7. Investments (Continued)

	Charitable Remainder Trusts	Perpetual Trusts	Total Level 3 Assets
2013			
Fair value, July 1, 2012	$588,987	$ 9,951,744	$10,540,731
Change in value of charitable reminder trusts and perpetual trusts	23,223	520,244	543,467
Fair value, June 30, 2013	$612,210	$10,471,988	$11,084,198

8. Property and Equipment

Property and equipment consisted of the following at June 30:

	2014	2013
Land and improvements	$ 17,824,963	$ 9,745,225
Buildings	421,390,920	136,158,269
Equipment	194,434,908	140,030,587
Construction in progress	9,343,051	293,620,587
	642,993,842	579,554,668
Less accumulated depreciation	(194,671,905)	(185,011,012)
	$ 448,321,937	$ 394,543,656

Depreciation expense for the years ended June 30, 2014 and 2013 was approximately $25,796,000 and $16,583,000, respectively. The Company retired approximately $18,363,000 of assets in fiscal 2014 which consisted largely of fully depreciated, obsolete equipment, as compared to $6,148,000 in fiscal 2013.

Construction Contracts

The Company has construction contracts totaling approximately $13 million for renovations to the Thayer Center for Health and, at June 30, 2014, the remaining commitment on the contract is approximately $6 million. The facility is being financed through a combination of internal and external financing (see Note 10).

9. Other Assets

Other assets were composed of the following at June 30:

	2014	2013
Deferred financing costs, net	$5,501,428	$5,731,437
Investment in joint ventures	2,568,034	2,395,865
Note receivable	40,427	43,893
Prepaid expenses	196,459	793,748
	$8,306,348	$8,964,943

Amortization expense related to deferred financing costs for the years ended June 30, 2014 and 2013 was approximately $230,000 and $264,000, respectively.

10. Long-Term Obligations

Long-term debt consisted of the following at June 30:

	2014	2013
2013A Series Revenue Bonds, interest at fixed rates ranging from 2.0% to 5.0%, maturing in various amounts through 2017	$ 1,862,250	$ 1,862,250
2011 Series Revenue Bonds, interest at fixed rates ranging from 4.0% to 7.5%, maturing in various amounts through 2041	280,750,000	280,750,000
2006 Series A Revenue Bonds, interest at fixed rates ranging from 3.5% to 5.0%, maturing in various amounts through 2025	24,035,735	25,755,735
Bangor Savings Bank term loan, interest at a fixed rate of 3.16%	13,250,000	14,750,000
Other notes payable	69,617	73,976
Capital lease obligation, payments in various amounts through 2021	356,507	393,569
	320,324,109	323,585,530
Net unamortized original issue premium/discount	1,113,380	1,233,788
	321,437,489	324,819,318
Less current portion	(4,077,965)	(3,381,823)
	$ 317,359,524	$ 321,437,495

In February 2006, the Medical Center and MGRC participated in a pooled financing of MHHEFA Series 2006A Revenue Bonds. The Medical Center borrowed approximately $30,113,000, including original issue premium of $1,073,000 to construct a cancer center and renovate emergency rooms at both Augusta and Waterville campuses. MGRC borrowed approximately $10,342,000, including original issue premium of $517,239, to construct an assisted living facility and to refinance debt in the amount of $3,112,239. Under the Master Indenture, the debt is collateralized by gross receipts of the Obligated Group (the Medical Center, MGH, MGCC, MGRLTC, MGRC and MGHA through March 2013 at which time it was dissolved). In accordance with the terms of the bond indenture, the Obligated Group is required to maintain certain financial covenants, including a minimum aggregate debt service coverage ratio of 1.20.

10. Long-Term Obligations (Continued)

In October 2009, a Supplemental Trust Indenture (the Trust Indenture) was executed between the Obligated Group and the Bank of New York Mellon Trust Company, N.A., as Master Trustee. Effective June 30, 2009 according to the Trust Indenture, MGRLTC's debt is guaranteed by the Obligated Group. In accordance with the terms of the Trust Indenture, MGRLTC's debt is subject to the Obligated Group's financial covenants, including maintaining a minimum aggregate debt service coverage ratio of 1.20.

In August 2011, the Medical Center entered into a Loan Agreement (the Agreement) with MHHEFA, under which MHHEFA loaned the proceeds of the sale of Series 2011 Revenue Bonds in the amount of $280,750,000 to the Medical Center. The proceeds of the Series 2011 Bonds, together with other available funds, was used to finance the construction and equipping of a new 192-bed replacement hospital (the Alfond Center for Health) located in Augusta, Maine. The Medical Center has granted MHHEFA a security interest in its equipment, a mortgage lien on the Alfond Center for Health and the Medical Center's Harold Alfond Cancer Center, and on the gross receipts of the Obligated Group. In connection with the Series 2011 Revenue Bonds, the Obligated Group must maintain a minimum aggregate debt service coverage ratio of 1.20. In addition to the debt service reserve fund, the Company also has obtained a $15,000,000 surety bond.

In April 2013, the Medical Center entered into a term loan agreement with Bangor Savings Bank. Under the terms of the loan agreement, the Medical Center is required to remit fixed monthly principal payments of $125,000, plus accrued interest at a fixed rate of 3.16% on the outstanding principal balance, commencing on May 19, 2013, until the maturity date of April 19, 2018, at which time the term note is due and payable in full. Under the loan agreement, the Medical Center has granted Bangor Savings Bank a first mortgage lien on its Waterville real estate. In accordance with the terms of the loan agreement, the Medical Center is required to maintain certain financial covenants, including a minimum debt service coverage ratio of 1.20, a maximum debt to capitalization ratio of 75%, and a minimum days cash on hand of 50 days.

In May 2013, MGRLTC participated in a pooled financing of MHHEFA Series 2013A Revenue Bonds in the amount of $1,862,250, plus original issue premium of $174,130, for the purpose of refinancing the MGRLTC Series 2003D Revenue Bonds. Under the Master Indenture, the debt is collateralized by gross receipts of the Obligated Group (the Medical Center, MGH, MGCC, MGRLTC and MGRC) and a security interest in MGRLTC's equipment and a mortgage lien on the facility. In accordance with the terms of the bond indenture, the Obligated Group is required to maintain certain financial covenants, including a minimum aggregate debt service coverage rate of 1.20.

Scheduled principal payments of long-term debt are as follows for the years ended June 30:

2015	$ 4,077,965
2016	4,301,699
2017	4,472,855
2018	11,322,384
2019	3,481,835
Thereafter	293,780,751
	$321,437,489

10. Long-Term Obligations (Continued)

In July 2012, MGH was issued a standby letter of credit by Wells Fargo Bank, N.A. through Bangor Savings Bank for the purpose of capitalizing the Captive. The maximum amount available under this agreement is $1,250,000. The interest rate, according to the agreement, is based on the Prime rate, and principal and interest payments are due upon demand. The letter of credit was renewed on July 1, 2014, with the same terms and is effective until July 6, 2015.

As part of the bond and note agreements the Company has with MHHEFA and the note payable with Bangor Savings, the Medical Center is required to fund and maintain certain bond funds. The total amounts held in these funds by a trustee are as follows at June 30:

	2014	2013
2013A MHHEFA Bond Debt Service Fund	$ 645,185	$ 1,903
2011 MHHEFA Bond:		
Construction Fund	–	148,072
Capitalized Interest Fund	15,217,025	28,890,606
Debt Service Fund	2,790,885	2,629,907
Debt Service Reserve Fund	11,182,103	11,182,099
2006A MHHEFA Bond Debt Service Fund	2,384,287	2,347,768
State of Maine Employee Health Commission Reserve Fund	1,136,976	1,048,065
	$33,356,461	$ 46,248,420

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted for the purchase of specific equipment, for building construction, or for specified uses by various departments as follows at June 30:

	2014	2013
Pledges receivable for construction and other purposes	$3,648,043	$ 5,433,184
New hospital	–	20,897,625
Equipment purchase	111,717	149,440
Amounts receivable from charitable remainder trusts	603,700	542,340
Education programs	485,249	525,452
Cancer care	204,387	136,275
Charity care	881,473	738,816
Accumulated realized/unrealized gains on investments for support of the Company	1,520,294	901,250
Other	602,101	498,600
	$8,056,964	$29,822,982

During 2014 and 2013, net assets were released from donor restrictions by making expenditures satisfying the restricted purposes of construction, charity care, acquisition of equipment, and other departmental operating costs of approximately $28,040,000 and $13,398,000, respectively.

11. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently restricted net assets, which include beneficial interests in perpetual trusts and certain endowment funds of the Company, are as follows at June 30:

	2014	2013
Scholarships	$ 238,323	$ 222,488
Education programs	373,212	373,162
Amounts receivable from charitable remainder trusts	69,774	69,870
Community health programs	235,286	235,286
Alzheimers care center	1,148,086	1,103,954
Medical Center support	1,465,813	1,465,813
Perpetual trusts	11,508,766	10,471,988
Equipment purchases	79,296	79,296
Charity care	1,974,780	1,974,779
Grounds maintenance	251,813	251,812
Healthy Living Resource Center	605,924	–
Other	174,333	169,216
	$18,125,406	$16,417,664

Net gains or losses on the sale of investments held by perpetual trusts are required to be added to or deducted from the principal of the trusts. Interest and dividend income from the perpetual trusts is unrestricted, and investment income (including net gains or losses on the sale of investments) related to the majority of the remaining permanently restricted net assets is temporarily restricted subject to use based on the Company's spending policy.

The Company's endowment funds consist of approximately 50 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified, in accordance with relevant state law as interpreted by the Board of Trustees, as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets include board-designated funds, and any accumulated income and appreciation thereon. Temporarily restricted net assets include accumulated appreciation on temporarily and permanently restricted funds. Permanently restricted net assets include contributions designated by donors to be invested in perpetuity to produce income for general or specific purposes.

The Company has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Company must hold in perpetuity or for a donor-specific period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a return of 8.0% over the long term. Actual returns in any given year may vary from this amount.

11. Temporarily and Permanently Restricted Net Assets (Continued)

To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Company targets a diversified asset allocation that places a greater emphasis on equity-based and fixed income investments to achieve its long-term objective within prudent risk constraints.

The Company has a policy of appropriating for distribution each year 4.5% of its endowment fund's moving average fair value over the prior 36 months as of June 30 of the preceding fiscal year in which the distribution is planned. In establishing this policy, the Company considered the long-term expected return on its endowment. Accordingly, over the long term, the Company expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Company's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

The endowment net asset composition by type of fund consisted of the following at June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2014				
Donor-restricted funds	$ –	$3,222,728	$18,125,406	$21,348,134
Board-designated funds	13,661,777	–	–	13,661,777
Total endowment funds	$13,661,777	$3,222,728	$18,125,406	$35,009,911
2013				
Donor-restricted funds	$ –	$2,351,685	$16,417,664	$18,769,349
Board-designated funds	12,105,699	–	–	12,105,699
Total endowment funds	$12,105,699	$2,351,685	$16,417,664	$30,875,048

11. Temporarily and Permanently Restricted Net Assets (Continued)

Changes in endowment net assets consisted of the following for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2014				
Endowment net assets, beginning of year	$12,105,699	$2,351,685	$16,417,664	$30,875,048
Investment return:				
Investment income	190,108	168,606	–	358,714
Net appreciation (realized and unrealized)	1,456,421	866,931	1,081,150	3,404,502
Total investment return	1,646,529	1,035,537	1,081,150	3,763,216
Contributions	127,770	298,061	626,592	1,052,423
Appropriation of endowment assets for expenditure	(218,221)	(462,555)	–	(680,776)
Endowment net assets, end of year	$13,661,777	$3,222,728	$18,125,406	$35,009,911
2013				
Endowment net assets, beginning of year	$10,803,219	$1,875,173	$15,857,998	$28,536,390
Investment return:				
Investment income	147,127	276,344	–	423,471
Net appreciation (realized and unrealized)	1,309,886	618,755	542,445	2,471,086
Total investment return	1,457,013	895,099	542,445	2,894,557
Contributions	74,134	–	17,221	91,355
Appropriation of endowment assets for expenditure	(228,667)	(418,587)	–	(647,254)
Endowment net assets, end of year	$12,105,699	$2,351,685	$16,417,664	$30,875,048

12. Retirement Plans

Effective December 31, 2004, MGH's Board of Directors approved the curtailment of MGH's noncontributory defined benefit plan which covers substantially all employees except employees of MGRLTC, MGCC and MGRC. Participation and benefit accruals were frozen under the Plan effective December 31, 2004. As a result, the projected benefit obligation equals the accumulated benefit obligation.

12. Retirement Plans (Continued)

Funded Status

The changes in benefit obligation and fair value of plan assets based on the measurement date and the amounts recognized in the consolidated financial statements consist of the following at June 30:

	2014	2013
Change in benefit obligation:		
Benefit obligation, beginning of year	$125,500,207	$133,417,373
Interest cost	5,714,142	5,332,998
Actuarial loss (gain)	10,601,559	(8,631,114)
Gross benefits paid	(4,939,140)	(4,619,050)
Accumulated benefit obligation, end of year	$136,876,768	$125,500,207
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 98,868,207	$ 90,389,452
Actual return on plan assets	16,689,569	7,880,044
Employer contributions	3,442,773	5,217,761
Gross benefits paid	(4,939,140)	(4,619,050)
Fair value of plan assets, end of year	$114,061,409	$ 98,868,207
Funded status:		
Fair value of plan assets	$114,061,409	$ 98,868,207
Projected benefit obligation	136,876,768	125,500,207
Funded status, amount recognized end of year (noncurrent liability)	$(22,815,359)	$(26,632,000)
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$ 35,065,957	$ 35,557,208

The components of periodic benefit cost for the plan is as follows for the years ended June 30:

	2014	2013
Components of net periodic benefit cost:		
Interest cost	$ 5,714,142	$ 5,332,998
Expected return on plan assets	(7,346,355)	(7,002,207)
Amortization of net loss	1,749,596	2,507,859
Net periodic benefit cost	$ 117,383	$ 838,650

The net actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost in 2015 is $1,691,320.

12. Retirement Plans (Continued)

The other changes in plan assets and benefit obligations recognized on the consolidated statements of changes in net assets are as follows at June 30:

	2014	2013
Change in net (gain) loss	$ (1,258,345)	$ 9,508,951
Amortization of net loss	1,749,596	2,507,859
Total recognized	$ 491,251	$12,016,810

The assumptions used to determine the benefit obligation and periodic benefit cost are as follows at June 30:

	2014	2013
Benefit obligation:		
Weighted average discount rate	4.10%	4.65%
Periodic benefit cost:		
Weighted average discount rate	4.65%	4.07%
Weighted average expected long-term rate of return on plan assets	7.50%	7.50%

Investment Policy and Asset Allocations

The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

The investment objectives for the assets of the plan are to minimize expected funding contributions and to meet or exceed the rate of return assumed for plan funding purposes over the long term. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives. Active and indexed investment managers are incorporated in the investment portfolio as deemed prudent.

Investment policies and strategies governing the assets of the plans are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers and the maintenance of a portfolio diversified by asset class, investment approach and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

12. Retirement Plans (Continued)

The weighted average asset allocations for the plan and the target allocation by asset category are as follows at June 30:

	2014 Target Allocation	2014	2013 Target Allocation	2013
Asset category:				
Large cap equity securities	20.0%	22.4%	25.0%	27.0%
Small cap equity securities	6.0	5.4	6.0	7.0
International equity securities	19.0	18.5	19.0	18.0
Fixed income securities	29.0	27.4	23.0	21.0
Global asset allocation fund	15.0	15.4	15.0	15.0
Hedge fund of funds	10.0	9.7	10.0	10.0
Other	1.0	1.2	2.0	2.0
	100.0%	100.0%	100.0%	100.0%

The plan's investments measured at fair value using the fair value hierarchy defined in Note 7 are as follows as of June 30:

	Level 1	Level 2	Level 3	Total
2014				
Large cap equity securities	$25,546,795	$ –	$ –	$ 25,546,795
Small cap equity securities	2,847,818	–	–	2,847,818
International equity securities	5,807,117	–	–	5,807,117
Limited partnerships	–	18,652,561	–	18,652,561
Fixed income securities	28,762,740	–	–	28,762,740
Global asset allocation fund	17,528,875	–	–	17,528,875
Cash and cash equivalents	1,360,793	–	–	1,360,793
Guaranteed investment contract	–	–	2,478,531	2,478,531
Hedge fund of funds	–	–	11,076,179	11,076,179
Total pension investment	$81,854,138	$18,652,561	$13,554,710	$114,061,409
2013				
Large cap equity securities	$26,216,090	$ –	$ –	$ 26,216,090
Small cap equity securities	3,100,090	–	–	3,100,090
International equity securities	5,027,716	–	–	5,027,716
Limited partnerships	–	16,688,965	–	16,688,965
Fixed income securities	18,452,952	–	–	18,452,952
Global asset allocation fund	14,629,375	–	–	14,629,375
Cash and cash equivalents	2,074,170	–	–	2,074,170
Guaranteed investment contract	–	–	2,681,306	2,681,306
Hedge fund of funds	–	–	9,997,543	9,997,543
Total pension investment	$69,500,393	$16,688,965	$12,678,849	$ 98,868,207

12. Retirement Plans (Continued)

The following summarizes changes in the fair value of the defined benefit plan's Level 3 assets:

	Guaranteed Investment Contract	Hedge Fund of Funds	Total Investments
Fair value, July 1, 2013	$2,681,306	$ 9,997,543	$ 12,678,849
Purchases	111,110	–	111,110
Sales	(313,885)	–	(313,885)
Net unrealized gains on investments	–	1,078,636	1,078,636
Fair value, July 1, 2014	$2,478,531	$11,076,179	$ 13,554,710
Fair value, July 1, 2012	$2,882,884	$ 7,425,000	$ 10,307,884
Purchases	164,971	1,000,000	1,164,971
Sales	(366,549)	–	(366,549)
Net unrealized gains on investments	–	1,572,543	1,572,543
Fair value, July 1, 2013	$2,681,306	$ 9,997,543	$ 12,678,849

Contributions

Expected contributions to the plan in 2015 are approximately $1,988,000.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

2015	$ 5,731,000
2016	6,114,000
2017	6,408,000
2018	6,845,000
2019	7,338,000
2020 – 2023	41,352,000

Defined Contribution Plan

The Company sponsors a 403(b) defined contribution plan which covers substantially all employees of the Company. Under this plan, the Company makes a matching contribution of 50% of any employee's voluntary pretax contributions up to 4% of eligible compensation effective January 1, 2013. Prior to that date, the Company had matched 50% of any employee's voluntary pretax contributions up to 6% of eligible compensation.

12. Retirement Plans (Continued)

The Company also sponsors a 401(a) defined contribution plan. The 401(a) plan is available to all employees who work 1,000 or more hours per year. Under this plan, the Company makes a core contribution equal to 2.0% of eligible compensation earned during the plan year. Prior to that date, the Company had made a core contribution equal to 2.5% of eligible compensation for all employees except for MGRLTC and MGRC. In addition, the Company makes a supplemental contribution of up to a maximum 9% of eligible compensation to eligible participants that meet certain age and years of service requirements except MGRLTC and MGRC.

The Company incurred approximately $7,873,000 and $8,574,000 of expenses in 2014 and 2013, respectively, for the 403(b) and 401(a) defined contribution plans.

Deferred Compensation Plan

The Company maintains a 457(b) deferred compensation plan which covers certain key employees of the Company. Under this plan, key employees may elect to supplement their retirement savings through the deferral of a portion of their compensation. This plan is maintained primarily for the purpose of providing deferred compensation for key employees under Section 201 of the Employee Retirement Income Security Act. The Company does not make any contributions to the plan and total assets at June 30, 2014 were approximately $6,191,000.

13. Malpractice Insurance

The Company insures its medical malpractice risks on a claims-made basis. In accordance with ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, at June 30, 2014 and 2013, the Company recorded a liability of $7,754,000 and $7,253,000, respectively, related to estimated professional liability losses relating to reported cases as well as potential incurred but not reported claims. The Company also recorded a receivable of $2,093,500 and $1,437,000 at June 30, 2014 and 2013, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. At June 30, 2014, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage.

On July 1, 2012, the Company formed Kennebec Risk, LLC, a wholly-owned captive insurance entity to set aside dedicated funding for professional and general liability losses for the Company's subsidiaries and employed physicians limited to $2,000,000 for each incident and an annual aggregate of $6,000,000. Claims exceeding the captive's limits are covered under a separate policy with a commercial insurance company carried by the Medical Center.

14. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are patient accounts receivable, cash equivalents and investments. The Company invests its cash, cash equivalents and marketable securities in debt instruments and interest bearing accounts at major financial institutions in excess of insured limits. The Company mitigates credit risk by limiting the investment type and maturity to securities that preserve capital, maintain liquidity and have a high credit quality.

14. Concentration of Credit Risk (Continued)

The Company grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The Company's accounts receivable from patients and third-party payors, exclusive of estimated settlements, were as follows at June 30:

	2014	2013
Medicare and Medicaid	41%	55%
Managed care	1	9
Commercial insurance	39	15
Anthem	10	6
Patients	9	15
	100%	100%

15. Commitments and Contingencies

Various legal claims, generally incidental to the conduct of normal business, are pending or have been threatened against the Company. The Company intends to defend vigorously against these claims. While ultimate liability, if any, arising from any such claim is presently indeterminable, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the financial condition of the Company.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Compliance with such laws and regulations is subject to government review and interpretations as well as regulatory actions unknown or unasserted at this time.

Operating Leases

The Company is committed under long-term operating leases for the rental of certain property. The leases expire at various dates through 2029. Property rental expenses for the years ended June 30, 2014 and 2013 were approximately $5,599,000 and $5,449,000, respectively. At June 30, 2014, the minimum commitments for property leases for the next five years are as follows:

2015	$5,095,000
2016	4,475,000
2017	4,046,000
2018	3,917,000
2019	3,981,000

16. Fair Value of Financial Instruments

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

Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accrued Expenses

The recorded amounts reported in the consolidated balance sheets for these accounts approximate their fair values based on their short-term nature.

Investments and Assets Whose Use is Limited or Restricted

These assets consist primarily of interest receivable, investments in money market funds, government securities, mutual funds, collective trusts, corporate debt securities, hedge funds and beneficial interest in perpetual trusts. Investment securities, 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 investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial position and operations. Determination of fair value is discussed in Notes 2 and 7.

Long-Term Debt

Fair values of the Company's bonds are based on quoted market prices. At June 30, 2014, the market value of the bonds was approximately $335,441,000.

17. Functional Expenses

The Company provides health and related services to residents in a primary service area consisting of forty-eight contiguous communities in central Maine. Expenses related to providing these services are as follows for the years ended June 30:

	2014	2013
Health care services	$383,173,681	$346,701,347
General and administrative	72,895,647	65,982,206
	$456,069,328	$412,683,553

18. Discontinued Operations

During 2014, the Company discontinued operations of certain healthcare clinics at its Jackman facility and sold the assets and operation of the Dialysis Clinic. The operating results for these programs have been reclassified to discontinued operations in 2014. Proceeds from the sale of the Dialysis Center were $3 million.

MAINEGENERAL HEALTH AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA #	Grantor's Number	Federal Expenditures
Corporation for National and Community Service:			
Direct Programs:			
Retired Senior Volunteer Program	94.002	11SRAME003	$ 76,417
Retired Senior Volunteer Program	94.002	14SRAME002	25,098
Pass/Through Programs – State of Maine:			
Volunteer Generation Fund	94.021	SPO – MCCS	5,659
Total Corporation for National and Community Service			107,174
U.S. Department of Agriculture:			
Pass/Through Programs:			
Women, Infants and Children	10.557	CDC-13-404	148,195*
Women, Infants and Children	10.557	CDC-14-404	460,341*
Women, Infants and Children	10.572	CDC-13-404	889
Women, Infants and Children	10.572	CDC-14-404	–
SNAP – Nutrition UNE	10.561	PO#290032-41	106,284
Total U.S. Department of Agriculture			715,709
U.S. Department of Justice:			
Direct Program:			
Kennebec Somerset Assault Services	16.589	2009-WR-AX-0044	205,516
U.S. Department of Health and Human Services:			
Direct Programs:			
Ryan White Outpatient EIS Program	93.918	H76HA24741	48,549*
Ryan White Outpatient EIS Program	93.918	H76HA24741	211,672*
Up and Running (Diabetes)	93.737	1H75DP004290	94,003
Pass/Through Programs – State of Maine:			
MaineGeneral Counseling	93.959	OSA-14-317	182,417
HIV Case Management	93.917	CDC-13-462	76,173
Serene	93.959	OSA-14-318	31,084
Colorectal Cancer Screening	93.283	CDC-14-810	49,016
Expanded SA Prevention	93.959	OSA-14-174	15,000
Redington-Fairview General Hospital:			
OSA Funds	93.595		20,000
Partners in Success II	93.243		5,517
Partners in Success II	93.243		8,761
Total U.S. Department of Health and Human Services			742,192
Total Federal Awards			$1,770,591

* Major Program

See notes to this schedule.

MAINEGENERAL HEALTH AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of MaineGeneral Health and Subsidiaries (the Company) for the year beginning July 1, 2013 and ending June 30, 2014, and is presented on the accrual basis of accounting. The schedule of expenditures of federal awards includes all applicable federal grants for MaineGeneral Health and Subsidiaries. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Since the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of the Company.

For purposes of the Schedule, federal awards include all grants, contract and similar agreements entered into directly between the Company and agencies and departments of the federal government and all subawards to the Company by nonfederal organizations pursuant to federal grants, contracts and similar agreements.

2. Summary of Significant Accounting Policies

Expenditures for direct and indirect costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the Department of Health and Human Services, Office of the Assistance Secretary Comptroller (OASC) *OASC-3, A Guide for Hospitals* and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as applicable. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Costs

Based on arrangements negotiated with the Department of Health and Human Services, the Company was awarded a predetermined fixed indirect cost rate of 17.8% for the period July 1, 2013 through June 30, 2014 for on-site programs.

4. Women, Infants and Children (CFDA Number 10.557)

In addition to the $715,709 presented in the Schedule for the Special Supplemental Nutrition Program for Women, Infants and Children grant, the Company determines participant eligibility for receipt of food vouchers. The food vouchers for which the Company determined eligibility amounted to $2,400,099 in fiscal 2014.

MAINEGENERAL HEALTH AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF DEPARTMENT AGREEMENTS

Fiscal Year Ended June 30, 2014

Department Office	Agreement Number	Agreement Amount	Agreement Period	Agreement Service	Agreement Status	Federal Expenses	State Expenses	Total Department Expenses
DHHS								
CDC	CDC-13-1048B	$ 24,456	01/01/13-12/31/14	HIV Counseling and Screening	Interim	$ –	$ 12,588	$ 12,588
OSA	OSA-14-316A	482,657	07/01/13-06/30/14	Residential Program	Final	–	482,657	482,657*
ADS	ADS-14-5625	14,340	07/01/13-06/30/14	RSVP Grant	Final	–	14,340	14,340
MCCS	10VGVME001	13,484	01/01/13-12/31/13	Volunteer Generation Fund	Final	5,659	–	5,659
CDC	CDC-13-404	608,487	10/01/12-09/30/13	Women, Infants and Children	Final	149,084	–	149,084*
CDC	CDC-14-404	630,857	10/01/13-09/30/14	Women, Infants and Children	Interim	460,341	–	460,341*
ADS	ADS-14-5511	385,429	07/01/13-06/30/14	Inn at City Hall	Final	–	385,429	385,429
ADS	ADS-14-5907A	33,000	07/01/13-06/30/14	Alzheimers Care	Final	–	28,459	28,459
MH	MH2-14-840A	202,006	07/01/13-06/30/15	ACT/Community Support	Interim	–	101,003	101,003
OSA	OSA-14-316A	426,461	07/01/13-06/30/14	MaineGeneral Counseling	Final	182,417	206,551	388,968
Total						$797,501	$1,231,027	$2,028,528

* Major Program, 54% of Department Expenses.

See notes to this schedule.

MAINEGENERAL HEALTH AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF DEPARTMENT AGREEMENTS

Year Ended June 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Department Agreements (the Schedule) includes the state grant activity of MaineGeneral Health and Subsidiaries (the Company) for the year beginning July 1, 2013 and ending June 30, 2014, and is presented on the accrual basis of accounting. The schedule of expenditures of Department Agreements includes all applicable state grants for MaineGeneral Health and Subsidiaries. The information in the Schedule is presented in accordance with the requirements of *Maine Uniform Accounting and Auditing Practices for Community Agencies* (MAAP). Since the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of the Company.

For purposes of the Schedule, state awards include all grants, contract and similar agreements entered into directly between the Company and agencies and departments of the state government.

2. Summary of Significant Accounting Policies

Expenditures for direct and indirect costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the Department of Health and Human Services, Office of the Assistance Secretary Comptroller (OASC) *OASC-3, A Guide for Hospitals* and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as applicable. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

3. Compliance Requirements

The Company is also subject to separate OMB Circular A-133 audit requirements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND *MAINE UNIFORM ACCOUNTING AND AUDITING PRACTICES FOR COMMUNITY AGENCIES*

Board of Directors
MaineGeneral Health and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP)*, the consolidated financial statements of MaineGeneral Health and Subsidiaries (the Company), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
MaineGeneral Health and Subsidiaries

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or MAAP.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and MAAP in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
September 26, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
MaineGeneral Health and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited MaineGeneral Health and Subsidiaries' (the Company) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2014. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Board of Directors
MaineGeneral Health and Subsidiaries

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Berry Dunn McNeil & Parker

Limited Liability Company

Portland, Maine
September 26, 2014

MAINEGENERAL HEALTH AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

I. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	___ yes _X_ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes _X_ no
Noncompliance material to financial statements noted?	___ yes _X_ no

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	___ yes _X_ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes _X_ no
Type of auditors' report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ yes _X_ no

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
10.557	Women, Infants & Children
93.918	Ryan White Outpatient EIS Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	_X_ yes ___ no

II. Financial Statement Findings

None noted.

III. Federal Award Findings and Questioned Costs

None noted.

MAINEGENERAL HEALTH AND SUBSIDIARIES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2014

There were no reported findings from the prior year.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *MAINE UNIFORM ACCOUNTING AND AUDITING PRACTICES FOR COMMUNITY AGENCIES*

Board of Directors
MaineGeneral Health and Subsidiaries

Report on Compliance for Each Major State Program

We have audited MaineGeneral Health and Subsidiaries' (the Company) compliance with the types of compliance requirements described in *Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP)* that could have a direct and material effect on each of the Company's major state programs for the year ended June 30, 2014. The Company's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 MAAP. Those standards and MAAP require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major State Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

Board of Directors
MaineGeneral Health and Subsidiaries

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with MAAP, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of MAAP. Accordingly, this report is not suitable for any other purpose.

Berry Dunn McNeil & Parker
Limited Liability Company

Portland, Maine
September 26, 2014

MAINEGENERAL HEALTH AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

I. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	___ yes _X_ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes _X_ no
Noncompliance material to financial statements noted?	___ yes _X_ no

State Awards:

Internal control over major programs:	
• Material weakness(es) identified?	___ yes _X_ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes _X_ no
Type of auditors' report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with *Maine Uniform Accounting and Auditing Practices for Community Agencies*?	___ yes _X_ no

Identification of Major Programs:

Agreement Number	Name of State Program
CDC-13-404	Women, Infants and Children
CDC-14-404	Women, Infants and Children
OSA-14-316A	Residential Program

II. Financial Statement Findings

None noted.

III. State Award Findings and Questioned Costs

None Noted.

III. State Award Findings and Questioned Costs

2013-1 - Allowable Costs

Award Name: Residential Services
Grantor: Department of Health & Human Services – Office of Substance Abuse
Award No. OSA-13-316
Award Year: 7/1/2012 – 6/30/2013

Criteria

OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, paragraph 2(b) defines allowable costs under an award as costs that conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.

Condition

Sales tax is not considered a reimbursable cost under the grant agreement. For two of the invoices selected, sales tax was included and charged against grant funds.

Cause and Effect

Due to the inclusion of sales tax, an incorrect amount was charged to the State.

Questioned Costs

$1.12.

Recommendations

It is recommended that management develop policies and procedures to review all invoices prior to submission for reimbursement to ensure no sales tax amounts are included.

Management's Views and Corrective Action Plan

Management agrees with this finding. As soon as the issue was brought to management's attention, they calculated its financial impact, explained the error to the contract administrator, submitted a revised financial report, and remitted the funds to the State of Maine. Since the contract for the current fiscal year is funded solely through cost reimbursement, there is no possibility for this error to occur again.