KPMG

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of LifeBridge Health, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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, 2016 and 2015, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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

Supplemental Information

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

KPMG LLP

October 12, 2016

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2016 and 2015

(Dollars in thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	322,937	356,973
Investments		23,352	23,761
Assets limited as to use, current portion		67,660	30,565
Patient service receivables, net of allowance for doubtful accounts of $62,213 in 2016 and $58,346 in 2015		141,651	142,212
Other receivables		11,508	10,164
Inventory		31,514	29,482
Prepaid expenses		18,761	19,079
Pledges receivable, current portion		3,296	6,693
Total current assets		620,679	618,929
Board-designated investments		243,289	250,000
Long-term investments		253,757	258,685
Donor-restricted investments		20,541	21,644
Reinsurance recovery receivable		15,694	15,935
Assets limited as to use, net of current portion		43,601	33,187
Pledges receivable, net of current portion		3,405	5,477
Property and equipment, net		629,477	595,143
Deferred financing costs, net of accumulated amortization of $1,077 in 2016 and $767 in 2015		4,137	4,073
Beneficial interest in split interest agreement		4,477	4,628
Investment in unconsolidated affiliates		44,040	33,865
Other assets, net		48,142	43,082
Total assets	$	1,931,239	1,884,648

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2016 and 2015

(Dollars in thousands)

Liabilities and Net Assets		**2016**	**2015**
Current liabilities:			
Accounts payable and accrued liabilities	$	119,225	117,874
Accrued salaries, wages and benefits		80,361	80,534
Advances from third-party payors		46,246	41,780
Current portion of long-term debt and capital lease obligations		12,921	14,711
Other current liabilities		16,871	14,418
Total current liabilities		275,624	269,317
Other long-term liabilities		167,009	130,856
Long-term debt and capital lease obligations, net of current portion		564,559	558,170
Total liabilities		1,007,192	958,343
Net assets:			
Unrestricted		849,676	844,907
Noncontrolling interest in consolidated subsidiaries		5,099	3,922
Total unrestricted net assets		854,775	848,829
Temporarily restricted		53,385	61,660
Permanently restricted		15,887	15,816
		924,047	926,305
Total liabilities and net assets	$	1,931,239	1,884,648

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
Unrestricted revenues, gains and other support:			
Patient service revenue (net of contractual allowances and discounts)	$	1,435,810	1,201,545
Provision for bad debts		56,982	54,845
Net patient service revenue		1,378,828	1,146,700
Net assets released from restrictions used for operations		3,537	3,665
Other operating revenue		95,060	62,764
Total operating revenues		1,477,425	1,213,129
Expenses:			
Salaries and employee benefits		795,094	662,338
Supplies		253,599	195,387
Purchased services		254,211	201,240
Depreciation, amortization and gain/loss on sale of assets		75,699	62,957
Repairs and maintenance		20,538	19,774
Interest		28,574	20,687
Total expenses		1,427,715	1,162,383
Operating income		49,710	50,746
Other income, net:			
Investment income		16,028	21,161
Unrealized losses on trading investments		(22,110)	(10,978)
Other		779	4,563
Total other (expense) income, net		(5,303)	14,746
Excess of revenues over expenses before loss on refinancing of debt and inherent contribution		44,407	65,492
Loss on refinancing of debt		(3,720)	—
Excess of revenues over expenses before inherent contribution		40,687	65,492
Inherent contribution – CCHS		—	134,032
Excess of revenues over expenses	$	40,687	199,524

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2016 and 2015

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at June 30, 2014	$ 660,778	49,703	14,647	725,128
Excess of revenues over expenses	199,524	—	—	199,524
Inherent contribution – CCHS	—	10,733	1,173	11,906
Unrealized loss on investments	—	(370)	(3)	(373)
Net assets released from restrictions used for the purchase of property and equipment	5,347	(5,347)	—	—
Restricted gifts and bequests	—	10,789	3	10,792
Net assets released from restrictions used for operations	—	(3,661)	(4)	(3,665)
Net change in value of beneficial interest in split interest agreement	—	5	—	5
Adjustment to pension liability	(16,548)	—	—	(16,548)
Other	(272)	(192)	—	(464)
Change in net assets	188,051	11,957	1,169	201,177
Net assets at June 30, 2015	848,829	61,660	15,816	926,305
Excess of revenues over expenses	40,687	—	—	40,687
Unrealized loss on investments	—	(1,842)	(5)	(1,847)
Net assets released from restrictions used for the purchase of property and equipment	7,613	(7,613)	—	—
Restricted gifts and bequests	—	4,908	76	4,984
Net assets released from restrictions used for operations	—	(3,537)	—	(3,537)
Net change in value of beneficial interest in split interest agreement	—	(151)	—	(151)
Adjustment to pension liability	(41,513)	—	—	(41,513)
Other	(841)	(40)	—	(881)
Change in net assets	5,946	(8,275)	71	(2,258)
Net assets at June 30, 2016	$ 854,775	53,385	15,887	924,047

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Dollars in thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (2,258)	201,177
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	76,059	62,697
Loss (gain) on disposal of equipment	(360)	260
Gain on sale of Courtland Gardens	—	(3,409)
Change in pension liability	41,513	16,548
Provision for bad debts	56,982	54,845
Realized and unrealized gains on investments, net	17,593	(2,412)
Inherent contribution – CCHS	—	(145,938)
Restricted gifts and bequests	(4,984)	(10,789)
Change in beneficial interest of split interest agreement	151	5
Earnings on investments in unconsolidated affiliates	(3,277)	(5,342)
Loss on refinancing of debt	3,720	—
Change in operating assets and liabilities:		
Increase in patient service receivables, net	(56,421)	(41,962)
Increase in other receivables	(1,344)	(1,021)
Decrease (increase) in pledges receivable	5,469	(4,438)
Increase in inventory	(2,032)	(2,136)
Decrease in prepaid expenses	318	115
Decrease (increase) in reinsurance recovery receivable	241	(2,570)
(Increase) decrease in other assets	(5,637)	5,877
Decrease in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits	(7,481)	(10,462)
Increase (decrease) in advances from third-party payors	4,466	(944)
(Decrease) increase in other current and long-term liabilities	(2,907)	1,121
Net cash provided by operating activities	119,811	111,222
Cash flows from investing activities:		
Change in donor-restricted investments	1,103	(8,968)
Addition of cash from CCHS acquisition	—	15,719
Change in current and long-term investments	(3,698)	(49,422)
Change in assets limited as to use	(49,356)	28,098
Investment in/distributions from unconsolidated affiliates, net	(6,898)	(6,543)
Additions to operating property	(101,221)	(44,462)
Proceeds from the sale of property	360	31
Settlement of swap	—	(13,998)
Acquisition of physician practices	—	(1,404)
Net cash used in investing activities	(159,710)	(80,949)
Cash flows from financing activities:		
Payment on debt and capital lease obligations	(182,127)	(53,800)
Proceeds from issuance of debt	183,006	150,000
Restricted gifts and bequests	4,984	10,789
Net cash provided by financing activities	5,863	106,989
Net (decrease) increase in cash and cash equivalents	(34,036)	137,262
Cash and cash equivalents:		
Beginning of year	356,973	219,711
End of year	$ 322,937	356,973
Supplemental cash flow disclosures:		
Cash paid during the year for interest	$ 24,444	19,412
Cash paid during the year for income taxes	52	44
Accounts payable related to purchase of operating property	8,659	11,210

See accompanying notes to consolidated financial statements.

(1) Organization

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

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

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

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

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

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

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

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

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

Wholly owned direct and indirect subsidiaries of CCHS include:

Carroll Hospital Center, Inc (Carroll); 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.

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

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

(2) Significant Accounting Policies

(a) Basis of Presentation

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

(b) Cash and Cash Equivalents

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

(c) Assets Limited as to Use

Assets limited as to use primarily consists of assets held by trustees under bond indenture agreements, a self-insured workers' compensation reserve fund, and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. A portion of the designated assets set aside by the Board of Directors are 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 $138,838 and $146,923 at June 30, 2016 and 2015, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Also included in alternative investments are BJEF's and BJHF's funds that are invested on their behalf by the Associated Jewish Charities (AJC), an affiliate of AJCF. The underlying investments for these funds include cash of $241, equities of $23,368, private equity of $2,987, fixed income of $4,013, inflation hedging funds of $2,460, and alternative investments of $15,606. Alternative investments are recorded based on the Net Asset Value (NAV) of the shares in each investment company or partnership.

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

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

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

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

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

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

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

(f) Property and Equipment

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

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

(g) Deferred Financing Costs and Other Assets

Deferred financing costs and other assets consist primarily of deferred financing costs, intangibles related to practice acquisitions, notes receivable, and the cash surrender value of split dollar life insurance. The deferred financing costs are amortized using the effective-interest method over the term of the related debt. Amortization expense was $513 and $2,430 for the years ended June 30, 2016 and 2015, respectively. Such amortization is included in depreciation and amortization in the consolidated financial statements.

(h) Beneficial Interest in Split Interest Agreement

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

(i) Advances from Third-Party Payors

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

(j) Self-Insurance Programs

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

(k) Other Long-Term Liabilities

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

(l) Donor-Restricted Gifts

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

(m) Net Assets

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

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

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

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

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

(n) Net Patient Service Revenue

Net patient service revenue for Sinai, Northwest, Carroll and the chronic hospital component of Levindale is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered. On January 29, 2014, the Corporation and the Health Services Cost Review Commission (HSCRC) agreed to implement the Global Budget Revenue (GBR) methodology, effective July 1, 2013, for Sinai, Northwest and Levindale. The term of the Agreement will continue through June 30, 2016 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, service mix intensity, or mix of inpatient or outpatient services that occur during the year. The GBR agreement allows the Corporation to adjust unit rates, within certain limits, to achieve the overall revenue base for the Corporation at year-end. Any overcharge or undercharge versus the GBR cap is prospectively added to the subsequent year's GBR cap. Beginning in fiscal year 2016, the GBR is adjusted for changes in market share. Effective with fiscal year 2017, market-shift adjustments will be made semi-annually, on January and July 1. The GBR cap is adjusted annually for inflation, and for changes in payor mix and uncompensated care, and changes in population within the Corporation's service area. A hospital's GBR cap may also be adjusted based on the hospital's performance on various quality and utilization metrics established from time to time by the HSCRC.

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

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

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

Medicaid reimburses Levindale for long-term care services facilities 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.

(o) Other Operating Revenue

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

(p) Grants

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

(q) Meaningful Use Incentives

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

The Corporation recognizes EHR incentives when the payment is received. During the years ended June 30, 2016 and 2015, certain hospitals and physicians satisfied the meaningful use criteria. As a result, the Corporation recognized $3,349 and $3,728 of EHR incentives during fiscal years 2016 and 2015, respectively, in other operating revenue.

(Continued)

(Dollars in thousands)

(r) Charity Care and Bad Debt

Sinai, Northwest, Carroll, Levindale and Courtland provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The amount of charity care provided during the years ended June 30, 2016 and 2015, based on patient charges forgone, was $11,720 and $9,179, respectively. The total direct and indirect costs to provide the care amounted to approximately $10,044 and $7,548 for the years ended June 30, 2016 and 2015, respectively.

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

		2016	2015
Beginning allowance	$	58,346	35,085
Plus provision for bad debt		56,982	54,845
Less bad debt write-offs, net of recoveries		(53,115)	(31,584)
Ending allowance	$	62,213	58,346

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

(v) Employee Pension Plan

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

Additionally, Topic 958, Section 715 requires the measurement date for plan assets and liabilities to coincide with the employer's year-end and requires the disclosure in the notes to the consolidated financial statements of additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. During fiscal year 2016, LifeBridge adopted the RP-2014 Mortality Table with generational improvements. See footnote 11 for further discussion.

(3) Carroll County Health Services Corporation

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

(Dollars in thousands)

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

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

The following table summarizes the Corporation’s pro forma consolidated results as though the acquisition occurred at July 1, 2014:

		2015
Total operating revenues	$	1,435,203
Operating income		51,757
Other income, net		144,690
Changes in net assets:		
Unrestricted	$	184,931
Temporarily restricted		12,488
Permanently restricted		1,169
Total changes in net assets	$	198,588

(Continued)

(Dollars in thousands)

(4) Investments

Investments, which consist of assets limited as to use, board-designated investments, donor-restricted investments, and long-term investments in the accompanying consolidated balance sheets, are stated at fair value or under the equity method, as appropriate, as of June 30, 2016 and 2015, and consist of the following:

		2016	2015
Assets limited as to use:			
Self-insurance fund:			
Cash and cash equivalents	$	—	3,128
Mutual funds		22,060	2,197
Equity securities		9,210	7,106
U.S. Treasury		944	11,389
Government securities		—	1,705
Fixed income		8,789	11,350
Alternative investments		2,598	4,364
Self-insurance fund		43,601	41,239
Debt service fund:			
Cash and cash equivalents		20,598	11,501
Government securities		47,062	7,328
Debt Service Fund		67,660	18,829
Collateral held for lines of credit and other:			
Cash and cash equivalents		—	89
Mutual funds		—	1,230
Equity securities		—	2,297
Fixed income		—	68
Collateral held for lines of credit		—	3,684
Less current portion		(67,660)	(30,565)
Assets limited as to use, net of current portion	$	43,601	33,187
Donor-restricted investments:			
Cash and cash equivalents	$	4,825	5,418
Mutual funds		5,649	6,082
Equity securities		2,585	2,091
U.S. Treasury		3,557	3,238
Government securities		3,016	3,324
Fixed income		566	1,205
Alternative investments		343	286
Donor-restricted investments	$	20,541	21,644
Beneficial interest in split interest agreement	$	4,477	4,628

(Continued)

(Dollars in thousands)

There are other investments restricted by donors other than pledges receivable, donor-restricted investments, and beneficial interest that are included in long-term investments as of June 30, 2016 and 2015. As of June 30, 2016 and 2015 current, long-term, and board-designated investments are as follows:

		2016	2015
Current, long-term, and board-designated investments:			
Cash and cash equivalents	$	8,747	56,619
Mutual funds		177,303	165,392
Equity securities		159,173	132,483
Government securities		10,111	8,849
Fixed income		29,167	26,830
Alternative investments		135,897	142,273
Current, long-term and board-designated investments		520,398	532,446
Less current portion		(23,352)	(23,761)
Long-term and board-designated investments	$	497,046	508,685

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, 2016 and 2015:

		2016	2015
Investment income:			
Interest income and dividends	$	9,516	7,398
Realized gains on sale of securities		6,512	13,763
Investment income		16,028	21,161
Unrealized (losses) gains on trading securities		(22,110)	(10,978)
Other changes in net assets:			
Changes in unrealized gains on temporarily and permanently restricted net assets		(1,847)	(373)
Total investment return	$	(7,929)	9,810

(5) Pledges Receivable

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

(Dollars in thousands)

Sinai, Northwest, Carroll, and Levindale have recorded total pledges as of June 30, 2016 and 2015 as follows:

		2016	2015
Gross pledges receivable	$	9,051	15,878
Less:			
Discount for time value of money		(782)	(1,232)
Allowance for uncollectible accounts		(1,568)	(2,476)
	$	6,701	12,170

Total anticipated future payments are as follows:

Less than one year	$	3,550
One to five years		5,288
Five years and thereafter		213
	$	9,051

(6) Property and Equipment

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

	Estimated useful life		2016	2015
Land		$	11,657	7,302
Land improvements	8 to 20 years		35,931	35,913
Building and improvements	10 to 40 years		863,963	829,588
Fixed equipment	8 to 20 years		101,411	88,710
Movable equipment	3 to 15 years		479,705	453,896
			1,492,667	1,415,409
Less accumulated depreciation			(926,430)	(867,451)
			566,237	547,958
Construction in progress			63,240	47,185
Property and equipment, net		$	629,477	595,143

Depreciation, amortization, and gain/loss on sale of assets were $75,699 and $62,957 for the years ended June 30, 2016 and 2015, respectively. Of this, depreciation expense was $75,546 and $60,267 for the years ended June 30, 2016 and 2015, respectively.

(Dollars in thousands)

Included in property and equipment is building and equipment, net of accumulated amortization, of $18,774 and $9,258 for the years ended June 30, 2016 and 2015, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $11,806 and $21,222 at June 30, 2016 and 2015, respectively.

(7) Investments in Joint Ventures

Investments in joint ventures and partnerships, accounted for under the equity method, consist of the following at June 30, 2016 and 2015:

		2016		2015	
Joint Venture	**Business purpose**	**Percentage ownership**	**Balance**	**Percentage ownership**	**Balance**
MNR Industries, LLC	Urgent Care Centers	40%	$ 23,291	40%	$ 23,123
Baltimore County Radiology, LLC	Outpatient Radiology	25	5,724	—	—
Riverside Health of Maryland, Inc.	Medicaid Managed Care Plan	—	—	20	2,736
Mt. Airy Med-Services, LLC	Real Estate	50	4,952	50	375
Lochearn Nursing Home, LLC	Nursing Home	10	1,997	—	—
Mt. Airy Plaza, LLC	Real Estate	50	1,628	50	1,649
LifeBridge Sports Medicine & Rehabilitation, LLC	Physical Therapy	50	1,303	50	1,165
Carroll Care Pharmacies, LLC	Pharmacies	49	1,037	49	1,018
Other Joint Ventures	Miscellaneous	5–50	4,108	5–50	3,799
	Total		$ 44,040		$ 33,865

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

(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:

	2016	2015
Maryland Health and Higher Educational Facilities Authority (MHHEFA):		
Revenue Bonds Series 2006	$ —	35,000
Revenue Bonds Series 2008	237,590	266,285
Revenue Bonds Series 2011	47,465	48,315
Revenue Bonds Series 2012A	55,152	56,620
Revenue Bonds Series 2015	159,685	—
Other debt:		
Bank of America line of credit	—	100,000
M&T Bank taxable loan	45,905	50,000
BB&T line of credit	—	2,351
Capital leases	18,501	7,206
Other	539	343
	564,837	566,120
Less current portion	(12,921)	(14,711)
Unamortized premium	12,685	6,805
Unamortized discount	(42)	(44)
Long-term debt, net	$ 564,559	558,170

In November 2006, the Maryland Health and Higher Educational Facilities Authority (MHHEFA or the Authority) loaned $35,000 from the proceeds of bonds (Series 2006 Bonds) to CCHS and certain of its subsidiaries, resulting in proceeds of $35,000. The Series 2006 Bonds were repaid as part of the Series 2015 Bond offering, further discussed below.

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

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

In May 2012, MHHEFA loaned $89,790 from the proceeds of bonds (Series 2012A Bonds) to CCHS and certain of its subsidiaries (the Series 2012 Bonds). The Series 2012 Bonds were issued in three series: $26,995 of serial bonds maturing in 2013 through 2027, $7,505 of term bonds maturing in 2030, and $25,280 of term bonds maturing in 2037 (Series 2012A Bonds); $15,010 of term bonds maturing in 2037 (Series 2012B Bonds); and $15,000 of term bonds maturing in 2042 (Series 2012C Bonds).

On April 1, 2015, LifeBridge established a two-year loan facility with Bank of America in the amount of $250,000 (2015 Line of Credit) that matures on March 31, 2017, with a variable rate of interest on amounts drawn of 30-day LIBOR plus 88 basis points. The 2015 Line of Credit is secured on parity with the Series 2008 and 2011 Bonds. On April 1, 2015, LifeBridge drew $100,000 on the 2015 Line of Credit, of which $50,000 was transferred to Carroll Foundation for the Foundation Contribution and $39,800 was used to pay off the Series 2012B and 2012C Bonds Bank. The Line of Credit was repaid during the year ended June 30, 2016. The outstanding obligation was $0 and $100,000 for the years ended June 30, 2016 and 2015, respectively.

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

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

On July 30, 2015, the Authority issued $159,685 in bonds (Series 2015 Bonds) on behalf of LifeBridge Health. 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 the Bank of America Line of Credit that had been used to repay Carroll's loan from BB&T Bank. The remaining Bank of America line of credit was repaid by the Corporation in July.

The Series 2008, 2011, 2012A, and 2015 Bonds are governed by a Master Loan Agreement. Under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. In addition, the Master Loan Agreement requires Obligated Group members to adhere to limitations on mergers, disposition of assets, and additional indebtedness and certain financial covenants. The financial covenants include a rate covenant, which requires the Obligated Group to achieve a debt service coverage ratio of 1.10; a liquidity covenant, which requires the Obligated Group to maintain 65 days cash on hand; and a debt-to-capitalization covenant, which requires the Obligated Group to maintain a debt-to-capitalization ratio of not more than 65%, all measured as of June 30 in each fiscal year. In the fiscal year ended June 30, 2016, the Obligated Group met all of its covenants.

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

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

(Dollars in thousands)

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

	MHHEFA and other debt	Capital lease obligations
Years ending June 30:		
2017	$ 11,329	2,517
2018	10,750	2,196
2019	11,270	2,231
2020	11,795	2,269
2021	12,345	2,304
Thereafter	488,847	10,324
	$ 546,336	21,841
Less interest portion		(3,340)
		$ 18,501

(9) M&T Bank Line of Credit

Sinai maintains a $5,000 line of credit with M&T Bank. As of June 30, 2016 and 2015, there were no balances outstanding on this line of credit.

(10) Temporarily and Permanently Restricted Net Assets

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

	2016	2015
Healthcare services:		
Capital equipment/construction	$ 23,160	24,824
Other healthcare services:		
Service grants	496	215
Donor-specified healthcare services	14,452	20,491
Enrichment and research	15,277	16,130
	$ 53,385	61,660

Permanently restricted net assets of $15,887 and $15,816 at June 30, 2016 and 2015, respectively, are to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(Dollars in thousands)

(11) Employee Benefit Plans

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

The Corporation sponsors noncontributory defined-benefit pension plans (the Sinai/Levindale Plans) covering full-time, nonunion and union employees of Sinai and Levindale. Annual contributions to the Sinai/Levindale Plans are made at a level equal to or greater than the funding requirement as determined by the Sinai/Levindale Plans' consulting actuary. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The following tables set forth the Sinai/Levindale Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2016 and 2015:

	2016	2015
Measurement date	June 30, 2016	June 30, 2015
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 185,808	174,787
Service cost	7,729	7,490
Interest cost	8,085	7,369
Actuarial loss	19,264	6,933
Benefits paid	(5,815)	(10,321)
Expenses paid from assets	(346)	(450)
Benefit obligation at end of year	214,725	185,808
Change in plan assets:		
Fair value of plan assets at beginning of year	158,657	157,068
Actual return on plan assets	(5,461)	3,666
Company contributions	10,542	8,694
Benefits paid	(5,815)	(10,321)
Expenses paid from assets	(346)	(450)
Fair value of plan assets at end of year	157,577	158,657
Funded status	$ (57,148)	(27,151)

(Dollars in thousands)

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

		2016	2015
Amounts recognized in the consolidated balance sheets:			
Other long-term liabilities	$	57,148	27,151
Amounts recognized in unrestricted net assets:			
Net actuarial loss	$	74,421	41,086
Prior service cost		—	43
	$	74,421	41,129

The Corporation has estimated $16,721 for its defined-benefit contributions to the Sinai/Levindale Plans for the fiscal year ending June 30, 2017. The accumulated benefit obligation is $196,562 and $169,323 at June 30, 2016 and 2015, respectively.

Net periodic pension expense for the years ended June 30, 2016 and 2015 was as follows:

		2016	2015
Service cost	$	7,730	7,490
Interest cost		8,085	7,369
Expected return on plan assets		(10,963)	(10,982)
Amortization of net loss		2,353	1,149
Amortization of prior service cost		43	89
Net periodic benefit cost	$	7,248	5,115

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 $5,555 and $0, respectively.

(Continued)

(Dollars in thousands)

Actuarial assumptions used were as follows:

	2016	2015
Assumptions used to determine annual pension expense:		
Discount rate	4.47%	4.40%
Expected return on plan assets	7.00	7.25
Rate of compensation increase	2.50	2.50
Assumptions used to determine end-of-year liabilities:		
Discount rate	3.68%	4.47%
Expected return on plan assets	7.00	7.00
Rate of compensation increase	2.50	2.50
Plan asset allocation:		
Asset category:		
Cash and cash equivalents	2.00%	2.00%
Fixed income/debt securities	26.00	25.00
Equity securities	47.00	48.00
Alternative investments	25.00	25.00
Total	100.00%	100.00%

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

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

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

Years ending June 30:		
2017	$	11,125
2018		11,204
2019		11,363
2020		12,068
2021		11,839
Thereafter		65,242

(Dollars in thousands)

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

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

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

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

For the years ended June 30, 2016 and 2015, 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, 2015	$ 36,462
Additions:	
Contributions/purchases	36,392
Disbursements:	
Withdrawals/sales	(35,744)
Net change in value	(1,296)
Balance as of June 30, 2016	$ 35,814

(Dollars in thousands)

The following table summarizes redemption terms for the hedge fund-of-funds vehicles held as of June 30, 2016:

	Fund 1	Fund 2	Fund 3	Fund 4	Fund 5	Fund 6
Redemption timing:						
Redemption frequency	Quarterly	Quarterly	Quarterly	Annually	Monthly	Annually
Required notice	33 days	65 days	65 days	45 days	30 days	90 days
Audit reserve:						
Percentage held back for audit reserve	10%	5%	10%	—%	—%	5%

(b) Carroll Plan

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

The information below describes certain actions of CCHS for the years ended June 30, 2016 and 2015. As discussed in footnote 3, the fiscal year 2015 statements of operations of the Corporations includes CCHS activity for the period April 1, 2015 through June 30, 2015.

(Dollars in thousands)

The following tables set forth the changes in the projected benefit obligation, the changes in the Carroll Plan's assets, the Carroll Plan's funded status, the amounts recognized in the consolidated financial statements, and the Carroll Plan's net periodic pension cost as of June 30, 2016 and 2015:

		2016	2015
Measurement date		June 30, 2016	June 30, 2015
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	68,498	66,031
Interest cost		3,004	2,755
Actuarial loss		7,514	1,919
Benefits paid		(2,397)	(2,207)
Benefit obligation at end of year		76,619	68,498
Change in plan assets:			
Fair value of plan assets at beginning of year		61,131	58,548
Actual return on plan assets		1,739	1,190
Employer contribution		3,600	3,600
Benefits paid		(2,397)	(2,207)
Fair value of plan assets at end of year		64,073	61,131
Funded status	$	(12,546)	(7,367)

The accumulated benefit obligation for the Plan was $76,619 and $68,498 at June 30, 2016 and 2015, respectively.

Net periodic pension expense for the year ended June 30, 2016 was as follows:

		2016	2015
Components of net periodic pension expense:			
Interest cost	$	3,004	2,755
Expected return on plan assets		(4,315)	(4,140)
Amortization of actuarial loss		1,870	1,484
Net periodic pension expense	$	559	99

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year is $2,499 and $0, respectively.

(Dollars in thousands)

Assumptions to determine the benefit obligation as of June 30, 2016 and 2015 were as follows:

	2016	**2015**
Discount rate	3.72%	4.47%

Assumptions used in the determination of net periodic pension expense for the year ended June 30, 2016 and 2015 were as follows:

	2016	**2015**
Discount rate	4.47%	4.25%
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 $32,962 and $24,742 at June 30, 2016 and 2015, 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. The amount of deferred pension costs expected to be recognized as a component of net periodic pension costs during the year ended June 30, 2017 is $380.

CCHS's weighted average asset allocations for the plan assets as of June 30, 2016 and 2015 were as follows:

	2016	**2015**
Cash and cash equivalents	8.0%	7.0%
Fixed income/debt securities	22.0	19.0
Mutual funds and equity securities	53.0	56.0
Alternative investments	17.0	18.0
	100.0%	100.0%

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

(Dollars in thousands)

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

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

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

	Pension benefits – plan assets			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 4,205	—	—	4,205
Mutual funds	34,102	—	—	34,102
Fixed income	—	12,199	—	12,199
Alternative investments	—	—	10,625	10,625
Total assets	$ 38,307	12,199	10,625	61,131

During fiscal year 2016, Level 3 investments within the pension plan assets increased by $7. This increase was the result of purchases of $3,391, redemptions of $2,828 and losses in investments of $556. During fiscal year 2015, Level 3 investments within the pension plan assets decreased by $78. This decrease was the result of purchases of $0, redemptions of $447 and gain on earnings in investments of $369. There were no significant transfers between Levels 1, 2 and 3 during the years ended June 30, 2016 and 2015.

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

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

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

(Dollars in thousands)

CCHS expects to contribute $2,070 to the Carroll Plan during the year-ending June 30, 2017.

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

2017	$	2,677
2018		2,802
2019		2,920
2020		3,123
2021		3,337
2022–2026		19,075
	$	33,934

CCHS expensed total employer contributions of $1,291 and $290 for the year ended June 30, 2016 and 2015, respectively.

(c) Contributory Plans

Northwest has a qualified noncontributory defined-contribution pension plan (the NW Plan) covering substantially all employees who work at least 1,000 hours per year, who have completed two years of continuous service as of the beginning of the plan year, and who have attained the age of 21 as of the beginning of the plan year. Participants in the NW Plan are 100% vested. Northwest makes annual contributions to the NW Plan equivalent to 1.5% of the participants' salaries for employees who have been in the NW Plan from one to five years, 4.0% for those in the plan from six to 19 years, and 6.5% thereafter. It is Northwest's policy to fund plan costs as they accrue. Plan expense was approximately $2,849 and $2,794 for the years ended June 30, 2016 and 2015, respectively, and is included in salaries and employee benefits in the accompanying consolidated statements of operations.

Certain LifeBridge entities have supplemental 403(b) retirement plans for eligible employees. The entities may elect to match varying percentages of an employee's contribution up to a certain percentage of the employee's annual salary. The associated expense was approximately $4,710 and $4,774 for the years ended June 30, 2016 and 2015, 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 $1,627 and $1,668 for the years ended June 30, 2016 and 2015, 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 $4,823 and $3,469 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, Carroll has accrued a liability of $425 and $376, respectively, related to this Plan.

(12) Regulation and Reimbursement

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

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

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

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

The current rate of reimbursement for hospital services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicaid and Medicare Services (CMS) and the State of Maryland. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland 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 requires Maryland to adopt a payment structure that incentivizes efficient utilization of hospital resources, limits hospital per capita growth in all-payer and Medicare spending, generate Medicare savings of $330 million over five years, limit growth in total cost of care per Medicare beneficiary, reduce hospital readmissions, and reduce certain hospital-acquired conditions.

(13) Related-Party Transactions

Land Leases

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

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

Other

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

(14) Income Taxes

At June 30, 2016, Investments has approximately $62,019 in net operating loss carryforwards for income tax purposes. The net operating loss carryforwards for tax purposes are available to reduce future taxable income and expire in varying periods through 2036.

The net operating loss carryforwards created a federal net deferred tax asset of approximately $21,087 and $18,670 as of June 30, 2016 and 2015, respectively, and a state deferred tax asset of approximately $3,358 and $2,996 as of June 30, 2016 and 2015, 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, 2016 and 2015.

At June 30, 2016, CCHS has approximately $65,243 of net operating loss carryforwards, primarily at CCMS, that will expire through 2033. The net operating loss carryforwards created a net deferred tax asset of approximately $28,928 and $24,801 as of June 30, 2016 and 2015, respectively. Management has determined that it is more likely than not that CCHS will not be able to utilize the deferred tax assets; therefore, a full valuation allowance has been recorded against the deferred tax asset as of June 30, 2016 and 2015.

(Continued)

(Dollars in thousands)

(15) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2016 and 2015 are as follows:

		2016	2015
Professional/general liability (note 16(a))	$	52,174	51,924
Pension liability		70,119	34,894
Medical office building		33,128	34,256
Asset retirement obligation		3,260	3,260
Deferred compensation		6,967	4,864
Other		1,361	1,658
	$	167,009	130,856

At June 30, 2016 and 2015, there was $13,023 and $12,121 included in other current liabilities related to professional liabilities, respectively.

(16) Self-Insurance Programs

(a) Professional/General Liability

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

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

(b) Workers' Compensation

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

LifeBridge has accrued a liability for known and incurred but not reported claims of $7,005 and $6,899 at June 30, 2016 and 2015, respectively. These amounts are included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. Management believes these accruals are is adequate to provide for all workers' compensation claims that have been incurred through June 30, 2016.

(Dollars in thousands)

All other entities have occurrence-based commercial insurance coverage. There are no material insurance recoveries related to workers' compensation as of June 30, 2016.

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

(c) Health Insurance

LifeBridge is self-insured for employee health claims. LifeBridge has accrued a liability of $3,655 and $3,517 at June 30, 2016 and 2015, 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, 2016 and 2015 is as follows:

	2016	2015
Medicare	30%	27%
Medicaid	9	10
BlueCross	12	13
Commercial and other	40	40
Self-pay	9	10
	100%	100%

The mix of net patient service revenue for the Corporation for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Medicare	42%	41%
Medicaid	7	5
BlueCross	14	14
Commercial and other	33	36
Self-pay	4	4
	100%	100%

(Continued)

(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 $2,407 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 $411 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 letters of credit of $52 and of $84 to serve as collateral as required by the City of Baltimore for the completion of certain construction work at Sinai.

(c) Operating Leases

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2026. Total rental expense for the years ended June 30, 2016 and 2015 for all operating leases was approximately $24,135 and $21,540, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

ears ending June 30:		
2017	$	18,079
2018		15,757
2019		14,957
2020		14,090
2021		12,915
Thereafter		17,894
	$	93,692

(Dollars in thousands)

(19) Noncontrolling Interest

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

	LifeBridge Health, Inc.	Noncontrolling interest	Unrestricted net assets
Balance at June 30, 2014	$ 660,970	(192)	660,778
Operating income	50,276	470	50,746
Nonoperating income	14,746	—	14,746
Excess of revenues over expenses	65,022	470	65,492
CCHS acquisition	130,388	3,644	134,032
Change in funded status of pension plan	(16,548)	—	(16,548)
Net assets released for purchase of property and equipment	5,347	—	5,347
Other	(272)	—	(272)
Change in net assets	183,937	4,114	188,051
Balance at June 30, 2015	844,907	3,922	848,829
Operating income	48,533	1,177	49,710
Nonoperating income	(5,303)	—	(5,303)
Loss on refinancing of debt	(3,720)	—	(3,720)
Excess of revenues over expenses	39,510	1,177	40,687
Change in funded status of pension plan	(41,513)	—	(41,513)
Net assets released for purchase of property and equipment	7,613	—	7,613
Other	(841)	—	(841)
Change in net assets	4,769	1,177	5,946
Balance at June 30, 2016	$ 849,676	5,099	854,775

(20) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2016 and 2015 related to providing these services are as follows:

	2016	2015
Healthcare services	$ 1,069,047	875,650
General and administrative	358,668	286,733
	$ 1,427,715	1,162,383

(Continued)

(21) Fair Value of Financial Instruments

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

(a) Assets and Liabilities

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

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

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

(b) Long-Term Debt

The Series 2008 MHHEFA Bonds bear interest at fixed rates and had a fair value of $244,684 and $273,529 at June 30, 2016 and 2015, respectively. The fair market value of the fixed rate Series 2011 MHHEFA Bonds was $56,556 and $55,110 as of June 30, 2016 and 2015, respectively. The fair market value of the variable rate Series 2006 MHHEFA Bonds was $0 and $35,582 as of June 30, 2016 and 2015, respectively. The fair market value of the fixed rate Series 2012A MHHEFA Bonds was $62,742 and $60,244 as of June 30, 2016 and 2015, respectively. The fair market value of the variable rate Series 2015 MHHEFA Bonds was $185,798 as of June 30, 2016.

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

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

(Dollars in thousands)

(c) Fair Value Hierarchy

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

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

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

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

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

For the years ended June 30, 2016 and 2015, 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, 2016 and through October 12, 2016. The Corporation did not have any subsequent events during this period that were required to be recognized or disclosed.

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2016

(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	$ 121,957	104,929	23,238	20,248	52,565	—	322,937
Investments	12,695	3,395	6,987	276	(1)	—	23,352
Assets limited as to use, current portion	46,082	13,262	4,260	418	3,638	—	67,660
Patient service receivables, net of allowance for doubtful accounts	74,694	22,527	20,646	7,944	15,840	—	141,651
Other receivables	61,719	4,191	4,455	536	25,984	(85,377)	11,508
Inventory	22,572	5,081	3,600	183	78	—	31,514
Prepaid expenses	5,165	1,003	5,327	350	6,916	—	18,761
Pledges receivable, current portion	1,602	216	1,365	113	—	—	3,296
Total current assets	346,486	154,604	69,878	30,068	105,020	(85,377)	620,679
Board-designated investments	92,770	55,966	—	17,046	77,507	—	243,289
Long-term investments	43,563	26,280	132,460	8,005	43,449	—	253,757
Donor-restricted investments	12,695	3,395	4,175	276	—	—	20,541
Reinsurance recovery receivable	—	—	—	—	15,694	—	15,694
Assets limited as to use, net of current portion	—	—	—	—	43,601	—	43,601
Pledges receivable, net of current portion	1,747	295	1,100	263	—	—	3,405
Property and equipment, net	238,342	112,208	120,471	40,491	117,965	—	629,477
Deferred financing costs, net of accumulated amortization	2,004	647	1,365	121	—	—	4,137
Beneficial interest in split interest					—		—
agreement	4,477	—	—	—	—	—	4,477
Investment in unconsolidated affiliates	—	—	3,000	—	158,076	(117,036)	44,040
Other assets, net of accumulated amortization	13,070	2,277	14,939	65	17,791	—	48,142
Total assets	$ 755,154	355,672	347,388	96,335	579,103	(202,413)	1,931,239

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2016

(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	$	66,718	18,759	19,029	4,571	95,525	(85,377)	119,225
Accrued salaries, wages, and benefits		35,094	9,479	9,470	3,091	23,227	—	80,361
Advances from third-party payors		28,077	7,773	6,962	3,434	—	—	46,246
Current portion of long-term debt and capital lease obligations		3,128	1,039	1,850	163	6,741	—	12,921
Other current liabilities		1,373	320	532	13	14,633	—	16,871
Total current liabilities		134,390	37,370	37,843	11,272	140,126	(85,377)	275,624
Other long-term liabilities		72,758	10,756	28,014	5,747	49,734	—	167,009
Long-term debt and capital lease obligations, net of current portion		272,976	89,913	134,497	9,305	57,868	—	564,559
Total liabilities		480,124	138,039	200,354	26,324	247,728	(85,377)	1,007,192
Net assets:								
Unrestricted net assets		227,852	209,936	85,847	68,852	324,225	(67,036)	849,676
Noncontrolling interest in consolidated subsidiaries		—	—	4,793	—	306	—	5,099
Total unrestricted net assets		227,852	209,936	90,640	68,852	324,531	(67,036)	854,775
Temporarily restricted		36,687	7,697	55,221	1,159	2,621	(50,000)	53,385
Permanently restricted		10,491	—	1,173	—	4,223	—	15,887
		275,030	217,633	147,034	70,011	331,375	(117,036)	924,047
Total liabilities and net assets	$	755,154	355,672	347,388	96,335	579,103	(202,413)	1,931,239

See accompanying independent auditors' report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2016

(Dollars in thousands)

	Sinai Hospital Consolidated	Northwest Hospital	Carroll Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Unrestricted revenues, gains, and other support:							
Patient service revenue (net of contractual allowances and discounts)	$ 717,728	243,716	257,505	77,946	138,915	—	1,435,810
Provision for bad debts	28,141	13,365	7,411	3,297	4,768	—	56,982
Net patient service revenue	689,587	230,351	250,094	74,649	134,147	—	1,378,828
Net assets released from restrictions used for operations	3,191	—	—	111	235	—	3,537
Other operating revenue	53,043	16,847	5,359	2,036	60,506	(42,731)	95,060
Total operating revenues	745,821	247,198	255,453	76,796	194,888	(42,731)	1,477,425
Expenses:							
Salaries and employee benefits	375,433	127,658	118,540	46,803	126,199	461	795,094
Supplies	143,312	44,306	43,124	6,296	16,561	—	253,599
Purchased services	138,430	40,956	54,755	14,869	48,393	(43,192)	254,211
Depreciation, amortization, and gain/loss on sale of assets	33,370	11,725	15,904	3,056	11,644	—	75,699
Repairs and maintenance	13,249	4,537	1,273	880	599	—	20,538
Interest	11,132	4,104	5,525	509	7,304	—	28,574
Total expenses	714,926	233,286	239,121	72,413	210,700	(42,731)	1,427,715
Operating income (loss)	30,895	13,912	16,332	4,383	(15,812)	—	49,710
Other income (loss), net:							
Investment income	6,383	561	7,779	(221)	1,526	—	16,028
Unrealized gains on trading investments	(9,063)	(4,796)	(6,130)	(217)	(1,904)	—	(22,110)
Other	—	—	252	—	527	—	779
Total other income (loss), net	(2,680)	(4,235)	1,901	(438)	149	—	(5,303)
Excess (deficiency) of revenues over expenses before inherent contributions	28,215	9,677	18,233	3,945	(15,663)	—	44,407
Loss on refinancing of debt	(1,568)	(541)	(1,592)	(19)	—	—	(3,720)
Excess of revenues over expenses	$ 26,647	9,136	16,641	3,926	(15,663)	—	40,687

See accompanying independent auditors' report.