

BAKER
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MaineGeneral Health and Subsidiaries

Consolidated Financial Statements and
Supplementary Information and Government
Reports in Accordance with Uniform Guidance
and Maine Uniform Accounting and Auditing
Practices Act for Community Agencies

*Years Ended June 30, 2019 and 2018
With Independent Auditors' Report*

MAINEGENERAL HEALTH AND SUBSIDIARIES

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Supplementary Information and Government
Reports in Accordance with Uniform Guidance
and Maine Uniform Accounting and Auditing
Practices Act for Community Agencies

Years Ended June 30, 2019 and 2018

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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, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audits. We conducted our audits 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.

Opinion

In our opinion, 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, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the consolidated financial statements, in 2019, MaineGeneral Health and Subsidiaries adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, ASU 2017-07, *Compensation – Retirement Benefits* and ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

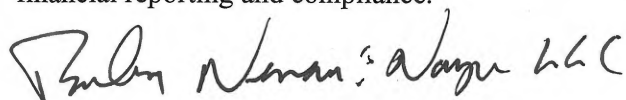
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 27, 2019 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.

A handwritten signature in dark ink, appearing to read "Paul N. Neman".

Portland, Maine
September 27, 2019

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2019 and 2018

ASSETS

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 31,101,322 | \$ 28,119,259 |
| Investments | 5,184,532 | 3,214,250 |
| Patient accounts receivable | 80,010,568 | 79,948,408 |
| Supplies | 6,465,824 | 5,955,760 |
| Pledges receivable, net of allowance | 240,612 | 245,271 |
| Prepaid expenses and other current assets | 16,542,686 | 15,141,594 |
| Estimated third-party payor settlements | 9,399,185 | 10,954,063 |
| Current portion of assets held in trust under debt and other agreements | <u>16,034,494</u> | <u>13,364,197</u> |
| Total current assets | 164,979,223 | 156,942,802 |
| Investments: | | |
| Board designated | 77,716,823 | 70,263,650 |
| Assets whose use is limited or restricted: | | |
| Board-designated: | | |
| Funded depreciation | 1,253,758 | 2,196,103 |
| Other | 16,641,499 | 15,784,373 |
| Assets held in trust under debt and other agreements | 11,016,303 | 11,016,303 |
| Beneficial interest in perpetual trusts | 12,035,886 | 12,011,221 |
| With donor restrictions | <u>14,424,259</u> | <u>14,273,426</u> |
| | 133,088,528 | 125,545,076 |
| Beneficial interest in workers' compensation trust | <u>2,239,060</u> | <u>2,306,449</u> |
| Total investments and assets whose use is limited or restricted | 135,327,588 | 127,851,525 |
| Pledges receivable, net of current portion | 201,874 | 335,438 |
| Property and equipment, net | 386,992,371 | 389,487,111 |
| Other assets, net | <u>2,386,655</u> | <u>2,132,518</u> |
| Total assets | \$ <u>689,887,711</u> | \$ <u>676,749,394</u> |

LIABILITIES AND NET ASSETS

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 19,032,205 | \$ 14,581,588 |
| Accrued employee compensation and compensated absences | 30,993,038 | 28,647,039 |
| Other current liabilities | 24,976,850 | 23,771,062 |
| Current portion of long-term debt | <u>7,435,171</u> | <u>4,701,471</u> |
| Total current liabilities | 82,437,264 | 71,701,160 |
| Long-term debt, less current portion | 288,866,322 | 296,506,723 |
| Accrued pension cost | 35,271,168 | 29,015,144 |
| Deferred refundable and nonrefundable advance fees | 19,381,948 | 19,125,161 |
| Other long-term liabilities | <u>18,189,851</u> | <u>14,591,715</u> |
| Total liabilities | 444,146,553 | 430,939,903 |
| Commitments and contingencies | | |
| Net assets: | | |
| Without donor restrictions | 218,838,527 | 218,944,135 |
| With donor restrictions | <u>26,902,631</u> | <u>26,865,356</u> |
| Total net assets | 245,741,158 | 245,809,491 |
| | | |
| | <hr/> | <hr/> |
| Total liabilities and net assets | \$ <u>689,887,711</u> | \$ <u>676,749,394</u> |

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Operating revenue: | | |
| Patient service revenue | \$ 511,605,759 | \$ 482,621,154 |
| Other revenue | 44,000,523 | 37,286,409 |
| Net assets released from restrictions used for operations | <u>1,168,629</u> | <u>1,442,664</u> |
| Total operating revenue | 556,774,911 | 521,350,227 |
| Operating expenses: | | |
| Salaries and wages | 245,980,902 | 237,675,193 |
| Employee benefits | 59,918,548 | 53,346,230 |
| Supplies and other | 203,997,641 | 185,770,352 |
| Depreciation and amortization | 22,545,141 | 23,728,096 |
| Interest | <u>20,134,960</u> | <u>20,044,793</u> |
| Total operating expenses | <u>552,577,192</u> | <u>520,564,664</u> |
| Income from operations | 4,197,719 | 785,563 |
| Nonoperating gains (losses): | | |
| Investment income, net | 1,578,728 | 1,243,711 |
| Realized gains on investments, net | 258,473 | 446,381 |
| Unrealized gains – equity | 3,062,289 | – |
| Other | (577,472) | (588,393) |
| Contributions | <u>542,996</u> | <u>626,809</u> |
| Total nonoperating gains, net | <u>4,865,014</u> | <u>1,728,508</u> |
| Excess of revenue over expenses | \$ <u>9,062,733</u> | \$ <u>2,514,071</u> |

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|-----------------------|
| Net assets without donor restrictions: | | |
| Excess of revenue over expenses | \$ 9,062,733 | \$ 2,514,071 |
| Change in net unrealized gains on investments | 94,812 | 2,230,401 |
| Pension-related changes other than net periodic pension cost | (10,014,189) | 7,823,146 |
| Net assets released from restrictions used for capital acquisitions | <u>751,036</u> | <u>316,646</u> |
| (Decrease) increase in net assets without donor restrictions | (105,608) | 12,884,264 |
| Net assets with donor restrictions: | | |
| Contributions | 1,083,590 | 1,768,750 |
| Investment income, net | 304,414 | 257,207 |
| Realized gains on investments, net | 45,126 | 151,475 |
| Change in net unrealized gains on investments | 499,145 | 191,113 |
| Net assets released from restrictions | (1,919,665) | (1,759,310) |
| Change in market value of perpetual trusts | <u>24,665</u> | <u>346,120</u> |
| Increase in net assets with donor restrictions | <u>37,275</u> | <u>955,355</u> |
| (Decrease) increase in net assets | (68,333) | 13,839,619 |
| Net assets, beginning of year | <u>245,809,491</u> | <u>231,969,872</u> |
| Net assets, end of year | <u>\$245,741,158</u> | <u>\$ 245,809,491</u> |

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| (Decrease) increase in net assets | \$ (68,333) | \$ 13,839,619 |
| Adjustments to reconcile (decrease) increase in net assets to cash provided by operating activities: | | |
| Amortization of bond premium | (351,232) | (347,595) |
| Depreciation and amortization | 22,545,141 | 23,685,837 |
| Amortization of nonrefundable advance fees | (349,540) | (307,285) |
| Pension related changes other than net periodic pension cost | 10,014,189 | (7,823,146) |
| Change in market value of perpetual trusts | (24,665) | (346,120) |
| Net change in unrealized gains on investments | (3,656,246) | (2,421,514) |
| Realized gains on sale of investments, net | (303,599) | (598,856) |
| Loss on disposal of property and equipment, net | 251,766 | 54,176 |
| Restricted contributions | (1,083,590) | (1,768,750) |
| Increase (decrease) in cash resulting from a change in: | | |
| Patient accounts receivable | (62,160) | 4,905,462 |
| Supplies | (510,064) | (680,329) |
| Prepaid expenses and other assets | (1,401,092) | (2,975,063) |
| Accounts payable and accrued expenses | 4,450,617 | (1,053,389) |
| Other current liabilities | 3,551,787 | 5,445,957 |
| Estimated third-party payor settlements | 1,554,878 | (3,134,969) |
| Other liabilities and accrued pension cost | <u>(160,029)</u> | <u>2,160,328</u> |
| Net cash provided by operating activities | 34,397,828 | 28,634,363 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 36,351,300 | 33,499,984 |
| Purchases of investments | (44,278,284) | (41,537,073) |
| Purchases of property and equipment | (20,302,167) | (13,041,027) |
| Proceeds from sale of property and equipment | — | 529,989 |
| Other assets | <u>(254,137)</u> | <u>46</u> |
| Net cash used by investing activities | (28,483,288) | (20,548,081) |
| Cash flows from financing activities: | | |
| Payments on long-term debt and line of credit, net | (4,555,469) | (6,786,950) |
| Advance fees received | 2,069,790 | 1,899,678 |
| Refunds of advance fees | (1,463,463) | (1,962,470) |
| Restricted contributions | <u>1,016,665</u> | <u>173,441</u> |
| Net cash used by financing activities | <u>(2,932,477)</u> | <u>(6,676,301)</u> |
| Increase in cash and cash equivalents | 2,982,063 | 1,409,981 |
| Cash and cash equivalents, beginning of year | <u>28,119,259</u> | <u>26,709,278</u> |
| Cash and cash equivalents, end of year | \$ <u>31,101,322</u> | \$ <u>28,119,259</u> |

MAINEGENERAL HEALTH AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Supplemental disclosure: | | |
| Cash paid for interest | \$ <u>20,142,445</u> | \$ <u>20,218,923</u> |
| Supplemental disclosure of noncash activities: | | |
| Contributed securities | \$ <u>205,148</u> | \$ <u>902,391</u> |

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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 or MGMC), MaineGeneral Community Care (MGCC), MaineGeneral Rehabilitation & Long Term Care (MGRLTC), 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. MGH also secured a standby letter of credit with an approved amount of \$1,250,000 for additional capitalization of the Captive.

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, estimated settlements with third-party payors and underlying assumptions used for the actuarial computations for the defined benefit pension plan.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Patient service revenue is recorded in the period the health services are provided based upon 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.

Changes between preliminary estimates of net patient service revenue and final third-party settlements are included in 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 (decreased) and increased patient service revenue by approximately \$(85,000) and \$2,256,000 for the years ended June 30, 2019 and 2018, respectively.

Revenues from the Medicare and Medicaid programs accounted for approximately 34% and 13%, respectively, of the Company's patient service revenue for the year ended June 30, 2019, and 36% and 13%, respectively, for the year ending June 30, 2018. 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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

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, 2019 and 2018, MGH held interests in private equity funds, also known as alternative investments. Interests in private equity funds 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. MGH believes that these valuations are a reasonable estimate of fair value as of June 30, 2019 and 2018, 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 excess of revenue over expenses, unless the income or loss is restricted by donor or law.

Interest and dividend income and realized gains and losses 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, MGH 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 for the years ended June 30, 2019 and 2018.

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 MGH's long-term debt have been capitalized and are being amortized to interest expense over the respective terms of the debt using the straight-line method, which approximates the effective interest method. These are included in long-term debt.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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 based upon management's assessment of estimated useful lives (see Note 7).

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, are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of 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 net assets with donor restrictions. 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.

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.

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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

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. The Captive provides specific stop loss coverage with a deductible per individual of \$250,000; individual claims exceeding \$500,000 are covered by a separate policy with an insurance company. Annual aggregate claims exposure by the Captive is limited to \$970,000 with amounts above that covered by a separate policy. 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 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-01, which addresses the accounting for retirement communities' refundable advance fees. This update clarifies that an entity should classify an advance fee paid by a resident upon entering into a residency agreement as deferred revenue when the contract 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, 2019 and 2018 were approximately \$17,598,000 and \$17,370,000, respectively.

Nonrefundable advance fees paid by a resident upon entering into a residency agreement 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, 2019 and 2018 were approximately \$1,784,000 and \$1,755,000, 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 (net assets without donor restrictions), and perpetual trusts and permanent endowment funds (net assets with donor restrictions).

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 \$657,861 and \$551,269 in 2019 and 2018, 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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

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 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, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement 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 net assets with donor restrictions 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 net assets without donor restrictions, unless restricted by the donor. Annual changes in market value of the trusts are recorded as increases or decreases to net assets with donor restrictions.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Company or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Retirement Plans

The Company sponsors a noncontributory, defined benefit plan established for the purpose of providing employees of MGH 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 11 for further information on the retirement plans.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Excess of Revenue Over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenue over expenses, consistent with industry practice, include 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), unrealized gains and losses on investments in 2018, 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 an 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 (FASB), 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, 2019.

Functional Expenses

The Company provides general health services to area residents. Expenses incurred by the Company for the years ended June 30, 2019 and 2018 were predominantly related to this mission.

New Accounting Pronouncements

In 2019, the Company adopted the provisions of the following accounting pronouncements:

ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, addresses the accounting treatment and classifications of retirement benefits expense. The accounting update requires that employer disaggregate the service component from the other components of benefit costs. As a result of implementing the standard, the Company has classified the expense related to the defined benefit plans of \$469,737 and \$642,569, respectively, for 2019 and 2018 separate from operating expenses. There is no service cost related to the defined benefit plan as the Company's plan is frozen.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). Under ASU 2016-14, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted) will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". ASU 2016-14 also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, ASU 2016-14 will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among program and support functions. MGH has included the applicable reclassification of net assets and disclosures. The 2018 amounts were reclassified and, as a result, there were no significant changes to amounts previously reported other than the reclassifications.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which MGH expects to be entitled in exchange for those goods and services. In accordance with the new requirements, MGH no longer recognizes gross revenue, net of contractual adjustment and allowance for doubtful accounts, but recognizes revenue based upon expected payment amounts under contracts or historical collection experience. The 2018 financial information has been adjusted to comply with the standard. There was no significant impact to 2018 as a result of the changes.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 was adopted prospectively in 2019 and the 2018 treatment remains based upon its historic treatment. Previously, the change in fair value of equity securities was recorded as part of the change in net assets, and the 2018 consolidated financial statements include the change in fair value as part of the change in net assets. The 2019 change in fair value is reflected as part of net income.

Prospective Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for MGH on July 1, 2019. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. MGH is currently evaluating the impact of the pending adoption of ASU 2016-02 on its consolidated financial statements.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. MGH is currently evaluating the impact that ASU 2018-08 will have on the consolidated financial statements.

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 27, 2019 which is the date the consolidated financial statements were available to be issued.

On September 24, 2019, MGH entered into a purchase and sale agreement to sell the operations, including assets and liabilities, of MGRC for approximately \$28,000,000. At June 30, 2019, MGRC had assets of approximately \$17,470,000 and revenues of approximately \$4,800,000 for the year ended June 30, 2019.

3. Patient Service Revenue

In May 2014, the FASB issued a new standard related to revenue recognition. MGH adopted the new standard effective July 1, 2018, using the full retrospective method. The adoption of the new standard did not have an impact on the recognition of revenues for any periods prior to adoption. The most significant impact of adopting the new standard is the presentation of the consolidated statements of operations, where the "provision for bad debt" is no longer presented as a separate line item and "net patient service revenue" is presented net of estimated implicit price concession revenue deductions. The related presentation of "allowances for doubtful accounts" has also been eliminated from the consolidated balance sheets as a result of the adoption of the new standard.

Revenues generally relate to contracts with patients in which MGH's performance obligations are to provide health care services to patients. Revenues are recorded during the period obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over a period of days. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by Medicare and Medicaid or negotiated with managed care health plans and commercial insurance companies, the third-party payors. The payment arrangements with third-party payors for the services provided to related patients typically specifies payments at amounts less than standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the revenue recognition process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

3. Patient Service Revenue (Continued)

Revenues are based upon estimated amounts that MGH expects to be entitled to receive from patients and third-party payors. Revenues under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts) and the recorded revenue is based primarily on historical collection experience.

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

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-----------------------|-----------------------|
| Medicare | \$ 175,831,619 | \$ 172,077,162 |
| Medicaid | 67,372,176 | 61,217,355 |
| Commercial | 256,028,140 | 231,260,434 |
| Patients (private pay/self pay) | <u>12,373,824</u> | <u>18,066,203</u> |
| | <u>\$ 511,605,759</u> | <u>\$ 482,621,154</u> |

The collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is MGH's primary source of operating cash and is critical to operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical writeoffs and collections at facilities that represent a majority of MGH's revenues and accounts receivable as a primary source of information in estimating the collectability of accounts receivable.

The consolidated balance sheets include amounts due from the State of Maine under the MaineCare program. The amounts recorded from the State have been determined based upon applicable regulations and MGH expects that these amounts will ultimately be paid in full. The amount represents payment based on interim cost reports and is an estimate pending final settlement. Due to the complex nature of such regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount.

The State of Maine also assesses a provider tax with disproportionate share funding partially offsetting the tax.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

3. Patient Service Revenue (Continued)

MGH 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 CMS, Medicaid and any commercial payors with settlement provisions. Settlements have been issued through 2015 for Medicare and 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. MGH 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 MGH. 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 patient service revenue in the year that such amounts become known.

4. Community Benefit and Charity Care

MGH 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 800 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, MGH offers several health promotion programs throughout the year, including breast feeding support, nutrition education, and parenting education.
- Last year, the Company provided 419 community health events – free education sessions, support meetings, training and screenings – to 9,312 participants. It provided 2,094 flu vaccinations at 48 area schools.
- For adults and seniors, MGH 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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

4. Community Benefit and Charity Care (Continued)

- 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.

MGH 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 150% 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 MGH's formal guidelines.

Charity care is measured based on services provided at established rates but is not included in patient service revenue. Costs and expenses incurred in providing these services are included in operating expenses. MGH 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, 2019 and 2018 were approximately \$4,815,000 and \$5,510,000, respectively.

5. 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:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Within one year | \$ 268,053 | \$ 294,067 |
| One to five years | <u>230,667</u> | <u>427,874</u> |
| Pledges receivable | 498,720 | 721,941 |
| Less allowance for uncollectible pledges | (34,362) | (104,784) |
| Present value discount | <u>(21,872)</u> | <u>(36,448)</u> |
| Pledges receivable, net | <u>\$ 442,486</u> | <u>\$ 580,709</u> |

MAINEGENERAL HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

6. Investments

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

| | 2019 | | 2018 | |
|--|----------------------|----------------------|----------------------|----------------------|
| | <u>Cost</u> | <u>Market</u> | <u>Cost</u> | <u>Market</u> |
| Short-term investments: | | | | |
| Cash and cash equivalents | \$ 773,477 | \$ 773,477 | \$ 1,197,965 | \$ 1,197,965 |
| Fixed income mutual funds | <u>4,204,602</u> | <u>4,411,055</u> | <u>1,801,232</u> | <u>2,016,285</u> |
| Total short-term investments | 4,978,079 | 5,184,532 | 2,999,197 | 3,214,250 |
| Long-term investments: | | | | |
| Cash and cash equivalents | 5,085,714 | 5,085,714 | 2,064,339 | 2,064,339 |
| Accrued interest | 18,806 | 18,806 | 13,349 | 13,349 |
| Guaranteed income contracts | 11,016,303 | 11,016,303 | 11,016,303 | 11,016,303 |
| U.S. Government securities | 2,201,853 | 2,193,086 | 2,841,226 | 2,805,419 |
| Common stock mutual funds | 28,314,966 | 30,631,419 | 27,268,934 | 29,075,410 |
| Private equity funds | 37,104,893 | 43,208,761 | 30,638,426 | 34,895,173 |
| Global asset allocation mutual funds | 5,660,554 | 5,591,657 | 16,206,666 | 15,674,059 |
| Fixed income mutual funds | 11,848,644 | 12,311,606 | 9,000,032 | 8,608,202 |
| Corporate debt securities | 771,246 | 753,097 | 703,640 | 692,033 |
| Employee benefit plans | 11,165,000 | 11,874,376 | 10,044,473 | 10,357,254 |
| Beneficial interest in charitable remainder trusts | 560,833 | 606,877 | 602,187 | 638,763 |
| Beneficial interest in perpetual trusts | <u>11,048,368</u> | <u>12,035,886</u> | <u>11,041,180</u> | <u>12,011,221</u> |
| Total long-term investments | <u>124,797,180</u> | <u>135,327,588</u> | <u>121,440,755</u> | <u>127,851,525</u> |
| Total investments | <u>\$129,775,259</u> | <u>\$140,512,120</u> | <u>\$124,439,952</u> | <u>\$131,065,775</u> |

Private equity funds include investments with a fair value of \$43,208,761 and \$34,895,173 at June 30, 2019 and 2018, respectively, whose holdings are in U.S. and international equities, bonds and real assets.

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 net assets with donor restrictions.

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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

6. Investments (Continued)

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

| | <u>2019</u> | <u>2018</u> |
|---|--------------------|---------------------|
| Without donor restrictions: | | |
| Investment income | \$ 1,578,728 | \$ 1,243,711 |
| Investment income included in other revenue | 657,861 | 551,269 |
| Change in net unrealized gains on investments | 3,157,101 | 2,230,401 |
| Realized gains on investments, net | <u>258,473</u> | <u>446,381</u> |
| Total without donor restrictions | 5,652,163 | 4,471,762 |
| With donor restrictions: | | |
| Investment income | 304,414 | 257,207 |
| Realized gains on investments, net | 45,126 | 151,475 |
| Change in net unrealized gains on investments | 499,145 | 191,113 |
| Change in market value of perpetual trusts | <u>24,665</u> | <u>346,120</u> |
| Total with donor restrictions | <u>873,350</u> | <u>945,915</u> |
| | <u>\$6,525,513</u> | <u>\$ 5,417,677</u> |

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 and corporate equity securities. Employee benefit plan assets consist primarily of mutual funds.

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 guaranteed income contracts and corporate debt securities.

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 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, 2019 and 2018, the Medical Center has recorded the beneficial interest in the perpetual trusts of \$12,035,886 and \$12,011,221, respectively.

MAINEGENERAL HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

6. Investments (Continued)

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:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|----------------------|
| 2019 | | | | |
| Short-term investments: | | | | |
| Cash and cash equivalents | \$ 773,477 | \$ — | \$ — | \$ 773,477 |
| Fixed income mutual funds | <u>4,411,055</u> | <u>—</u> | <u>—</u> | <u>4,411,055</u> |
| Total short-term investments | 5,184,532 | — | — | 5,184,532 |
| Long-term investments: | | | | |
| Cash and cash equivalents | 5,085,714 | — | — | 5,085,714 |
| Accrued interest | 18,806 | — | — | 18,806 |
| Guaranteed income contracts | | 11,016,303 | — | 11,016,303 |
| U.S. Government securities | 2,193,086 | — | — | 2,193,086 |
| Common stock mutual funds | 30,631,419 | — | — | 30,631,419 |
| Global asset allocation mutual funds | 5,591,657 | — | — | 5,591,657 |
| Fixed income mutual funds | 12,311,606 | — | — | 12,311,606 |
| Corporate debt securities | | 753,097 | — | 753,097 |
| Employee benefit plans | <u>11,874,376</u> | <u>—</u> | <u>—</u> | <u>11,874,376</u> |
| Total long-term investments | 67,706,664 | 11,769,400 | — | 79,476,064 |
| Beneficial interest in charitable remainder trusts | — | — | 606,877 | 606,877 |
| Beneficial interest in perpetual trusts | <u>—</u> | <u>—</u> | <u>12,035,886</u> | <u>12,035,886</u> |
| | <u>\$72,891,196</u> | <u>\$11,769,400</u> | <u>\$12,642,763</u> | 97,303,359 |
| Private equity funds | | | | <u>43,208,761</u> |
| Total investments | | | | <u>\$140,512,120</u> |

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

6. Investments (Continued)

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|----------------------|
| 2018 | | | | |
| Short-term investments: | | | | |
| Cash and cash equivalents | \$ 1,197,965 | \$ — | \$ — | \$ 1,197,965 |
| Fixed income mutual funds | <u>2,016,285</u> | <u>—</u> | <u>—</u> | <u>2,016,285</u> |
| Total short-term investments | 3,214,250 | — | — | 3,214,250 |
| Long-term investments: | | | | |
| Cash and cash equivalents | 2,064,339 | — | — | 2,064,339 |
| Accrued interest | 13,349 | — | — | 13,349 |
| Guaranteed income contracts | — | 11,016,303 | — | 11,016,303 |
| U.S. Government securities | 2,805,419 | — | — | 2,805,419 |
| Common stock mutual funds | 29,075,410 | — | — | 29,075,410 |
| Global asset allocation mutual funds | 15,674,059 | — | — | 15,674,059 |
| Fixed income mutual funds | 8,608,202 | — | — | 8,608,202 |
| Corporate debt securities | — | 692,033 | — | 692,033 |
| Employee benefit plans | <u>10,357,254</u> | <u>—</u> | <u>—</u> | <u>10,357,254</u> |
| Total long-term investments | 68,598,032 | 11,708,336 | — | 80,306,368 |
| Beneficial interest in charitable remainder trusts | — | — | 638,763 | 638,763 |
| Beneficial interest in perpetual trusts | <u>—</u> | <u>—</u> | <u>12,011,221</u> | <u>12,011,221</u> |
| | <u>\$71,812,282</u> | <u>\$11,708,336</u> | <u>\$12,649,984</u> | 96,170,602 |
| Private equity funds | | | | <u>34,895,173</u> |
| Total investments | | | | <u>\$131,065,775</u> |

The above schedules do not include current portion of assets held in trust under debt and other agreements of \$16,034,494 and \$13,364,197 at June 30, 2019 and 2018, respectively. Such amounts are not required to be included on the above table but if so would be classified as Level 1.

The private equity funds are subject to certain redemption terms based upon net asset value. Amounts may be redeemed with notification periods ranging from 5 to 30 days. There are no commitments to purchase additional units.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

6. Investments (Continued)

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:

| | <u>Charitable Remainder Trusts</u> | <u>Perpetual Trusts</u> | <u>Total Level 3 Assets</u> |
|--|--|-----------------------------|-------------------------------------|
| 2019 | | | |
| Fair value, July 1, 2018 | \$638,763 | \$12,011,221 | \$12,649,984 |
| Change in value of charitable remainder trusts and perpetual trusts | <u>(31,886)</u> | <u>24,665</u> | <u>(7,221)</u> |
| Fair value, June 30, 2019 | <u>\$606,877</u> | <u>\$12,035,886</u> | <u>\$12,642,763</u> |
| 2018 | | | |
| Fair value, July 1, 2017 | \$631,221 | \$11,665,101 | \$12,296,322 |
| Change in value of charitable remainder trusts and perpetual trusts | <u>7,542</u> | <u>346,120</u> | <u>353,662</u> |
| Fair value, June 30, 2018 | <u>\$638,763</u> | <u>\$12,011,221</u> | <u>\$12,649,984</u> |

7. Property and Equipment

Property and equipment consisted of the following at June 30:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|-----------------------|-----------------------|
| Land and improvements | \$ 19,416,644 | \$ 19,255,933 |
| Buildings | 445,197,719 | 438,568,178 |
| Equipment | 203,178,387 | 196,531,608 |
| Construction in progress | <u>3,320,499</u> | <u>596,028</u> |
| | 671,113,249 | 654,951,747 |
| Less accumulated depreciation | <u>(284,120,878)</u> | <u>(265,464,636)</u> |
| | <u>\$ 386,992,371</u> | <u>\$ 389,487,111</u> |

Depreciation expense for the years ended June 30, 2019 and 2018 was approximately \$22,499,000 and \$23,456,000, respectively. The Company retired approximately \$4,141,000 and \$7,819,000 of assets in fiscal 2019 and 2018, respectively, which consisted largely of fully depreciated, obsolete equipment.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

8. Long-Term Obligations

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

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| 2015A Series Revenue Bonds, interest at fixed rates ranging from 3.0% to 5.0%, maturing in various amounts through 2025 | \$ 12,666,190 | \$ 14,496,191 |
| 2011 Series Revenue Bonds, interest at fixed rates ranging from 4.0% to 7.5%, maturing in various amounts through 2041 | 278,890,000 | 280,080,000 |
| Bangor Savings Bank term loan, interest at a fixed rate of 4.65% | 5,749,321 | 7,250,000 |
| Other notes payable | — | 3,765 |
| Capital lease obligation, payments in various amounts through 2030 | <u>2,189,137</u> | <u>2,448,781</u> |
| | 299,494,648 | 304,278,737 |
| Net unamortized original issue premium | 1,192,034 | 1,543,266 |
| Net unamortized debt issuance costs | <u>(4,385,189)</u> | <u>(4,613,809)</u> |
| | 296,301,493 | 301,208,194 |
| Less current portion | <u>(7,435,171)</u> | <u>(4,701,471)</u> |
| | <u>\$288,866,322</u> | <u>\$296,506,723</u> |

In 2016, the Medical Center and MGRC participated in a pooled financing of MHHEFA Series 2015A Revenue Bonds in the amount of \$18,126,191, plus original issue premium of \$2,774,624 for the purpose of refinancing the Medical Center and MGRC 2006A 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 the Medical Center and MGRC's equipment and a mortgage lien on the facilities. 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.

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, were 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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

8. Long-Term Obligations (Continued)

In April 2013, the Medical Center entered into a term loan agreement with Bangor Savings Bank which was renewed in 2018. 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 4.65% on the outstanding principal balance, until the maturity date of April 2023. The Medical Center may prepay the term loan agreement in whole or in part at any time with a prepayment premium ranging from 1% to 5% of the then outstanding principal balance. 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.

MGMC also has a \$7,500,000 line of credit with KeyBank National entered into on October 26, 2018 which is subject to renewal on November 30, 2019. The interest is accrued at LIBOR rate plus two and one half percent (4.7% at June 30, 2019). The line is secured by substantially all assets of MGMC. There was no balance outstanding at June 30, 2019.

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

| | |
|------------|----------------------|
| 2020 | \$ 7,435,171 |
| 2021 | 7,714,680 |
| 2022 | 8,019,992 |
| 2023 | 8,096,002 |
| 2024 | 7,242,125 |
| Thereafter | <u>260,986,678</u> |
| | <u>\$299,494,648</u> |

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 (5.5% at June 30, 2019), according to the agreement, is based on the Prime rate, and outstanding principal and interest payments are due upon demand. The letter of credit was renewed on July 5, 2019, with the same terms and is effective until July 6, 2020. No amounts were drawn under the letter of credit in 2019 or 2018.

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:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|---------------------|---------------------|
| 2015A MHHEFA Bond Debt Service Fund | \$ 2,292,396 | \$ 2,249,712 |
| 2011 MHHEFA Bond: | | |
| Debt Service Fund | 13,576,303 | 10,946,836 |
| Debt Service Reserve Fund | <u>11,182,098</u> | <u>11,183,952</u> |
| | <u>\$27,050,797</u> | <u>\$24,380,500</u> |

The above amounts are not included as part of cash and cash equivalents on the consolidated statements of cash flows as the net changes in these amounts are not significant.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

9. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Purpose restriction: | | |
| Charity care | \$ 461,181 | \$ 577,601 |
| Equipment and capital improvements | 256,786 | 173,420 |
| Education and scholarships | 457,177 | 489,759 |
| Other | <u>3,852,513</u> | <u>3,967,053</u> |
| | 5,027,657 | 5,207,833 |
| Perpetual in nature: | | |
| Investments, gains and income from which is donor restricted | 3,805,441 | 3,736,456 |
| Investments, gains and income from which is released to net assets without donor restrictions | 6,033,647 | 5,909,846 |
| Beneficial interest in perpetual trust | <u>12,035,886</u> | <u>12,011,221</u> |
| | <u>21,874,974</u> | <u>21,657,523</u> |
| Total net assets with donor restrictions | <u>\$26,902,631</u> | <u>\$26,865,356</u> |

Net assets with donor restrictions are managed in accordance with donor intent and are invested in various portfolios.

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

| | <u>2019</u> | <u>2018</u> |
|--|--------------------|--------------------|
| Pledges receivable for construction and other purposes | \$ 442,486 | \$ 580,709 |
| Equipment purchase | 256,786 | 173,420 |
| Amounts receivable from charitable remainder trusts | 541,531 | 571,354 |
| Education programs | 457,177 | 489,759 |
| Cancer care | — | 1,046 |
| Charity care | 461,181 | 577,601 |
| Accumulated realized/unrealized gains on investments for support of the Company | 2,440,876 | 2,121,124 |
| Other | <u>427,620</u> | <u>692,820</u> |
| | <u>\$5,027,657</u> | <u>\$5,207,833</u> |

During 2019 and 2018, 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 \$1,920,000 and \$1,759,000, respectively.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

9. Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions, which include beneficial interests in perpetual trusts and certain endowment funds of the Company, are as follows at June 30:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Scholarships | \$ 359,689 | \$ 261,075 |
| Education programs | 373,737 | 373,636 |
| Amounts receivable from charitable remainder trusts | 65,346 | 67,410 |
| Community health programs | 235,286 | 235,286 |
| Alzheimers care center | 1,333,928 | 1,306,852 |
| Medical Center support | 1,622,813 | 1,526,088 |
| Perpetual trusts | 12,035,886 | 12,011,221 |
| Equipment purchases | 130,203 | 130,203 |
| Charity care | 2,000,765 | 2,031,327 |
| Grounds maintenance | 501,812 | 501,812 |
| Healthy Living Resource Center | 3,076,906 | 3,076,906 |
| Other | <u>138,603</u> | <u>135,707</u> |
| | <u>\$21,874,974</u> | <u>\$21,657,523</u> |

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 donor restrictions 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 with and without donor restrictions based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions include board-designated funds, and any accumulated income and appreciation thereon. Net assets with donor restrictions include accumulated appreciation on donor-restricted funds. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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 7.5% over the long term. Actual returns in any given year may vary from this amount.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

9. Net Assets With Donor Restrictions (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:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|------------------------|---|--|---------------------|
| 2019 | | | |
| Donor-restricted funds | \$ — | \$25,346,384 | \$25,346,384 |
| Board-designated funds | <u>16,641,499</u> | <u>—</u> | <u>16,641,499</u> |
| Total endowment funds | <u>\$16,641,499</u> | <u>\$25,346,384</u> | <u>\$41,987,883</u> |
| 2018 | | | |
| Donor-restricted funds | \$ — | \$25,169,867 | \$25,169,867 |
| Board-designated funds | <u>15,784,373</u> | <u>—</u> | <u>15,784,373</u> |
| Total endowment funds | <u>\$15,784,373</u> | <u>\$25,169,867</u> | <u>\$40,954,240</u> |

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

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---|--|---------------------|
| 2019 | | | |
| Endowment net assets, beginning of year | \$15,784,373 | \$25,169,867 | \$40,954,240 |
| Investment return: | | | |
| Investment income | 312,730 | 232,162 | 544,892 |
| Net appreciation (realized and unrealized) | <u>621,403</u> | <u>453,924</u> | <u>1,075,327</u> |
| Total investment return | 934,133 | 686,086 | 1,620,219 |
| Contributions | 162,962 | 328,007 | 490,969 |
| Appropriation of endowment assets for expenditure | <u>(239,969)</u> | <u>(837,576)</u> | <u>(1,077,545)</u> |
| Endowment net assets, end of year | <u>\$16,641,499</u> | <u>\$25,346,384</u> | <u>\$41,987,883</u> |

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

9. Net Assets With Donor Restrictions (Continued)

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---|--|---------------------|
| 2018 | | | |
| Endowment net assets, beginning of year | \$14,909,891 | \$23,893,846 | \$38,803,737 |
| Investment return: | | | |
| Investment income | 238,709 | 198,235 | 436,944 |
| Net appreciation (realized and unrealized) | <u>697,488</u> | <u>769,138</u> | <u>1,466,626</u> |
| Total investment return | 936,197 | 967,373 | 1,903,570 |
| Contributions | 174,467 | 1,084,227 | 1,258,694 |
| Appropriation of endowment assets for expenditure | <u>(236,182)</u> | <u>(775,579)</u> | <u>(1,011,761)</u> |
| Endowment net assets, end of year | <u>\$15,784,373</u> | <u>\$25,169,867</u> | <u>\$40,954,240</u> |

10. Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 31,101,322 | \$ 28,119,258 |
| Investments | 100,796,612 | 91,458,376 |
| Patient accounts receivable | <u>80,010,568</u> | <u>79,948,408</u> |
| | <u>\$211,908,502</u> | <u>\$199,526,042</u> |

To manage liquidity, MGH maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to MGH. Short-term investments without donor restrictions are also utilized to generate a higher yield on balances versus cash and cash equivalents, and to provide MGH with an additional layer of liquidity for daily operations if needed. As of June 30, 2019 and 2018, the balances held in cash and cash equivalents and short-term investments were \$36,286,000 and \$31,334,000, respectively. MGH also maintains lines of credit in the amount of \$7,500,000. As of June 30, 2019 and 2018, there were no outstanding balances under the lines of credit. These lines of credit can be used to support short-term cash and/or working capital needs. In addition, MGH has board-designated assets without donor restrictions that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of June 30, 2019 and 2018, the balance in board-designated assets were \$17,895,000 and \$17,980,000, respectively.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

11. 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.

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:

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|------------------------|
| Change in benefit obligation: | | |
| Benefit obligation, beginning of year | \$138,539,824 | \$ 151,315,293 |
| Interest cost | 5,513,697 | 5,455,723 |
| Actuarial loss (gain) | 11,834,757 | (8,056,714) |
| Gross benefits paid | <u>(6,890,309)</u> | <u>(10,174,478)</u> |
| Accumulated benefit obligation, end of year | <u>\$148,997,969</u> | <u>\$ 138,539,824</u> |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | \$109,524,680 | \$ 114,626,848 |
| Actual return on plan assets | 6,864,528 | 4,579,586 |
| Contribution to plan | 4,227,902 | 492,724 |
| Gross benefits paid | <u>(6,890,309)</u> | <u>(10,174,478)</u> |
| Fair value of plan assets, end of year | <u>\$113,726,801</u> | <u>\$ 109,524,680</u> |
| Funded status: | | |
| Fair value of plan assets | \$113,726,801 | \$ 109,524,680 |
| Projected benefit obligation | <u>148,997,969</u> | <u>138,539,824</u> |
| Funded status, amount recognized end of year (noncurrent liability) | <u>\$(35,271,168)</u> | <u>\$ (29,015,144)</u> |
| Amounts recognized in net assets without donor restrictions: | | |
| Net actuarial loss | <u>\$ 52,813,298</u> | <u>\$ 42,799,109</u> |

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

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Components of net periodic benefit cost: | | |
| Interest cost | \$ 5,513,697 | \$ 5,455,723 |
| Expected return on plan assets | (7,798,016) | (8,039,584) |
| Amortization of net loss | <u>2,754,056</u> | <u>3,226,430</u> |
| Net periodic benefit cost | <u>\$ 469,737</u> | <u>\$ 642,569</u> |

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

11. Retirement Plans (Continued)

The net actuarial loss that will be amortized from net assets without donor restrictions into net periodic benefit cost in 2020 is \$3,757,500.

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:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|---------------------|--------------------|
| Change in net gain | \$12,768,245 | \$4,596,716 |
| Amortization of net loss | <u>(2,754,056)</u> | <u>3,226,430</u> |
| Total recognized | <u>\$10,014,189</u> | <u>\$7,823,146</u> |

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

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Benefit obligation: | | |
| Weighted average discount rate | 3.35% | 4.10% |
| Periodic benefit cost: | | |
| Weighted average discount rate | 4.10% | 3.70% |
| Weighted average expected long-term rate of return on plan assets | 7.25% | 7.25% |

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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
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Years Ended June 30, 2019 and 2018

11. Retirement Plans (Continued)

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

| | <u>2019 Target Allocation</u> | <u>2019 Actual</u> | <u>2018 Target Allocation</u> | <u>2018 Actual</u> |
|---------------------------------|-----------------------------------|------------------------|-----------------------------------|------------------------|
| Asset category: | | | | |
| Large cap equity securities | 23.0% | 22.9% | 18.0% | 19.2% |
| Small cap equity securities | 4.0 | 4.0 | 5.0 | 4.9 |
| International equity securities | 23.0 | 22.9 | 24.0 | 14.8 |
| Fixed income securities | 32.0 | 26.5 | 30.0 | 25.5 |
| Global asset allocation fund | 18.0 | 17.6 | 15.0 | 15.0 |
| Hedge fund of funds | 0.0 | 0.0 | 8.0 | 8.6 |
| Other | <u>0.0</u> | <u>6.1</u> | <u>0.0</u> | <u>12.0</u> |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

The plan's investments measured at fair value using the fair value hierarchy defined in Note 6 are as follows as of June 30:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|---------------------|----------------|--------------------|------------------|
| 2019 | | | | |
| Small cap equity securities | \$ 4,581,288 | \$ — | \$ — | \$ 4,581,288 |
| International equity securities | 14,005,861 | — | — | 14,005,861 |
| Fixed income securities | 18,598,352 | — | — | 18,598,352 |
| Global asset allocation fund | 6,577,397 | — | — | 6,577,397 |
| Cash and cash equivalents | 6,999,376 | — | — | 6,999,376 |
| Guaranteed investment contract | <u>—</u> | <u>—</u> | <u>1,827,505</u> | <u>1,827,505</u> |
| | <u>\$50,762,274</u> | <u>\$ —</u> | <u>\$1,827,505</u> | 52,589,779 |

Private equity funds 61,137,022

Total pension investment \$113,726,801

| | | | | |
|---------------------------------|---------------------|-------------|--------------------|------------------|
| 2018 | | | | |
| Small cap equity securities | \$ 5,417,450 | \$ — | \$ — | \$ 5,417,450 |
| International equity securities | 14,585,255 | — | — | 14,585,255 |
| Fixed income securities | 16,896,405 | — | — | 16,896,405 |
| Global asset allocation fund | 16,373,049 | — | — | 16,373,049 |
| Cash and cash equivalents | 4,088,869 | — | — | 4,088,869 |
| Guaranteed investment contract | <u>—</u> | <u>—</u> | <u>1,924,162</u> | <u>1,924,162</u> |
| | <u>\$57,361,028</u> | <u>\$ —</u> | <u>\$1,924,162</u> | 59,285,190 |

Private equity funds 50,239,490

Total pension investment \$109,524,680

MAINEGENERAL HEALTH AND SUBSIDIARIES
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Years Ended June 30, 2019 and 2018

11. Retirement Plans (Continued)

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

| | <u>Guaranteed Investment Contract</u> |
|---------------------------|---|
| Fair value, July 1, 2018 | \$1,924,162 |
| Purchases | 108,266 |
| Sales | <u>(204,923)</u> |
| Fair value, June 30, 2019 | <u>\$1,827,505</u> |
| Fair value, July 1, 2017 | \$2,034,743 |
| Purchases | 106,861 |
| Sales | <u>(217,442)</u> |
| Fair value, June 30, 2018 | <u>\$1,924,162</u> |

Contributions

Contributions of approximately \$3,219,000 are expected to be made to the plan in 2020.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

| | |
|-------------|--------------|
| 2020 | \$ 8,813,000 |
| 2021 | 8,368,000 |
| 2022 | 8,537,000 |
| 2023 | 8,573,000 |
| 2024 | 8,714,000 |
| 2025 – 2028 | 44,711,000 |

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.

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.

MGH incurred approximately \$7,109,000 and \$7,061,000 of expenses in 2019 and 2018, respectively, for the 403(b) and 401(a) defined contribution plans.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

11. Retirement Plans (Continued)

Deferred Compensation Plan

MGH maintains a 457(b) deferred compensation plan which covers certain key employees of MGH. 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. MGH did not make any contributions during June 30, 2019 and 2018.

The asset and liability are classified under unrestricted investments and other long-term liabilities, respectively, in the MGH financial statements both of which total \$11,874,376 and \$10,357,254 at June 30, 2019 and 2018, respectively. The assets of \$11,874,376 and \$10,357,254 are considered to be Level 1 assets (as defined in Note 6).

12. 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, 2019 and 2018, the Company recorded a liability of \$8,714,081 and \$8,424,943, respectively, related to estimated professional liability losses relating to reported cases as well as potential incurred but not reported claims. There was no receivable for estimated recoveries at June 30, 2019 or 2018. At June 30, 2019, 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.

13. 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.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

13. 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:

| | <u>2019</u> | <u>2018</u> |
|-----------------------|-------------|-------------|
| Medicare and Medicaid | 52% | 49% |
| Managed care | 2 | 1 |
| Commercial insurance | 20 | 21 |
| Anthem | 9 | 7 |
| Patients | <u>17</u> | <u>22</u> |
| | <u>100%</u> | <u>100%</u> |

14. 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 2030. Property rental expenses for the years ended June 30, 2019 and 2018 were approximately \$5,500,000 and \$5,334,000, respectively. At June 30, 2019, the minimum commitments for property leases for the next five years are as follows:

| | |
|------|-------------|
| 2020 | \$6,398,000 |
| 2021 | 6,563,000 |
| 2022 | 5,857,000 |
| 2023 | 5,868,000 |
| 2024 | 5,927,000 |

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

15. 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, limited partnerships, corporate equity and 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 6.

16. Functional Expenses

The Company provides acute and long-term health care services. Expenses related to providing these services are as follows for the year ended June 30, 2019:

| | <u>Health Services</u> | <u>General and Administrative</u> | <u>Total</u> |
|--------------------|----------------------------|---------------------------------------|----------------------|
| Salaries and wages | \$212,438,837 | \$33,542,065 | \$245,980,902 |
| Employee benefits | 51,748,028 | 8,170,520 | 59,918,548 |
| Supplies and other | 176,180,431 | 27,817,210 | 203,997,641 |
| Interest | 17,389,348 | 2,745,612 | 20,134,960 |
| Depreciation | <u>19,470,876</u> | <u>3,074,265</u> | <u>22,545,141</u> |
| | <u>\$477,227,520</u> | <u>\$75,349,672</u> | <u>\$552,577,192</u> |

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as, depreciation and interest, are allocated to a function based on square footage. Supporting activities that are not directly identifiable with one or more healthcare programs are classified as general and administrative. If it is impossible or impractical to make a direct identification, allocation of the expenses were made according to management's estimates. Employee benefits were allocated in accordance with the ratio of salaries and wages of the functional classes. Specifically identifiable costs are assigned to the function which they are identified to.

MAINEGENERAL HEALTH AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

16. Functional Expenses (Continued)

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:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|----------------------|----------------------|
| Health care services | \$477,227,520 | \$451,190,404 |
| General and administrative | <u>75,349,672</u> | <u>69,374,260</u> |
| | <u>\$552,577,192</u> | <u>\$520,564,664</u> |

MAINE GENERAL HEALTH AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

| <u>Federal Grantor/ Pass-Through Grantor/Program Title</u> | <u>Federal CFDA #</u> | <u>Grantor's Number</u> | <u>Passed Through to Subrecipients</u> | <u>Federal Expenditures</u> |
|--|---------------------------|-----------------------------|--|---------------------------------|
| U.S. Department of Agriculture: | | | | |
| Pass/Through Programs – State of Maine: | | | | |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 | CD5-18-4654 | \$ — | \$ 170,141* |
| WIC Farmers' Market Nutrition Program | 10.572 | CD5-18-4654 | — | 2,000 |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 | CD5-19-4654 | — | 467,783* |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | OPI-18-351 | — | 31,385 |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | OPI-19-351 | — | 108,465 |
| Total U.S. Department of Agriculture | | | — | 779,774 |
| U.S. Department of Health and Human Services: | | | | |
| Direct Programs: | | | | |
| Drug Free Communities | 93.276 | 5H79SP021543-02 | — | 32,156 |
| Drug Free Communities | 93.276 | 5H79SP021543-03 | — | 94,084 |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | H76 HA24741 07 | — | 196,596* |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | H76 HA24741 08 | — | 65,960* |
| Rural Health Opioid Program | 93.912 | HIURH32376-01 | — | 117,530 |
| Pass/Through Programs – State of Maine: | | | | |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | OSA-19-317 | — | 199,761 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | OSA-19-318 | — | 34,929 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | OSA-19-340 | — | 29,455 |
| Foster Care Title IV-E | 93.658 | CFS-19-9202 | 30,116 | 39,274 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | OSA-19-367 | — | 46,780 |
| Total U.S. Department of Health and Human Services | | | 30,116 | 856,525 |
| Total Federal Awards | | | \$ 30,116 | \$ 1,636,299 |

* Major Program

See notes to this schedule.

MAINEGENERAL HEALTH AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

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, 2018 and ending June 30, 2019, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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, contracts 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 costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in Section 2 of the Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 18.2% for the period July 1, 2018 through June 30, 2019 for on-site programs.

MAINEGENERAL HEALTH AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF STATE OF MAINE DEPARTMENT AGREEMENTS

Fiscal Year Ended June 30, 2019

| <u>Department Office</u> | <u>Agreement Number</u> | <u>Agreement Amount</u> | <u>Agreement Period</u> | <u>Agreement Service</u> | <u>Agreement Status</u> | <u>Federal Expenses</u> | <u>State Expenses</u> | <u>Total Department Expenses</u> |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------|-----------------------------|---------------------------|--|
| DHHS | | | | | | | | |
| ADS | ADS-18-5511 | \$ 855,108 | 07/01/18-06/30/20 | Inn at City Hall | Final | \$ | \$ 468,179 | \$ 468,179 |
| ADS | ADS-17-5907 | 73,960 | 01/01/18-12/31/19 | Alzheimer's Care | Final | | 12,216 | 12,216 |
| MH | MH2-19-840 | 304,440 | 07/01/17-06/30/19 | ACT/Community Support | Final | | 218,808 | 218,808 |
| OSA | OSA-19-316 | 1,045,314 | 07/01/17-06/30/19 | Residential Program | Final | | 522,657 | 522,657* |
| OSA | OSA-19-317 | 752,000 | 07/01/17-06/30/19 | MaineGeneral Counseling | Interim | 199,761 | 180,783 | 380,544 |
| OSA | CFS-19-9202 | 80,542 | 07/01/18-06/30/19 | Matrix IOP Subrecipient | Interim | <u>4,753</u> | <u>30,893</u> | <u>35,646</u> |
| Total | | | | | | <u>\$204,514</u> | <u>\$1,433,536</u> | <u>\$1,638,050</u> |

* Major Program.

See notes to this schedule.

MAINEGENERAL HEALTH AND SUBSIDIARIES

NOTES TO SCHEDULE OF EXPENDITURES OF STATE OF MAINE DEPARTMENT AGREEMENTS

Year Ended June 30, 2019

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, 2018 and ending June 30, 2019, 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 costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in Section 2 of the Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Uniform Guidance audit requirements.

**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**

INDEPENDENT AUDITORS' REPORT

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, 2019, 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 27, 2019.

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.

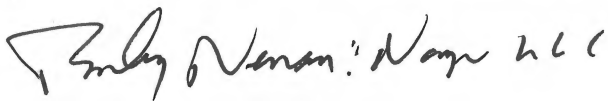
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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.

A handwritten signature in black ink, appearing to read "Emily O'Neen: Done hll".

Portland, Maine
September 27, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

INDEPENDENT AUDITORS' REPORT

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 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, 2019. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

 Bradley Neman; Nayan LLC

Portland, Maine
September 27, 2019

MAINE GENERAL HEALTH AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

I. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ no

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ yes ☒ 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 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of Major Programs:

CFDA # Name of Federal Program or Cluster

10.557 Special Supplemental Nutrition Program for Women, Infants and Children
93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☒ 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, 2019

None.

**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***

INDEPENDENT AUDITORS' REPORT

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, 2019. 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, 2019.

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.



Portland, Maine
September 27, 2019

MAINE GENERAL HEALTH AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE OF MAINE DEPARTMENT AGREEMENTS

Year Ended June 30, 2019

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:

| <u>Agreement Number</u> | <u>Name of State Program</u> |
|-------------------------|------------------------------|
|-------------------------|------------------------------|

| | |
|------------|---------------------|
| OSA-19-316 | Residential Program |
|------------|---------------------|

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
RELATED TO STATE OF MAINE DEPARTMENT AGREEMENTS

Year Ended June 30, 2019

None.