LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Financial Statements and
Supplementary Financial Information

June 30, 2010 and 2009

(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.:

We have audited the accompanying consolidated balance sheets of LifeBridge Health, Inc. and Subsidiaries (the Corporation) as of June 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009 and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 and 2 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual corporations. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

October 22, 2010

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2010 and 2009

(Dollars in thousands)

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	112,332	123,054
Donor restricted investments		16,588	14,585
Assets limited as to use, current portion		12,304	29,600
Patient service receivables, net of allowance for doubtful accounts of $24,601 in 2010 and $25,250 in 2009		108,476	113,741
Other receivables		4,855	6,747
Inventory		19,913	15,360
Prepaid expenses		10,888	8,450
Pledges receivable, current portion		3,030	3,389
Total current assets		288,386	314,926
Long-term investments		230,225	191,130
Assets limited as to use, net of current portion		37,796	41,793
Pledges receivable, net of current portion		7,848	8,123
Property and equipment, net		401,301	384,119
Deferred financing costs, net of accumulated amortization of $183 in 2010 and $107 in 2009		1,814	1,890
Beneficial interest in split interest agreement		3,379	3,256
Investment in unconsolidated affiliates		2,177	1,586
Other assets, net of accumulated amortization of $333 in 2010 and $332 in 2009		7,184	7,241
Total assets	$	980,110	954,064

(Continued)

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2010 and 2009

(Dollars in thousands)

Liabilities and Net Assets		2010	2009
Current liabilities:			
Accounts payable and accrued liabilities	$	67,454	75,215
Accrued salaries, wages and benefits		48,979	47,077
Advances from third-party payors		29,910	31,447
Current portion of long-term debt and capital lease obligations		5,043	4,514
Other current liabilities		1,210	1,020
Total current liabilities		152,596	159,273
Other long-term liabilities		98,260	88,384
Long-term debt and capital lease obligations, net of current portion		295,756	300,432
Total liabilities		546,612	548,089
Net assets:			
Unrestricted		371,514	348,168
Temporarily restricted		48,064	43,986
Permanently restricted		13,920	13,821
		433,498	405,975
Total liabilities and net assets	$	980,110	954,064

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2010 and 2009

(Dollars in thousands)

		2010	2009
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	928,867	923,812
Net assets released from restrictions used for operations		3,122	3,725
Other operating revenue		39,207	33,808
Total operating revenues		971,196	961,345
Expenses:			
Salaries and employee benefits		509,009	484,785
Supplies		168,962	174,698
Purchased services		156,824	137,762
Depreciation, amortization and gain/loss on sale of assets		54,493	52,175
Repairs and maintenance		15,742	15,162
Provision for bad debts		46,558	59,912
Interest		15,564	14,955
Total expenses		967,152	939,449
Operating income		4,044	21,896
Other income (expense), net:			
Investment income (loss)		14,154	(10,404)
Unrealized gains (losses) on trading investments		9,520	(18,510)
Earnings on investments in unconsolidated affiliates		398	550
Total other income (expense), net		24,072	(28,364)
Excess (deficiency) of revenues over expenses	$	28,116	(6,468)

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Net assets at June 30, 2008	$ 378,329	48,888	13,870	441,087
Excess (deficiency) of revenues over expenses	(6,468)	—	—	(6,468)
Unrealized loss on investments	—	(5,689)	(37)	(5,726)
Net assets released from restrictions used for the purchase of property and equipment	1,362	(1,362)	—	—
Restricted gifts and bequests	—	6,883	39	6,922
Net assets released from restrictions used for operations	—	(3,725)	—	(3,725)
Net change in value of beneficial interest in split interest agreement	—	(1,009)	—	(1,009)
Change in funded status of pension plans	(23,840)	—	—	(23,840)
Adjustment to pension measurement date	(1,464)	—	—	(1,464)
Other	249	—	(51)	198
Change in net assets	(30,161)	(4,902)	(49)	(35,112)
Net assets at June 30, 2009	348,168	43,986	13,821	405,975
Excess of revenues over expenses	28,116	—	—	28,116
Unrealized gain on investments	—	1,860	13	1,873
Net assets released from restrictions used for the purchase of property and equipment	2,902	(2,902)	—	—
Restricted gifts and bequests	—	8,206	—	8,206
Net assets released from restrictions used for operations	—	(3,122)	—	(3,122)
Net change in value of beneficial interest in split interest agreement	—	123	—	123
Change in funded status of pension plans	(7,852)	—	—	(7,852)
Other	180	(87)	86	179
Change in net assets	23,346	4,078	99	27,523
Net assets at June 30, 2010	$ 371,514	48,064	13,920	433,498

See accompanying notes to consolidated financial statements.

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 27,523	(35,112)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	54,871	52,066
(Gain) loss on disposal of equipment	(378)	109
Change in funded status of pension plans	7,852	23,840
Adjustment to pension measurement date	—	1,464
Provision for bad debts	46,558	59,912
Realized and unrealized gains and losses on investments	(14,284)	43,448
Restricted gifts and bequests	(8,206)	(6,922)
Change in beneficial interest of split interest agreement	(123)	1,009
Earnings on investments in unconsolidated affiliates	(398)	(550)
Change in operating assets and liabilities:		
Increase in patient service receivables, net	(41,293)	(48,889)
Decrease in other receivables	1,892	93
Increase (decrease) in pledges receivable	634	(43)
Increase in inventory	(4,553)	(4,186)
Increase in prepaid expenses	(2,438)	(1,779)
Decrease in accounts payable and accrued liabilities, and accrued salaries, wages, and benefits	(16,054)	(3,917)
(Decrease) increase in advances from third-party payors	(1,537)	4,321
Increase (decrease) in other current and long-term liabilities	2,214	(154)
Net cash provided by operating activities	52,280	84,710
Cash flows from investing activities:		
Increase in donor restricted investments	(130)	(3,567)
(Increase) decrease in long-term investments	(26,684)	13,164
Decrease (increase) in assets limited as to use	21,293	(13,852)
(Investment in) distributions from unconsolidated affiliates	(193)	274
Increase in deferred financing costs	—	(77)
Additions to operating property	(58,253)	(73,527)
Proceeds from the sale of property	545	51
Acquisition of physician practices	(2,950)	—
Increase (decrease) in other assets	29	(249)
Net cash used in investing activities	(66,343)	(77,783)
Cash flows from financing activities:		
Payment on debt and capital lease obligations	(4,865)	(4,589)
Proceeds from issuance of debt	—	—
Restricted gifts and bequests	8,206	6,922
Net cash provided by financing activities	3,341	2,333
Net (decrease) increase in cash and cash equivalents	(10,722)	9,260
Cash and cash equivalents:		
Beginning of year	123,054	113,794
End of year	$ 112,332	123,054
Supplemental cash flow disclosures:		
Cash paid during the year for interest	$ 15,637	14,518
Cash paid during the year for income taxes	4	—
Additions to property and equipment in exchange for capital lease obligations	836	3,462
Accounts payable related to purchase of operating property	10,195	8,065

See accompanying notes to consolidated financial statements.

(1) Organization

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

LifeBridge's consolidated financial statements include the following entities:

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

> *BJHF* – BJHF was formed to hold and manage investments for the purpose of providing support to Sinai. A majority of the members of BJHF's Board also hold Board positions at LifeBridge and Sinai.
>
> *CHSF* – CHSF was formed concurrently with the acquisition of Children's Hospital, to hold assets formerly held by Children's Hospital and its affiliates. A majority of the directors of CHSF are directors or employees of Sinai. CHSF is accounted for as a subsidiary of Sinai.
>
> *Sinai Clinical Professional, LLC (SCP)* – SCP was formed August 1, 2009 concurrently with the acquisition of Clinical Associates, P.A. SCP is a limited liability company providing multi–specialty medical care. SCP's is accounted for as a subsidiary of Sinai.

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

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

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

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

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

LAA – LAA is a limited liability company that provides anesthesia services to Northwest Hospital.

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

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

> *Practice Dynamics, Inc. (PDI)* – PDI is a management service organization that provides management services to Sinai, Northwest, and affiliated and independent community based medical practices in the State of Maryland.
>
> *LifeBridge Health and Fitness, LLC (LBHF)* – LBHF operates a fitness and wellness center in Pikesville, Maryland.
>
> *Sinai Eldersburg Real Estate, LLC (SERE)* – This company operates the Northwest Hospital Medical Care Center, a medical office building in Eldersburg, Maryland.
>
> *Surgical Oncology Associates, Inc. (SOA)* – SOA is a for-profit corporation that provides medical and surgical care.
>
> *David L. Zisow, LLC (Zisow)* – Zisow is a limited liability company that provides medical and surgical care.
>
> *General Surgery Specialists, LLC (GSS)* – GSS is a limited liability company that provides surgical care.
>
> *BW Primary Care, LLC (BWPC)* – BWPC is a limited liability company that provides medical care.
>
> *LifeBridge Community Practices, LLC (LCP)* – LCP was formed August 1, 2009 concurrently with the acquisition of Clinical Associates, P.A. LCP is a limited liability company that provides management and other services to SCP.
>
> *The Center for Urologic Specialties, LLC (URS)* – URS is a limited liability company that provides medical and comprehensive urologic care.

In addition, Investments holds interests in, among other entities, the Surgicenter of Baltimore, LLP (a freestanding ambulatory surgical center in Owings Mills, Maryland) and Cherrywood Limited Partnership (a nursing home located in Reisterstown, Maryland).

On August 1, 2009 LifeBridge acquired Clinical Associates, P.A. (Clinical), a multi-specialty medical care for $2,950, which approximates the fair market value of Clinical's net assets purchased. LifeBridge accounted for the acquisition under the purchase method of accounting in accordance with U.S. generally accepted accounting principles. Accordingly, LifeBridge recorded goodwill of $2,423 which was subsequently written off, and is included in depreciation, amortization, and gain/loss on the sale of assets in the accompanying consolidated statements of operations as of June 30, 2010. The results of operations for

Clinical are included in the accompanying consolidated statements of operations as of June 30, 2010, and include net patient service revenues and expenses (excluding goodwill) of approximately $24,000.

(2) Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All majority owned and direct member entities are consolidated. The accompanying consolidated financial statements include the accounts of LifeBridge Health, Inc. and Subsidiaries (the Corporation). All entities where the Corporation exercises significant influence, but does not 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) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

(d) Assets Limited as to Use

Assets limited as to use primarily consists of assets held by trustees under bond indenture agreements, a self-insured workers' compensation reserve fund, and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified in the consolidated balance sheets at June 30, 2010 and 2009.

(e) 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.

(f) Investments and Assets Limited as to Use or Restricted

The Corporation's investment portfolio is considered trading and is classified as current or noncurrent assets based on management's intention as to use. All debt and equity securities are reported at fair value principally based on quoted market prices on the consolidated balance sheets.

The Corporation has investments in alternative investments, primarily hedge funds of funds totaling $34,694 and $23,304 at June 30, 2010 and 2009, respectively. These funds utilize various types of debt and equity securities and derivative instruments in their investment strategies. Alternative investments are recorded under the equity method.

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

Investments limited as to use or restricted include assets held by trustees under bond indenture, self-insurance trust arrangements, 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. Amounts from these funds required to meet current liabilities have been classified in the consolidated balance sheets as current assets. 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 are 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 or adjusted cost if the investment was previously determined to be other-than-temporarily impaired. Unrealized gains and losses are included in other income (expense), net within the excess of revenue over expenses.

(g) 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.

(h) Deferred Financing Costs and Other Assets

Deferred financing costs and other assets consists primarily of deferred financing costs, notes receivable, and the cash surrender value of split dollar life insurance. The deferred financing costs are amortized using the effective interest method over the term of the related debt. Amortization expense was $76 and $77 for the years ended June 30, 2010 and 2009, respectively. Such amortization is included in depreciation and amortization in the consolidated financial statements.

(i) Beneficial Interest in Split Interest Agreement

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

(j) Advances from Third-Party Payors

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

(k) Self-Insurance Programs

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

(l) Other Long-Term Liabilities

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

(m) Donor-Restricted Gifts

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

(n) Net Patient Service Revenue

Net patient service revenue for Sinai and Northwest (the Hospitals) and the chronic hospital component of Levindale is recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) and, accordingly, reflects actual charges to patients based on rates in effect during the period in which the services are rendered. The Hospitals have charge per case (CPC) agreements with the HSCRC that are renewed annually. These CPC agreements establish a prospectively approved average charge per inpatient case (defined as hospital admissions plus births) and an estimated case mix index. These approved CPC targets are adjusted during the rate year for actual changes in case mix. The CPC agreements allow hospitals to adjust approved unit rates, within certain limits, to achieve the average charge per case target for each rate year ending June 30. To the extent that the actual average charge per case exceeds the target, the overcharge will reduce the approved target for future years. Under the CPC target methodology, the Hospitals monitor their average CPC compared to HSCRC case mix adjusted targets on a monthly basis. In 2010, the HSCRC implemented a charge per visit (CPV) methodology for hospital-based outpatient services, which is similar in nature to the CPC inpatient methodology discussed above. The CPV methodology establishes prospectively approved average charges per outpatient visit for approximately 85% of outpatient services provided. The remaining outpatient services are charged using the established HSCRC unit rates.

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

Medicaid reimburses Levindale and Courtland for services rendered in their long-term care facilities based on their actual costs, up to certain predetermined limits, and the condition and requirements of the patients. Reimbursement is at an interim rate with the final settlement determined after submission of annual cost reports and audits thereof. Estimated retroactive adjustments are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. At June 30, 2010, Levindale and Courtland had open Medicaid cost reports for the years ended June 30, 2010 and 2009.

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

(o) Charity Care

Sinai, Northwest, and Levindale provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the facilities do not pursue the collection of amounts determined to qualify as charity care, those amounts are not reported as revenue. The amount of charity care provided during 2010 and 2009, based on patient charges foregone, was $17,966 and $16,656, respectively.

(p) 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.

Investments and its incorporated subsidiaries account for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

(q) 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 reported period. Actual results could differ from those estimates.

(r) 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 LifeBridge's 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.

(s) 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 in the balance sheet and to recognize any changes in that funded status through unrestricted net assets. 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 and 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 (effective by fiscal year 2009 for the Corporation) and requires the disclosure in the notes to the consolidated financial statements to contain 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.

(t) Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended June 30, 2010, the Corporation evaluated subsequent events through October 22, 2010, representing the date on which the accompanying audited consolidated financial statements were issued.

(u) New Accounting Pronouncements

In December 2008, the FASB issued ASC Topic 958, *Not-for-Profit Entities Section 715, Compensation – Retirement Benefits.* The purpose of Topic 958, Section 715 is to enhance disclosures and provide users with information regarding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan and events in the economy and markets that could have a significant effect on the value of plan assets. The disclosures about plan assets required by Topic 958, Section 715 are to be provided for fiscal years ending after December 15, 2009. The Corporation has adopted this disclosure requirement for the year ended June 30, 2010.

In September 2009, the FASB released ASU No. 2009-12, *Fair Value Measurements and Disclosures* (Topic 820): *Investments in Certain Entities That Calculate Net Asset Value.* ASU 2009-12 amends ASC Topic 820 and allows a reporting entity, as a practical expedient, to estimate fair value of certain alternative investments at the net asset value as reported by the investee entity in instances where the net asset value has been calculated in a manner consistent with ASC Topic 946, *Financial Services, Investment Companies*.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities* (Topic 954): *Measuring Charity Care for Disclosure.* ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Corporation on July 1, 2011. The Corporation is currently evaluating the impact on its disclosures of the adoption of this pronouncement.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities* (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries.* The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for the Corporation on July 1, 2011. The Corporation is currently evaluating the impact on its financial position of the adoption of this pronouncement.

(Dollars in thousands)

(v) Reclassifications

Certain prior year amounts have been reclassified to conform with current period presentation, the effect of which is not material.

(3) Investments

Investments, which consist of assets limited as to use, donor-restricted, and long term investments in the accompanying consolidated balance sheets, are stated at fair value as of June 30, 2010 and 2009, and consist of the following:

	2010	2009
Assets limited as to use:		
Self-insurance fund:		
Mutual funds	$ 3,294	—
Equities	4,922	10,908
U.S. Treasury	14,491	12,763
Alternative Investments	2,088	—
Bonds	13,001	18,122
Self-insurance fund	37,796	41,793
Debt service fund:		
Mutual funds	9,394	9,312
Construction fund:		
Mutual funds	2,910	20,288
Assets limited as to use	50,100	71,393
Less current portion	(12,304)	(29,600)
Assets limited as to use, net of current portion	$ 37,796	41,793
Donor-restricted investments:		
Cash and cash equivalents	$ 16,588	14,585

(Dollars in thousands)

The remaining investments restricted by donors are included in long term investments, pledges receivable, and beneficial interest as of June 30, 2010 and 2009, respectively. Of these amounts, $31,139 and $28,454 are included in long term investments as of June 30, 2010 and 2009, respectively:

		2010	**2009**
Long-term investments:			
Cash and cash equivalents	$	1,382	1,379
Money market		2,654	2,942
Mutual funds		107,901	89,075
Equities		65,993	56,395
Bonds		17,662	16,334
Real estate investment trust		2,027	1,701
Alternative investments		32,606	23,304
	$	230,225	191,130

Investment income and gains and losses on long-term investments, donor restricted investments, and assets limited as to use are comprised of the following for the years ended June 30, 2010 and 2009:

		2010	**2009**
Investment income:			
Interest income and dividends	$	11,263	8,808
Realized gains (losses) on sale of securities		2,891	(19,212)
Investment income (loss)		14,154	(10,404)
Unrealized gains (losses) on trading securities		9,520	(18,510)
Other changes in net assets:			
Changes in unrealized gains on temporarily and permanently restricted net assets		1,873	(5,726)
Total investment return	$	25,547	(34,640)

(4) Pledges Receivable

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

(Dollars in thousands)

Sinai, Northwest, and Levindale have recorded total pledges as of June 30, 2010 and 2009 as follows:

		2010	2009
Gross pledges receivable	$	15,508	16,890
Less:			
Discount for time value of money		(2,290)	(2,905)
Allowance for uncollectible accounts		(2,340)	(2,473)
	$	10,878	11,512

Total future payments are as follows:

Less than one year	$	3,984
One to five years		8,298
Five years and thereafter		3,226
	$	15,508

(5) Property and Equipment

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

	Estimated useful life		2010	2009
Land		$	2,747	2,747
Land improvements	8 to 20 years		9,261	9,141
Building and improvements	10 to 40 years		506,870	435,536
Fixed equipment	8 to 20 years		63,400	74,753
Movable equipment	3 to 15 years		254,967	246,089
Construction in progress			31,159	58,766
			868,404	827,032
Less accumulated depreciation			(467,103)	(442,913)
Property and equipment, net		$	401,301	384,119

Depreciation, amortization and gain/loss on sale of assets was $54,493 and $52,175 for the years ended June 30, 2010 and 2009, respectively. Of this, depreciation expense was $52,462 and $52,096 for the years ended June 30, 2010 and 2009, respectively.

Included in property and equipment is building and equipment, net of accumulated amortization, of $17,249 and $18,859 for the years ended June 30, 2010 and 2009, respectively, financed with capital lease obligations. Accumulated amortization related to the building and equipment under capital leases was $7,981 and $5,503 at June 30, 2010 and 2009, respectively.

(Dollars in thousands)

(6) Long-Term Debt and Capital Lease Obligations

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

		2010	2009
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 2008	$	280,440	282,885
Capital leases		17,379	18,964
		297,819	301,849
Less current portion		(5,043)	(4,514)
Unamortized premium		2,980	3,097
Long-term debt, net	$	295,756	300,432

In January 2008, the Maryland Health and Higher Educational Facilities Authority (the Authority) issued $285,815 in bonds (Series 2008 Bonds) on behalf of LifeBridge and several of its subsidiaries (the Obligated Group). The proceeds of the Series 2008 Bonds were loaned to the Obligated Group pursuant to a Master Loan Agreement with MHHEFA. As security for the performance of the bond obligation under the Master Loan Agreement, the Authority maintains a security interest in the revenue of the obligors. The agreement provides for principal payments on July 1 of each year, beginning on July 1, 2008 and continuing through 2047. The Series 2008 loan bears interest at a weighted fixed rate of 5.35%.

The Obligated Group under the Master Loan Agreement includes, LifeBridge, Sinai, Northwest, Levindale, CHSF and BJHF. Each member of the Obligated Group are jointly and severally liable for repayment of the obligations under the Master Loan Agreement.

The Master Loan Agreement requires the Obligated Group to adhere to certain covenants, including limitations on mergers, disposition of assets, 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 as of the last day of each fiscal year and a Liquidity Covenant, which requires the Hospital to maintain 65 days cash on hand, measured as of December 31 and June 30 in each fiscal year. In the fiscal year ended June 30, 2010, the Hospital met all of its financial covenants as of December 31, 2009 and June 30, 2010.

Capital Leases

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:

	Long-term debt	Capital lease obligations
2011	$ 2,560	4,231
2012	2,685	4,139
2013	2,825	3,705
2014	2,965	3,539
2015	3,120	3,239
Thereafter	266,285	9,304
	$ 280,440	28,157
Less: interest portion		(10,778)
		$ 17,379

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

(7) Line of Credit

Sinai maintains a $5,000 line of credit with M&T Bank. As of June 30, 2010 and 2009, there were no balances outstanding on this line of credit.

(8) Temporarily and Permanently Restricted Net Assets

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

	2010	2009
Healthcare services:		
Capital equipment/construction	$ 32,240	30,051
Other healthcare services:		
Service grants	611	267
Donor-specified healthcare services	5,442	4,537
Enrichment and research	9,771	9,131
	$ 48,064	43,986

Permanently restricted net assets of $13,920 and $13,821 at June 30, 2010 and 2009, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

(Dollars in thousands)

(9) Employee Benefit Plans

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

As discussed in note 2(s), Sinai and Levindale adopted the recognition and disclosure provisions of Topic 958, Section 715, which requires companies to recognize the funded status of defined benefit pension plans as a net asset or liability on the balance sheet. As of June 30, 2009, the Corporation recognized a reduction in unrestricted net assets of $1,464 related to the change in measurement date for plan assets and liabilities.

The following table sets forth the Plans' funded status and amounts recognized in the accompanying consolidated financial statements as of June 30, 2010 and 2009:

		2010	2009
Measurement date		June 30, 2010	June 30, 2009
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	106,971	96,094
Service cost		5,496	4,840
Interest cost		6,328	6,190
Actuarial loss		12,737	4,412
Benefits paid		(4,139)	(3,892)
Expenses paid from assets		(381)	(673)
Benefit obligation at end of year		127,012	106,971
Change in plan assets:			
Fair value of plan assets at beginning of year		63,218	77,490
Actual return on plan assets		6,752	(15,718)
Company contributions		15,389	6,012
Benefits paid		(4,139)	(3,893)
Expenses paid from assets		(381)	(673)
Fair value of plan assets at end of year		80,839	63,218
Funded status	$	(46,173)	(43,753)

(Dollars in thousands)

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

		2010	2009
Amounts recognized in the consolidated balance sheets:			
Other current (assets) liabilities, net	$	(586)	4,847
Other long-term liabilities		46,759	38,906
	$	46,173	43,753
Amounts recognized in unrestricted net assets:			
Net actuarial loss	$	43,978	35,524
Prior service cost		2,781	3,382
	$	46,759	38,906
Accumulated benefit obligation at the end of the year	$	108,604	90,898

Net periodic pension expense for the years ended June 30, 2010 and 2009 was as follows:

		2010	2009
Service cost	$	5,496	4,840
Interest cost		6,328	6,190
Expected return on plan assets		(4,969)	(6,026)
Amortization of net loss		2,434	252
Amortization of prior service cost		601	601
Net periodic benefit cost	$	9,890	5,857

The estimated net actuarial loss and prior service cost to be amortized from unrestricted net assets into net periodic pension benefit cost over the next fiscal year are $3,073 and $601, respectively.

(Continued)

(Dollars in thousands)

Actuarial assumptions used were as follows:

	2010	2009
Assumptions used to determine annual pension expense:		
Discount rate	6.20%	6.70%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00
Assumptions used to determine end-of-year liabilities:		
Discount rate	5.50%	6.20%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00
Plan asset allocation:		
Asset category:		
Cash and cash equivalents	2.00%	1.00%
Fixed income/debt securities	28.00	21.00
Equities and mutual funds	52.00	63.00
Other	18.00	15.00
Total	100.00%	100.00%

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

	Target
Target allocation on assets:	
Equity securities and alternative investments	75%
Debt securities	25

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

Years ending June 30:	
2011	$ 4,613
2012	5,502
2013	6,259
2014	5,467
2015	8,362
2016 – 2019	48,814

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 1½% of the participants' salaries for employees who have been in the NW Plan from 1 to 5 years, 4% for those in the plan from 6 to 19 years, and 6½% thereafter. It is Northwest's policy to fund pension costs as they accrue. Pension expense was approximately $1,706 and $1,426 for the years ended June 30, 2010 and 2009, 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 companies under Investments maintain a defined contribution plan for employees meeting certain eligibility requirements. Eligible employees can also make contributions. Under the Plan, Investments may elect to match a percentage of eligible employees' contributions each year.

Certain LifeBridge entities maintain a nonqualified deferred compensation plan for key employees and physicians. LifeBridge 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.

(10) Regulation and Reimbursement

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

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

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

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

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation.

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicaid and Medicare Services (CMS) and the HSCRC. This agreement is based upon a waiver from Medicare prospective pay system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act and will continue as long as all third-party payors elect to be reimbursed in Maryland under this program and the rate of increase for costs per hospital inpatient admission in Maryland is below the national average.

(11) Related-Party Transactions

(a) 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.

(b) Other

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

(12) Income Taxes

At June 30, 2010, Investments has approximately $73,409 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 2030.

The net operating loss carryforwards created a net deferred tax asset of approximately $29,033 and $26,958 as of June 30, 2010 and 2009, 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, 2010 and 2009.

(Dollars in thousands)

(13) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2010 and 2009 are as follows:

		2010	2009
Professional liability (note 14)	$	43,189	42,259
Pension liability		46,759	38,905
Asset retirement obligation		3,260	3,260
Deferred compensation		3,791	3,140
Other		1,261	820
	$	98,260	88,384

(14) Self-Insurance Programs

(a) Professional Liability

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

(b) Workers' Compensation

Sinai, Northwest, Levindale, and LAA are insured for workers' compensation liability through a combination of self-insurance and excess insurance. Losses for asserted and unasserted claims are accrued based on estimates derived from past experiences, as well as other considerations including the nature of each claim or incident, relevant trend factors, and estimates of incurred but not reported amounts. The Corporation has accrued a liability for known and incurred but not reported claims of $4,807 and $4,358 at June 30, 2010 and 2009, respectively, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

Management believes this accrual is adequate to provide for all workers' compensation claims that have been incurred through June 30, 2010. All other entities have occurrence-based commercial insurance coverage.

The Corporation maintains a stop-loss policy on workers' compensation claims. The Corporation is insured for individual claims exceeding $350.

(Dollars in thousands)

(c) Health Insurance

The Corporation is self-insured for employee health claims. Under the self-insurance plan, the Corporation accrued a liability of $2,044 and $2,045 at June 30, 2010 and 2009, respectively, for known claims and incurred but not reported claims, which is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

(15) Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009 is as follows:

	2010	2009
Medicare	28%	27%
Medicaid	11	10
Blue Cross	14	15
Commercial and other	35	35
Patients	12	13
	100%	100%

(16) Commitments and Contingencies

(a) Litigation

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

(b) Letters of Credit

M&T Bank has established an open letter of credit for Sinai of $211 (which has not been drawn upon) to guarantee Sinai's obligation for liabilities assumed as a member of a risk retention group during the period 1988 to 1994. Additionally, M&T Bank has established a standby letter of credit of $2,283 to serve as collateral as required by the Maryland Office of Unemployment Insurance.

(c) Contract Commitments

On February 18, 2010, the Corporation entered into a construction contract for the expansion and renovation of operating rooms and support departments on Sinai's fourth floor. The guaranteed maximum price for this construction project totals $4,867, subject to revisions due to project modifications. At June 30, 2010, approximately $4,770 remains outstanding under this commitment.

(Continued)

(Dollars in thousands)

On December 8, 2009, a construction contract was entered into for a build out and expansion of a three story long-term care building at Levindale. The guaranteed maximum price for this construction project totals $22,564 subject to revisions due to project modifications. Approximately $20,568 remains outstanding at June 30, 2010.

(d) Operating Leases

The Corporation has entered into operating lease agreements for hospital equipment and office space, which expire on various dates through year 2015. Total rental expense for the years ended June 30, 2010 and 2009 for all operating leases was approximately $15,124 and $10,644, respectively. Future minimum lease payments under all noncancelable operating leases are as follows:

Year ending June 30:		
2011	$	7,680
2012		7,217
2013		4,029
2014		3,566
2015		3,243
	$	25,735

(17) Functional Expenses

The Corporation provides general healthcare services to patients. Expenses for the years ended June 30, 2010 and 2009 related to providing these services are as follows:

		2010	2009
Healthcare services	$	751,056	705,203
General and administrative		216,096	234,246
	$	967,152	939,449

(18) 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

Cash and cash equivalents, patient service receivables, other receivables, inventory, prepaid expenses, pledges receivable, accounts payable, accrued expenses, 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), beneficial interest in foundation asset, 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.

Investments 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) Liabilities

Long-term debt – The Series 2008 MHHEFA Bonds bear interest at fixed rates and had a carrying amount and fair value of $286,181 and $259,682 at June 30, 2010 and 2009, respectively. The fair value of the Corporation's long-term debt is measured using quoted offered-side prices when quoted market prices are available. If quoted market prices are not available, the fair value is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Corporation's credit standing. In determining an appropriate spread to reflect its credit standing, the Corporation considers credit default swap spreads, bond yields of other long-term debt, and interest rates currently offered for similar debt instruments of comparable maturities by the Corporation's bankers as well as other banks that regularly compete to provide financing to the Corporation.

(c) Fair Value Hierarchy

The Corporation adopted ASC Topic 820, *Fair Value Measurements and Disclosures*, on July 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 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 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(Dollars in thousands)

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 17,970	—	—	17,970
Money market	2,654	—	—	2,654
Equity securities and mutual funds	194,414	—	—	194,414
Real estate investments trust	—	2,027	—	2,027
Treasury securities	14,491	—	—	14,491
Government securities	852	—	—	852
Corporate obligations	—	29,811	—	29,811
Total assets	$ 230,381	31,838	—	262,219

The following table presents assets that are measured at fair value on a recurring basis as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 15,964	—	—	15,964
Money market	2,942	—	—	2,942
Equity securities and mutual funds	185,978	—	—	185,978
Real estate investments trust	—	1,701	—	1,701
Treasury securities	12,763	—	—	12,763
Government securities	6,045	—	—	6,045
Corporate obligations	—	28,411	—	28,411
Total assets	$ 223,692	30,112	—	253,804

(Continued)

(Dollars in thousands)

The fair values of pension plan assets held by PNC Institutional Investments by level at June 30, 2010 were as follows:

		Pension benefits – Plan assets			
		Level 1	**Level 2**	**Level 3**	**Total**
Assets:					
Cash and cash equivalents	$	1,999	—	—	1,999
Fixed income:					
Short/intermediate bonds		—	13,555	—	13,555
Global fixed income		—	4,814	—	4,814
Convertible bonds		—	4,033	—	4,033
Equities:					
Large cap value		15,737	—	—	15,737
International equity		9,841	—	—	9,841
Large cap growth		8,735	—	—	8,735
Large cap core		7,602	—	—	7,602
Alternatives:					
Hedge funds		—	—	10,230	10,230
Commodities		—	—	4,293	4,293
Total assets	$	43,914	22,402	14,523	80,839

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2010

(Dollars in thousands)

Assets		Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Current assets:								
Cash and cash equivalents	$	53,864	36,045	10,786	423	11,214	—	112,332
Donor restricted investments		15,104	429	1,055	—	—	—	16,588
Assets limited as to use, current portion		9,485	2,740	79	—	—	—	12,304
Patient service receivables, net of allowance for doubtful accounts of $24,601 in 2010		75,094	20,566	9,828	1,950	1,038	—	108,476
Other receivables		12,248	800	306	10	6,047	(14,556)	4,855
Inventory		17,551	2,241	73	22	26	—	19,913
Prepaid expenses		2,837	425	110	12	7,504	—	10,888
Pledges receivable, current portion		2,204	604	222	—	—	—	3,030
Total current assets		188,387	63,850	22,459	2,417	25,829	(14,556)	288,386
Long-term investments		92,686	61,759	23,037	—	52,743	—	230,225
Donor restricted investments		—	—	—	—	—	—	—
Assets limited as to use, net of current portion		—	—	—	—	37,796	—	37,796
Pledges receivable, net of current portion		6,735	946	167	—	—	—	7,848
Property and equipment, net		241,140	96,293	21,353	4,262	38,253	—	401,301
Deferred financing costs, net of accumulated amortization of $183 in 2010		1,337	462	15	—	—	—	1,814
Beneficial interest in split interest agreement		3,379	—	—	—	—	—	3,379
Investment in unconsolidated affiliates		—	—	—	—	122,485	(120,308)	2,177
Other assets, net of accumulated amortization of $333 in 2010		3,848	532	250	—	2,554	—	7,184
Total assets	$	537,512	223,842	67,281	6,679	279,660	(134,864)	980,110

(Continued)

Schedule 1

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2010

(Dollars in thousands)

Liabilities and Net Assets	**Sinai Hospital Consolidated**	**Northwest Hospital**	**Levindale Hebrew Geriatric Ctr & Hospital**	**Courtland Gardens**	**Other LifeBridge Entities**	**Eliminations**	**LifeBridge Health Consolidated**
Current liabilities:							
Accounts payable and accrued liabilities	$ 48,100	13,820	4,628	611	14,851	(14,556)	67,454
Accrued salaries, wages, and benefits	34,432	7,266	3,455	625	3,201	—	48,979
Advances from third-party payors	21,835	4,732	3,194	149	—	—	29,910
Current portion of long-term debt and capital lease obligations	2,578	652	22	—	1,791	—	5,043
Other current liabilities	650	226	13	—	321	—	1,210
Total current liabilities	107,595	26,696	11,312	1,385	20,164	(14,556)	152,596
Other long term liabilities	42,341	1,186	11,203	33	43,497	—	98,260
Long-term debt and capital lease obligations, net of current portion	209,021	71,456	2,375	—	12,904	—	295,756
Total liabilities	358,957	99,338	24,890	1,418	76,565	(14,556)	546,612
Net assets:							
Unrestricted	127,966	120,894	40,948	5,261	196,753	(120,308)	371,514
Temporarily restricted	40,892	3,610	1,443	—	2,119	—	48,064
Permanently restricted	9,697	—	—	—	4,223	—	13,920
	178,555	124,504	42,391	5,261	203,095	(120,308)	433,498
Total liabilities and net assets	$ 537,512	223,842	67,281	6,679	279,660	(134,864)	980,110

See accompanying independent auditors' report.

Schedule 2

LIFEBRIDGE HEALTH, INC. AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2010

(Dollars in thousands)

	Sinai Hospital Consolidated	Northwest Hospital	Levindale Hebrew Geriatric Ctr & Hospital	Courtland Gardens	Other LifeBridge Entities	Eliminations	LifeBridge Health Consolidated
Unrestricted revenues, gains and other support:							
Net patient service revenue	$ 625,101	203,817	76,291	13,220	10,438	—	928,867
Net assets released from restrictions used for operations	2,815	—	19	—	288	—	3,122
Other operating revenue	32,482	2,314	1,467	92	44,014	(41,162)	39,207
Total operating revenues	660,398	206,131	77,777	13,312	54,740	(41,162)	971,196
Expenses:							
Salaries and employee benefits	329,621	103,251	46,236	8,353	21,545	3	509,009
Supplies and drugs	122,120	29,438	14,401	1,049	1,954	—	168,962
Purchased services	122,519	31,965	14,086	2,975	26,444	(41,165)	156,824
Depreciation and amortization	28,670	9,307	2,221	476	13,819	—	54,493
Repairs and maintenance	10,860	3,350	994	106	432	—	15,742
Provision for bad debts	27,022	15,712	1,796	1,026	1,002	—	46,558
Interest	10,147	3,464	115		1,838	—	15,564
Total expenses	650,959	196,487	79,849	13,985	67,034	(41,162)	967,152
Operating gain (loss)	9,439	9,644	(2,072)	(673)	(12,294)	—	4,044
Other income, net:							
Investment income	9,624	7,258	2,650	—	4,142	—	23,674
Earnings on equity investments	—	—	—	—	398	—	398
Total other income, net	9,624	7,258	2,650	—	4,540	—	24,072
Excess (deficiency) of revenues over expenses	$ 19,063	16,902	578	(673)	(7,754)	—	28,116

See accompanying independent auditors' report.