



LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Financial Information	
Schedule 1 – Consolidating Balance Sheet Information	44
Schedule 2 – Consolidating Statement of Operations Information	46



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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of LifeBridge Health, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 19, 2018

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018 and 2017

(Dollars in thousands)

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 177,954	356,365
Investments	253,389	24,583
Assets limited as to use, current portion	51,511	68,496
Patient service receivables, net of allowance for doubtful accounts of \$72,698 in 2018 and \$67,941 in 2017	150,742	145,639
Other receivables	18,803	17,011
Inventory	33,054	30,515
Prepaid expenses	19,280	15,185
Pledges receivable, current portion	3,119	2,671
Total current assets	707,852	660,465
Board-designated investments	226,529	238,677
Long-term investments	299,076	315,320
Donor-restricted investments	61,155	21,389
Reinsurance recovery receivable	26,254	15,548
Assets limited as to use, net of current portion	31,620	33,039
Pledges receivable, net of current portion	3,108	5,122
Property and equipment, net	665,126	651,173
Beneficial interest in split interest agreement	5,294	4,757
Investment in unconsolidated affiliates	48,484	50,882
Other assets, net	82,158	63,941
Total assets	\$ 2,156,656	2,060,313

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018 and 2017

(Dollars in thousands)

Liabilities and Net Assets	2018	2017
Current liabilities:		
Accounts payable and accrued liabilities	\$ 125,302	128,730
Accrued salaries, wages and benefits	83,284	79,444
Advances from third-party payors	42,806	41,935
Current portion of long-term debt and capital lease obligations, net	14,401	13,928
Other current liabilities	26,378	20,135
Total current liabilities	<u>292,171</u>	<u>284,172</u>
Other long-term liabilities	120,285	135,704
Long-term debt and capital lease obligations, net	546,432	571,178
Total liabilities	<u>958,888</u>	<u>991,054</u>
Net assets:		
Unrestricted	1,106,696	983,910
Noncontrolling interest in consolidated subsidiaries	18,396	14,626
Total unrestricted net assets	1,125,092	998,536
Temporarily restricted	55,516	54,532
Permanently restricted	17,160	16,191
Total liabilities and net assets	<u>\$ 2,156,656</u>	<u>2,060,313</u>

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,559,747	1,508,948
Provision for bad debts	<u>(54,483)</u>	<u>(47,341)</u>
Net patient service revenue	1,505,264	1,461,607
Net assets released from restrictions used for operations	3,598	3,879
Other operating revenue	<u>68,297</u>	<u>61,568</u>
Total operating revenues	<u>1,577,159</u>	<u>1,527,054</u>
Expenses:		
Salaries and employee benefits	845,430	809,022
Supplies	266,940	258,614
Purchased services	289,484	278,077
Depreciation, amortization and gain/loss on sale of assets	80,352	77,214
Repairs and maintenance	22,397	21,306
Interest	<u>26,779</u>	<u>28,567</u>
Total expenses	<u>1,531,382</u>	<u>1,472,800</u>
Operating income	<u>45,777</u>	<u>54,254</u>
Other income (loss), net:		
Investment income	28,743	30,908
Unrealized gain on trading investments	17,274	36,654
Other	2,314	(10)
Gain (loss) on refinancing of debt	<u>270</u>	<u>(10,802)</u>
Total other income, net	<u>48,601</u>	<u>56,750</u>
Excess of revenues over expenses	\$ <u><u>94,378</u></u>	<u><u>111,004</u></u>

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net assets</u>
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	<u>143,761</u>	<u>1,147</u>	<u>304</u>	<u>145,212</u>
Net assets at June 30, 2017	998,536	54,532	16,191	1,069,259
Excess of revenues over expenses	94,378	—	—	94,378
Unrealized gain on investments	—	2,127	—	2,127
Net assets released from restrictions used for the purchase of property and equipment	5,156	(5,156)	—	—
Restricted gifts and bequests	—	7,074	969	8,043
Net assets released from restrictions used for operations	—	(3,598)	—	(3,598)
Net change in value of beneficial interest in split interest agreement	—	537	—	537
Adjustment to pension liability	25,630	—	—	25,630
Other	1,392	—	—	1,392
Change in net assets	<u>126,556</u>	<u>984</u>	<u>969</u>	<u>128,509</u>
Net assets at June 30, 2018	<u>\$ 1,125,092</u>	<u>55,516</u>	<u>17,160</u>	<u>1,197,768</u>

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 128,509	145,212
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	80,352	77,193
Loss on disposal of equipment	—	21
Change in pension liability	(25,630)	(20,341)
Provision for bad debts	54,483	47,341
Realized and unrealized gains on investments, net	(32,847)	(63,501)
Restricted gifts and bequests	(8,043)	(5,944)
Change in beneficial interest of split interest agreement	(537)	(280)
Earnings on investments in unconsolidated affiliates	(319)	(3,527)
Distributions from unconsolidated affiliates	4,315	—
Distributions to noncontrolling interest owners	2,446	2,400
Fair value of noncontrolling interests in acquisitions	(2,103)	(9,754)
Amortization of deferred financing costs and discounts	1,397	894
(Gain) loss on refinancing of debt	(270)	10,802
Change in operating assets and liabilities:		
Increase in patient service receivables, net	(59,586)	(51,329)
Increase in other receivables	(1,792)	(5,503)
Decrease (increase) in pledges receivable	1,566	(1,092)
Decrease (increase) in inventory	(2,539)	999
Decrease (increase) in prepaid expenses	(4,095)	3,576
Decrease (increase) in reinsurance recovery receivable	(10,706)	146
Increase in other assets	(5,372)	(5,155)
Increase in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits	2,048	9,457
Increase (decrease) in advances from third-party payors	871	(4,311)
Increase (decrease) in other current and long-term liabilities	16,454	(8,195)
Net cash provided by operating activities	<u>138,602</u>	<u>119,109</u>
Cash flows from investing activities:		
Change in donor-restricted investments	(27,618)	3,764
Change in investments	(151,826)	707
Change in assets limited as to use	18,404	(38,021)
Investment in unconsolidated affiliates	(1,598)	(3,315)
Purchases of property and equipment	(104,490)	(75,064)
Purchases of alternative investments	(29,566)	(3,939)
Proceeds from sales of alternative investments	1,677	51,686
Cash paid for acquisitions	(2,193)	(11,047)
Net cash used in investing activities	<u>(297,210)</u>	<u>(75,229)</u>
Cash flows from financing activities:		
Payment on debt and capital lease obligations	(167,482)	(144,708)
Payment of deferred financing costs	(1,023)	(1,176)
Proceeds from issuance of debt	143,105	131,888
Distributions to noncontrolling interest owners	(2,446)	(2,400)
Restricted gifts and bequests	8,043	5,944
Net cash used in financing activities	<u>(19,803)</u>	<u>(10,452)</u>
Net (decrease) increase in cash and cash equivalents	<u>(178,411)</u>	<u>33,428</u>
Cash and cash equivalents:		
Beginning of year	<u>356,365</u>	<u>322,937</u>
End of year	<u>\$ 177,954</u>	<u>356,365</u>
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 25,197	26,883
Cash paid during the year for income taxes	170	72
Accounts payable related to purchase of property and equipment	6,155	7,791
Adjustment to goodwill and property and equipment, net	10,742	—

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(1) Organization

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

LifeBridge's subsidiaries include Sinai Hospital of Baltimore, Inc. (Sinai); Northwest Hospital Center, Inc. (Northwest); Carroll Hospital Center (Carroll), 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.

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

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

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

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

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

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

Carroll County Med-Services, Inc. (CCMS) is a wholly owned, for-profit subsidiary of CCHS that is involved in real estate holdings, physician services, and other activities and also maintains ownership interests in

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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.

The Corporation has investments in alternative investments, primarily funds of hedge funds, totaling \$134,529 and \$99,860 at June 30, 2018 and 2017, 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,

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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, 2018 and 2017.

(h) Goodwill and Other Assets, Net

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

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

Goodwill is assessed annually for impairment at the reporting unit. As of June 30, 2018 and 2017, 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, 2018 and 2017 without having to perform the two-step impairment test.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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 HSCRC agreed to implement the Global Budget Revenue (GBR) methodology for Sinai, Northwest and Levindale. The Agreement is updated annually, was in place during the years ended June 30, 2018 and 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, within established constraint parameters, is prospectively added to the subsequent year's GBR cap. The GBR is adjusted for changes in market share, with the market-shift adjustments made semi-annually, on January and July 1. The GBR cap is adjusted annually for inflation, changes in payor mix and uncompensated care, as well as changes in population and aging within the Corporation's service area. A hospital's GBR cap may also be adjusted based on the hospital's performance on various quality and utilization metrics established by the HSCRC.

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. Similar to the GBR, the TPR agreement established a prospective, fixed revenue base, the "TPR cap," for the upcoming year. Effective in 2018, all TPR agreements in the state of Maryland, including Carroll's agreement, have been terminated and reinstated 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

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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 (RUG's).

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

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

(p) Other Operating Revenue

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

(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, 2018 and 2017, based on patient charges forgone, was \$9,993 and \$11,394, respectively. The total direct and indirect costs to provide the care amounted to approximately \$7,932 and \$9,274 for the years ended June 30, 2018 and 2017, 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

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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.

	<u>2018</u>	<u>2017</u>
Beginning allowance	\$ 67,941	62,213
Plus provision for bad debt	54,483	47,341
Less bad debt write-offs, net of recoveries	<u>(49,726)</u>	<u>(41,613)</u>
Ending allowance	<u>\$ 72,698</u>	<u>67,941</u>

(s) Income Taxes

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

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

(t) Use of Estimates

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

(u) Excess of Revenues over Expenses

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

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(v) Employee Pension Plan

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

Additionally, Topic 958, Section 715 requires the measurement date for plan assets and liabilities to coincide with the employer's year-end and requires the disclosure in the notes to the consolidated financial statements of additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. During fiscal year 2018, LifeBridge adopted the RP-2014 Mortality Table with generational improvements. See note 11 for further discussion. The Company reports the service cost component of pension cost in salaries and employee benefit expense and the other components of net benefit cost in other income, net.

(w) Management's Assessment and Plans

The Corporation adopted Accounting Standards Update (ASU) 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, (ASU 2014-15), which requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Management determined that there were no conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern and the Corporation will continue to meet its obligations through October 19, 2019.

(x) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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 for fiscal year 2020. Companies can either apply this standard by

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

either retrospectively applying the new guidance at the beginning of the earliest comparable period presented or they can use a transition method to adopt the new lease requirements by allowing entities to initially apply the requirements recognizing a cumulative effect adjustment to the opening balance of unrestricted net assets in the period of adoption. 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.

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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(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, 2018 and 2017, and consist of the following:

	2018	2017
Assets limited as to use:		
Self-insurance fund:		
Mutual funds	\$ 17,848	19,163
Equity securities	9,017	9,411
Fixed income	1,818	1,859
Alternative investments	2,937	2,606
Self-insurance fund	\$ 31,620	33,039
Debt service fund:		
Cash and cash equivalents	16,451	7,374
Government securities	881	7,479
Debt service fund	\$ 17,332	14,853
Construction funds:		
Cash and cash equivalents	16,368	24,395
Government securities	17,811	29,248
	34,179	53,643
Total assets limited as to use	83,131	101,535
Less current portion	(51,511)	(68,496)
Assets limited as to use, net of current portion	\$ 31,620	33,039
Beneficial interest in split interest agreement	\$ 5,294	4,757

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

There are other investments restricted by donors other than pledges receivable, and beneficial interest that are included in long-term investments as of June 30, 2018 and 2017. As of June 30, 2018 and 2017 current, long-term, donor-restricted, and board-designated investments are as follows:

	2018	2017
Current, long-term, donor-restricted, and board-designated investments:		
Cash and cash equivalents	\$ 22,017	42,034
Mutual funds	258,202	168,539
Equity securities	180,955	189,205
Government securities	2,118	13,646
Fixed income	245,265	89,291
Alternative investments	131,592	97,254
Current, long-term, donor-restricted, and board-designated investments	840,149	599,969
Less current portion	(253,389)	(24,583)
Long-term, donor-restricted, and board-designated investments	\$ 586,760	575,386

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, 2018 and 2017:

	2018	2017
Investment income:		
Interest income and dividends	\$ 15,297	7,366
Realized gains on sale of securities	13,446	23,542
Investment income	28,743	30,908
Unrealized gains on trading securities	17,274	36,654
Other changes in net assets:		
Changes in unrealized gains on temporarily and permanently restricted net assets	2,127	3,305
Total investment return	\$ 48,144	70,867

(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

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

rate to reflect the time value of money, and an allowance for potentially uncollectible pledges has been established.

Sinai, Northwest, Carroll, and Levindale have recorded total pledges as of June 30, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Gross pledges receivable	\$ 7,302	9,259
Less:		
Discount for time value of money	(328)	(517)
Allowance for uncollectible accounts	<u>(747)</u>	<u>(949)</u>
	<u>\$ 6,227</u>	<u>7,793</u>

The pledges are due as follows:

Less than one year	\$ 3,467
One to five years	3,810
Five years and thereafter	<u>25</u>
	<u>\$ 7,302</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(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:

	<u>Estimated useful life</u>	<u>2018</u>	<u>2017</u>
Land		\$ 21,923	24,175
Land improvements	8 to 20 years	36,915	36,322
Building and improvements	10 to 40 years	939,341	927,766
Fixed equipment	8 to 20 years	98,615	107,785
Movable equipment	3 to 15 years	<u>547,030</u>	<u>499,839</u>
		1,643,824	1,595,887
Less accumulated depreciation		<u>(1,051,621)</u>	<u>(995,195)</u>
		592,203	600,692
Construction in progress		<u>72,923</u>	<u>50,481</u>
Property and equipment, net		<u>\$ 665,126</u>	<u>651,173</u>

Depreciation, amortization, and gain/loss on sale of assets were \$80,352 and \$77,214 for the years ended June 30, 2018 and 2017, respectively. Of this, depreciation expense was \$78,901 and \$76,815 for the years ended June 30, 2018 and 2017, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of \$14,440 and \$16,452 for the years ended June 30, 2018 and 2017, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was \$14,396 and \$14,128 at June 30, 2018 and 2017, respectively.

During 2018, the Corporation acquired two rehabilitation facilities for approximately \$2,200. 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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(6) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under either the equity or cost method as appropriate, consist of the following at June 30, 2018 and 2017:

Joint Venture	Business purpose	2018		2017	
		Percentage ownership	Balance	Percentage ownership	Balance
MNR Industries, LLC	Urgent Care Centers	40 %	\$ 22,466	40 %	\$ 24,587
Baltimore County Radiology, LLC	Outpatient Radiology	25	7,119	25	7,148
Mt. Airy Med-Services, LLC	Real Estate	50	4,281	50	4,419
Future Care Old Court, LLC	Nursing Home	40	2,976	40	2,965
Lochearn Nursing Home, LLC	Nursing Home	10	2,000	10	2,000
Mt. Airy Plaza, LLC	Real Estate	50	1,471	50	1,594
LifeBridge Sports Medicine & Rehabilitation, LLC	Physical Therapy	50	1,676	50	1,173
Advanced Health Collaborative, LLC	Medicare Advantage Plan	25	1,526	25	1,266
Carroll Care Pharmacies, LLC	Pharmacies	49	1,028	49	944
Other Joint Ventures	Miscellaneous	5-50	3,941	5-50	4,786
Total			\$ 48,484		\$ 50,882

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.

(7) Other Assets

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

	2018	2017
Goodwill	\$ 32,358	16,902
Investment in Premier	16,232	12,496
Notes Receivable	3,290	11,442
Other Intangible Assets	10,840	11,510
Pension Asset (note 11(b))	9,823	—
Deferred compensation assets	8,768	9,181
Other	847	2,410
Other assets	\$ 82,158	63,941

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(8) Long-Term Debt and Capital Lease Obligations

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

	2018	2017
Maryland Health and Higher Educational Facilities Authority (MHHEFA):		
Revenue Bonds Series 2008	\$ —	155,380
Revenue Bonds Series 2011	4,100	5,015
Revenue Bonds Series 2012A	52,115	53,670
Revenue Bonds Series 2015	159,685	159,685
Revenue Bonds Series 2016	119,895	120,695
Revenue Bonds Series 2017	118,120	—
Other debt:		
M&T Bank taxable loan	36,701	41,345
Capital leases	14,787	16,545
Other	26,817	14,454
	532,220	566,789
Less current portion	(14,401)	(13,928)
Plus unamortized premium	32,680	22,380
Less deferred Financing Costs	(4,066)	(4,060)
Less unamortized discount	(1)	(3)
Long-term debt, net	\$ 546,432	571,178

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%. The Series 2008 Bonds were refinanced in 2015, 2016 and 2017 and were legally defeased as of June 30, 2018.

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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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. \$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%.

On October 31, 2017, MHHEFA issued \$118,120 in bonds (Series 2017 Bonds) on behalf of LifeBridge Health. The proceeds of the Series 2017 Bonds have been used to refund the Series 2008 Bonds. \$82,700 of the bonds are serial bonds with maturity dates ranging from 2018 through 2037 and interest rates ranging from 3% to 5%. \$24,220 of the bonds are term bonds that are due in 2042 with an interest rate of 4%. The remaining \$11,200 of the bonds are term bonds that are due in 2044 with an interest rate of 5%.

The Series 2011, 2012A, 2015, 2016, and 2017 Bonds are governed by a Master Loan Agreement. Under the Master Loan Agreement, MHHEFA maintains a security interest in the revenue of the obligors. In addition, the Master Loan Agreement requires Obligated Group members to adhere to limitations on mergers, disposition of assets, and additional indebtedness and certain financial covenants. The financial covenants include a rate covenant, which requires the Obligated Group to achieve a debt service coverage ratio of 1.10; a liquidity covenant, which requires the Obligated Group to maintain 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 3.7% as of June 30, 2018. The second term note of \$5,614 bears monthly interest of 4.75%. Both term notes mature on February 5, 2022 and are secured by certain property and equipment. The outstanding

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

principal of the two notes as of June 30, 2018 and 2017 was \$13,405 and \$13,978, respectively. Additionally, there is a construction loan that has been drawn on in the amount of \$11,901 and \$0 as of June 30, 2018 and 2017, respectively. This loan has an interest rate of 3.75% and a maturity date in February 2022.

Deferred financing costs are amortized using the effective-interest method over the term of the related debt. Amortization expense was \$230 and \$1,168 for the years ended June 30, 2018 and 2017, 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:

	<u>MHHEFA and other debt</u>	<u>Capital lease obligations</u>
Years ending June 30:		
2019	\$ 12,635	2,214
2020	12,506	2,258
2021	13,702	2,304
2022	36,096	2,351
2023	13,645	2,399
Thereafter	<u>428,849</u>	<u>5,574</u>
	<u>\$ 517,433</u>	17,100
Less interest portion		<u>(2,313)</u>
		<u>\$ 14,787</u>

(9) M&T Bank Line of Credit

Sinai maintains a \$5,000 line of credit with M&T Bank. As of June 30, 2018 and 2017, there were no balances outstanding on this line of credit.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(10) Temporarily and Permanently Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Healthcare services:		
Capital equipment/construction	\$ 24,970	24,358
Other healthcare services:		
Service grants	267	415
Donor-specified healthcare services	14,227	14,216
Enrichment and research	<u>16,052</u>	<u>15,543</u>
	<u>\$ 55,516</u>	<u>54,532</u>

Permanently restricted net assets of \$17,160 and \$16,191 at June 30, 2018 and 2017, 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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

The following tables set forth the Sinai/Levindale Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Measurement date	June 30, 2018	June 30, 2017
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 220,332	214,725
Service cost	8,036	8,263
Interest cost	8,146	5,972
Actuarial (gain) loss	(3,701)	1,582
Benefits paid	(7,632)	(10,006)
Expenses paid from assets	<u>(45)</u>	<u>(204)</u>
Benefit obligation at end of year	<u>225,136</u>	<u>220,332</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	186,513	157,577
Actual return on plan assets	19,109	22,425
Company contributions	11,423	16,721
Benefits paid	(7,632)	(10,006)
Expenses paid from assets	<u>(45)</u>	<u>(204)</u>
Fair value of plan assets at end of year	<u>209,368</u>	<u>186,513</u>
Funded status	\$ <u><u>(15,768)</u></u>	\$ <u><u>(33,819)</u></u>

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

	<u>2018</u>	<u>2017</u>
Amounts recognized in the consolidated balance sheets:		
Other long-term liabilities	\$ 15,768	33,819
Amounts recognized in unrestricted net assets:		
Net actuarial loss	\$ <u>42,991</u>	<u>58,991</u>
	\$ <u><u>42,991</u></u>	\$ <u><u>58,991</u></u>

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 \$207,828 and \$201,702 at June 30, 2018 and 2017, respectively.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

Net periodic pension expense for the years ended June 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Pension costs:		
Service cost	\$ 8,036	8,263
Interest cost	8,146	5,972
Expected return on plan assets	(12,594)	(10,969)
Amortization of net loss	<u>3,611</u>	<u>5,555</u>
Net periodic benefit cost	<u>\$ 7,199</u>	<u>8,821</u>

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year are \$2,265 and \$3,928, respectively. The Company recorded \$8,036 and \$8,821 of the net periodic benefit cost in salary and employee benefit expense during the years ended December 31, 2018 and 2017, respectively, and recorded \$(837) and \$0 in other income, net during the years ended June 30, 2018 and 2017, respectively.

Actuarial assumptions used were as follows:

	<u>2018</u>	<u>2017</u>
Assumptions used to determine annual pension expense:		
Discount rate	3.88 %	3.68 %
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	4.28 %	3.88 %
Expected return on plan assets	7.00	7.00
Rate of compensation increase	2.50	2.50
Plan asset allocation:		
Asset category:		
Fixed income/debt securities	25.00 %	26.00 %
Equity securities/mutual funds	54.00	56.00
Alternative investments	<u>21.00</u>	<u>18.00</u>
Total	<u>100.00 %</u>	<u>100.00 %</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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:

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

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

Years ending June 30:	
2019	\$ 11,854
2020	12,648
2021	12,836
2022	12,785
2023	13,780
Thereafter	71,531

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

	<u>Pension benefits – plan assets</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 8,447	—	—	8,447
Mutual funds and equity securities	122,846	—	—	122,846
Fixed income mutual funds	51,577	—	—	51,577
Alternative investments	—	—	26,498	26,498
Total assets	<u>\$ 182,870</u>	<u>—</u>	<u>26,498</u>	<u>209,368</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash and cash equivalents	\$ 8,901	—	—	8,901
Mutual funds and equity securities	153,018	—	—	153,018
Fixed income securities	—	7,017	—	7,017
Alternative investments	—	—	17,577	17,577
Total assets	\$ 161,919	7,017	17,577	186,513

For the years ended June 30, 2018 and 2017, 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, 2017	\$ 17,577
Additions:	
Contributions/purchases	7,524
Disbursements:	
Withdrawals/sales	(281)
Net change in value	1,678
Balance as of June 30, 2018	\$ 26,498

The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2018:

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

(b) Carroll Plan

CCHS sponsors a Defined Benefit Cash Balance Plan (the Carroll Plan) covering employees of Carroll, CCMS, and Carroll Foundation. CCHS's funding policy is to make contributions to the Carroll Plan based on actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to plan participants and to meet the minimum funding requirements of the Employee Retirement

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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, 2018 and 2017.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Measurement date	June 30, 2018	June 30, 2017
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 73,631	76,619
Interest cost	2,793	2,345
Actuarial gain	(4,771)	(3,032)
Benefits paid	<u>(2,606)</u>	<u>(2,301)</u>
Benefit obligation at end of year	<u>69,047</u>	<u>73,631</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	67,718	64,073
Actual return on plan assets	10,178	3,876
Employer contribution	3,580	2,070
Benefits paid	<u>(2,606)</u>	<u>(2,301)</u>
Fair value of plan assets at end of year	<u>78,870</u>	<u>67,718</u>
Funded status	<u>\$ 9,823</u>	<u>(5,913)</u>

The accumulated benefit obligation for the Carroll Plan was \$69,047 and \$73,631 at June 30, 2018 and 2017, respectively. The pension asset of \$9,823 as of June 30, 2018 and an obligation of \$5,913 as of June 30, 2018 and 2017, respectively, are included in other assets and other long-term liabilities, respectively, in the consolidated balance sheets.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

Net periodic pension expense for the years ended June 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Pension expense:		
Components of net periodic pension expense:		
Interest cost	\$ 2,793	2,345
Expected return on plan assets	(4,825)	(4,464)
Amortization of actuarial loss	<u>2,053</u>	<u>2,499</u>
Net periodic pension expense	<u>\$ 21</u>	<u>380</u>

The estimated net actuarial loss to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year is \$802 and \$2,111, respectively. The Company recorded \$21 and \$380 of the net periodic pension expense in other income, net during the years ended June 30, 2018 and 2017, respectively.

Assumptions to determine the benefit obligation as of June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.28 %	3.88 %

Assumptions used in the determination of net periodic pension expense for the year ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	3.88 %	3.72 %
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 \$15,449 and \$28,019 at June 30, 2018 and 2017, 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.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

CCHS's weighted average asset allocations for the plan assets for the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	5.0 %	6.0 %
Fixed income/debt securities	24.0	18.0
Mutual funds and equity securities	53.0	49.0
Alternative investments	18.0	27.0
	<u>100.0 %</u>	<u>100.0 %</u>

Pension plan assets are invested in accordance with the CCHS's investment policy in an attempt to maximize return with reasonable and prudent levels of risk. This structure includes various assets classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. CCHS periodically reviews performance to test progress toward attainment of longer term targets, to compare results with appropriate indices and peer groups, and to assess overall investment risk levels.

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

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

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

	<u>Pension benefits – plan assets</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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 \$	<u>36,983</u>	<u>12,437</u>	<u>18,298</u>	<u>67,718</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

For the years ended June 30, 2018 and 2017, 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:

	<u>Total</u>
Balance as of June 30, 2017	\$ 18,298
Additions:	
Contributions/purchases	—
Disbursements:	
Withdrawals/sales	(4,809)
Net change in value	<u>351</u>
Balance as of June 30, 2018	<u>\$ 13,840</u>

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

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

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

CCHS expects to contribute \$0 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:

2019	\$ 3,050
2020	3,233
2021	3,406
2022	3,562
2023	3,695
2024–2028	<u>20,696</u>
	<u>\$ 37,642</u>

(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

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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 \$2,214 and \$2,181 for the years ended June 30, 2018 and 2017, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities have supplemental 403(b) retirement plans for eligible employees. The entities may elect to match varying percentages of an employee's contribution up to a certain percentage of the employee's annual salary. The associated expense was approximately \$6,455 and \$5,997 for the years ended June 30, 2018 and 2017, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain companies under Community Physicians and Investments maintain a defined-contribution plan for employees meeting certain eligibility requirements. Eligible employees can also make contributions. Under the plan, the employer may elect to match a percentage of eligible employees' contributions each year. The related expense was approximately \$1,698 and \$943 for the years ended June 30, 2018 and 2017, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities maintain a nonqualified deferred compensation plan for key employees and physicians. The Corporation establishes a separate deferral account on its books for each participant for each plan year. In general, participants are entitled to receive the deferred funds upon their death, attainment of the specified vesting date, or involuntary termination of their employment without cause, whichever occurs first. The related expense was approximately \$3,128 and \$4,189 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, Carroll has accrued a liability of \$881 and \$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;

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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

(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 property and equipment is held by an affiliate of AJCF. Sinai and Levindale have

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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, 2018, Investments has approximately \$64,449 in net operating loss carryforwards for income tax purposes. The net operating loss carryforwards for tax purposes are available to reduce future taxable income and expire in varying periods beginning in 2019 through 2038.

The net operating loss carryforwards created a federal net deferred tax asset of approximately \$13,534 and \$20,477 as of June 30, 2018 and 2017, respectively and a state deferred tax asset of approximately \$3,510 and \$3,340 as of June 30, 2018 and 2017, 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, 2018 and 2017.

The Tax Cuts and Jobs Act (The Act) was signed into law on December 22, 2017. The Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21% and eliminating certain deductions. The Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. The Company has not completed the determination of the accounting implications of The Act on tax accruals. However, the Corporation has reasonably estimated the effects of The Act and recorded provisional amounts in our financial statements as of and for the year ended June 30, 2018.

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

The Corporation has reasonably estimated the effects of the 2017 Act and recorded amounts impacting the financial statements as of and for the year ended June 30, 2018.

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

The reduction of the U.S. federal tax rate from 35% to 21% was effective beginning January 1, 2018. The federal rate change is a mid-year change for Investments which results in a current blended tax rate of 27.50% for the year ended June 30, 2018. The relevant deferred tax balances have been revalued as of June 30, 2018 to reflect the new federal statutory rate of 21% plus the effective state tax rate. The impact of the change in tax rate has been offset by the change in valuation allowance.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(15) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Professional/general liability (note 16(a))	\$ 57,795	46,598
Pension liability	16,649	40,157
Medical office building	30,722	31,924
Asset retirement obligation	3,260	3,260
Deferred compensation	7,644	8,208
Other	4,215	5,557
	<u>\$ 120,285</u>	<u>135,704</u>

At June 30, 2018 and 2017, there was \$22,388 and \$16,303 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, for most professional and general liability claims arising out of the operations of LifeBridge and its subsidiaries. Estimated liabilities have been recorded for both reported and incurred but not reported claims.

LifeBridge Insurance purchases reinsurance coverage from other highly rated insurance carriers to cover their liabilities in excess of various retentions. The amounts that LifeBridge subsidiaries must transfer to LifeBridge Insurance to fund professional and general liability claims are actuarially determined and are sufficient to cover expected liabilities. Management's estimate of the liability for professional and general liability claims, including incurred but not reported claims, is principally based on actuarial estimates performed by an independent third-party actuary. Professional liability coverage for certain employed physicians is provided by commercial insurance carriers. The receivable for the expected reinsurance receivable is recorded within other assets on the consolidated balance sheets. Amounts in excess of the self-insured limits are insured by highly rated commercial insurance companies.

(b) Workers' Compensation

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

LifeBridge has accrued a liability for known and incurred but not reported claims of \$7,227 and \$8,032 at June 30, 2018 and 2017, respectively. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. Management believes these

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

accruals are adequate to provide for all workers' compensation claims that have been incurred through June 30, 2018.

All other entities have occurrence-based commercial insurance coverage. There are no material insurance recoveries related to workers' compensation claims under those policies as of June 30, 2018 and 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 \$6,677 and \$3,721 at June 30, 2018 and 2017, 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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	30 %	31 %
Medicaid	11	8
BlueCross	10	10
Commercial and other	40	41
Self-pay	9	10
	<u>100 %</u>	<u>100 %</u>

The mix of net patient service revenue for the Corporation for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	43 %	42 %
Medicaid	6	6
BlueCross	11	12
Commercial and other	37	37
Self-pay	3	3
	<u>100 %</u>	<u>100 %</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(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 a standby letter of credit of \$84 to serve as collateral as required by the City of Baltimore for the completion of certain construction work at Sinai. M&T has established standby letters of credit of \$94, \$76, \$42 and \$4 to serve as collateral as required by Baltimore County for the completion of certain construction work at Northwest.

(c) *Operating Leases*

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2030. Total rental expense for the years ended June 30, 2018 and 2017 for all operating leases was approximately \$25,671 and \$27,342, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Years ending June 30:	
2019	\$ 20,911
2020	19,921
2021	18,490
2022	17,716
2023	16,401
Thereafter	<u>13,718</u>
	<u>\$ 107,157</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(19) Noncontrolling Interest

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

	<u>LifeBridge Health, Inc.</u>	<u>Noncontrolling interest</u>	<u>Unrestricted net assets</u>
Balance at June 30, 2016	\$ 849,676	5,099	854,775
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	<u>134,234</u>	<u>9,527</u>	<u>143,761</u>
Balance at June 30, 2017	983,910	14,626	998,536
Operating income	42,652	3,125	45,777
Nonoperating income	48,601	—	48,601
Excess of revenues over expenses	91,253	3,125	94,378
Change in funded status of pension plan	25,630	—	25,630
Net assets released for purchase of property and equipment	5,156	—	5,156
Other	747	645	1,392
Change in net assets	<u>122,786</u>	<u>3,770</u>	<u>126,556</u>
Balance at June 30, 2018	\$ <u>1,106,696</u>	<u>18,396</u>	<u>1,125,092</u>

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

(20) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2018 and 2017 related to providing these services are as follows:

	<u>2018</u>	<u>2017</u>
Healthcare services	\$ 1,116,241	1,098,642
General and administrative	415,141	374,158
	<u>\$ 1,531,382</u>	<u>1,472,800</u>

(21) Fair Value of Financial Instruments

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

(a) Assets and Liabilities

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

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

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

(b) Long-Term Debt

The fair market value of the fixed rate Series 2011 MHHEFA Bonds was \$4,286 and \$5,358 as of June 30, 2018 and 2017, respectively. The fair market value of the fixed rate Series 2012A MHHEFA Bonds was \$56,005 and \$58,933 as of June 30, 2018 and 2017, respectively. The fair market value of the variable rate Series 2015 MHHEFA Bonds was \$172,172 and \$175,838 as of June 30, 2018 and 2017, respectively. The fair market value of the variable rate Series 2016 MHHEFA Bonds was \$128,734 and \$131,581 as of June 30, 2018 and 2017, respectively. The fair market value of the variable rate Series 2017 MHHEFA Bonds was \$128,590 as of June 30, 2018.

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

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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, 2018:

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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 securities	—	91,150	—	91,150
Beneficial interest in split-interest agreement	—	4,757	—	4,757
Total assets	<u>\$ 464,454</u>	<u>141,947</u>	<u>—</u>	<u>606,401</u>

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

For the years ended June 30, 2018 and 2017, there were no significant transfers into or out of Levels 1, 2, or 3.

(22) Subsequent Events

Management evaluated all events and transactions that occurred after June 30, 2018 and through October 19, 2018. The Corporation did not have any subsequent events during this period that were required to be recognized or disclosed.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2018

(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	\$ 36,583	24,951	47,006	9,759	59,655	—	177,954
Investments	14,015	3,419	—	276	235,679	—	253,389
Assets limited as to use, current portion	31,952	7,023	3,347	192	8,997	—	51,511
Patient service receivables, net of allowance for doubtful accounts	80,302	24,795	23,062	8,629	13,954	—	150,742
Other receivables	92,196	7,329	8,975	1,127	36,859	(127,683)	18,803
Inventory	24,402	4,904	3,285	235	228	—	33,054
Prepaid expenses	5,747	642	3,656	124	9,111	—	19,280
Pledges receivable, current portion	820	132	2,021	146	—	—	3,119
Total current assets	286,017	73,195	91,352	20,488	364,483	(127,683)	707,852
Board-designated investments	—	—	—	—	226,529	—	226,529
Long-term investments	65,751	520	82,843	—	149,962	—	299,076
Donor-restricted investments	14,015	—	5,312	—	41,828	—	61,155
Reinsurance recovery receivable	—	—	—	—	26,254	—	26,254
Assets limited as to use, net of current portion	—	—	—	—	31,620	—	31,620
Pledges receivable, net of current portion	767	39	2,055	247	—	—	3,108
Property and equipment, net	221,303	105,660	131,096	40,926	166,141	—	665,126
Beneficial interest in split interest agreement	5,294	—	—	—	—	—	5,294
Investment in unconsolidated affiliates	—	—	7,820	—	215,908	(175,244)	48,484
Other assets, net of accumulated amortization	15,684	2,745	26,752	37	36,940	—	82,158
Total assets	\$ 608,831	182,159	347,230	61,698	1,259,665	(302,927)	2,156,656

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2018

(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	\$ 60,017	20,025	30,802	10,160	131,981	(127,683)	125,302
Accrued salaries, wages, and benefits	35,850	7,914	14,280	2,249	22,991	—	83,284
Advances from third-party payors	29,020	7,716	4,930	1,109	31	—	42,806
Current portion of long-term debt and capital lease, net obligations	3,659	1,204	1,935	193	7,410	—	14,401
Other current liabilities	1,554	844	182	—	23,798	—	26,378
Total current liabilities	130,100	37,703	52,129	13,711	186,211	(127,683)	292,171
Other long-term liabilities	34,227	10,454	15,165	2,932	57,507	—	120,285
Long-term debt and capital lease obligations, net	253,399	83,051	129,242	9,934	70,806	—	546,432
Total liabilities	417,726	131,208	196,536	26,577	314,524	(127,683)	958,888
Net assets:							
Unrestricted net assets	141,611	43,036	89,652	34,360	931,426	(133,389)	1,106,696
Noncontrolling interest in consolidated subsidiaries	—	—	4,054	—	6,197	8,145	18,396
Total unrestricted net assets	141,611	43,036	93,706	34,360	937,623	(125,244)	1,125,092
Temporarily restricted	37,730	7,915	55,815	761	3,295	(50,000)	55,516
Permanently restricted	11,764	—	1,173	—	4,223	—	17,160
	191,105	50,951	150,694	35,121	945,141	(175,244)	1,197,768
Total liabilities and net assets	\$ 608,831	182,159	347,230	61,698	1,259,665	(302,927)	2,156,656

See accompanying independent auditors' report.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2018

(Dollars in thousands)

	<u>Sinai Hospital Consolidated</u>	<u>Northwest Hospital</u>	<u>Carroll Hospital</u>	<u>Levindale Hebrew Geriatric Ctr & Hospital</u>	<u>Other LifeBridge Entities</u>	<u>Eliminations</u>	<u>LifeBridge Health Consolidated</u>
Unrestricted revenues, gains, and other support:							
Patient service revenue (net of contractual allowances and discounts)	\$ 781,571	276,212	269,126	80,896	151,942	—	1,559,747
Provision for bad debts	(26,516)	(13,711)	(5,663)	(2,656)	(5,937)	—	(54,483)
Net patient service revenue	755,055	262,501	263,463	78,240	146,005	—	1,505,264
Net assets released from restrictions used for operations	3,236	—	—	46	316	—	3,598
Other operating revenue	29,093	3,980	14,050	2,221	50,674	(31,721)	68,297
Total operating revenues	787,384	266,481	277,513	80,507	196,995	(31,721)	1,577,159
Expenses:							
Salaries and employee benefits	394,555	134,315	149,329	50,379	116,109	743	845,430
Supplies	167,789	49,835	24,336	6,230	18,750	—	266,940
Purchased services	142,845	43,124	65,123	16,694	54,162	(32,464)	289,484
Depreciation, amortization, and gain/loss on sale of assets	30,586	11,828	14,417	2,786	20,735	—	80,352
Repairs and maintenance	14,107	4,316	1,389	1,029	1,556	—	22,397
Interest	2,949	1,379	6,343	51	16,057	—	26,779
Total expenses	752,831	244,797	260,937	77,169	227,369	(31,721)	1,531,382
Operating income (loss)	34,553	21,684	16,576	3,338	(30,374)	—	45,777
Other income (loss), net:							
Investment income	14,472	3,771	7,366	868	2,266	—	28,743
Unrealized gains (losses) on trading investments	7,381	2,785	6,332	910	(134)	—	17,274
Other	1,945	—	110	165	94	—	2,314
Gain on refinancing of debt	194	67	—	9	—	—	270
Total other income, net	23,992	6,623	13,808	1,952	2,226	—	48,601
Excess (deficit) of revenues over expenses	\$ 58,545	28,307	30,384	5,290	(28,148)	—	94,378

See accompanying independent auditors' report.