MaineGeneral Health and Subsidiaries

Consolidated Financial Statements and
Supplementary Information and Government Reports
in Accordance with OMB Circular A-133 and
Maine Uniform Accounting and Auditing
Practices Act for Community Agencies

Years Ended June 30, 2014 and 2013
With Independent Auditors' Report

MAINEGENERAL HEALTH AND SUBSIDIARIES

Reports on Federal Awards in Accordance
With OMB Circular A-133

Years Ended June 30, 2014 and 2013

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BAKER | NEWMAN | NOYES

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
MaineGeneral Health and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of MaineGeneral Health and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, 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 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 accounting principles generally accepted in the United States of America; this 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Maine Uniform Accounting and Auditing Practices for Community Agencies* (MAAP). 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.

The Board of Trustees
MaineGeneral Health and Subsidiaries

Opinion

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MaineGeneral Health and Subsidiaries as of June 30, 2014 and 2013, and the results of their operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2014 MaineGeneral Health and Subsidiaries adopted Accounting Standards Updates 2012-01 with respect to deferred refundable and nonrefundable advance fees. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the accompanying schedule of expenditures of department agreements, as required by MAAP, are presented for purposes of additional analysis and are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014 on our consideration of MaineGeneral Health and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MaineGeneral Health and Subsidiaries' internal control over financial reporting and compliance.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
September 26, 2014

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	$ 27,786,734	$ 18,938,349
Investments	4,056,757	3,389,118
Patient accounts receivable, net of allowance for doubtful accounts of approximately $24,421,000 in 2014 and $24,179,000 in 2013	105,625,989	60,193,712
Supplies	6,401,351	4,573,785
Pledges receivable, net of allowance	1,487,995	1,662,863
Prepaid expenses and other current assets	10,931,018	13,787,217
Estimated third-party payor settlements – due from State of Maine	–	38,000,000
Total current assets	156,289,844	140,545,044
Investments:		
Unrestricted	44,073,679	29,978,085
Assets whose use is limited or restricted:		
Board-designated:		
Funded depreciation	2,112,159	1,859,318
New hospital	–	48,310,323
Other	15,481,056	13,698,081
Assets held in trust under debt and other agreements	33,356,461	46,248,420
Beneficial interest in perpetual trusts	11,508,766	10,471,988
Permanently donor-restricted	6,616,640	5,945,676
Temporarily donor-restricted	4,408,921	24,389,798
	117,557,682	180,901,689
Beneficial interest in workers' compensation trust	2,214,467	2,386,992
Total investments and assets whose use is limited or restricted	119,772,149	183,288,681
Pledges receivable, net of current portion	2,160,048	3,770,321
Property and equipment	448,321,937	394,543,656
Assets available for sale	–	706,625
Other assets, net	8,306,348	8,964,943
Total assets	$ 734,850,326	$ 731,819,270

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities:		
Accounts payable and accrued expenses	$ 23,540,236	$ 25,907,974
Accrued employee compensation and compensated absences	30,570,130	26,526,934
Estimated third-party payor settlements	14,847,473	9,724,013
Other current liabilities	22,792,380	22,245,800
Current portion of long-term debt	4,077,965	3,381,823
Total current liabilities	95,828,184	87,786,544
Long-term debt, less current portion	317,359,524	321,437,495
Accrued pension cost	22,815,359	26,632,000
Deferred refundable and nonrefundable advance fees	18,562,588	18,414,295
Other long-term liabilities	3,892,153	3,595,859
Total liabilities	458,457,808	457,866,193
Commitments and contingencies		
Net assets:		
Unrestricted	250,210,148	227,712,431
Temporarily restricted	8,056,964	29,822,982
Permanently restricted	18,125,406	16,417,664
Total net assets	276,392,518	273,953,077
Total liabilities and net assets	$ 734,850,326	$ 731,819,270

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenue:		
Net patient service revenue	$ 410,414,809	$ 392,024,113
Other revenue	28,839,604	29,970,476
Net assets released from restrictions used for operations	2,476,234	590,549
Total operating revenue	441,730,647	422,585,138
Operating expenses:		
Salaries and wages	206,637,106	196,975,748
Employee benefits	45,555,778	46,046,605
Supplies and other	165,038,283	151,221,350
Depreciation and amortization	26,025,662	16,847,378
Interest	12,812,499	1,592,472
Total operating expenses	456,069,328	412,683,553
(Loss) income from operations	(14,338,681)	9,901,585
Nonoperating gains (losses):		
Investment income	1,184,933	1,367,208
Realized gains on investments, net	6,345,929	2,763,879
(Loss) gain on disposal of property and equipment, net	(259,877)	664,118
Contributions	325,938	380,174
Loss on refinancing of debt	–	(6,555)
Total nonoperating gains (losses), net	7,596,923	5,168,824
(Deficiency) excess of revenue over expenses before gain on discontinued operations	(6,741,758)	15,070,409
Gain on discontinued operations	2,488,295	–
(Deficiency) excess of revenue over expenses	(4,253,463)	15,070,409
Change in net unrealized gains on investments	696,436	1,514,965
Pension-related changes other than net periodic pension cost	491,251	12,016,810
Net assets released from restrictions used for capital acquisitions	25,563,493	12,807,117
Increase in unrestricted net assets	$ 22,497,717	$ 41,409,301

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted net assets:		
(Deficiency) excess of revenue over expenses	$ (4,253,463)	$ 15,070,409
Change in net unrealized gains on investments	696,436	1,514,965
Pension-related changes other than net periodic pension cost	491,251	12,016,810
Net assets released from restrictions used for capital acquisitions	25,563,493	12,807,117
Increase in unrestricted net assets	22,497,717	41,409,301
Temporarily restricted net assets:		
Contributions	5,096,929	5,577,012
Investment income	226,246	314,576
Realized gains on investments, net	878,286	438,029
Change in net unrealized gains on investments	72,248	197,018
Net assets released from restrictions	(28,039,727)	(13,397,666)
Decrease in temporarily restricted net assets	(21,766,018)	(6,871,031)
Permanently restricted net assets:		
Contributions	626,592	17,221
Change in market value of perpetual trusts	1,036,778	520,244
Change in net unrealized (losses) gains on investments	(2,591)	2,529
Realized gains on investments, net	46,963	19,672
Increase in permanently restricted net assets	1,707,742	559,666
Increase in net assets	2,439,441	35,097,936
Net assets, beginning of year	273,953,077	238,855,141
Net assets, end of year	$276,392,518	$273,953,077

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets	$ 2,439,441	$ 35,097,936
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Amortization of bond premium	(120,408)	(95,708)
Depreciation and amortization	26,025,662	16,847,378
Amortization of nonrefundable advance fees	(200,849)	(278,321)
Provision for doubtful accounts	24,446,388	23,003,973
Loss on refinancing of debt	–	6,555
Pension related changes other than net periodic pension cost	(491,251)	(12,016,810)
Change in market value of perpetual trusts	(1,036,778)	(520,244)
Net change in unrealized gains on investments	(766,093)	(1,714,512)
Realized gains on sale of investments	(7,271,178)	(3,221,580)
Equity earnings on joint ventures	(1,545,404)	(1,202,951)
Loss (gain) on disposal of property and equipment, net	259,877	(664,118)
Restricted contributions	(5,723,521)	(5,594,233)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(69,878,665)	(41,628,579)
Supplies	(1,827,566)	(568,618)
Prepaid expenses and other assets	3,453,489	(5,332,545)
Notes receivable	3,466	3,653
Accounts payable and accrued expenses	9,664,626	2,886,216
Other current liabilities	4,589,776	4,815,634
Estimated third-party payor settlements	43,123,460	(550,095)
Other liabilities and accrued pension cost	(3,029,096)	(3,843,421)
Net cash provided by operating activities	22,115,376	5,429,610
Cash flows from investing activities:		
Proceeds from sale of investments	164,368,082	217,731,233
Purchases of investments	(88,155,670)	(52,306,669)
Purchases of property and equipment	(93,650,236)	(182,633,685)
Proceeds from sale of property and equipment	2,490,685	2,543,781
Distributions from joint ventures	1,373,235	436,937
Net cash used by investing activities	(13,573,904)	(14,228,403)

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

June 30, 2014 and 2013

	2014	2013
Cash flows from financing activities:		
Payments on long-term debt and line of credit, net	$ (3,261,421)	$ (3,545,848)
Proceeds from issuance of long-term debt	–	16,889,617
Bond premium	–	174,130
Bond issuance costs	–	(100,584)
Amounts paid to refinance debt	–	(18,735,000)
Advance fees received	2,366,578	3,670,604
Refunds of advance fees	(2,017,436)	(2,822,107)
Restricted contributions	3,219,192	12,613,395
Net cash provided by financing activities	306,913	8,144,207
Increase (decrease) in cash and cash equivalents	8,848,385	(654,586)
Cash and cash equivalents, beginning of year	18,938,349	19,592,935
Cash and cash equivalents, end of year	$ 27,786,734	$ 18,938,349
Supplemental disclosure:		
Cash paid for interest (interest of approximately $8 million and $17 million in 2014 and 2013, respectively, was capitalized as part of the construction project and approximately $10 million was accrued at both June 30, 2014 and 2013)	$ 20,813,392	$ 19,282,059
Supplemental disclosure of noncash activities:		
Construction amounts remaining in accounts payable	$ 4,225,344	$ 16,257,708
Contributed securities	4,289,470	8,521,424

See accompanying notes.

1. Corporate Organization

MaineGeneral Health (MGH) is a nonprofit corporation which operates an acute care hospital, home care and community mental health services, long-term care facilities, physician practices, and senior housing through its subsidiaries. Significant subsidiaries include MaineGeneral Medical Center and its subsidiary, Kennebec Risk, LLC (collectively, the Medical Center), MaineGeneral Community Care (MGCC) (formerly HealthReach Network), MaineGeneral Rehabilitation & Long Term Care (MGRLTC) (formerly MaineGeneral Rehabilitation & Nursing Care), and MaineGeneral Retirement Community (MGRC).

On July 1, 2012, Kennebec Risk, LLC (the Captive) began operations as a subsidiary of the Medical Center. The purpose of the Captive is to engage in the business of insuring various types of risks as a captive insurance company licensed in the State of Vermont. The Medical Center provided equity contributions in the amount of $206,375 and $750,000 for the years ended June 30, 2014 and 2013, respectively to partially capitalize the Captive. MGH also secured a standby letter of credit with an approved amount of $1,250,000 for additional capitalization of the Captive.

On March 21, 2013, MaineGeneral Health Associates (MGHA), a corporation that had been organized as a subsidiary of MGH, was dissolved.

2. Summary of Significant Accounting Policies

General

The accompanying consolidated financial statements include the accounts of MGH and its subsidiaries (collectively, the Company).

Principles of Consolidation

Upon consolidation, significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP). For purposes of display, transactions deemed by management to be ongoing and central to the provision of health care services are reported as operating revenue and operating expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of collectability of accounts receivable, contractual allowances, estimated settlements with third-party payors, self-insurance reserves, underlying assumptions used for the actuarial computations for the defined benefit pension plan, fair value of assets available for sale and conditional asset retirement obligations.

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursements are subject to negotiation, audit and/or final determination by the third-party payor. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. The differences between amounts previously estimated and amounts subsequently determined to be receivable or payable to third-party payors increased net patient service revenue by approximately $1,200,000 and $3,000,000 for the years ended June 30, 2014 and 2013, respectively.

The balance sheet at June 30, 2013 includes $38,000,000, which represents amounts due from the State of Maine under the MaineCare program. The amounts recorded were determined based upon applicable regulations. In September 2013, the Company received payment in the amount of $47,000,000 from the State of Maine for amounts due under the MaineCare program. The payments represent settlements on interim cost reports and are estimates pending final settlement. Due to the complex nature of such regulations and the significant problems the State has encountered with its claims payment system, there is at least a reasonable possibility that recorded estimates will change by a material amount at final settlement.

Revenues from the Medicare and Medicaid programs accounted for approximately 36% and 15%, respectively, of the Company's net patient service revenue for the year ended June 30, 2014, and 35% and 14%, respectively, for the year ending June 30, 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in substantial compliance with all applicable laws and regulations.

Compliance with such laws and regulations may be subject to future government review and interpretation, as well as significant regulatory action including repayment of previously billed and collected revenue, fines, penalties and exclusion from the Medicare and Medicaid programs.

Charity Care

The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Company does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments that are readily convertible into cash and purchased with original maturities of three months or less. Cash and cash equivalents held in the investment portfolio are excluded from the cash and cash equivalents line item on the balance sheet.

2. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

The allowance for doubtful accounts is provided based on an analysis by management of the collectibility of outstanding balances. Management considers the age of outstanding balances and past collection efforts in determining the reserve for doubtful accounts. Accounts deemed uncollectible are charged off against the established reserve.

Investments and Investment Income

Investments in equity securities with readily determinable market values and all investments in debt securities are recorded at fair market value. At June 30, 2014 and 2013, the Company held interests in limited partnerships, also known as alternative investments. Interests in limited partnerships are generally recorded at fair value. Securities for which no quotations or valuations are readily available are carried at fair value as estimated by management using values provided by external investment managers. The Company believes that these valuations are a reasonable estimate of fair value as of June 30, 2014 and 2013, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the (deficiency) excess of revenue over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the (deficiency) excess of revenue over expenses.

Interest and dividend income and realized gains on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on short-term investments, certain workers' compensation trust assets, and cash and cash equivalents, are reported as other revenue. Investment income (including realized gains and losses on investments, interest and dividends) from all other investments, unless donor-restricted, is reported as nonoperating gains.

On a periodic basis, the Company reviews declines in the value of securities below historical cost and records an impairment charge (included in the performance indicator) for those declines deemed to be other-than-temporary. There were no impairment charges recorded as of June 30, 2014 and 2013.

Investments within current assets are those that management intends to use for current operations.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets, statements of operations, and changes in net assets.

Supplies

Supplies are stated at the lower of weighted average cost or market (net realizable value).

Deferred Costs

Financing costs incurred in conjunction with the issuance of the Company's long-term debt have been capitalized and are being amortized over the respective terms of the debt using the straight-line method, which approximates the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost or, if received by gift or donation, at fair value at the date of the gift. The costs of repairs and maintenance are charged to expense as incurred. Significant improvements which increase the useful life of the asset by greater than one year are capitalized. Depreciation is computed under the straight-line method, generally utilizing estimated useful lives recommended by the American Hospital Association.

Upon disposition of assets, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposition is reported as nonoperating activity.

Interest costs incurred on borrowed funds during the period of construction of capital assets, net of the related interest income, 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 (deficiency) excess of revenue over expenses. 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 an increase in temporarily restricted net assets. Absent explicit donor stipulations about how 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.

Conditional Asset Retirement Obligations

The Company recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations.

As of June 30, 2014 and 2013, $397,525 and $615,161, respectively, of conditional asset retirement obligations are included within other long-term liabilities on the consolidated balance sheet.

Accrued Insurance Reserves

The Company established the Captive on July 1, 2012 as a limited liability company with the Medical Center as the sole member to self-fund the Company's and its employed physicians' malpractice losses. The Captive insures the first $2 million per medical incident/$6 million in the aggregate of the hospital professional liability, employed physician medical professional liability, and general liability risks of the Company. Claims exceeding $2 million are covered under a separate policy with an insurance company. The Captive assesses monthly premiums to the Company, based on actuarial analyses of anticipated losses and projected operating costs of the Captive. The Company establishes reserves for anticipated claims and determines malpractice insurance expense based on actual experience, physician census, and estimates of incurred but not reported claims.

2. Summary of Significant Accounting Policies (Continued)

The Company manages a self-insured irrevocable trust fund for workers' compensation claims, which covers MGH and all subsidiaries. The self-insurance program is managed with the assistance of a professional insurance consultant and is funded according to actuarial projections approved by the State of Maine Bureau of Insurance (the Bureau). Reinsurance has been purchased with limits which conform to the requirements of the Bureau. The Company establishes reserves for each claim and determines workers' compensation expense based on actual claims experience, employee census, and historical trends as evaluated by a professional actuary. The expense is allocated among the relevant consolidated entities based on a weighted premium calculated by employee job classification.

MGH maintains a self-insured health benefit arrangement for MGH and all subsidiaries. Employee Benefit Plan Administration, Inc. serves as the third-party administrator of the plan and provides specific stop loss coverage with a deductible per individual of $250,000 for the years ended June 30, 2014 and 2013. MGH establishes reserves for anticipated claims and determines health insurance expense based on actual claims experience, employee census, and estimates of incurred but not reported claims.

Deferred Refundable and Nonrefundable Advance Fees

In July 2012, the FASB issued ASU 2012-01, which addresses the accounting for continuing care retirement communities' refundable advance fees. This update clarifies that an entity should classify an advance fee paid by a resident upon entering into a continuing care contract as deferred revenue when a continuing care retirement company has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. Refundable advance fees at June 30, 2014 and 2013 were approximately $16,920,000 and $16,748,000, respectively.

Prior to this change in accounting principle, the Company had recorded refundable advance fees as deferred revenue which was amortized to income based on the remaining useful life of the facility. The Company recorded the impact of the change in accounting principle retrospectively by recording a cumulative effect adjustment to unrestricted net assets on July 1, 2012. The impact of this change resulted in an additional liability and a corresponding decrease in unrestricted net assets for refundable entrance fees as follows:

	As Previously Presented	Cumulative Effect Adjustment	As Restated
Net assets at July 1, 2012	$243,539,262	$(4,684,121)	$238,855,141
Net assets at June 30, 2013	279,309,122	(5,356,045)	273,953,077
Deferred refundable and nonrefundable advance fees at June 30, 2013	13,058,250	5,356,045	18,414,295
Other revenues for year ended June 30, 2013	4,421,084	(671,924)	3,749,160

2. **Summary of Significant Accounting Policies (Continued)**

Nonrefundable advance fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income over future periods based on the estimated life of each resident or contract term if shorter. Nonrefundable advance fees at June 30, 2014 and 2013 were approximately $1,643,000 and $1,666,000, respectively.

Assets Whose Use is Limited or Restricted

Assets whose use is limited include assets set aside by the Board of Trustees (the Board) for future capital investments or program development over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by trustees under bond indenture agreements; assets held in trust for funding workers' compensation costs; and assets whose use is restricted including assets contributed by donors for specific purposes (temporarily restricted), and perpetual trusts and permanent endowment funds (permanently restricted).

Other Revenue

Unrestricted investment income on short-term investments, assets held in trust under debt agreements, certain insurance reserve assets, and interest income on operating cash, bond reserve funds, and temporary investments are included in other revenue in the amount of $529,456 and $184,277 in 2014 and 2013, respectively. Rental revenue, grant revenue, senior housing revenue, cafeteria sales, cooperative rebates, joint venture income, practice management revenue and other miscellaneous revenue are also included in other revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Company 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 the gift is actually received or the conditions are met. 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 to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Beneficial Interest in Perpetual Trusts

The Company is the beneficiary of several trust funds administered by trustees or other third parties. Trusts, wherein the Company has an irrevocable right to receive the income earned on the trust assets in perpetuity, are recorded as permanently restricted net assets at the fair value of the trust at the date of receipt and are included in donor-restricted funds in the consolidated balance sheet. Income distributions from the trusts are reported as investment income that increase unrestricted net assets, unless restricted by the donor. Annual changes in market value of the trusts are recorded as increases or decreases to permanently restricted net assets.

2. Summary of Significant Accounting Policies (Continued)

Temporarily and Permanently Restricted Net Assets

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

Retirement Plans

The Company sponsors a noncontributory, defined benefit plan established for the purpose of providing employees of MaineGeneral Health and certain of its affiliates with certain retirement benefits. The Company elected to freeze the plan as of December 31, 2004. Consequently, benefits shall be no greater than the monthly retirement benefit accrued as of December 31, 2004. The Company's funding policy is to make cash contributions to the plan in amounts sufficient to comply with the requirements of ERISA as computed by the plan's actuary.

The Company also sponsors defined contribution retirement plans which cover substantially all employees who have met certain eligibility requirements of the respective plans. See Note 12 for further information on the retirement plans.

(Deficiency) Excess of Revenue Over Expenses

The consolidated statements of operations include (deficiency) excess of revenue over expenses. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenue over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets) and pension related changes other than net periodic pension cost.

Tax Status

The Company and its affiliates have been determined to be tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements for these tax-exempt organizations.

The Captive is a limited liability company (LLC) under the Federal Income Tax Code and as a LLC passes its income or loss for federal and state tax purposes to its members.

Tax-exempt organizations could be required to record an obligation for income taxes as the result of a tax position they have historically taken on various tax exposure items including unrelated business income or tax status. Under guidance issued by the Financial Accounting Standards Board, assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense. The Company has evaluated the tax positions taken on its filed tax returns. The Company has concluded no uncertain income tax positions exist at June 30, 2014. The Company's tax years from 2011 through 2014 are open and subject to examination.

2. Summary of Significant Accounting Policies (Continued)

Functional Expenses

The Company provides general health services to area residents. Expenses incurred by the Company for the years ended June 30, 2014 and 2013 were predominantly related to this mission.

Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through September 26, 2014 which is the date the consolidated financial statements were available to be issued.

3. Net Patient Service Revenue

The Company has entered into payment agreements with Medicare, MaineCare and various commercial insurance carriers. The basis for payment under these agreements includes prospectively determined rates per discharge, episode of care, per day or per visit, prospectively determined rates for outpatient episodes of care, discounts from established charges, cost (subject to limits) and fee tables.

The estimated third-party payor settlements reflected on the balance sheet represent the estimated net amounts to be received or paid under reimbursement contracts with the Centers for Medicare and Medicaid Services (CMS), MaineCare and any commercial payors with settlement provision. Settlements have been issued through 2004 for Medicare and through 2008 for Medicaid.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Company believes that it is substantially in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing specific to the Company. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known.

The amounts which the Company charged for patient services at established rates, along with the difference between the amounts charged and the amounts realized under third-party reimbursement formulas (contractual adjustments) and the amounts classified as charity care, are shown below for the years ended June 30:

	2014	2013
Gross patient service charges	$ 839,566,492	$ 837,029,706
Contractual adjustments	(392,809,513)	(405,758,497)
Charity care	(11,895,782)	(16,243,123)
Provision for bad debt	(24,446,388)	(23,003,973)
Net patient service revenue	$ 410,414,809	$ 392,024,113

3. Net Patient Service Revenue (Continued)

Revenue from third-party payors and the uninsured are summarized as follows at June 30:

	2014	2013
Medicare	$148,042,160	$ 145,077,226
Medicaid	61,871,661	58,677,440
Commercial	206,566,539	194,075,974
Patients	18,380,837	17,197,446
	434,861,197	415,028,086
Provision for bad debt	(24,446,388)	(23,003,973)
	$410,414,809	$ 392,024,113

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Company's allowance for doubtful accounts as a percent of gross accounts receivable was 13.6% at June 30, 2014 and 17.3% at June 30, 2013. The Company's allowance for doubtful accounts remained consistent at approximately $24 million in 2014 and 2013.

4. Community Benefit and Charity Care

The Company provides comprehensive healthcare services to the community regardless of a patient's ability to pay.

- The CarePartners program has been in place since 1998 and, to date, has served approximately 19,000 uninsured individuals in the region, providing primary care, preventive services, hospital services, pharmaceuticals, care management and specialty care by participating providers.

- For children and families, the Company offers several health promotion programs throughout the year, including breast feeding support, nutrition education, and parenting education.

4. Community Benefit and Charity Care (Continued)

- Last year, the Medical Center provided approximately 400 community health events, including free education sessions, support meetings and screenings, to approximately 23,000 participants. It provided approximately 160 seasonal flu vaccinations at its community clinics, more than 5,100 flu vaccinations at area schools, and more than 900 free health screenings, including sun safety and blood pressure.

- For adults and seniors, the Company provides classes and support groups aimed at health and wellness, including cancer prevention, diabetes care, and Alzheimer's, along with support groups for area individuals and families with a variety of health problems, including cancer, bariatric surgery, brain injury, stroke and hospice.

- The Medical Center's Physician Hospital Organization is part of an employer healthcare collaborative designed to help improve employees' health, concentrating on high risk behaviors and chronic disease. Overall, the goals are to help stabilize rising healthcare costs and enhance individuals' quality of life.

The Company accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies, which define charity services as those services for which no payment is anticipated. In assessing a patient's eligibility for charity care, the Medical Center and MGRLTC use federally established poverty guidelines. Free care eligibility has been established at 175% of federal poverty levels with a sliding scale up to 225%. MGCC provides certain community alcohol rehabilitation services under sliding fee arrangements. In addition, the Medical Center, MGRLTC and MGRC will, at times, accept reduced payments when management identifies cases of financial hardship which do not conform to the Company's formal guidelines.

Charity care is measured based on services provided at established rates but is not included in net patient service revenue. Costs and expenses incurred in providing these services are included in operating expenses. The Company determines the costs associated with providing charity care by calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. Under this methodology, the estimated costs of caring for charity care patients for the years ended June 30, 2014 and 2013 were approximately $5,518,000 and $5,945,000, respectively. Charges for services rendered to individuals from whom payment is expected and ultimately not received are written off and included as part of the provision for bad debt.

5. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2014	2013
Patient accounts receivable	$175,169,045	$139,422,371
Allowance for contractual adjustments	(45,122,231)	(55,043,905)
Allowance for doubtful accounts	(24,420,825)	(24,178,577)
Advance payments from third-party payors	–	(6,177)
	$105,625,989	$ 60,193,712

6. Pledges Receivable

Pledges receivable represent unconditional promises to give. Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The present value of estimated future cash flows has been measured utilizing risk-free rates of return adjusted for market and credit risk established at the time a contribution is received.

Pledges are expected to be collected as follows at June 30:

	2014	2013
Within one year	$1,546,658	$1,765,651
One to five years	2,105,731	3,702,266
Due after five years	333,627	505,167
Pledges receivable	3,986,016	5,973,084
Less allowance for uncollectible pledges	(131,844)	(229,012)
Present value discount	(206,129)	(310,888)
Pledges receivable, net	$3,648,043	$5,433,184

A grant commitment of $35,000,000 was received from a private foundation for the purposes of construction, furnishing, and associated landscaping of a new regional replacement hospital and Thayer Center for Health, a comprehensive outpatient center (the Project). The commitment is comprised of a core support payment of $25,000,000 subject to certain conditions, with payments of approximately $8,333,000 annually on December 31, 2011, December 31, 2012 and June 30, 2013, respectively, to be made to the Medical Center. At June 30, 2013, all payments had been received. Provided the conditions for the core support payment are satisfied, the foundation has agreed to pay up to an additional $10,000,000 to the Medical Center for the purpose of matching charitable contributions to the Project, subject to certain conditions. Through June 30, 2014, approximately $5,000,000 has been received and recorded as contributions on this additional pledge. The commitment letter also confirmed the foundation's pledge of collateral for a surety bond to be obtained by the Medical Center for the Debt Service Reserve Fund associated with the issuance of tax exempt bonds by the Maine Health and Higher Educational Facilities Authority (MHHEFA) to finance the Project. Refer to Note 10 for further discussion.

In 2014, a grant commitment of $4,000,000 was received from a private foundation for the purpose of establishing a Healthy Living Resource Center at the Company. The purpose of the center is to provide the Company's patients and their families, employees and the community with educational wellness opportunities and supportive resources to enhance their health and mitigate the incidence of chronic diseases. The grant commitment is contingent upon a financial commitment from the Company to the center and related health initiatives. Through June 30, 2014, $800,000 of this pledge has been earned and recorded as contributions.

7. Investments

The cost and market value of investments held at June 30 are as follows:

	2014		2013	
	Cost	Market	Cost	Market
Short-term investments:				
Cash and cash equivalents	$ 542,067	$ 542,067	$ 273,964	$ 273,965
Certificate of deposit	250,625	250,625	250,000	250,000
Fixed income mutual funds	3,264,065	3,264,065	2,680,267	2,865,153
Total short-term investments	4,056,757	4,056,757	3,204,231	3,389,118
Long-term investments:				
Cash and cash equivalents	16,152,994	16,152,994	15,617,868	15,617,868
Accrued interest	36,088	36,088	38,656	38,656
Guaranteed income contract	19,255,949	19,255,949	96,732,470	96,732,470
U.S. Government securities	2,132,917	2,115,911	1,522,829	1,529,889
Corporate equity securities	1,073,332	1,297,016	2,909,721	3,594,525
Common stock mutual funds	20,693,036	23,374,409	7,050,229	7,529,320
Limited partnerships	9,026,545	10,365,934	15,054,799	18,975,129
Global asset allocation mutual funds	17,404,835	18,110,124	19,954,279	19,669,263
Fixed income mutual funds	16,372,138	16,881,484	6,043,555	6,081,496
Corporate debt securities	–	–	1,725,486	1,699,983
International government securities	–	–	740,214	735,884
Beneficial interest in charitable remainder trusts	518,239	673,474	521,278	612,210
Beneficial interest in perpetual trusts	9,739,466	11,508,766	9,367,364	10,471,988
Total long-term investments	112,405,539	119,772,149	177,278,748	183,288,681
Total investments	$116,462,296	$123,828,906	$180,482,979	$186,677,799

Included in limited partnerships are commingled funds with a market value of $10,365,934 and $18,975,129 at June 30, 2014 and 2013, respectively, whose holdings are in U.S. and international equities.

The Medical Center has a beneficial interest in certain perpetual trusts established by donors for the benefit of the Medical Center. The Medical Center receives the investment income from the perpetual trusts; however, the principal and gains of the trusts are to be maintained perpetually in the trusts and will not become available to the Medical Center. The perpetual trusts are included in permanently restricted net assets.

The underlying fair value of investments, which are traded on national exchanges (except for managed funds), is based on the final reported sales price on the last business day of the year. The fair value of investments traded in over-the-counter markets is based on the average of the last recorded bid and asked price.

7. Investments (Continued)

Investment return, net is comprised of the following for the years ended June 30:

	2014	2013
Unrestricted:		
Investment income	$ 1,184,933	$ 1,367,208
Investment income included in other revenue	529,456	184,277
Change in net unrealized gains on investments	696,436	1,514,965
Realized gains on investments, net	6,345,929	2,763,879
Total unrestricted	8,756,754	5,830,329
Temporarily restricted:		
Investment income	226,246	314,576
Change in net unrealized gains on investments	72,248	197,018
Realized gains on investments, net	878,286	438,029
Total temporarily restricted	1,176,780	949,623
Permanently restricted:		
Change in net unrealized (losses) gains on investments	(2,591)	2,529
Change in market value of perpetual trusts	1,036,778	520,244
Realized gains on investments, net	46,963	19,672
Total permanently restricted	1,081,150	542,445
	$11,014,684	$7,322,397

The Company has adopted ASC 820-10 which establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities' own assumptions about how market participants would value an asset based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Following is a description of the Company's valuation methodologies for assets measured at fair value:

Level 1 – Assets classified as Level 1 represent items that are traded in active exchange markets and for which valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Assets classified as Level 1 include cash and cash equivalents, accrued interest, U.S. Government securities, mutual funds, corporate equity securities and international government securities.

Level 2 – Valuations for assets traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. Assets classified as Level 2 include certificates of deposit, guaranteed income contracts, limited partnerships and corporate debt securities.

7. **Investments (Continued)**

Level 3 – Valuations for assets that are derived from other valuation methodologies not based on direct market exchange, dealer or broker traded transactions. Assets classified as Level 3 include hedge fund of funds, beneficial interests in perpetual trusts and charitable remainder trusts.

The Medical Center is a beneficiary of irrevocable perpetual trusts. The amounts reflected as an asset on the balance sheet are valued at the fair value of the Medical Center's interest in the perpetual trust. At June 30, 2014 and 2013, the Medical Center has recorded the beneficial interest in the perpetual trusts of $11,508,766 and $10,471,988, respectively.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The financial instruments carried at fair value by caption on the consolidated balance sheets by the ASC 820-10 valuation hierarchy defined previously are as follows at June 30:

	Level 1	Level 2	Level 3	Total
2014				
Short-term investments:				
Cash and cash equivalents	$ 542,067	$ –	$ –	$ 542,067
Certificates of deposit	–	250,625	–	250,625
Fixed income mutual funds	3,264,065	–	–	3,264,065
Total short-term investments	3,806,132	250,625	–	4,056,757
Long-term investments:				
Cash and cash equivalents	16,152,994	–	–	16,152,994
Accrued interest	36,088	–	–	36,088
Guaranteed income contracts	–	19,255,949	–	19,255,949
U.S. Government securities	2,115,911	–	–	2,115,911
Corporate equity securities	1,297,016	–	–	1,297,016
Common stock mutual funds	23,374,409	–	–	23,374,409
Limited partnerships	–	10,365,934	–	10,365,934
Global asset allocation mutual funds	18,110,124	–	–	18,110,124
Fixed income mutual funds	16,881,484	–	–	16,881,484
Total long-term investments	77,968,026	29,621,883	–	107,589,909
Beneficial interest in charitable remainder trusts	–	–	673,474	673,474
Beneficial interest in perpetual trusts	–	–	11,508,766	11,508,766
Total investments	$81,774,158	$ 29,872,508	$12,182,240	$ 123,828,906

7. Investments (Continued)

	Level 1	Level 2	Level 3	Total
2013				
Short-term investments:				
Cash and cash equivalents	$ 273,965	$ –	$ –	$ 273,965
Certificates of deposit	–	250,000	–	250,000
Fixed income mutual funds	2,865,153	–	–	2,865,153
Total short-term investments	3,139,118	250,000	–	3,389,118
Long-term investments:				
Cash and cash equivalents	15,617,868	–	–	15,617,868
Accrued interest	38,656	–	–	38,656
Guaranteed income contracts	–	96,732,470	–	96,732,470
U.S. Government securities	1,529,889	–	–	1,529,889
Corporate equity securities	3,594,525	–	–	3,594,525
Common stock mutual funds	7,529,320	–	–	7,529,320
Limited partnerships	–	18,975,129	–	18,975,129
Global asset allocation mutual funds	19,669,263	–	–	19,669,263
Fixed income mutual funds	6,081,496	–	–	6,081,496
Corporate debt securities	–	1,699,983	–	1,699,983
International government securities	735,884	–	–	735,884
Total long-term investments	54,796,901	117,407,582	–	172,204,483
Beneficial interest in charitable remainder trusts	–	–	612,210	612,210
Beneficial interest in perpetual trusts	–	–	10,471,988	10,471,988
Total investments	$57,936,019	$117,657,582	$11,084,198	$ 186,677,799

The limited partnership investments are subject to certain redemption terms. Amounts may be redeemed with five days' notice at the end of a month based upon net asset value.

The following are a rollforward of the balance sheet amounts for financial instruments classified by the Company within Level 3 of the fair value hierarchy defined above for the years ended June 30:

	Charitable Remainder Trusts	Perpetual Trusts	Total Level 3 Assets
2014			
Fair value, July 1, 2013	$612,210	$10,471,988	$11,084,198
Change in value of charitable reminder trusts and perpetual trusts	61,264	1,036,778	1,098,042
Fair value, June 30, 2014	$673,474	$11,508,766	$12,182,240