MaineGeneral Health and Subsidiaries

Audited Consolidated Financial Statements and Additional Information

Years Ended June 30, 2013 and 2012
With Independent Auditors' Report

MAINEGENERAL HEALTH AND SUBSIDIARIES

Audited Consolidated Financial Statements
and Additional Information

Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
MaineGeneral Health and Subsidiaries

We have audited the accompanying consolidated financial statements of MaineGeneral Health and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, 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. 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, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
September 27, 2013

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2013 and 2012

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	$ 18,938,349	$ 19,592,935
Investments	3,389,118	2,643,295
Patient accounts receivable, net of allowance for doubtful accounts of approximately $24,179,000 in 2013 and $30,109,000 in 2012	60,193,712	41,569,106
Supplies	4,573,785	4,005,167
Pledges receivable, net of allowance	1,662,863	9,555,455
Prepaid expenses and other current assets	13,787,217	8,454,672
Estimated third-party payor settlements – due from State of Maine	38,000,000	–
Total current assets	140,545,044	85,820,630
Investments:		
Unrestricted	29,978,085	28,905,956
Assets whose use is limited or restricted:		
Board-designated:		
Funded depreciation	1,859,318	1,637,535
New hospital	48,310,323	47,313,334
Other	13,698,081	12,169,556
Assets held in trust under debt and other agreements	46,248,420	211,687,196
Beneficial interest in perpetual trusts	10,471,988	9,951,744
Permanently donor-restricted	5,945,676	5,906,254
Temporarily donor-restricted	24,389,798	15,720,243
	180,901,689	333,291,818
Beneficial interest in workers' compensation trust	2,386,992	2,189,490
Total investments and assets whose use is limited or restricted	183,288,681	335,481,308
Pledges receivable, net of current portion	3,770,321	11,418,315
Estimated third-party payor settlements – due from State of Maine	–	38,000,000
Property and equipment	394,543,656	234,026,756
Assets available for sale	706,625	3,048,001
Other assets, net	8,964,943	8,443,790
Total assets	$ 731,819,270	$ 716,238,800

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities:		
Line of credit	$ –	$ 938,020
Accounts payable and accrued expenses	25,907,974	28,312,168
Accrued employee compensation and compensated absences	26,526,934	23,130,732
Estimated third-party payor settlements	9,724,013	10,274,108
Other current liabilities	22,245,800	20,826,368
Current portion of long-term debt	3,381,823	5,611,197
Total current liabilities	87,786,544	89,092,593
Long-term debt, less current portion	321,437,495	323,653,988
Accrued pension cost	26,632,000	43,027,921
Deferred refundable and nonrefundable advance fees	13,058,250	13,159,998
Other long-term liabilities	3,595,859	3,765,038
Total liabilities	452,510,148	472,699,538
Commitments and contingencies		
Net assets:		
Unrestricted	233,068,476	190,987,251
Temporarily restricted	29,822,982	36,694,013
Permanently restricted	16,417,664	15,857,998
Total net assets	279,309,122	243,539,262
Total liabilities and net assets	$ 731,819,270	$ 716,238,800

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Net patient service revenue	$ 392,024,113	$ 390,967,238
Other revenue	30,642,400	25,498,430
Net assets released from restrictions used for operations	590,549	788,537
Total operating revenue	423,257,062	417,254,205
Operating expenses:		
Salaries and wages	196,975,748	188,641,718
Employee benefits	46,046,605	48,091,979
Supplies and other	151,221,350	144,138,253
Depreciation and amortization	16,847,378	19,869,360
Interest	1,592,472	1,823,308
Total operating expenses	412,683,553	402,564,618
Income from operations	10,573,509	14,689,587
Nonoperating gains (losses):		
Investment income	1,367,208	1,156,830
Realized gains on investments, net	2,763,879	5,481,884
Gain (loss) on disposal of property and equipment, net	664,118	(117,262)
Contributions	380,174	372,892
Loss on assets available for sale	–	(23,749,966)
Loss on refinancing of debt	(6,555)	–
Total nonoperating gains (losses), net	5,168,824	(16,855,622)
Excess (deficiency) of revenue over expenses	15,742,333	(2,166,035)
Change in net unrealized gains (losses) on investments	1,514,965	(7,726,341)
Pension-related changes other than net periodic pension cost	12,016,810	(19,564,244)
Net assets released from restrictions used for capital acquisitions	12,807,117	43,678
Increase (decrease) in unrestricted net assets	$ 42,081,225	$ (29,412,942)

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses	$ 15,742,333	$ (2,166,035)
Change in net unrealized gains (losses) on investments	1,514,965	(7,726,341)
Pension-related changes other than net periodic pension cost	12,016,810	(19,564,244)
Net assets released from restrictions used for capital acquisitions	12,807,117	43,678
Increase (decrease) in unrestricted net assets	42,081,225	(29,412,942)
Temporarily restricted net assets:		
Contributions	5,577,012	28,622,950
Investment income	314,576	207,372
Realized gains on investments, net	438,029	790,017
Change in net unrealized gains (losses) on investments	197,018	(865,136)
Net assets released from restrictions	(13,397,666)	(832,215)
(Decrease) increase in temporarily restricted net assets	(6,871,031)	27,922,988
Permanently restricted net assets:		
Contributions	17,221	24,200
Change in market value of perpetual trusts	520,244	(534,199)
Change in net unrealized gains (losses) on investments	2,529	(35,088)
Realized gains on investments, net	19,672	36,408
Increase (decrease) in permanently restricted net assets	559,666	(508,679)
Increase (decrease) in net assets	35,769,860	(1,998,633)
Net assets, beginning of year	243,539,262	245,537,895
Net assets, end of year	$279,309,122	$ 243,539,262

See accompanying notes.

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 35,769,860	$ (1,998,633)
Adjustments to reconcile increase (decrease) in net assets to cash provided by operating activities:		
Loss on assets available for sale	–	23,749,966
Amortization of bond premium	(95,708)	(94,123)
Depreciation and amortization	16,847,378	19,869,360
Amortization of deferred refundable and nonrefundable advance fees	(950,245)	(942,907)
Provision for doubtful accounts	23,003,973	23,071,362
Loss on refinancing of debt	6,555	–
Pension related changes other than net periodic pension cost	(12,016,810)	19,564,244
Change in market value of perpetual trusts	(520,244)	534,199
Net change in unrealized gains on investments	(1,714,512)	8,626,565
Realized gains on sale of investments	(3,221,580)	(6,308,309)
Equity earnings on joint ventures	(1,202,951)	(1,427,255)
(Gain) loss on disposal of property and equipment, net	(664,118)	117,262
Restricted contributions	(5,594,233)	(28,647,150)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(41,628,579)	(25,815,126)
Supplies	(568,618)	689,736
Prepaid expenses and other current assets	(5,332,545)	(1,296,887)
Notes receivable	3,653	3,462
Accounts payable and accrued expenses	2,886,216	(4,425,898)
Other current liabilities	4,815,634	14,092,231
Estimated third-party payor settlements	(550,095)	(14,601,553)
Other liabilities and accrued pension cost	(3,843,421)	(3,215,885)
Net cash provided by operating activities	5,429,610	21,544,661
Cash flows from investing activities:		
Proceeds from sale of investments	217,731,233	175,581,674
Purchases of investments	(52,306,669)	(377,915,830)
Purchases of property and equipment	(182,633,685)	(101,604,381)
Proceeds from sale of property and equipment	2,543,781	19,426
Distributions from joint ventures	436,937	1,233,130
Net cash used by investing activities	(14,228,403)	(302,685,981)

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

June 30, 2013 and 2012

	2013	2012
Cash flows from financing activities:		
Payments on long-term debt and line of credit, net	$ (3,545,848)	$ (5,647,009)
Proceeds from issuance of long-term debt	16,889,617	280,812,878
Bond premium	174,130	–
Bond issuance costs	(100,584)	(5,184,655)
Amounts paid to refinance debt	(18,735,000)	–
Advance fees received	3,670,604	1,633,000
Refunds of advance fees	(2,822,107)	(1,488,253)
Restricted contributions	12,613,395	11,702,625
Net cash provided by financing activities	8,144,207	281,828,586
(Decrease) increase in cash and cash equivalents	(654,586)	687,266
Cash and cash equivalents, beginning of year	19,592,935	18,905,669
Cash and cash equivalents, end of year	$ 18,938,349	$ 19,592,935
Supplemental disclosure:		
Cash paid for interest (interest of approximately $17 million in both 2013 and 2012 was capitalized as part of the construction project and approximately $10 million was accrued at both June 30, 2013 and 2012)	$ 19,282,059	$ 9,258,447
Supplemental disclosure of noncash activities:		
Construction amounts remaining in accounts payable	$ 16,257,708	$ 21,548,118
Equipment acquired through capital lease	–	451,751
Contributed securities	8,521,424	65,355

See accompanying notes.

1. Corporate Organization

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

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

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

2. Summary of Significant Accounting Policies

General

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

Principles of Consolidation

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

Basis of Presentation

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

Use of Estimates

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

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. The differences between amounts previously estimated and amounts subsequently determined to be receivable or payable to third-party payors increased net patient service revenue by approximately $3,000,000 and $9,966,000 for the years ended June 30, 2013 and 2012, respectively.

The balance sheets at June 30, 2013 and 2012 include $38,000,000, which represent amounts due from the State of Maine under the MaineCare program. The amounts recorded have been determined based upon applicable regulations and the Company expects that these amounts will ultimately be paid in full. Due to the complex nature of such regulations and the significant problems the State has encountered with its claims payment system, there is at least a reasonable possibility that recorded estimates will change by a material amount at final settlement (see Note 18).

Revenues from the Medicare and Medicaid programs accounted for approximately 35% and 14%, respectively, of the Company's net patient service revenue for the year ended June 30, 2013, and 28% and 18%, respectively, for the year ending June 30, 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in substantial compliance with all applicable laws and regulations.

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

Charity Care

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

Cash and Cash Equivalents

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

2. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

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

Investments and Investment Income

Investments in equity securities with readily determinable market values and all investments in debt securities are recorded at fair market value. At June 30, 2013 and 2012 the Company held interests in limited partnerships and common/collective trusts, also known as alternative investments. Interests in limited partnerships or common/collective trusts are generally recorded at fair market value. Securities for which no quotations or valuations are readily available are carried at fair value as estimated by management using values provided by external investment managers. The Company believes that these valuations are a reasonable estimate of fair value as of June 30, 2013 and 2012, 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 (deficiency) of revenue over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenue over expenses.

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

On a periodic basis, the Company reviews declines in the value of securities below historical cost and records an impairment charge (included in the performance indicator) for those declines deemed to be other-than-temporary. There were no impairment charges recorded as of June 30, 2013 and 2012.

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).

2. Summary of Significant Accounting Policies (Continued)

Deferred Costs

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

Property and Equipment

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

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

Interest costs incurred on borrowed funds during the period of construction of capital assets, net of the related interest income, is capitalized as a component of the cost of acquiring those assets.

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

Conditional Asset Retirement Obligations

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

As of June 30, 2013 and 2012, $615,161 and $1,284,206, respectively, of conditional asset retirement obligations are included within other long-term liabilities on the consolidated balance sheet.

2. Summary of Significant Accounting Policies (Continued)

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 the Company's separate policy. 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.

MGH maintains a self-insured health benefit arrangement for MGH and all subsidiaries. Employee Benefit Plan Administration, Inc. serves as the third-party administrator of the plan and provides specific stop loss coverage with a deductible per individual of $250,000 and $225,000 for the years ended June 30, 2013 and 2012, respectively. 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

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income based on two different methods; one method for the refundable advance fees and another method for the nonrefundable advance fees. The refundable advance fees are amortized to income over future periods based on the remaining useful life of the facility. The nonrefundable advance fees are amortized to income over future periods based on the estimated life of each resident or contract term, if shorter. Refundable advance fees are paid back upon receipt of total advance fees received from a resident upon sale of a similar residential unit. Refundable advance fees at June 30, 2013 and 2012 were approximately $11,392,000 and $11,791,000, respectively. Nonrefundable advance fees at June 30, 2013 and 2012 were approximately $1,666,000 and $1,369,000, respectively

2. Summary of Significant Accounting Policies (Continued)

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 on 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 and assets held in trust for funding workers' compensation costs. Assets whose use is restricted include assets contributed by donors for specific purposes (temporarily restricted), and perpetual trusts and permanent endowment funds (permanently restricted).

Other Revenue

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is actually received or the conditions are met. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Beneficial Interest in Perpetual Trusts

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

Temporarily and Permanently Restricted Net Assets

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

2. Summary of Significant Accounting Policies (Continued)

Retirement Plans

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

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

Excess (Deficiency) of Revenue Over Expenses

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

Tax Status

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

The Captive is a limited liability company (LLC) under the Federal Income Tax Code and as a LLC is exempt from federal and state taxes.

Tax-exempt organizations could be required to record an obligation for income taxes as the result of a tax position they have historically taken on various tax exposure items including unrelated business income or tax status. Under guidance issued by the Financial Accounting Standards Board, assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense. The Company has evaluated the tax positions taken on its filed tax returns. The Company has concluded no uncertain income tax positions exist at June 30, 2013. The Company's tax years from 2010 through 2013 are open and subject to examination.

2. Summary of Significant Accounting Policies (Continued)

Functional Expenses

The Company provides general health services to area residents. Expenses incurred by the Company for the years ended June 30, 2013 and 2012 were predominantly related to this mission.

New Accounting Standards

In 2013, the Company adopted the provisions of Accounting Standards Updates (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Doubtful accounts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues.

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, 2013 which is the date the consolidated financial statements were available to be issued.

Prospective Accounting Pronouncement

In July 2012, the FASB issued ASU 2012-01, which addresses the accounting for continuing care retirement communities' refundable advance fees. This update clarifies that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. Management has not evaluated the potential impact of this update, however, the impact to the consolidated financial statements could be significant. The provisions of ASU 2012-01 are effective for the Company beginning in fiscal 2014.

3. Net Patient Service Revenue

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

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

3. Net Patient Service Revenue (Continued)

The consolidated balance sheet includes amounts due from the State of Maine under the MaineCare program of $38,000,000 in both 2013 and 2012. The 2012 amount was classified as long term as payment was not expected in the Medical Center's fiscal 2013. See Note 18 for 2013. The amounts recorded from the State have been determined based upon applicable regulations and the Company expects that these amounts will ultimately be paid in full. Due to the complex nature of such regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount.

In June 2012, the Medical Center entered into a risk-sharing agreement with the State of Maine's Employee Health Commission (SEHC) for the fiscal year ended June 30, 2013. Under the agreement, SEHC will designate the Medical Center as a "preferred hospital", while the Medical Center will place $1,000,000 at risk, subject to meeting agreed-upon cost benchmarks.

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

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

	2013	2012
Gross patient service charges	$ 837,029,706	$ 773,194,956
Contractual adjustments	(405,758,497)	(347,784,813)
Charity care	(16,243,123)	(11,371,543)
Provision for bad debt	(23,003,973)	(23,071,362)
Net patient service revenue	$ 392,024,113	$ 390,967,238

3. Net Patient Service Revenue (Continued)

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

	2013	2012
Medicare	$145,077,226	$ 114,809,119
Medicaid	58,677,440	73,766,962
Commercial	194,075,974	207,679,431
Patients	17,197,446	17,783,088
	415,028,086	414,038,600
Provision for bad debt	(23,003,973)	(23,071,362)
	$392,024,113	$ 390,967,238

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

The Company's allowance for doubtful accounts as a percent of gross accounts receivable was 23% at June 30, 2012 and 15.5% at June 30, 2013. The Company's provision for doubtful accounts remained consistent at approximately $23 million in 2013 and 2012.

4. Community Benefit and Charity Care

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

- The CarePartners program has been in place since 1998 and, to date, has served approximately 17,600 uninsured individuals in the region, providing primary care, preventive services, hospital services, pharmaceuticals, care management and specialty care by participating providers.

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

4. Community Benefit and Charity Care (Continued)

- Last year, the Medical Center provided approximately 500 community health events, including free education sessions, support meetings and screenings, to approximately 12,500 participants. It provided approximately 140 seasonal flu vaccinations at its community clinics, more than 3,900 H1N1 flu vaccinations at area schools, and more than 300 free health screenings, including sun safety and blood pressure.

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

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

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

Charity care is measured based on services provided at established rates but is not included in net patient service revenue. Costs and expenses incurred in providing these services are included in operating expenses. The Company determines the costs associated with providing charity care by calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. Under this methodology, the estimated costs of caring for charity care patients for the years ended June 30, 2013 and 2012 were approximately $5,945,000 and $4,666,000, respectively. Charges for services rendered to individuals from whom payment is expected and ultimately not received are written off and included as part of the provision for bad debt.

5. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2013	2012
Patient accounts receivable	$139,422,371	$128,991,711
Allowance for contractual adjustments	(55,043,905)	(33,814,667)
Allowance for doubtful accounts	(24,178,577)	(30,108,939)
Advance payments from third-party payors	(6,177)	(23,498,999)
	$ 60,193,712	$ 41,569,106

6. Pledges Receivable

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

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

	2013	2012
Within one year	$1,765,651	$ 9,856,764
One to five years	3,702,266	12,189,037
Due after five years	505,167	545,793
Pledges receivable	5,973,084	22,591,594
Less allowance for uncollectible pledges	(229,012)	(683,354)
Present value discount	(310,888)	(934,470)
Pledges receivable, net	$5,433,184	$20,973,770

A grant commitment of $35,000,000 was received from a private foundation for the purposes of construction, furnishing, and associated landscaping of a new regional replacement hospital and Thayer comprehensive outpatient center. The commitment is comprised of a core support payment of $25,000,000 subject to certain conditions, with payments of approximately $8,333,000, $8,333,000 and $8,333,000 to be made to the Medical Center on December 31, 2011, December 31, 2012 and June 30, 2013, respectively. At June 30, 2013, all payments had been received. Provided the conditions for the core support payment are satisfied, the foundation has agreed to pay up to an additional $10,000,000 to the Medical Center for the purpose of matching charitable contributions to the Project, subject to certain conditions. Through June 30, 2013, approximately $3,200,000 has been received and recorded as contributions on this additional pledge. The commitment letter also confirmed the foundation's pledge of collateral for a surety bond to be obtained by the Medical Center for the Debt Service Reserve Fund associated with the issuance of tax exempt bonds by the Maine Health and Higher Educational Facilities Authority (MHHEFA) to finance the Project. Refer to Note 10 for further discussion.

A grant commitment of $4,000,000 was received from a private foundation for the purpose of establishing a Healthy Living Resource Center at the Company. The purpose of the center is to provide the Company's patients and their families, employees and the community with educational wellness opportunities and supportive resources to enhance their health and mitigate the incidence of chronic diseases. The grant commitment is contingent upon a financial commitment from the Company to the center and related health initiatives. Through June 30, 2013, $400,000 of this pledge has been earned and recorded as contributions.

7. Investments

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

	2013		2012	
	Cost	Market	Cost	Market
Short-term investments:				
Cash and cash equivalents	$ 273,964	$ 273,965	$ 285,927	$ 285,927
Certificate of deposit	250,000	250,000	–	–
Fixed income mutual funds	2,680,267	2,865,153	2,155,196	2,357,368
Total short-term investments	3,204,231	3,389,118	2,441,123	2,643,295
Long-term investments:				
Cash and cash equivalents	15,617,866	15,617,868	32,041,494	32,041,494
Accrued interest	38,656	38,656	40,997	40,997
Guaranteed income contract	96,732,470	96,732,470	238,583,795	238,583,795
U.S. Government securities	1,522,829	1,529,889	3,773,685	3,820,435
Corporate equity securities	2,909,721	3,594,525	–	–
Common stock mutual funds	7,050,229	7,529,320	12,357,824	12,192,077
Limited partnerships	15,054,799	18,975,129	11,708,490	15,163,603
Global asset allocation mutual funds	19,954,281	19,669,263	16,476,149	15,895,235
Fixed income mutual funds	6,043,555	6,081,496	5,511,579	5,847,059
Corporate debt securities	1,725,486	1,699,983	800,389	793,752
International government securities	740,214	735,884	559,602	562,130
Beneficial interest in charitable remainder trusts	521,278	612,210	505,487	588,987
Beneficial interest in perpetual trusts	9,367,364	10,471,988	9,068,840	9,951,744
Total long-term investments	177,278,748	183,288,681	331,428,331	335,481,308
Total investments	$ 180,482,979	$ 186,677,799	$ 333,869,454	$ 338,124,603

Included in limited partnerships are commingled funds with a market value of $18,975,129 and $15,163,603 at June 30, 2013 and 2012, respectively, whose holdings are in U.S. and international equities.

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

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

7. Investments (Continued)

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

	2013	2012
Unrestricted:		
Investment income	$1,367,208	$ 1,156,830
Investment income included in other revenue	184,277	178,396
Change in net unrealized losses on investments	1,514,965	(7,726,341)
Realized gains on investments, net	2,763,879	5,481,884
Total unrestricted	5,830,329	(909,231)
Temporarily restricted:		
Investment income	314,576	207,372
Change in net unrealized losses on investments	197,018	(865,136)
Realized gains on investments, net	438,029	790,017
Total temporarily restricted	949,623	132,253
Permanently restricted:		
Change in net unrealized losses on investments	2,529	(35,088)
Change in market value of perpetual trusts	520,244	(534,199)
Realized gains on investments, net	19,672	36,408
Total permanently restricted	542,445	(532,879)
	$7,322,397	$(1,309,857)

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

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

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

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

7. Investments (Continued)

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

The Medical Center is a beneficiary of irrevocable perpetual trusts. The amounts reflected as an asset on the balance sheet are valued at the fair value of the Medical Center's interest in the perpetual trust. At June 30, 2013 and 2012, the Medical Center has recorded the beneficial interest in the perpetual trusts of $10,471,988 and $9,951,744, respectively.

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

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

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

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

7. Investments (Continued)

	Level 1	Level 2	Level 3	Total
2012				
Short-term investments:				
Cash and cash equivalents	$ 285,927	$ –	$ –	$ 285,927
Fixed income mutual funds	2,357,368	–	–	2,357,368
Total short-term investments	2,643,295	–	–	2,643,295
Long-term investments:				
Cash and cash equivalents	32,041,494	–	–	32,041,494
Accrued interest	40,997	–	–	40,997
Guaranteed income contracts	–	238,583,795	–	238,583,795
U.S. Government securities	3,820,435	–	–	3,820,435
Common stock mutual funds	12,192,077	–	–	12,192,077
Limited partnerships	–	15,163,603	–	15,163,603
Global asset allocation mutual funds	15,895,235	–	–	15,895,235
Fixed income mutual funds	5,847,059	–	–	5,847,059
Corporate debt securities	–	793,752	–	793,752
International government securities	562,130	–	–	562,130
Total long-term investments	70,399,427	254,541,150	–	324,940,577
Beneficial interest in charitable remainder trusts	–	–	588,987	588,987
Beneficial interest in perpetual trusts	–	–	9,951,744	9,951,744
Total investments	$73,042,722	$254,541,150	$10,540,731	$ 338,124,603

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

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

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

7. Investments (Continued)

	Hedge Fund of Funds	Charitable Remainder Trusts	Perpetual Trusts	Total Level 3 Assets
2012				
Fair value, July 1, 2011	$ 7,600,000	$616,854	$10,485,943	$18,702,797
Realized gains	313,648	–	–	313,648
Sales	(7,913,648)	–	–	(7,913,648)
Change in value of charitable reminder trusts and perpetual trusts	–	(27,867)	(534,199)	(562,066)
Fair value, June 30, 2012	$ –	$588,987	$ 9,951,744	$10,540,731

8. Property and Equipment

Property and equipment consisted of the following at June 30:

	2013	2012
Land and improvements	$ 9,745,225	$ 9,740,868
Buildings	136,158,269	137,021,855
Equipment	140,030,587	136,518,535
Construction in progress	293,620,587	125,077,417
	579,554,668	408,358,675
Less accumulated depreciation	(185,011,012)	(174,331,919)
	$ 394,543,656	$ 234,026,756

Depreciation expense for the years ended June 30, 2013 and 2012 was approximately $16,583,000 and $19,675,000, respectively. The Company retired approximately $6,148,000 of assets in fiscal 2013 which consisted largely of fully depreciated, obsolete equipment, as compared to $6,181,000 in fiscal 2012.

Construction Contracts

The Company is constructing a new Regional Hospital which will consolidate inpatient services that are currently provided at the Medical Center's two campus locations in Augusta and Waterville, Maine. Project costs of the Regional Hospital are anticipated to be approximately $322,326,000 of which approximately $285,516,000 has been incurred and included in construction in progress.

The Company has construction contracts totaling approximately $277 million for the project and, at June 30, 2013, the remaining commitment on the contract is approximately $18 million. The facility is being financed through a combination of internal and external financing (see Note 10).

8. Property and Equipment (Continued)

Assets Available for Sale

Consistent with the decision to consolidate the Augusta and Waterville inpatient services, the Medical Center has reported certain property and equipment (primarily the Augusta campus property and Waterville Seton property) related to the existing facilities as available for sale on the consolidated balance sheet in an amount equal to the estimated fair value of the property. At June 30, 2012, the Medical Center reported an impairment loss in the amount of $23,749,966 in nonoperating gains (losses) for the excess of the carrying value of the assets over the fair value.

On January 18, 2013, the Augusta campus property was sold to a developer at a selling price of $2,500,000, which was the estimated fair value of the property. Under the agreement, the Medical Center will lease the Augusta campus property through January 31, 2014 at a lease cost of approximately $924,000.

9. Other Assets

Other assets were composed of the following at June 30:

	2013	2012
Deferred financing costs, net	$5,731,437	$5,943,465
Investment in joint ventures	2,395,865	2,453,101
Note receivable	43,893	47,224
Prepaid expenses	793,748	–
	$8,964,943	$8,443,790

Amortization expense related to deferred financing costs for the years ended June 30, 2013 and 2012 was approximately $264,000 and $193,000, respectively.

10. Long-Term Obligations

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

	2013	2012
2013A Series Revenue Bonds, interest at fixed rates ranging from 2.0% to 5.0%, maturing in various amounts through 2017	$ 1,862,250	$ –
2011 Series Revenue Bonds, interest at fixed rates ranging from 4.0% to 7.5%, maturing in various amounts through 2041	280,750,000	280,750,000
2006 Series A Revenue Bonds, interest at fixed rates ranging from 3.5% to 5.0%, maturing in various amounts through 2025	25,755,735	28,135,735
2003D Revenue Bonds, interest at fixed rates ranging from 2.0% to 3.4%, maturing in various amounts through 2017	–	3,004,881
Bangor Savings Bank term loan, interest at a fixed rate of 3.16%	14,750,000	–
Bank of America term loan, interest at LIBOR rate plus 0.9%	–	15,621,206
Other notes payable	73,976	98,611
Capital lease obligation, payments in various amounts through 2021	393,569	428,308
	323,585,530	328,038,741
Net unamortized original issue premium/discount	1,233,788	1,226,444
	324,819,318	329,265,185
Less current portion	(3,381,823)	(5,611,197)
	$321,437,495	$323,653,988

In October 2003, MGRNC participated in a pooled financing of MHHEFA Series 2003D Revenue Bonds in the amount of $7,565,000, plus original issue premium of $207,715. In May 2013, the Bonds were paid in full from the proceeds of a financing of MHHEFA Series 2013A Revenue Bonds.

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

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

10. Long-Term Obligations (Continued)

In December 2010, the Medical Center entered into a term loan agreement with the Bank of America, N.A. for the purpose of refinancing the Medical Center 1997 Series B Revenue Bonds in the amount of approximately $17,734,000. Under the terms of the loan agreement, the Medical Center was required to pay interest at the LIBOR rate plus 1.65% on the outstanding principal. On July 25, 2011, the Medical Center refinanced the term loan with Bank of America, N.A. In April 2013, the term loan was paid in full from the proceeds of a term loan from Bangor Savings Bank.

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, will be used to finance the construction and equipping of a new 192-bed replacement hospital (the Regional Hospital) located in Augusta, Maine. The Medical Center has granted MHHEFA a security interest in its equipment, a mortgage lien on the Regional Hospital and the Medical Center's Harold Alfond Cancer Center, and on the gross receipts of the Obligated Group. In connection with the Series 2011 Revenue Bonds, the Obligated Group must maintain a minimum aggregate debt service coverage ratio of 1.20. In addition to the debt service reserve fund, the Company also has obtained a $15,000,000 surety bond.

In April 2013, the Medical Center entered into a term loan agreement with Bangor Savings Bank for the purpose of refinancing the term loan with the Bank of America in the amount of $15,000,000. Under the terms of the loan agreement, the Medical Center is required to remit fixed monthly principal payments of $125,000, plus accrued interest at a fixed rate of 3.16% on the outstanding principal balance, commencing on May 19, 2013, until the maturity date of April 19, 2018, at which time the term note is due and payable in full. Under the loan agreement, the Medical Center has granted Bangor Savings Bank a first mortgage lien on its Waterville real estate. In accordance with the terms of the loan agreement, the Medical Center is required to maintain certain financial covenants, including a minimum debt service coverage ratio of 1.20, a maximum debt to capitalization ratio of 75%, and a minimum days cash on hand of 50 days.

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

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

2014	$ 3,381,823
2015	3,953,944
2016	4,176,636
2017	4,346,756
2018	11,192,566
Thereafter	296,533,805
	$ 323,585,530

10. Long-Term Obligations (Continued)

At June 30, 2012, the Company had an available line of credit of $7,500,000 with interest at 2.25% above LIBOR with a minimum interest rate of 3.25% per annum (3.25% at June 30, 2012). The line of credit was secured by a continuing lien on and security interest in all deposit accounts and funds on deposit therein. At June 30, 2012, approximately $938,000 was outstanding on the line of credit. The line of credit matured and was paid in full on February 28, 2013.

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

As part of the bond and note agreements the Company has with MHHEFA and the note payable with Bank of America, 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:

	2013	2012
2013A MHHEFA Bond Debt Service Fund	$ 1,903	$ –
2011 MHHEFA Bond:		
Construction Fund	148,072	136,287,846
Capitalized Interest Fund	28,890,606	42,360,602
Debt Service Fund	2,629,907	2,613,873
Debt Service Reserve Fund	11,182,099	11,016,303
2006A MHHEFA Bond Debt Service Fund	2,347,768	3,137,870
2003D MHHEFA Bond Debt Service Fund	–	630,184
State of Maine Employee Health Commission Reserve Fund	1,048,065	–
Bank of America term loan	–	15,640,518
	$46,248,420	$211,687,196

11. Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Pledges receivable for construction and other purposes	$ 5,433,184	$20,973,770
New hospital	20,897,625	12,371,561
Equipment purchase	149,440	178,801
Amounts receivable from charitable remainder trusts	542,340	521,645
Education programs	525,452	550,268
Cancer care	136,275	331,702
Charity care	738,816	620,313
Accumulated realized/unrealized gains on investments for support of the Company	901,250	569,764
Other	498,600	576,189
	$29,822,982	$36,694,013

During 2013 and 2012, 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 $13,398,000 and $832,000, respectively.

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

	2013	2012
Scholarships	$ 222,488	$ 221,409
Education programs	373,162	373,162
Amounts receivable from charitable remainder trusts	69,870	67,342
Community health programs	235,286	235,286
Alzheimers care center	1,103,954	1,084,176
Medical Center support	1,465,813	1,465,817
Perpetual trusts	10,471,988	9,951,744
Equipment purchases	79,296	79,296
Charity care	1,974,779	1,962,062
Grounds maintenance	251,812	251,812
Other	169,216	165,892
	$16,417,664	$15,857,998

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

11. Temporarily and Permanently Restricted Net Assets (Continued)

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

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

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013				
Donor-restricted funds	$ –	$2,351,685	$16,417,664	$18,769,349
Board-designated funds	12,105,699	–	–	12,105,699
Total endowment funds	$12,105,699	$2,351,685	$16,417,664	$30,875,048
2012				
Donor-restricted funds	$ –	$1,875,173	$15,857,998	$17,733,171
Board-designated funds	10,803,219	–	–	10,803,219
Total endowment funds	$10,803,219	$1,875,173	$15,857,998	$28,536,390

11. Temporarily and Permanently Restricted Net Assets (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2013				
Endowment net assets, beginning of year	$10,803,219	$1,875,173	$15,857,998	$28,536,390
Investment return:				
Investment income	147,127	276,344	–	423,471
Net appreciation (realized and unrealized)	1,309,886	618,755	542,445	2,471,086
Total investment return	1,457,013	895,099	542,445	2,894,557
Contributions	74,134	–	17,221	91,355
Appropriation of endowment assets for expenditure	(228,667)	(418,587)	–	(647,254)
Endowment net assets, end of year	$12,105,699	$2,351,685	$16,417,664	$30,875,048
2012				
Endowment net assets, beginning of year	$11,023,523	$2,348,746	$16,366,677	$29,738,946
Investment return:				
Investment income	86,575	93,757	–	180,332
Net depreciation (realized and unrealized)	(282,502)	(54,935)	(532,879)	(870,316)
Total investment return	(195,927)	38,822	(532,879)	(689,984)
Contributions	107,784	81,344	24,200	213,328
Appropriation of endowment assets for expenditure	(132,161)	(593,739)	–	(725,900)
Endowment net assets, end of year	$10,803,219	$1,875,173	$15,857,998	$28,536,390

12. Retirement Plans

Effective December 31, 2004, MGH's Board of Directors approved the curtailment of MGH's noncontributory defined benefit plan which covers substantially all employees except employees of MGRNC, HRN 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:

	2013	2012
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 133,417,373	$ 110,875,518
Interest cost	5,332,998	5,868,814
Actuarial (gain) loss	(8,631,114)	20,893,387
Gross benefits paid	(4,619,050)	(4,220,346)
Accumulated benefit obligation, end of year	$ 125,500,207	$ 133,417,373
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 90,389,452	$ 83,238,063
Actual return on plan assets	7,880,044	6,604,609
Employer contributions	5,217,761	4,767,126
Gross benefits paid	(4,619,050)	(4,220,346)
Fair value of plan assets, end of year	$ 98,868,207	$ 90,389,452
Funded status:		
Fair value of plan assets	$ 98,868,207	$ 90,389,452
Projected benefit obligation	125,500,207	133,417,373
Funded status, amount recognized end of year (noncurrent liability)	$ (26,632,000)	$ (43,027,921)
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$ 35,557,208	$ 47,574,018

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

	2013	2012
Components of net periodic benefit cost:		
Interest cost	$ 5,332,998	$ 5,868,814
Expected return on plan assets	(7,002,207)	(6,462,157)
Amortization of net loss	2,507,859	1,186,692
Net periodic benefit cost	$ 838,650	$ 593,349

12. Retirement Plans (Continued)

The net actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost in 2014 is $1,749,596.

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

	2013	2012
Change in net gain (loss)	$ 9,508,951	$(20,750,936)
Amortization of net loss	2,507,859	1,186,692
Total recognized	$12,016,810	$(19,564,244)

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

	2013	2012
Benefit obligation:		
Weighted average discount rate	4.65%	4.07%
Periodic benefit cost:		
Weighted average discount rate	4.07%	5.40%
Weighted average expected long-term rate of return on plan assets	7.50%	7.75%

Investment Policy and Asset Allocations

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

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

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

12. Retirement Plans (Continued)

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

	2013 Target Allocation	2013	2012 Target Allocation	2012
Asset category:				
Large cap equity securities	25.0%	27.0%	25.0%	26.7%
Small cap equity securities	6.0	7.0	6.0	5.4
International equity securities	19.0	18.0	19.0	16.2
Fixed income securities	23.0	21.0	25.0	23.8
Global asset allocation fund	15.0	15.0	15.0	13.8
Hedge fund of funds	10.0	10.0	10.0	8.7
Other	2.0	2.0	0.0	5.4
	100.0%	100.0%	100.0%	100.0%

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

	Level 1	Level 2	Level 3	Total
2013				
Large cap equity securities	$26,216,090	$ –	$ –	$26,216,090
Small cap equity securities	3,100,090	–	–	3,100,090
International equity securities	5,027,716	–	–	5,027,716
Limited partnerships	–	16,688,965	–	16,688,965
Fixed income securities	18,452,952	–	–	18,452,952
Global asset allocation fund	14,629,375	–	–	14,629,375
Cash and cash equivalents	2,074,170	–	–	2,074,170
Guaranteed investment contract	–	–	2,681,306	2,681,306
Hedge fund of funds	–	–	9,997,543	9,997,543
Total pension investment	$69,500,393	$16,688,965	$12,678,849	$98,868,207
2012				
Large cap equity securities	$24,251,870	$ –	$ –	$24,251,870
Small cap equity securities	4,922,225	–	–	4,922,225
International equity securities	7,714,103	–	–	7,714,103
Limited partnerships	–	7,012,830	–	7,012,830
Fixed income securities	18,760,928	–	–	18,760,928
Global asset allocation fund	12,579,792	–	–	12,579,792
Cash and cash equivalents	4,839,820	–	–	4,839,820
Guaranteed investment contract	–	–	2,882,884	2,882,884
Hedge fund of funds	–	–	7,425,000	7,425,000
Total pension investment	$73,068,738	$7,012,830	$10,307,884	$90,389,452

12. Retirement Plans (Continued)

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

	Guaranteed Investment Contract	Hedge Fund of Funds	Total Investments
Fair value, July 1, 2012	$2,882,884	$7,425,000	$ 10,307,884
Purchases	164,971	1,000,000	1,164,971
Sales	(366,549)	–	(366,549)
Net unrealized gains on investments	–	1,572,543	1,572,543
Fair value, July 1, 2013	$2,681,306	$9,997,543	$ 12,678,849
Fair value, July 1, 2011	$3,090,172	$7,425,000	$ 10,515,172
Purchases	178,355	–	178,355
Sales	(385,643)	–	(385,643)
Fair value, July 1, 2012	$2,882,884	$7,425,000	$ 10,307,884

Contributions

Expected contributions to the plan in 2014 are approximately $3,443,000.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

2014	$ 5,292,000
2015	5,654,000
2016	6,073,000
2017	6,372,000
2018	6,820,000
2019 – 2022	40,070,000

Defined Contribution Plan

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

12. Retirement Plans (Continued)

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

The Company incurred approximately $8,574,000 and $9,351,000 of expenses in 2013 and 2012, respectively, for the 403(b) and 401(a) defined contribution plans.

Deferred Compensation Plan

The Company maintains a 457(b) deferred compensation plan which covers certain key employees of the Company. Under this plan, key employees may elect to supplement their retirement savings through the deferral of a portion of their compensation. This plan is maintained primarily for the purpose of providing deferred compensation for key employees under Section 201 of the Employee Retirement Income Security Act. The Company does not make any contributions to the plan and total assets at June 30, 2013 were approximately $4,642,000.

13. Malpractice Insurance

The Company insures its medical malpractice risks on a claims-made basis. In accordance with ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, at June 30, 2013 and 2012, the Company recorded a liability of $7,253,000 and $5,386,000, respectively, related to estimated professional liability losses relating to reported cases as well as potential incurred but not reported claims. The Company also recorded a receivable of $1,437,000 and $1,488,000 at June 30, 2013 and 2012, respectively, related to estimated recoveries under insurance coverage for recoveries of the potential losses. At June 30, 2013, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage.

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

14. Concentration of Credit Risk

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

14. Concentration of Credit Risk

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:

	2013	2012
Medicare and Medicaid	55%	57%
Managed care	9	8
Commercial insurance	15	13
Anthem	6	8
Patients	15	14
	100%	100%

15. Commitments and Contingencies

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

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

Operating Leases

The Company is committed under long-term operating leases for the rental of certain property. The leases expire at various dates through 2026. Property rental expenses for the years ended June 30, 2013 and 2012 were approximately $5,449,000 and $4,659,000, respectively. At June 30, 2013, the minimum commitments for property leases for the next five years are as follows:

2014	$5,374,000
2015	4,598,000
2016	4,086,000
2017	3,794,000
2018	3,694,000

16. Fair Value of Financial Instruments

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

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

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

Investments and Assets Whose Use is Limited or Restricted

These assets consist primarily of interest receivable, investments in money market funds, government securities, mutual funds, collective trusts, corporate debt securities, hedge funds and beneficial interest in perpetual trusts. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial position and operations. Determination of fair value is discussed in Notes 2 and 7.

Long-Term Debt

Fair values of the Company's bonds are based on quoted market prices. At June 30, 2013, the market value of the bonds was approximately $343,018,000.

17. Functional Expenses

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

	2013	2012
Health care services	$346,835,670	$ 337,387,710
General and administrative	65,847,883	65,176,908
	$412,683,553	$ 402,564,618

18. Subsequent Events

On August 2, 2013, the Waterville Seton property was sold to a developer at a selling price of $500,000. According to the agreement, the Medical Center will lease the Seton property through October 31, 2014 at a lease cost of $1 and will be solely responsible for the costs of utilities and services related to the property. In addition, the Medical Center will lease a portion of the premises, consisting of the behavioral health building and associated grounds, from November 1, 2014 through October 31, 2024 at an annual rental cost of approximately $172,000. The base rent of approximately $103,000 is subject to annual escalation.

18. Subsequent Events (Continued)

In September 2013, the Company received payment in the amount of $47,000,000 from the State of Maine for amounts due under the MaineCare program. The payments represent settlements on interim cost reports and are estimates pending final settlement. (See Note 3.)

BAKER | NEWMAN | NOYES

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON THE ADDITIONAL INFORMATION

Board of Trustees
MaineGeneral Health and Subsidiaries

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating 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.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
September 27, 2013

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

June 30, 2013

ASSETS

	MGH	MGMC	HRN	MGRNC	MGRC	Total	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$ 6,293,625	$ 10,174,352	$ 509,608	$ 937,284	$ 1,023,480	$ 18,938,349	$ –	$ 18,938,349
Investments	–	1,451,967	–	1,256,529	680,622	3,389,118	–	3,389,118
Patient accounts receivable, net	–	56,876,151	1,729,173	1,588,388	–	60,193,712	–	60,193,712
Amounts due from affiliates	5,221,342	240,471	17,697	55	–	5,479,565	(5,479,565)	–
Supplies	–	4,573,785	–	–	–	4,573,785	–	4,573,785
Pledges receivable, net	63	1,654,953	6,626	1,221	–	1,662,863	–	1,662,863
Prepaid expenses and other current assets	567,412	12,872,806	17,719	20,049	309,231	13,787,217	–	13,787,217
Estimated third-party payor settlements - due from State of Maine	–	38,000,000	–	–	–	38,000,000	–	38,000,000
Total current assets	12,082,442	125,844,485	2,280,823	3,803,526	2,013,333	146,024,609	(5,479,565)	140,545,044
Investments:								
Unrestricted	44,343	28,891,171	1,016,656	25,915	–	29,978,085	–	29,978,085
Assets whose use is limited or restricted:								
Board-designated:								
Funded depreciation	–	–	–	1,859,318	–	1,859,318	–	1,859,318
New hospital	–	48,310,323	–	–	–	48,310,323	–	48,310,323
Other	5,898,744	7,783,392	–	15,945	–	13,698,081	–	13,698,081
Assets held in trust under debt and other agreements	–	45,590,699	–	1,903	655,818	46,248,420	–	46,248,420
Beneficial interest in perpetual trusts	–	10,471,988	–	–	–	10,471,988	–	10,471,988
Permanently donor-restricted	533,456	4,220,047	88,219	1,103,954	–	5,945,676	–	5,945,676
Temporarily donor-restricted	201,796	23,927,192	58,869	201,633	308	24,389,798	–	24,389,798
	6,678,339	169,194,812	1,163,744	3,208,668	656,126	180,901,689	–	180,901,689
Beneficial interest in workers' compensation trust	137,506	1,657,873	275,045	296,106	20,462	2,386,992	–	2,386,992
Total investments and assets whose use is limited or restricted	6,815,845	170,852,685	1,438,789	3,504,774	676,588	183,288,681	–	183,288,681
Pledges receivable, net of current portion	–	3,770,321	–	–	–	3,770,321	–	3,770,321
Property and equipment	184,599	371,232,805	383,544	4,345,024	18,397,684	394,543,656	–	394,543,656
Assets available for sale	–	706,625	–	–	–	706,625	–	706,625
Other assets, net	–	8,799,969	43,893	34,017	87,064	8,964,943	–	8,964,943
Total assets	$ 19,082,886	$ 681,206,890	$ 4,147,049	$ 11,687,341	$ 21,174,669	$ 737,298,835	$ (5,479,565)	$ 731,819,270

LIABILITIES AND NET ASSETS

	MGH	MGMC	HRN	MGRNC	MGRC	Total	Eliminations	Consolidated
Current liabilities:								
Accounts payable and accrued expenses	$ 2,745,965	$ 21,606,436	$ 363,702	$ 618,366	$ 573,505	$ 25,907,974	$ –	$ 25,907,974
Accrued employee compensation and compensated absences	3,376,346	20,762,066	1,423,059	866,275	99,188	26,526,934	–	26,526,934
Amounts due to affiliates	134,586	4,704,694	165,041	295,052	180,192	5,479,565	(5,479,565)	–
Estimated third-party payor settlements	–	9,044,570	274,306	405,137	–	9,724,013	–	9,724,013
Other current liabilities	2,748,625	18,137,705	627,412	228,588	503,470	22,245,800	–	22,245,800
Current portion of long-term debt	–	2,840,693	4,354	40,916	495,860	3,381,823	–	3,381,823
Total current liabilities	9,005,522	77,096,164	2,857,874	2,454,334	1,852,215	93,266,109	(5,479,565)	87,786,544
Long-term debt, less current portion	–	312,201,318	69,622	1,991,985	7,174,570	321,437,495	–	321,437,495
Accrued pension cost	2,032,473	24,599,527	–	–	–	26,632,000	–	26,632,000
Deferred refundable and nonrefundable advance fees	–	–	–	–	13,058,250	13,058,250	–	13,058,250
Other long-term liabilities	1,300,432	2,082,123	16,073	–	197,231	3,595,859	–	3,595,859
Total liabilities	12,338,427	415,979,132	2,943,569	4,446,319	22,282,266	457,989,713	(5,479,565)	452,510,148
Net assets (deficit):								
Unrestricted	6,009,144	221,183,257	1,049,766	5,934,214	(1,107,905)	233,068,476	–	233,068,476
Temporarily restricted	201,859	29,352,466	65,495	202,854	308	29,822,982	–	29,822,982
Permanently restricted	533,456	14,692,035	88,219	1,103,954	–	16,417,664	–	16,417,664
Total net assets (deficit)	6,744,459	265,227,758	1,203,480	7,241,022	(1,107,597)	279,309,122	–	279,309,122
Total liabilities and net assets	$ 19,082,886	$ 681,206,890	$ 4,147,049	$ 11,687,341	$ 21,174,669	$ 737,298,835	$ (5,479,565)	$ 731,819,270

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended June 30, 2013

	MGH	MGMC	HRN	MGRNC	MGRC	Total	Eliminations	Consolidated
Operating revenue:								
Net patient service revenue	$ –	$ 355,139,686	$ 17,625,233	$ 19,259,194	$ –	$ 392,024,113	$ –	$ 392,024,113
Other revenue	12,334,138	23,107,248	2,623,333	812,052	4,421,084	43,297,855	(12,655,455)	30,642,400
Net assets released from restrictions used for operations	45,844	454,823	6,699	83,183	–	590,549	–	590,549
Total operating revenue	12,379,982	378,701,757	20,255,265	20,154,429	4,421,084	435,912,517	(12,655,455)	423,257,062
Operating expenses:								
Salaries and wages	7,535,252	166,176,017	12,591,802	9,504,043	1,168,634	196,975,748	–	196,975,748
Employee benefits	1,891,857	37,970,708	3,220,257	2,653,388	310,395	46,046,605	–	46,046,605
Supplies and other	2,781,756	147,890,035	4,767,798	6,462,716	1,908,473	163,810,778	(12,589,428)	151,221,350
Depreciation and amortization	93,195	14,801,180	126,909	692,368	1,133,726	16,847,378	–	16,847,378
Interest	77,922	1,124,746	321	109,513	345,997	1,658,499	(66,027)	1,592,472
Total operating expenses	12,379,982	367,962,686	20,707,087	19,422,028	4,867,225	425,339,008	(12,655,455)	412,683,553
Income (loss) from operations	–	10,739,071	(451,822)	732,401	(446,141)	10,573,509	–	10,573,509
Nonoperating gains (losses):								
Investment income	61,556	1,266,622	16,441	22,589	–	1,367,208	–	1,367,208
Realized gains on investments, net	359,736	2,158,219	95,348	139,825	10,751	2,763,879	–	2,763,879
Gain on disposal of property and equipment, net	–	649,018	16,611	(1,511)	–	664,118	–	664,118
Contributions	217	365,957	14,000	–	–	380,174	–	380,174
Loss on refinancing of debt	–	–	–	(6,555)	–	(6,555)	–	(6,555)
Total nonoperating gains (losses), net	421,509	4,439,816	142,400	154,348	10,751	5,168,824	–	5,168,824
Excess (deficiency) of revenue over expenses	421,509	15,178,887	(309,422)	886,749	(435,390)	15,742,333	–	15,742,333
Change in net unrealized gains (losses) on investments	274,753	1,178,890	55,270	28,906	(22,854)	1,514,965	–	1,514,965
Pension-related changes other than net periodic pension cost	872,097	11,144,713	–	–	–	12,016,810	–	12,016,810
Net assets released from restrictions used for capital acquisitions	–	12,774,871	32,246	–	–	12,807,117	–	12,807,117
Increase (decrease) in unrestricted net assets	$ 1,568,359	$ 40,277,361	$ (221,906)	$ 915,655	$ (458,244)	$ 42,081,225	$ –	$ 42,081,225

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

June 30, 2012

ASSETS

	MGH	MGMC	HRN	MGRNC	MGRC	Total	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$ 2,909,229	$ 14,474,268	$ 367,527	$ 834,641	$ 1,007,270	$ 19,592,935	$ –	$ 19,592,935
Investments	–	1,328,683	–	682,165	632,447	2,643,295	–	2,643,295
Patient accounts receivable, net	–	37,884,779	2,124,130	1,560,197	–	41,569,106	–	41,569,106
Amounts due from affiliates	5,745,053	628,842	15,718	150	2,901	6,392,664	(6,392,664)	–
Supplies	–	4,005,167	–	–	–	4,005,167	–	4,005,167
Pledges receivable, net	439	9,546,219	7,716	1,081	–	9,555,455	–	9,555,455
Prepaid expenses and other current assets	1,015,759	7,568,685	38,088	77,408	398,489	9,098,429	(643,757)	8,454,672
Total current assets	9,670,480	75,436,643	2,553,179	3,155,642	2,041,107	92,857,051	(7,036,421)	85,820,630
Investments:								
Unrestricted	3,460	27,579,346	1,303,965	16,013	3,172	28,905,956	–	28,905,956
Assets whose use is limited or restricted:								
Board-designated:								
Funded depreciation	–	–	–	1,637,535	–	1,637,535	–	1,637,535
New hospital	–	47,313,334	–	–	–	47,313,334	–	47,313,334
Other	5,369,821	6,785,692	–	14,043	–	12,169,556	–	12,169,556
Assets held in trust under debt agreements	–	210,412,776	–	630,184	644,236	211,687,196	–	211,687,196
Beneficial interest in perpetual trusts	–	9,951,744	–	–	–	9,951,744	–	9,951,744
Permanently donor-restricted	531,888	4,204,801	85,389	1,084,176	–	5,906,254	–	5,906,254
Temporarily donor-restricted	164,963	15,344,589	85,132	125,559	–	15,720,243	–	15,720,243
	6,070,132	321,592,282	1,474,486	3,507,510	647,408	333,291,818	–	333,291,818
Beneficial interest in workers' compensation trust	130,462	1,520,650	246,585	274,610	17,183	2,189,490	–	2,189,490
Total investments and assets whose use is limited or restricted	6,200,594	323,112,932	1,721,071	3,782,120	664,591	335,481,308	–	335,481,308
Pledges receivable, net of current portion	–	11,418,315	–	–	–	11,418,315	–	11,418,315
Estimated third-party payor settlements - due from State of Maine	–	38,000,000	–	–	–	38,000,000	–	38,000,000
Property and equipment	277,795	209,251,015	506,330	4,625,470	19,366,146	234,026,756	–	234,026,756
Assets available for sale	–	3,048,001	–	–	–	3,048,001	–	3,048,001
Other assets, net	268,230	8,245,446	47,224	57,137	93,983	8,712,020	(268,230)	8,443,790
Total assets	$ 16,417,099	$ 668,512,352	$ 4,827,804	$ 11,620,369	$ 22,165,827	$ 723,543,451	$ (7,304,651)	$ 716,238,800

LIABILITIES AND NET ASSETS

	MGH	MGMC	HRN	MGRNC	MGRC	Total	Eliminations	Consolidated
Current liabilities:								
Line of credit	$ 938,020	$ –	$ –	$ –	$ –	$ 938,020	$ –	$ 938,020
Accounts payable and accrued expenses	545,209	26,163,936	571,948	621,078	409,997	28,312,168	–	28,312,168
Accrued employee compensation and compensated absences	1,964,625	18,913,056	1,375,086	787,129	90,836	23,130,732	–	23,130,732
Amounts due to affiliates	535,439	5,174,219	337,297	272,364	73,344	6,392,663	(6,392,663)	–
Estimated third-party payor settlements	–	9,863,021	324,767	86,320	–	10,274,108	–	10,274,108
Other current liabilities	3,005,550	16,383,079	669,322	276,804	491,613	20,826,368	–	20,826,368
Current portion of long-term debt	–	5,028,990	4,311	745,855	475,860	6,255,016	(643,819)	5,611,197
Total current liabilities	6,988,843	81,526,301	3,282,731	2,789,550	1,541,650	96,129,075	(7,036,482)	89,092,593
Long-term debt, less current portion	–	313,576,305	73,976	2,601,444	7,670,432	323,922,157	(268,169)	323,653,988
Accrued pension cost	3,222,376	39,805,545	–	–	–	43,027,921	–	43,027,921
Deferred refundable and nonrefundable advance fees	–	–	–	–	13,159,998	13,159,998	–	13,159,998
Other long-term liabilities	1,067,805	2,232,637	21,188	–	443,408	3,765,038	–	3,765,038
Total liabilities	11,279,024	437,140,788	3,377,895	5,390,994	22,815,488	480,004,189	(7,304,651)	472,699,538
Net assets:								
Unrestricted	4,440,785	180,905,896	1,271,672	5,018,559	(649,661)	190,987,251	–	190,987,251
Temporarily restricted	165,402	36,309,123	92,848	126,640	–	36,694,013	–	36,694,013
Permanently restricted	531,888	14,156,545	85,389	1,084,176	–	15,857,998	–	15,857,998
Total net assets	5,138,075	231,371,564	1,449,909	6,229,375	(649,661)	243,539,262	–	243,539,262
Total liabilities and net assets	$ 16,417,099	$ 668,512,352	$ 4,827,804	$ 11,620,369	$ 22,165,827	$ 723,543,451	$ (7,304,651)	$ 716,238,800

MAINEGENERAL HEALTH AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended June 30, 2012

	MGH	MGMC	HRN	MGRNC	MGHA	MGRC	Total	Eliminations	Consolidated
Operating revenue:									
Net patient service revenue	$ –	$ 353,319,424	$ 18,139,298	$ 19,508,516	$ –	$ –	$ 390,967,238	$ –	$ 390,967,238
Other revenue	14,452,691	17,822,667	3,064,659	816,672	–	4,287,573	40,444,262	(14,945,832)	25,498,430
Net assets released from restrictions used for operations	44,097	671,848	6,965	64,973	–	654	788,537	–	788,537
Total operating revenue	14,496,788	371,813,939	21,210,922	20,390,161	–	4,288,227	432,200,037	(14,945,832)	417,254,205
Operating expenses:									
Salaries and wages	8,335,521	157,206,360	12,585,975	9,401,946	–	1,111,916	188,641,718	–	188,641,718
Employee benefits	2,056,397	39,523,849	3,448,671	2,774,749	–	288,313	48,091,979	–	48,091,979
Supplies and other	3,940,878	142,343,506	5,013,341	6,033,747	–	1,677,898	159,009,370	(14,871,117)	144,138,253
Depreciation and amortization	89,634	17,894,222	120,518	665,015	–	1,099,971	19,869,360	–	19,869,360
Interest	74,358	1,285,472	546	148,913	–	388,734	1,898,023	(74,715)	1,823,308
Total operating expenses	14,496,788	358,253,409	21,169,051	19,024,370	–	4,566,832	417,510,450	(14,945,832)	402,564,618
Income from operations	–	13,560,530	41,871	1,365,791	–	(278,605)	14,689,587	–	14,689,587
Nonoperating gains (losses):									
Investment income	38,248	1,094,658	10,755	13,169	–	–	1,156,830	–	1,156,830
Realized gains on investments, net	544,279	4,561,864	142,722	199,006	–	34,013	5,481,884	–	5,481,884
Loss on disposal of property and equipment, net	(1,652)	(111,652)	–	(3,958)	–	–	(117,262)	–	(117,262)
Loss on assets available for sale	–	(23,749,966)	–	–	–	–	(23,749,966)	–	(23,749,966)
Contributions	260	358,456	14,176	–	–	–	372,892	–	372,892
Total nonoperating gains (losses), net	581,135	(17,846,640)	167,653	208,217	–	34,013	(16,855,622)	–	(16,855,622)
Excess (deficiency) of revenue over expenses	581,135	(4,286,110)	209,524	1,574,008	–	(244,592)	(2,166,035)	–	(2,166,035)
Change in net unrealized gains (losses) on investments	(666,256)	(6,624,594)	(173,000)	(253,281)	–	(9,210)	(7,726,341)	–	(7,726,341)
Pension-related changes other than net periodic pension cost	(1,419,838)	(18,144,406)	–	–	–	–	(19,564,244)	–	(19,564,244)
Net assets released from restrictions used for capital acquisitions	–	35,535	–	–	–	8,143	43,678	–	43,678
Transfers (to) from affiliates	–	(6,311,120)	–	–	6,311,120	–	–	–	–
(Decrease) increase in unrestricted net assets	$ (1,504,959)	$ (35,330,695)	$ 36,524	$ 1,320,727	$ 6,311,120	$ (245,659)	$ (29,412,942)	$ –	$ (29,412,942)