—	56,750
Excess of revenues over expenses		108,831	2,173	111,004
Change in funded status of pension plan		20,341	—	20,341
Net assets released for purchase of property and equipment		4,147	—	4,147
Fair value of noncontrolling interests of acquisitions		—	9,754	9,754
Other		915	(2,400)	(1,485)
Change in net assets		134,234	9,527	143,761
Balance at June 30, 2017	$	983,910	14,626	998,536

(20) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2017 and 2016 related to providing these services are as follows:

		2017	2016
Healthcare services	$	1,098,642	1,069,047
General and administrative		374,158	358,668
	$	1,472,800	1,427,715

(21) Fair Value of Financial Instruments

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

(a) Assets and Liabilities

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

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

(Continued)

(Dollars in thousands)

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 $155,736 and $244,684 at June 30, 2017 and 2016, respectively. The fair market value of the fixed rate Series 2011 MHHEFA Bonds was $5,358 and $56,556 as of June 30, 2017 and 2016, respectively. The fair market value of the fixed rate Series 2012A MHHEFA Bonds was $58,933 and $62,742 as of June 30, 2017 and 2016, respectively. The fair market value of the variable rate Series 2015 MHHEFA Bonds was $175,838 and $185,798 as of June 30, 2017 and 2016, respectively. The fair market value of the variable rate Series 2016 MHHEFA Bonds was $131,581 as of June 30, 2017.

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

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

(c) Fair Value Hierarchy

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 73,803	—	—	73,803
Equity securities and mutual funds	386,318	—	—	386,318
Treasury securities	4,333	—	—	4,333
Government securities	—	46,040	—	46,040
Fixed income	—	91,150	—	91,150
Beneficial interest in split-interest agreement	—	4,757	—	4,757
Total assets	$ 464,454	141,947	—	606,401

(Continued)

(Dollars in thousands)

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2016:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	34,170	—	—	34,170
Equity securities and mutual funds		375,980	—	—	375,980
Treasury securities		4,501	—	—	4,501
Government securities		—	60,189	—	60,189
Fixed income		—	38,522	—	38,522
Beneficial interest in split-interest agreement		—	4,477	—	4,477
Total assets	$	414,651	103,188	—	517,839

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, 2017 and 2016, there were no significant transfers into or out of Levels 1, 2, or 3.

During the year ended June 30 2017, in connection with business combinations during the year the Corporation recorded the fair value of equipment of $24,715, debt of $14,961 and noncontrolling interests of $9,754. The Corporation determined that the fair values were based on Level 3 inputs. The Corporation used a market multiple analysis approach, a widely accepted valuation technique, to develop the fair values.

(22) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2017 and through October 18, 2017. The Corporation did not have any subsequent events during this period that were required to be recognized or disclosed.

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2017

(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	$ 66,953	55,684	38,630	20,087	175,011	—	356,365
Investments	13,265	3,407	7,043	276	592	—	24,583
Assets limited as to use, current portion	44,802	12,830	5,137	283	5,444	—	68,496
Patient service receivables, net of allowance for doubtful accounts	73,885	23,434	20,741	8,300	19,279	—	145,639
Other receivables	75,552	5,321	12,363	674	33,779	(110,678)	17,011
Inventory	22,308	5,088	2,728	211	180	—	30,515
Prepaid expenses	2,536	782	3,585	133	8,149	—	15,185
Pledges receivable, current portion	859	180	1,525	107	—	—	2,671
Total current assets	300,160	106,726	91,752	30,071	242,434	(110,678)	660,465
Board-designated investments	92,852	57,180	—	17,683	70,962	—	238,677
Long-term investments	59,517	36,653	145,005	11,334	62,811	—	315,320
Donor-restricted investments	13,265	3,407	4,952	276	(511)	—	21,389
Reinsurance recovery receivable	—	—	—	—	15,548	—	15,548
Assets limited as to use, net of current portion	—	—	—	—	33,039	—	33,039
Pledges receivable, net of current portion	1,372	148	1,270	173	2,159	—	5,122
Property and equipment, net	230,406	106,812	118,089	40,461	155,405	—	651,173
Beneficial interest in split interest agreement	4,757	—	—	—	—	—	4,757
Investment in unconsolidated affiliates	—	—	1,230	—	195,537	(145,885)	50,882
Other assets, net of accumulated amortization	13,853	2,709	18,559	60	28,760	—	63,941
Total assets	$ 716,182	313,635	380,857	100,058	806,144	(256,563)	2,060,313

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2017

(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	$ 64,065	23,432	30,942	8,640	112,329	(110,678)	128,730
Accrued salaries, wages, and benefits	34,846	9,785	10,124	3,302	21,387	—	79,444
Advances from third-party payors	26,493	6,742	5,340	3,360	—	—	41,935
Current portion of long-term debt and capital lease, net obligations	3,848	1,271	1,625	221	6,963	—	13,928
Other current liabilities	1,645	327	157	—	18,006	—	20,135
Total current liabilities	130,897	41,557	48,188	15,523	158,685	(110,678)	284,172
Other long-term liabilities	51,212	10,587	20,811	5,043	48,051	—	135,704
Long-term debt and capital lease obligations, net	274,111	89,999	131,494	10,364	65,210	—	571,178
Total liabilities	456,220	142,143	200,493	30,930	271,946	(110,678)	991,054
Net assets:							
Unrestricted net assets	212,435	163,631	118,887	68,317	520,962	(100,322)	983,910
Noncontrolling interest in consolidated subsidiaries	—	—	4,134	—	6,055	4,437	14,626
Total unrestricted net assets	212,435	163,631	123,021	68,317	527,017	(95,885)	998,536
Temporarily restricted	36,732	7,861	56,170	811	2,958	(50,000)	54,532
Permanently restricted	10,795	—	1,173	—	4,223	—	16,191
	259,962	171,492	180,364	69,128	534,198	(145,885)	1,069,259
Total liabilities and net assets	$ 716,182	313,635	380,857	100,058	806,144	(256,563)	2,060,313

See accompanying independent auditors' report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2017

(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:							
Patient service revenue (net of contractual allowances and discounts)	$ 763,077	266,417	241,640	78,701	159,113	—	1,508,948
Provision for bad debts	(22,204)	(12,962)	(4,237)	(2,588)	(5,350)	—	(47,341)
Net patient service revenue	740,873	253,455	237,403	76,113	153,763	—	1,461,607
Net assets released from restrictions used for operations	3,473	—	40	108	258	—	3,879
Other operating revenue	24,810	2,990	12,030	2,209	43,888	(24,359)	61,568
Total operating revenues	769,156	256,445	249,473	78,430	197,909	(24,359)	1,527,054
Expenses:							
Salaries and employee benefits	375,539	132,274	120,665	48,172	131,841	531	809,022
Supplies	161,411	49,687	26,051	6,111	18,674	(3,320)	258,614
Purchased services	136,459	39,543	54,623	15,441	53,581	(21,570)	278,077
Depreciation, amortization, and gain/loss on sale of assets	32,580	11,337	14,908	2,790	15,599	—	77,214
Repairs and maintenance	13,429	4,446	1,445	977	1,009	—	21,306
Interest	8,450	3,261	5,492	269	11,095	—	28,567
Total expenses	727,868	240,548	223,184	73,760	231,799	(24,359)	1,472,800
Operating income (loss)	41,288	15,897	26,289	4,670	(33,890)	—	54,254
Other income (loss), net:							
Investment income	14,912	7,984	2,220	855	4,937	—	30,908
Unrealized gains on trading investments	13,761	7,226	12,493	2,968	206	—	36,654
Other	419	—	11	—	(440)	—	(10)
Loss on refinancing of debt	(7,302)	(2,091)	—	(1,409)	—	—	(10,802)
Total other income, net	21,790	13,119	14,724	2,414	4,703	—	56,750
Excess (deficit) of revenues over expenses	$ 63,078	29,016	41,013	7,084	(29,187)	—	111,004

See accompanying independent auditors' report.