

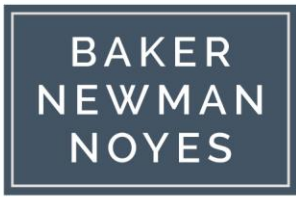
MAINEHEALTH SYSTEM **(MaineHealth Services and Subsidiaries)**

Consolidated Financial Statements

For the Years Ended September 30, 2024 and 2023
With Independent Auditors' Report

Baker Newman & Noyes LLC
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
MaineHealth Services and Subsidiaries

Opinion

We have audited the consolidated financial statements of MaineHealth Services and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System as of September 30, 2024 and 2023, and the results of their operations, changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a period of one year after the date that the financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Baker Newman + Noyes LLC

Portland, Maine
February 7, 2025

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

CONSOLIDATED BALANCE SHEETS

September 30, 2024 and 2023
(In thousands)

Assets	<u>2024</u>	<u>2023</u>	Liabilities and Net Assets	<u>2024</u>	<u>2023</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 318,905	\$ 351,113	Current portion of long-term debt	\$ 42,242	\$ 41,824
Investments	1,078,450	889,112	Current portion of lease obligation	16,690	18,103
Patient accounts receivable	533,191	458,943	Accounts payable and other current liabilities	191,690	169,621
Current portion of investments whose use is limited	15,442	28,098	Accrued payroll, payroll taxes and amounts withheld	140,062	100,325
Inventories, prepaid expenses and other current assets	<u>163,851</u>	<u>135,974</u>	Accrued earned time	105,064	103,954
Total current assets	2,109,839	1,863,240	Accrued interest payable	6,603	5,312
Investments whose use is limited by:			Estimated amounts payable under reimbursement regulations	68,655	86,943
Debt agreements	37,940	24,701	Self-insurance reserves	42,546	44,256
Board designation	180,671	151,639	Deferred revenue	<u>34,991</u>	<u>23,264</u>
Self-insurance trust agreements	34,496	37,548	Total current liabilities	648,543	593,602
Specially designated specific purpose funds	105,429	95,347	Accrued retirement benefits	249,881	221,356
Plant replacement funds	5,757	4,866	Self-insurance reserves – less current portion	67,385	67,546
Funds functioning as endowment funds	152,942	127,250	Long-term debt, less current portion	837,127	740,453
Pooled life income funds	2,049	1,884	Long-term lease obligation – less current portion	123,634	138,998
Beneficial interest in perpetual and charitable remainder trusts	<u>58,294</u>	<u>50,397</u>	Other liabilities	<u>33,969</u>	<u>31,041</u>
	577,578	493,632	Total liabilities	1,960,539	1,792,996
Less current portion	<u>(15,442)</u>	<u>(28,098)</u>	Net assets:		
	562,136	465,534	Without donor restrictions	2,416,338	2,188,281
Property, plant and equipment - net	1,665,076	1,584,348	With donor restrictions	<u>325,602</u>	<u>285,733</u>
Right of use assets	133,321	150,927	Total net assets	<u>2,741,940</u>	<u>2,474,014</u>
Other assets	<u>232,107</u>	<u>202,961</u>	Total liabilities and net assets	<u>\$ 4,702,479</u>	<u>\$ 4,267,010</u>
Total assets	<u>\$ 4,702,479</u>	<u>\$ 4,267,010</u>			

See accompanying notes to consolidated financial statements.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended September 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Revenue:		
Patient service revenue	\$3,856,373	\$3,425,497
Research revenue	27,404	26,907
Other revenue	<u>446,184</u>	<u>492,547</u>
Total revenue and other support	4,329,961	3,944,951
Expenses:		
Salaries	2,064,087	1,864,213
Employee benefits	526,701	467,372
Supplies	768,069	698,394
Professional fees and purchased services	524,477	551,979
Facility and other costs	155,025	141,737
State taxes	59,491	60,373
Interest	23,875	15,389
Depreciation and amortization	<u>167,613</u>	<u>163,124</u>
Total expenses	<u>4,289,338</u>	<u>3,962,581</u>
Income (loss) from operations	40,623	(17,630)
Nonoperating gains:		
Gifts and donations – net of related expenses	721	3,237
Interest and dividends	49,196	34,674
Recognized (loss) gain on cash flow hedge instruments	(2,069)	1,892
Nonservice periodic pension costs	2,411	9,035
Equity in earnings (losses) of joint ventures	2,533	(461)
Increase in fair value of investments	121,475	48,109
Other	<u>5,933</u>	<u>4,333</u>
Total nonoperating gains - net	<u>180,200</u>	<u>100,819</u>
Excess of revenue and nonoperating gains – net over expenses	220,823	83,189
Net assets released from restrictions for property, plant and equipment	10,432	11,477
Retirement benefit plan adjustments	<u>(3,198)</u>	<u>15,772</u>
Increase in net assets without donor restriction	\$ <u>228,057</u>	\$ <u>110,438</u>

See accompanying notes to consolidated financial statements.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years Ended September 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Net assets without donor restrictions:		
Excess of revenue and nonoperating gains – net over expenses	\$ 220,823	\$ 83,189
Net assets released from restrictions for		
property, plant and equipment	10,432	11,477
Retirement benefit plan adjustments	<u>(3,198)</u>	<u>15,772</u>
Increase in net assets without donor restriction	228,057	110,438
Net assets with donor restrictions:		
Gifts and donations	22,987	26,402
Interest and dividends	3,957	551
Change in value of perpetual and beneficial interest trusts	7,870	3,421
Realized and unrealized gains on investments	30,176	17,508
Net assets released for operations	(14,689)	(14,053)
Net assets released for property, plant and equipment	<u>(10,432)</u>	<u>(11,477)</u>
Increase in net assets with donor restrictions	<u>39,869</u>	<u>22,352</u>
Increase in net assets	267,926	132,790
Net assets – beginning of year	<u>2,474,014</u>	<u>2,341,224</u>
Net assets – end of year	<u>\$2,741,940</u>	<u>\$2,474,014</u>

See accompanying notes to consolidated financial statements.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Increase in net assets	\$ 267,926	\$ 132,790
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	167,580	163,497
Accretion of bond issuance cost and premium, net	(3,533)	(2,925)
Equity in earnings of joint ventures	(2,533)	461
Net realized and change in unrealized gains on investments	(151,651)	(65,617)
Net gain on cash flow hedge instruments	2,069	(1,892)
Net gain on charitable remainder and perpetual trusts	(7,897)	(3,218)
(Loss) gain on disposal of fixed assets	1,085	(2,885)
Noncash lease expense	15,833	20,546
Restricted contributions and investments income	(26,944)	(26,953)
Retirement benefit plan adjustments	3,198	(15,772)
Increase in asset retirement obligations	94	(22)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(74,248)	(102,687)
Inventories, prepaid expenses and other current assets	(27,877)	3,832
Other assets	(34,611)	(31,759)
Accounts payable and other current liabilities	85,763	(67,786)
Operating lease liability	(15,004)	(19,418)
Amounts payable under reimbursement regulations	(18,288)	17,689
Self-insurance reserves	(1,871)	5,057
Accrued retirement benefits	25,327	1,886
Other liabilities	(730)	(539)
Net cash provided by operating activities	<u>203,688</u>	<u>4,285</u>
Cash flows from investing activities:		
Purchase of investments	(939,798)	(1,235,979)
Proceeds from sale of investments	826,062	1,474,904
(Decrease) increase in other assets	(105)	250
Distributions from joint ventures	9,599	4,696
Contributions to joint ventures	(166)	(9,500)
Purchases of property, plant and equipment	(259,236)	(249,490)
Proceeds from sale of fixed assets	<u>—</u>	<u>5,085</u>
Net cash used by investing activities	<u>(363,644)</u>	<u>(10,034)</u>
Cash flows from financing activities:		
Payments of long-term debt	(34,894)	(49,730)
Payments of finance lease obligations	(1,440)	(1,408)
Proceeds from issuance of long-term debt	137,038	77,000
Restricted contributions and investment income	<u>27,044</u>	<u>27,235</u>
Net cash provided by financing activities	<u>127,748</u>	<u>53,097</u>
Net (decrease) increase in cash and cash equivalents	(32,208)	47,348
Cash and cash equivalents – beginning of year	<u>351,113</u>	<u>303,765</u>
Cash and cash equivalents – end of year	<u>\$ 318,905</u>	<u>\$ 351,113</u>

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended September 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u>36,026</u>	\$ <u>28,506</u>
Supplemental disclosure of noncash activities:		
Right of use assets obtained in exchange for lease obligations:		
Operating leases	\$ <u>1,773</u>	\$ <u>12,493</u>
Financing leases	\$ <u>—</u>	\$ <u>344</u>
Purchases of property, plant and equipment in accounts payable and other current liabilities	\$ <u>13,281</u>	\$ <u>23,110</u>

See accompanying notes to consolidated financial statements.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

1. Reporting Entity

Organization

The MaineHealth System (the System) is comprised of MaineHealth Services, the parent organization, and its subsidiaries. The subsidiaries of MaineHealth Services include MaineHealth, NorDx, MaineHealth Care at Home, and The Memorial Hospital at North Conway, N.H. In the fiscal year ending September 30, 2023, the subsidiary MaineHealth included nine acute care hospitals. In 2024, two of the nine hospitals (Maine Medical Center and Southern Maine Health Care) merged into one hospital. These hospitals are now local health systems within the subsidiary named MaineHealth utilizing d/b/a's of Maine Medical Center (or MMC), Mid Coast–Parkview Health (Mid Coast Hospital), LincolnHealth, Western Maine Healthcare (Stephens Hospital), Franklin Community Health Network (Franklin Hospital), Maine Behavioral Healthcare (Spring Harbor Hospital), and Coastal Healthcare Alliance (Waldo County General Hospital and Pen Bay Medical Center). The merger enables the combined resources of the merging entities to be allocated in a manner that is consistent with the System's vision of helping make the communities it serves the healthiest in America.

MaineHealth Services, together with its controlled subsidiaries, MaineHealth and The Memorial Hospital at North Conway, N.H., maintained a controlling interest in MaineHealth Accountable Care Organization, LLC (MaineHealth ACO), a value based contracting entity.

The purpose of the System is to lead the development of a premier community care network that provides a broad range of integrated health care services for populations in Maine and northern New England. The System's network provides services along the full continuum of care as necessary to improve the health status of the populations it serves. As such, revenue includes those generated from direct patient care services, amounts earned from incentive and risk arrangements, the provision of medical education and training services, federal and state grants and contracts, sundry revenue generated from the operations of the subsidiaries, fund-raising conducted to support the activities of the System and its subsidiaries, and investment earnings.

COVID-19 Pandemic and CARES Act and Other Relief Funding

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. Over the past four fiscal years the COVID-19 pandemic has significantly affected employees, patients, systems, communities and business operations, as well as the U.S. economy and financial markets. Consolidated patient volumes and revenues experienced gradual improvement beginning in the latter part of April 2020, and continuing through fiscal year 2024. The System has taken precautionary steps since that time to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents in its operations.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

1. Reporting Entity (Continued)

Since the declaration of the pandemic, the System has received approximately \$363,561,000 related to the CARES Act Provider Relief Funds (PRF) which included supplemental funding from FEMA through the CARES Act. Distributions from the PRF are not subject to repayment, provided the System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants, and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the PRF and the impact of the pandemic on operating results through September 30, 2024 and 2023, the System recognized \$14,292,000 and \$37,740,000, respectively, related to these PRF, and these payments are recorded within other revenues in the consolidated statements of operations and changes in net assets for the years ended September 30, 2024 and 2023. Federal Emergency Management Funds of approximately \$13,355,000 and \$12,776,000, respectively, were included in these funds at September 30, 2024 and 2023 with the remainder recognized from State grants.

The System will continue to monitor compliance with the terms and conditions of the PRF, and other potential assistance programs and available grants, and the impact of the pandemic on revenues and expenses. If the System is unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the System. The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) consistent with the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 954, *Health Care Entities*, and other pronouncements applicable to health care organizations. Upon consolidation, intercompany transactions and balances have been eliminated.

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 consolidated financial statements. Estimates also affect 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 patient accounts receivable, the fair value of financial instruments, amounts receivable and payable under reimbursement regulations, asset retirement obligations (AROs), retirement benefits and self-insurance reserves.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt securities purchased with a maturity at the date of purchase of three months or less, excluding amounts classified as investments whose use is limited.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off.

When the System has an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts for which there is an unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patient accounts receivable, the estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable. Patient accounts receivable amounted to \$533,191,000, \$458,943,000 and \$356,256,000 as of September 30, 2024, 2023 and 2022, respectively.

Investments

Investments are stated at fair value. The recorded value of investments in hedge funds and limited partnerships is based on fair value as estimated by management using information provided by external investment managers. The System has applied the provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent)*. This standard allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using NAV per share or its equivalent as a practical expedient. The System has utilized the NAV reported by each of the underlying funds as a practical expedient to estimate the value of the investment for each of these funds. The System believes that these valuations are a reasonable estimate of fair value as of September 30, 2024 and 2023, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a market for the investments existed. Such differences could be material. Certain of the hedge fund and limited partnership investments have restrictions on the withdrawal of the funds (see Note 8). Investments are classified as current assets based on the availability of funds for current operations. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues and nonoperating gains – net over expenses, unless the income or loss is restricted by donor or law. The accounting for the pension plan assets is disclosed in Note 8.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

As provided for under ASC Topic 825, *Financial Instruments*, the System made the irrevocable election to report investments and investments whose use is limited at fair value with changes in value reported in the excess of revenues and nonoperating gains – net over expenses. As a result of this election, the System reflects changes in the fair value, including both increases and decreases in value whether realized or unrealized, in its excess of revenues and nonoperating gains – net over expenses.

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 consolidated financial statements.

Investments Whose Use is Limited

Investments whose use is limited primarily include investments held by trustees under debt agreements, self-insurance trust agreements, and designated investments set aside by the Board of Trustees (or member Boards) for purposes over which those Boards retain control and may at their discretion subsequently use for other purposes. In addition, investments whose use is limited include investments restricted by donors for specific purposes or periods, as well as investments restricted by donors to be held in perpetuity by the System, and the related appreciation on those investments. Amounts required to meet current liabilities of the System have been classified as current assets.

Property, Plant and Equipment

Property, plant, and equipment are recorded at cost, or at fair value at the date of acquisition, if acquired in a business combination accounted for using the acquisition method of accounting. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. MaineHealth recorded capitalized interest of \$9,909,000 and \$10,192,000 for the years ended September 30, 2024 and 2023, respectively.

Gifts of long-lived assets, such as land, building, or equipment, are reported as increases in net assets without restrictions and are excluded from the excess of revenues and nonoperating gains – net 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

Asset Retirement Obligations

AROs, which are included in other liabilities in the accompanying consolidated balance sheets, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the System records period-to-period changes in the ARO liability resulting from the passage of time, increases or decreases in interest expense, and revisions to either the timing or the amount of the original expected cash flows to the related assets.

Leases

The System determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets.

Right-of-use assets represent the System's right to use an underlying asset during the lease term and lease liabilities represent the System's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The System's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised.

The System determines the present value of future lease payments using the rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate at the lease commencement date. As most of the System's operating leases do not provide an implicit rate, the System generally uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The System considers recent debt issuances, as well as publicly available data for instruments with similar characteristics, when calculating its incremental borrowing rate.

Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

Accounting for Defined Benefit Pension and Other Postretirement Plans

The System recognizes the overfunded or underfunded status of its defined benefit and postretirement plans as an asset or liability in its consolidated balance sheets. Changes in the funded status of the plans are reported as a change in net assets without restrictions presented below the excess of revenues and nonoperating gains – net over expenses in its consolidated statements of operations and changes in net assets in the year in which the changes occur.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

The measurement of benefit obligations and net periodic benefit cost is provided by third-party actuaries based on estimates and assumptions approved by the System's management. These valuations reflect the terms of the plans and use participant-specific information, such as compensation, age, and years of service, as well as certain assumptions, including estimates of discount rates, expected long-term rate of return on plan assets, rate of compensation increases, interest-crediting rates, and mortality rates.

Beneficial Interests in Perpetual Trusts

Beneficial interests in perpetual trusts consist of the System's proportionate share of the fair value of assets held by trustees in trust for the benefit of the System in perpetuity, the income from which is available for distribution to the System periodically. The assets held in trust consist primarily of cash equivalents and marketable securities. The fair values of perpetual trusts are measured using the net asset value as a practical expedient. Such amounts are included in investments whose use is limited in the accompanying consolidated balance sheets. Distribution from beneficial interests in perpetual trusts is included in nonoperating gains, unless restricted by donors.

Excess of Revenues and Nonoperating gains – Net Over Expenses

The consolidated statements of operations include excess of revenues and nonoperating gains net over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from excess of revenues and nonoperating gains – net over expenses, consistent with industry practice, include retirement benefit plan adjustments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and capital grants.

Consolidated Statements of Operations

For purpose of display, transactions deemed by management to be ongoing, major, or central to the provision of health care and related services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

Patient Service Revenue

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

The collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is the System's primary source of cash and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of hospital revenues and accounts receivable as a primary source of information in estimating the collectibility of our accounts receivable. Management believes its regular updates to the estimated implicit price concession amounts provide reasonable estimates of revenues and valuations of accounts receivable. These routine, regular changes in estimates have not resulted in material adjustments to the valuations of accounts receivable or period-to-period comparisons of operations. At September 30, 2024 and 2023, estimated implicit price concessions of \$156,975,000 and \$174,662,000, respectively, had been recorded as reductions to patient service revenue to enable the System to record revenues and accounts receivable at the estimated amounts expected to be collected.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

Free Care

The System provides care without charge to patients who meet certain criteria under its Board-established free care policies. Because the System does not pursue collection of amounts determined to qualify as free care, they are not reported as patient service revenue. MaineHealth hospitals provide full free care to all patients at or below 200% of the Federal Poverty Guidelines.

Direct and Indirect Research Revenue and Related Expenses

Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies. Research grants and contracts are accounted for as exchange transactions or contributions. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included in deferred revenue for exchange contracts or net assets with donor restrictions for contributions.

Other Revenue

Revenue which is not related to patient medical care but is central to the day-to-day operations of the System is included in other revenue. This revenue includes pharmacy sales, cafeteria sales, medical school revenue, grant revenue, rental revenue, net assets released from restrictions for operations, COVID-19 relief revenue and other support services revenue.

Gifts and Donations

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions are substantially met. The gifts are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from donor restrictions, which is included in other revenue. Donor-restricted contributions whose restrictions are met within the same year received are reported as unrestricted contributions in the accompanying consolidated financial statements.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

2. Significant Accounting Policies (Continued)

Self-Insurance Reserves

The liabilities for outstanding losses and loss-related expenses and the related provision for losses and loss-related expenses include estimates for losses incurred but not reported as well as losses pending settlement. Such liabilities are based on estimates and, while management believes the amounts provided are adequate, the ultimate liability may be greater than or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making the workers compensation and malpractice estimates and the resulting liability are actuarially reviewed on an annual basis, and any necessary adjustments are reflected in current operations.

Income Tax Status

The Internal Revenue Service has previously determined that the System and its subsidiaries (except Maine Medical Partners (MMP) (a subsidiary of MaineHealth) are organizations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. MMP had significant net operating loss carryovers as of September 30, 2024 and 2023. A valuation allowance has been provided for the entire deferred tax benefit for the net operating losses due to uncertainty of realization. MMP did not have material taxable income in 2024 and 2023. Accordingly, a provision for income taxes has not been made in the accompanying consolidated financial statements.

The System recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount of benefit that is greater than fifty percent likely to be realized upon settlement. Changes in measurement are reflected in the period in which the change in judgment occurs. The System did not recognize the effect of any income tax positions in either 2024 or 2023.

Subsequent Events

Events occurring after the consolidated balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the consolidated financial statements. Management has evaluated subsequent events through February 7, 2025, which is the date the consolidated financial statements were available to be issued.

3. Liquidity and Availability of Financial Assets

The System's working capital and cash flows are subject to variability during the year attributable to changes in volume and cash receipts. The System maintains investments portfolios without donor restrictions to manage fluctuations in cash flow.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

3. Liquidity and Availability of Financial Assets (Continued)

The following table (in thousands) reflects the System's financial assets for the period ending September 30, 2024, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. Investment amounts would be available, subject to liquidity of the underlying investments.

Cash and cash equivalents	\$ 318,905
Investments	1,078,450
Patient accounts receivable	<u>533,191</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,930,546</u>

In addition to the amounts listed above, the System has available to it a line of credit in the amount of approximately \$145,901,000 which it could draw upon to meet the current needs of the System.

4. Community Benefit Programs

As a nonprofit organization dedicated to community health improvement, the System provides many services for the community in addition to its range of health care services and programs. The System supports improvement in community health by implementing best practice interventions ranging from prevention and wellness to disease management. These services include evidence-based programs to improve care and outcomes for people suffering from chronic diseases such as pre-diabetes, diabetes, and behavioral health issues. The System also provides training and education opportunities for physicians and other providers that focus on achieving patient-centered healthcare. In addition, the System works to ensure patients receive excellent coordination of care through transitions of care programs. The System also offers, through its Access to Care program, donated healthcare services and free or low-cost medications to low-income and uninsured patients in addition to supporting access to health insurance coverage.

A wide range of community health improvement and prevention programs support the efforts to promote healthy lifestyles. The System's healthy lifestyle programs include initiatives that target both children and adults. Engaging community health professionals and provider organizations, community partners, family members and local and state government is a key component to the successful implementation and continued effectiveness of these programs. The System's tobacco treatment program, through highly trained Tobacco Treatment Educators, provides ongoing support to the community healthcare providers with the goal of reducing tobacco use. This program also offers a free confidential counseling service in support of Maine residents who seek to quit the use of tobacco. The System also has increased focus on efforts to address social determinants of health for the community including opening the third hospital-based food pantry in Maine. Other community health programs include healthy lifestyle, oral health, healthy eating and active living, childhood immunization initiatives, healthy aging and multiple evidence-based self-management programs such as Living Well with Diabetes and the Diabetes Prevention Program.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

5. Patient Service Revenue

The System records patient service revenue at the amount that reflects the consideration to which the System expects to be entitled to in exchange for providing patient care. Patient service revenue consists of amounts charged for services rendered less estimated discounts for contractual and other allowances for patients covered under Medicare, Medicaid and other health plans and discounts offered to patients under the System's uninsured discount program.

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare and State Medicaid Programs

Maine Medical Center, Pen Bay Medical Center, Mid Coast—Parkview Health and Franklin Hospital (a sole community hospital until it transitioned to a Critical Access Hospital during 2024) are paid at prospectively determined rates for inpatient and outpatient services rendered to Medicare and Medicaid beneficiaries. Inpatient rates vary according to a patient classification system that is based on clinical diagnosis and other factors. Outpatient services are paid based on a prospective rate per ambulatory visit or procedure. LincolnHealth, Waldo County General Hospital, Stephens Hospital, Franklin Hospital and The Memorial Hospital are Critical Access Hospitals reimbursed at cost for services provided to Medicare and Medicaid beneficiaries for certain services. Cost reimbursable services are paid at an interim rate with final settlement determined after submission, review and audit of annual cost reports by the System and audit thereof by the Medicare administrative contractor, the State of Maine and the State of New Hampshire.

Several System hospitals receive Disproportionate Share Hospital (DSH) payments. These payments are made to qualifying hospitals to cover the costs of providing care to low income patients. These payments are subject to audit by CMS and are, therefore, subject to change. These amounts are recorded as patient service revenue.

In 2004, the State of Maine established several health care provider taxes (State taxes). The enactment of the State taxes allowed the State of Maine to add revenues to the State of Maine General Fund while minimizing the potential of lost federal matching funds in the MaineCare program. The hospital-specific portion of the State taxes on Maine hospitals is based on a percentage of patient service revenue. Taxes on nursing homes are based on 6.0% of patient service revenue.

The State of New Hampshire established a Medicaid Enhancement Tax program in 1991. This program taxes hospital services at approximately 2.3% of patient service revenue. The State of New Hampshire also levies a tax on intermediate care facilities at approximately 5.5%.

For the years ended September 30, 2024 and 2023, the System recorded State taxes of \$59,491,000 and \$60,373,000, respectively.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

5. Patient Service Revenue (Continued)

Nongovernmental Payors

The System also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Uninsured Patients

For uninsured patients who do not qualify for free care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical experience, a significant portion of uninsured patients will be unable or unwilling to pay for the services provided.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. The System has determined it has provided self-pay allowances to uninsured patients and patients with other uninsured balances (e.g., copays and deductibles). The self-pay allowances included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

The System provides care without charge to patients who meet certain criteria under its Board-established free care policy. Because the System does not pursue collection of amounts determined to qualify as free care, they are not reported as patient service revenue. The System estimates the costs associated with providing free care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross charges associated with providing care to patients eligible for free care. The estimated cost of caring for free care patients for the years ended September 30, 2024 and 2023, was \$44,984,000 and \$46,960,000, respectively. Funds received from gifts and grants to subsidize free care services provided for the years ended September 30, 2024 and 2023, were \$1,551,000 and \$1,823,000, respectively.

Patient service revenue from these major payor sources recognized during the years ended September 30, 2024 and 2023 was as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Medicare	\$1,289,558	\$1,186,103
State Medicaid Programs	526,559	452,696
Anthem Blue Cross and Blue Shield	832,094	730,557
Other third-party payors	1,148,096	991,737
Patients	<u>60,066</u>	<u>64,404</u>
Total patient service revenue	<u>\$3,856,373</u>	<u>\$3,425,497</u>

Patient service revenue in 2024 and 2023 included \$15,387,000 and \$1,766,000, respectively, of favorable settlements with third-party payors regarding prior year activities.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

6. Concentration of Credit Risk

Receivables

Financial instruments, which potentially subject the System to concentration of credit risk, consist of patient accounts receivable, estimated amounts receivable under reimbursement regulations, and certain investments. Investments, which include government and agency securities, stocks, and corporate bonds, are not concentrated in any corporation or industry. The System grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2024 and 2023, was as follows:

	<u>2024</u>	<u>2023</u>
Medicare	41%	39%
State Medicaid Programs	18	15
Anthem Blue Cross and Blue Shield	9	9
Other third-party payors	17	20
Patients	<u>15</u>	<u>17</u>
Total patient receivables	<u>100%</u>	<u>100%</u>

Cash

The System maintains its cash accounts at various financial institutions. As of September 30, 2024 and 2023, the System had cash balances of \$35,149,000 and \$5,001,000, respectively, in uninsured accounts. The System has not experienced any losses in such accounts and evaluates the credit worthiness of the financial institutions with which it conducts business. Management believes the System is not exposed to any significant credit risk with respect to its cash balances.

Investments

The System's investment in one fund, the Vanguard Total Stock Market Index Fund, exceeds 10% of total System investments as of September 30, 2024.

Labor Force

The System's unionized labor workforce at Maine Medical Center and MaineHealth Care at Home are members of the Maine State Nurses Association/National Nurses Organizing Committee/National Nurses United, while the System Interpreters are represented by the Maine Service Employees Association/Services Employees Internal Union. The three employee groups represent approximately 9.4% of the System's total workforce. The collective bargaining agreement for Maine Medical Center's bargaining unit is in effect and expires December 31, 2025. The collective bargaining agreement for MaineHealth Care at Home's bargaining unit expired on October 1, 2024, and the parties are actively negotiating a new contract which is expected to have a three-year term. The first collective bargaining agreement for the System Interpreters is also currently being negotiated.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

7. Investments and Investments Whose Use is Limited

The composition of investments and investments whose use is limited at September 30, 2024 and 2023, is set forth as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Investments (current assets)	\$1,078,450	\$ 889,112
Investments whose use is limited	<u>577,578</u>	<u>493,632</u>
	<u>\$1,656,028</u>	<u>\$1,382,744</u>
Cash equivalents	\$ 99,467	\$ 68,848
Fixed income securities – bonds	594,923	514,707
Equity investments – stocks	658,673	490,002
Investment in real property	1,683	1,430
Common/collective trusts	33,851	29,967
Limited partnerships	83,383	92,721
Hedge funds	125,754	134,672
Beneficial interest in perpetual and charitable remainder trusts	<u>58,294</u>	<u>50,397</u>
	<u>\$1,656,028</u>	<u>\$1,382,744</u>

Investments whose use is limited include amounts required by debt agreements, amounts restricted by donors, assets designated by the Board for future capital improvements, and other Board Designated items, assets to fund self-insured professional and general liability and workers' compensation risks, and to provide for other specific purposes.

Investments whose use is limited by debt agreements include debt service funds, which are composed of semiannual deposits to fund principal and interest payments, and construction funds. These investments are held pursuant to the requirements of the outstanding Revenue Bonds and Revenue Refunding Bonds.

The amounts reported as trustee under debt agreements consisted of construction funds from the 2023B Series bond issue, capitalized interest funds that will be used to pay future payments on the 2018A and 2018B Series bond issues, and funds accumulated for future principal and interest payments on various revenue bonds.

Fair Value Measurements

The System classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets, Level 2, which refers to securities not traded on an active market, but for which observable market inputs are readily available, and Level 3, which refers to securities with unobservable inputs that are used when little or no market data is available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

MAINEHEALTH SYSTEM
(MaineHealth Services and Subsidiaries)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

8. Fair Value of Financial Instruments

Asset Valuation Techniques

Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value:

Cash equivalents – The investment strategy for these are low-risk, low-return, highly liquid investments, typically with a maturity of three months or less, including U.S. Government, T-bills, bank certificates, corporate commercial paper or other money market instruments that are based on quoted prices and are actively traded.

Fixed income securities-bonds – These securities are investments in corporate or sovereign bonds and notes, certificates of deposit, or other loans providing a periodic payment and eventual return of principal at maturity. Certain corporate bonds and notes are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds and notes are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Equity investments-stocks – These investments include marketable equity securities, mutual funds, exchange traded, and closed-end funds. The fair value of marketable equity securities is principally based on quoted market prices. Exchange-traded funds and closed-end funds are valued at the last sale price or official closing price on the exchange or system on which they are principally traded. Investments in mutual funds are valued at their NAV at year end. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held are deemed to be actively traded.

Investment in real property – Investments in real property are valued yearly at fair value, using the market approach, as determined by comparable sales data beginning on the date of acquisition.

Common/collective trusts – These include diverse investments in securities issued by the U.S. Treasury and global bond funds using the Common Collective Trust vehicle to obtain lower expense ratios. These investments are designed to generate attractive risk-adjusted returns. The fair value of common collective trusts is based on the NAV of the fund, representing the fair value of the underlying investments, which are generally securities traded on an active market. The NAV as provided by the trustee, is used as a practical expedient to estimate fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

8. Fair Value of Financial Instruments (Continued)

Limited partnerships – These include investments in offshore and private equity funds. They have objectives of capital appreciation with absolute returns over the medium and long term. These investments are designed to generate attractive risk-adjusted returns. The estimated fair values of limited partnerships for which quoted market prices are not readily available are determined based upon information provided by the fund managers. Such information is generally based on the NAV of the fund, which is used as a practical expedient to estimate fair values. The limited partnerships invest primarily in readily available marketable equity securities. The limited partnerships allocate gains, losses, and expenses to the partners based on ownership percentage as described in the respective partnership agreements.

Hedge funds – The investments are inclusive of a variety of types of equity, debt, and derivative investments, designed to mitigate volatility while generating equity like returns. The estimated fair values of limited partnerships and hedge funds, for which quoted market prices are not readily available, are determined based upon information provided by the fund managers. Such information is generally based on the NAV of the fund, which is used as a practical expedient to estimate fair value. The hedge funds invest primarily in readily marketable equity securities. The hedge funds allocate gains, losses, and expenses to the partners based on ownership percentage as described in the respective hedge fund agreements.

The following methods and assumptions were used by the System in estimating the fair value of the System's financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

Interest rate swaps – The System uses inputs other than quoted prices that are observable to value the interest rate swaps. The System considers these inputs to be Level 2 inputs in the context of the fair value hierarchy. The fair value of the net interest rate swap liabilities was \$3,157,000 and \$1,088,000 at September 30, 2024 and 2023, respectively. These values represent the estimated amounts the System would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty. The fair value of the interest rate swap agreements is reported in other long-term liabilities.

Pledges receivable – The current yields for 1 to 10-year U.S. Treasury notes are used to discount pledges receivable. The System considers these yields to be a Level 2 input in the context of the fair value hierarchy. Pledges received were discounted at rates ranging from 3.58% to 4.55% in fiscal year 2024 and from 4.59% to 5.46% in fiscal year 2023. Outstanding pledges receivable in 2024 and 2023, which have been recorded within other current and long-term assets at fair value, totaled \$11,307,000 and \$15,228,000, respectively.

Receivables and payables – The carrying value of the System's receivables and payables approximate fair value, as maturities are very short term.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

8. Fair Value of Financial Instruments (Continued)

The System's investments at fair value set forth by level within the fair value hierarchy as of September 30, 2024 and 2023 are as follows (in thousands):

	Invest- ments Measured at NAV	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unob- servable Inputs (Level 3)	Total
September 30, 2024					
Cash equivalents	\$ —	\$ 99,467	\$ —	\$ —	\$ 99,467
Investments:					
Fixed income securities – bonds	—	245,649	349,274	—	594,923
Equity investments – stocks	—	658,673	—	—	658,673
Investment in real property	1,683	—	—	—	1,683
Common/collective trusts	33,851	—	—	—	33,851
Limited partnerships	83,383	—	—	—	83,383
Hedge funds	125,754	—	—	—	125,754
Beneficial and charitable remainder trusts	—	—	—	58,294	58,294
Total investments	<u>244,671</u>	<u>904,322</u>	<u>349,274</u>	<u>58,294</u>	<u>1,556,561</u>
Total cash equivalents and investments	<u>\$244,671</u>	<u>\$1,003,789</u>	<u>\$349,274</u>	<u>\$58,294</u>	<u>\$1,656,028</u>
September 30, 2023					
Cash equivalents	\$ —	\$ 68,848	\$ —	\$ —	\$ 68,848
Investments:					
Fixed income securities – bonds	—	203,365	311,342	—	514,707
Equity investments – stocks	—	490,002	—	—	490,002
Investment in real property	1,430	—	—	—	1,430
Common/collective trusts	29,967	—	—	—	29,967
Limited partnerships	92,721	—	—	—	92,721
Hedge funds	134,672	—	—	—	134,672
Beneficial and charitable remainder trusts	—	—	—	50,397	50,397
Total investments	<u>258,790</u>	<u>693,367</u>	<u>311,342</u>	<u>50,397</u>	<u>1,313,896</u>
Total cash equivalents and investments	<u>\$258,790</u>	<u>\$ 762,215</u>	<u>\$311,342</u>	<u>\$50,397</u>	<u>\$1,382,744</u>

The net change in the beneficial interest in perpetual and charitable remainder trusts of \$7,897,000 and \$3,218,000 in 2024 and 2023, respectively, represents the change in the fair value of the trusts, net of distributions.

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

8. Fair Value of Financial Instruments (Continued)

The information regarding the fair value measurements of the assets held by the System's defined benefit pension plan (see Note 13) at September 30, 2024 and 2023, is as follows (in thousands):

	Invest- ments Measured at NAV	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unob- servable Inputs (Level 3)	Total
September 30, 2024					
Cash equivalents	\$ —	\$ 14,357	\$ —	\$ —	\$ 14,357
Investments:					
Fixed income securities – bonds	—	55,841	47,786	—	103,627
Equity investments – stocks	—	457,336	—	—	457,336
Limited partnerships	45,528	—	—	—	45,528
Hedge funds	<u>172,067</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>172,067</u>
Total investments	<u>217,595</u>	<u>513,177</u>	<u>47,786</u>	<u>—</u>	<u>778,558</u>
Total cash equivalents and investments	<u>\$217,595</u>	<u>\$527,534</u>	<u>\$47,786</u>	<u>\$ —</u>	<u>\$792,915</u>
September 30, 2023					
Cash equivalents	\$ —	\$ 8,157	\$ —	\$ —	\$ 8,157
Investments:					
Fixed income securities – bonds	—	26,199	28,916	—	55,115
Equity investments – stocks	—	336,712	—	—	336,712
Common/collective trusts	19,451	—	—	—	19,451
Limited partnerships	71,818	—	—	—	71,818
Hedge funds	<u>191,523</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>191,523</u>
Total investments	<u>282,792</u>	<u>362,911</u>	<u>28,916</u>	<u>—</u>	<u>674,619</u>
Total cash equivalents and investments	<u>\$282,792</u>	<u>\$371,068</u>	<u>\$28,916</u>	<u>\$ —</u>	<u>\$682,776</u>

Liquidity

Equity investments, fixed income investments, investments in real property, common collective trusts, limited partnerships and hedge funds are redeemable at NAV under the terms of the subscription and/or partnership agreements. Investments, including short-term investments, with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly or annual redemption frequency typically require notice periods ranging from 30 to 180 days. The long-term investments' fair values are broken out below by their redemption frequency as of September 30, 2024 and 2023 for both the investments and the System's defined benefit pension plan (in thousands):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

8. Fair Value of Financial Instruments (Continued)

Investments

<u>Liquidity – NAV Measured Investments</u>	<u>Daily</u>	<u>Bi-Monthly</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Illiquid</u>	<u>Annually</u>	<u>Total</u>
September 30, 2024							
Common/collective trusts	\$ –	\$ –	\$ 33,851	\$ –	\$ –	\$ –	\$ 33,851
Investment in real property	–	–	–	–	1,683	–	1,683
Limited partnerships	–	38,070	2,517	12,896	29,900	–	83,383
Hedge funds	<u>–</u>	<u>–</u>	<u>15,856</u>	<u>109,616</u>	<u>282</u>	<u>–</u>	<u>125,754</u>
	<u>\$ –</u>	<u>\$ 38,070</u>	<u>\$ 52,224</u>	<u>\$ 122,512</u>	<u>\$ 31,865</u>	<u>\$ –</u>	<u>\$ 244,671</u>

September 30, 2023

Common/collective trusts	\$ –	\$ –	\$ 29,967	\$ –	\$ –	\$ –	\$ 29,967
Investment in real property	–	–	–	–	1,430	–	1,430
Limited partnerships	–	45,751	9,976	13,305	23,689	–	92,721
Hedge funds	<u>–</u>	<u>–</u>	<u>26,425</u>	<u>107,667</u>	<u>580</u>	<u>–</u>	<u>134,672</u>
	<u>\$ –</u>	<u>\$ 45,751</u>	<u>\$ 66,368</u>	<u>\$ 120,972</u>	<u>\$ 25,699</u>	<u>\$ –</u>	<u>\$ 258,790</u>

Defined Benefit Pension Investments

<u>Liquidity – NAV Measured Investments</u>	<u>Daily</u>	<u>Bi-Monthly</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Illiquid</u>	<u>Annually</u>	<u>Total</u>
September 30, 2024							
Limited partnerships	\$ –	\$ 42,933	\$ –	\$ 2,595	\$ –	\$ –	\$ 45,528
Hedge funds	<u>39,531</u>	<u>–</u>	<u>5,476</u>	<u>127,060</u>	<u>–</u>	<u>–</u>	<u>172,067</u>
	<u>\$ 39,531</u>	<u>\$ 42,933</u>	<u>\$ 5,476</u>	<u>\$ 129,655</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 217,595</u>

September 30, 2023

Common/collective trusts	\$ –	\$ –	\$ 19,451	\$ –	\$ –	\$ –	\$ 19,451
Limited partnerships	–	57,638	–	14,180	–	–	71,818
Hedge funds	<u>32,598</u>	<u>–</u>	<u>33,683</u>	<u>125,242</u>	<u>–</u>	<u>–</u>	<u>191,523</u>
	<u>\$ 32,598</u>	<u>\$ 57,638</u>	<u>\$ 53,134</u>	<u>\$ 139,422</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 282,792</u>

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8. Fair Value of Financial Instruments (Continued)

Investments with a redemption frequency of illiquid may include lock-ups with definite expiration dates, restricted shares and side pockets, as well as private equity and real assets funds where the System has no liquidity terms until the investments are sold by the fund manager. The System has total capital commitments for alternative investments outstanding of \$53,158,000 and \$45,186,000 as of September 30, 2024 and 2023, respectively. These commitments will be funded from a re-allocation of investments from the applicable investment portfolio. Investments associated with beneficial interests in perpetual trust agreements have been categorized as illiquid because they are not available to support operations.

Transfers Between Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between Level 1 and Level 2 for the years ended September 30, 2024 and 2023.

The valuation methods as described above may produce a fair value calculation that may not be indicative of what management would realize upon disposition or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with methods employed by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

9. Property, Plant and Equipment

Property, plant, and equipment at September 30, 2024 and 2023, consist of the following (in thousands):

	<u>2024</u>	<u>2023</u>
Land and land improvements	\$ 124,007	\$ 123,457
Buildings	2,250,542	1,839,563
Equipment	1,651,114	1,515,058
Construction in progress	<u>73,534</u>	<u>372,927</u>
	4,099,197	3,851,005
Less accumulated depreciation and amortization	<u>(2,434,121)</u>	<u>(2,266,657)</u>
Total property, plant and equipment, net	<u>\$ 1,665,076</u>	<u>\$ 1,584,348</u>

As of September 30, 2024 and 2023, the remaining commitment on construction contracts was approximately \$74,589,000 and \$62,864,000, respectively. The value of property, plant, and equipment acquisitions in accounts payable at September 30, 2024 and 2023, was \$13,281,000 and \$23,110,000, respectively.

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September 30, 2024 and 2023

10. Long-Term Debt and Revolving Lines of Credit

Long-term debt at September 30, 2024 and 2023 consists of the following (in thousands):

<u>Name of Issue</u>	<u>Interest Rate</u>	<u>Type of Rate</u>	<u>Final Maturity</u>	<u>2024</u>	<u>2023</u>
Notes payable:					
MaineHealth	5.38%	Fixed	2033	\$ 60,000	\$ 60,000
MaineHealth	4.58%	Fixed	2043	16,154	16,697
MaineHealth	SOFR + 1.03% (5.88%)	Variable	2031	5,943	6,742
MaineHealth	SOFR + 1.03% (5.88%)	Variable	2031	5,711	6,478
MaineHealth	5.73%	Fixed	2030	65,000	—
Mid Coast-Parkview Health	3.20%	Fixed	2027	9,875	13,166
Revenue bonds:					
Maine Health and Higher Educational Facilities Authority (MHHEFA):					
Franklin Hospital – Series 2016A	3.00%-5.00%	Fixed	2034	6,194	6,754
Maine Medical Center – MaineHealth – Series 2020	4.00%-5.00%	Fixed	2050	205,213	205,213
Maine Medical Center – Series 2018A	5.00%	Fixed	2048	164,330	164,330
Maine Medical Center – Series 2018B	3.84%-3.94%	Fixed	2028	10,930	10,930
Maine Medical Center – Series 2018C	4.85% SOFR	Variable	2036	36,735	36,735
MaineHealth – Series 2021A	1.47%	Fixed	2031	12,105	14,385
MaineHealth – Series 2022	1.55%	Fixed	2031	9,730	11,105
MaineHealth – Series 2022B	2.49%-3.05%	Fixed	2037	84,150	87,130
MaineHealth - Series 2023B	4.75%-5.25%	Fixed	2053	72,038	—
Quarry Hill – Series 2017A	4.00%-5.00%	Fixed	2030	3,894	4,614
Pen Bay Medical Center – Series 2017B	3.00%-5.00%	Fixed	2038	4,138	4,668
Waldo County General Hospital – Series 2014A	3.00%-5.00%	Fixed	2028	1,577	2,067
Southern Maine Health Care – MaineHealth – Series 2020	4.00%-5.00%	Fixed	2050	7,487	7,487
Southern Maine Health Care – Series 2016A	4.00%-5.00%	Fixed	2026	295	190
Finance Authority of Maine:					
MaineHealth – Series 2017	2.11%	Fixed	2027	17,748	24,838
MaineHealth – Series 2014	2.36%	Fixed	2025	13,404	25,478
New Hampshire Health and Education Facilities Authority:					
The Memorial Hospital at North Conway (sub. of TMH) – Series 2016	4.00%-5.50%	Fixed	2036	10,670	11,295
Other, including finance leases				<u>11,321</u>	<u>16,032</u>
Total bonds, loans, notes payable and finance leases before bond issuance costs and premiums				834,642	736,334
Less unamortized bond issuance costs				(6,885)	(6,051)
Unamortized premiums net of discounts				<u>51,612</u>	<u>51,994</u>
Total bonds, loans, notes payable and finance leases				879,369	782,277
Less portion classified as current liabilities				<u>(42,242)</u>	<u>(41,824)</u>
				<u>\$837,127</u>	<u>\$740,453</u>

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September 30, 2024 and 2023

10. Long-Term Debt and Revolving Lines of Credit (Continued)

Annual principal maturities of long-term debt for the five fiscal years after September 30, 2024, and the years thereafter, are as follows (in thousands):

	<u>Bonds and Notes</u>	<u>Finance Lease Obligation</u>
2025	\$ 38,973	\$ 1,652
2026	32,373	1,408
2027	32,193	1,405
2028	35,676	344
2029	31,998	35
Years thereafter	<u>659,047</u>	<u>—</u>
	<u>\$830,260</u>	4,844
Less amounts representing interest under finance lease obligations		<u>(462)</u>
		<u>\$ 4,382</u>

The eight Maine hospitals of MaineHealth merged into the Maine Medical Center EIN with the surviving entity then renamed MaineHealth and with Mid Coast Hospital merging later. MaineHealth became a subsidiary of the corporate parent, MaineHealth Services. For ease of reference, this paragraph refers to these corporate names as currently structured, despite operating under different names at certain points in time referenced herein. In 1999, the Board of Trustees of MaineHealth Services adopted a Parent Model Master Trust Indenture (the Indenture) and the Boards of Trustees of MaineHealth Services, MaineHealth and other MaineHealth Subsidiaries adopted a System Funding Agreement. Under the Indenture, MaineHealth Services is the sole corporate member of the Obligated Group and is required to use reasonable efforts to cause affiliates of MaineHealth Services to make payments to MaineHealth Services in such amounts as are necessary for MaineHealth Services to make payments due under guaranty notes issued under the Indenture. The System Funding Agreement memorialized the obligation of the Master Trust Indenture Designated Affiliates to fund such amounts. All obligations issued under the Indenture are secured by pledges of gross revenues of MaineHealth Services. As of September 30, 2024 and 2023, debt issued under the System Funding Agreement was \$761,622,000 and \$635,262,000, respectively. Debt issued under the Indenture as of September 30, 2024 and 2023 was \$761,622,000 and \$635,262,000, respectively. As of September 30, 2024 and 2023, \$800,457,000 and \$698,991,000, respectively, of debt obligations were covered by a pledge of gross revenues.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

10. Long-Term Debt and Revolving Lines of Credit (Continued)

In October 2023, the System closed on a \$65,000,000 taxable term loan with a 5.73% fixed interest rate. Annual principal payments based on a 25-year amortization begin July 1, 2026, with the remaining balance payable in full July 1, 2030. This loan was secured to support working capital and the loan requires an amount equal to 50% of the outstanding principal balance of the loan to be on deposit in a mutually agreed-upon interest bearing deposit account, or other investment vehicle of the borrower, with the bank. In December 2023, MaineHealth was a recipient of tax-exempt bond proceeds issued through MHHEFA in the amount of \$72,038,000. The bond issuance includes both serial and term bonds with interest rates ranging from 4.75% - 5.25% and a final maturity in 2053. The bond proceeds will be utilized to support master facility planning projects at Maine Medical Center, Franklin Hospital and Stephens Hospital.

In September 2023, the System closed on a taxable term loan for \$60,000,000, the proceeds of which will be utilized to support working capital. The loan has a maturity date of 2033 and a fixed interest rate of 5.38%. Annual principal payments based on a 25-year amortization begin July 1, 2026, with the remaining balance payable in full July 1, 2033.

In January 2023, MaineHealth closed on a taxable term loan for \$17,000,000, the proceeds of which were used to purchase land and buildings currently used as a retail plaza that is adjacent to the Maine Medical Center Bramhall Campus in Portland. While there are no immediate plans to convert its use, the property could become an important future site for direct healthcare services, other patient and family support services or education training and research activities. The loan has a maturity date of 2043 and a fixed interest rate of 4.58%.

In September 2022, MaineHealth advanced the defeasance of the 2014 MHHEFA tax-exempt bond with a taxable loan to TD Bank. The TD Bank loan is a forward purchase agreement with principal amounts paid to TD Bank by MaineHealth to be held until the MHHEFA bonds can be called, at which time MHHEFA will issue new tax exempt bonds to be purchased by TD Bank at a lower interest cost than the prior bonds. The defeasance of the 2014 MHHEFA bonds was financed with a \$91,645,000 TD Bank loan with a forward purchase agreement date of July 1, 2024, herein referred to as "Series 2022B". The Series 2022B taxable TD Bank loan is secured by the Indenture, the System Funding Agreement and MaineHealth Gross Revenue Pledge.

In September 2020, MaineHealth advanced the defeasance of the 2011A, 2011C and 2012A MHHEFA tax-exempt bonds with two taxable loans payable to TD Bank. The two TD Bank loans are forward purchase agreements with principal amounts paid to TD Bank by MaineHealth to be held until the MHHEFA bonds can be called, at which time MHHEFA will issue new tax exempt bonds to be purchased by TD Bank at a lower interest cost than the prior bonds. The defeasance of the 2011A and 2011C MHHEFA bonds was financed with a \$21,115,000 TD Bank loan with a forward purchase agreement date of July 1, 2021, herein referred to as "Series 2020A". The defeasance of the 2012A MHHEFA bonds was financed with a \$15,260,000 TD Bank loan with a forward purchase agreement date of July 1, 2022, herein referred to as "Series 2020B". On April 5, 2021, in an in-kind exchange, the Series 2020A taxable loan was prepaid in full with the MHHEFA Series 2021A tax-exempt bonds purchased by TD Bank, in the amount of \$21,115,000. On April 4, 2022, in an in-kind exchange, the Series 2020B taxable loan was prepaid in full with the MHHEFA Series 2022 tax-exempt bonds purchased by TD Bank, in the amount of \$13,755,000. Both the Series 2021A and Series 2022 tax-exempt TD Bank direct purchase bonds are secured by the Indenture, the System Funding Agreement and MaineHealth Gross Revenue Pledge.

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September 30, 2024 and 2023

10. Long-Term Debt and Revolving Lines of Credit (Continued)

In July 2020, MHHEFA issued Series 2020 bonds for the amount of \$212,700,000, with the proceeds being used to fund a portion of the MMC master facilities project and the construction of an inpatient behavior health unit at the MMC Sanford campus. Of the Series 2020 bonds, \$205,214,000 will be used to fund MMC's master facilities project that includes a seven story patient tower, now called the Malone Family Tower, consisting of 96 single patient rooms that are both private and universal allowing standard, intermediate and critical care in addition to updated clinical procedure rooms and a 108,000 square foot ambulatory care building at its Scarborough campus. Of the Series 2020 bonds, \$7,487,000 will be used to fund the renovation and construction of 42 inpatient behavioral health beds at the MMC Sanford campus. This debt is secured by the Indenture, the System Funding Agreement and the MaineHealth Gross Revenue Pledge.

In July 2018, MHHEFA issued its Series 2018A and 2018B bonds totaling \$175,260,000, the proceeds of which were used to fund a portion of the MMC master facilities project. The project includes the financing, construction, renovation and equipment of 64 new patient rooms, additional visitor parking, a new employee parking garage, and the acquisition and renovation of an office building. This debt was issued under the Indenture and the System Funding Agreement.

In August 2018, MHHEFA issued its Series 2018C term bonds totaling \$36,735,000 for private placement with TD Bank, N.A., the proceeds of which were used to refinance MMC's outstanding MHHEFA Series 2008A Revenue Bonds. This debt was issued under the Indenture and the System Funding Agreement.

MHHEFA Revenue Bonds, including the Series 2018A, 2018B and 2018C Bonds, are generally secured under a Bond Indenture. These Bond Indentures are contracts among MHHEFA, the Bond Trustee and the bondholders of that series of bonds, and the respective pledges and covenants made therein are for the equal and ratable benefit and security of the bondholders. The Bond Indentures for the Series 2018A, 2018B and 2018C Bonds provide that such bonds shall be special obligations of MHHEFA, payable solely from and secured solely by the payments made by MMC under the respective Bond Indenture, and the funds available in the Bond Fund established under such Bond Indenture.

In January 2015, MHHEFA issued its Series 2014 bonds totaling \$85,105,000 for the benefit of MMC and Stephens Hospital. The MMC portion, \$79,675,000, was used to finance renovations and equipment for the Bean Building and to refinance a portion of MHHEFA's Series 2008A bonds totaling \$42,760,000. The Stephens Hospital portion, \$5,430,000, was used to finance construction of and equipment for a new medical office building. Stephens Hospital, a subsidiary at the time of Western Maine Health Care Corporation, has since been merged into MMC as part of the unification merger. This debt was issued under the Indenture and the System Funding Agreement.

Deferred financing costs of \$6,885,000 in 2024 and \$6,051,000 in 2023 are reported as a component of long-term debt and represent the costs incurred in connection with the issuance of the bonds. These costs are being amortized over the term of the bonds. Amortization expense for the years ended September 30, 2024 and 2023 was \$620,000 and \$611,000, respectively. The original issue discount/premium is amortized/accreted over the term of the related bonds using the effective interest method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

10. Long-Term Debt and Revolving Lines of Credit (Continued)

The System has a single line of credit totaling \$150,000,000 in 2024 and 2023. The renewed line of credit is due to expire on August 31, 2025. The line of credit is secured by a MaineHealth gross revenue pledge. There were no amounts outstanding on this line of credit as of September 30, 2024 and 2023, however the available line of credit was approximately \$145,901,000 due to three outstanding standby letters of credit secured by the line.

11. Leases

The System utilizes operating and finance leases for the use of certain equipment and buildings. All lease agreements generally require the System to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the right of use (ROU) asset or lease liability. Variable lease cost also includes escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation. Most leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. Certain leases also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at the System's discretion and are evaluated at the commencement of the lease, with only those that are reasonably certain of exercise included in determining the appropriate lease term.

The following table presents lease-related assets and liabilities at September 30, 2024 and 2023 (in thousands):

<u>Balance Sheet Classification</u>		<u>2024</u>	<u>2023</u>
Assets:			
Operating leases:	Right of use assets	<u>\$133,321</u>	<u>\$150,927</u>
Finance leases:	Property, plant and equipment:		
	Buildings	\$ 11,211	\$ 11,211
	Equipment	<u>1,849</u>	<u>1,994</u>
		13,060	13,205
	Less accumulated depreciation and amortization	<u>(10,368)</u>	<u>(9,533)</u>
	Property, plant and equipment, net	<u>\$ 2,692</u>	<u>\$ 3,672</u>
Total assets		<u>\$136,013</u>	<u>\$154,599</u>

MAINEHEALTH SYSTEM
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September 30, 2024 and 2023

11. Leases (Continued)

		<u>2024</u>	<u>2023</u>
Liabilities:			
Current:			
Operating lease liabilities	Current portion of lease obligation	\$ 16,690	\$ 18,103
Finance lease obligations	Current portion of long-term debt	1,652	1,373
Long-term:			
Operating lease liabilities	Long-term lease obligation	123,634	138,998
Finance lease obligations	Long-term debt	<u>2,730</u>	<u>4,265</u>
Total liabilities		<u>\$144,706</u>	<u>\$162,739</u>

The components of lease cost and rent expense for the years ended September 30 are as follows (in thousands):

Statement of Operations Classification

		<u>2024</u>	<u>2023</u>
Operating lease expense	Facility and other costs	\$ 23,933	\$ 25,678
Short-term lease cost	Facility and other costs	825	1,172
Finance lease expense:			
Amortization of ROU assets	Depreciation and amortization	\$ 1,734	\$ 1,746
Interest on finance lease liabilities	Interest expense	389	494

The weighted-average lease terms and discount rates for operating and finance leases are as follows for the years ended September 30:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term:		
Operating leases	20.2 years	19.5 years
Finance leases	3.8 years	4.7 years
Weighted-average discount rate:		
Operating leases	3.5%	3.4%
Financing leases	6.2%	6.4%

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11. Leases (Continued)

Supplemental cash flow and other information related to leases as of and for the years ended September 30 is as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases (liability reduction)	\$ 18,263	\$ 19,418
Operating cash flows from finance leases (interest payments)	388	494
Financing cash flows from finance leases (liability reduction)	1,155	1,408
Right-of-use assets obtained in exchange for lease obligations:		
Finance lease	—	344
Operating lease	1,773	12,493

Commitments relating to noncancellable operating and finance leases obligations for each of the next five fiscal years after September 30, 2024, and the years thereafter, are as follows (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>
2025	\$ 23,446	\$ 1,652
2026	21,048	1,408
2027	17,997	1,405
2028	14,419	344
2029	13,444	35
Thereafter	<u>141,964</u>	<u>—</u>
Total minimum future payments	232,318	4,844
Less imputed interest	<u>(91,994)</u>	<u>(460)</u>
Total liabilities	140,324	4,384
Less current portion	<u>(16,690)</u>	<u>(1,652)</u>
Long-term liabilities	<u>\$123,634</u>	<u>\$ 2,732</u>

12. Self-Insurance Trusts and Reserves

Coverage for professional and general liabilities is through an excess coverage plan whereby the System is responsible for the first \$200,000 of a liability claim; 50% of amounts between \$200,000 and \$2,000,000; and 25% of amounts over \$2,000,000 and up to \$7,000,000. Excess risks are covered by an insurance policy with an insurance carrier. The System funds a professional liability trust based upon actuarial valuations and historical experience. Self-insurance reserves for self-insured unpaid claims and incidents are estimated using actuarial valuations, historical payment patterns, and current trends. Self-insurance reserves are recorded in the period the claim or incident occurs and adjusted in future periods as additional data becomes known. As of September 30, 2024 and 2023, there are no known claims outstanding, which, in the opinion of management, will be settled for amounts in excess of insurance coverage. As of September 30, 2024 and 2023, an accrual for estimated claims incurred but not reported was recorded. An estimated recovery related to such claims is included in the consolidated financial statements as of September 30, 2024 and 2023.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

12. Self-Insurance Trusts and Reserves (Continued)

The System provides health and dental insurance for its employees through a self-insured plan. Self-insurance reserves have been accrued for unpaid claims and incidents.

The System provides workers' compensation insurance for the majority of its employees through a self-insured plan. Self-insurance reserves are accrued for unpaid claims and settlements based on estimates using actuarial valuations. Self-insurance reserves are recorded in the period the incident occurs and adjusted in future periods as additional data becomes known.

13. Retirement Benefits

Defined Benefit Pension Plan

The System sponsors a defined benefit pension plan (the Plan), which was previously sponsored by Maine Medical Center, covering all grandfathered employees that work 750 or more hours in a plan year. Effective January 1, 2014, the Plan was amended to exclude from participation all employees hired on or after January 1, 2014. Such employees are eligible to participate in the defined contribution plan (the MaineHealth 403(b) Retirement Plan). The Plan was also amended effective January 1, 2011, to change the basis of a participant's accrued benefit. Prior to January 1, 2011, accrued benefits were based on the highest five years of final average pay. Effective January 1, 2011, for participants hired on or before December 31, 2009, there is a benefit based on the participant's final average pay through December 31, 2020, and years of service through December 31, 2010. This final average pay benefit is frozen as of December 31, 2020.

For participants that were currently employed or hired on or after January 1, 2010, but before January 1, 2014, accrued benefits are based on a cash balance formula that became effective January 1, 2011. A participant's cash balance account is increased by an annual cash balance contribution for participants with 750 hours of service, and interest credits in accordance with the terms of the amended Plan Document. The annual cash balance contribution is determined by applying a rate based on age and years of service to the participant's annual compensation. Interest credits are equal to a percentage of the participant's cash balance account on the first day of the Plan year and are credited on the last day of the Plan year prior to payment of the annual cash balance contribution. Except for certain instances, the rate of interest used to determine the interest credit for a Plan year is 5%. Retiring or terminating employees have the option to receive a lump-sum payment, annuity, or transfer to another qualified plan in accordance with the terms of the amended Plan Document.

The System's funding policy is to contribute amounts to fund current service cost and to fund over 30 years the estimated accrued benefit cost arising from qualifying service prior to the establishment of the Plan. The assets of the Plan are held in trust and are invested in a diversified portfolio that includes temporary cash investments, marketable equity securities, mutual funds, U.S. Treasury notes, corporate bonds and notes, hedge funds, and other funds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

13. Retirement Benefits (Continued)

Defined Benefit Postretirement Medical Plan

As of May 1, 2015, eligible retirees who were enrolled in the Over 65 Retiree Group Companion Plan have transitioned to supplemental retiree health insurance options offered through a private Medicare Exchange engaged by the System and the Companion Plan was curtailed. Transitioned retirees, and certain future retirees, are eligible for an employer contribution to a Health Reimbursement Account (HRA) if they meet certain eligibility requirements. All other eligible System retirees who become Medicare eligible are also eligible to obtain supplemental coverage through the private Medicare Exchange but are not eligible for the employer contribution to the HRA.

Effective January 1, 2016, under age 65 retirees no longer have the option to enroll in the Under 65 Retiree Medical Plan. Retirees enrolled in the plan on or before December 1, 2015 are grandfathered until such time as they age into Medicare coverage at age 65. Grandfathered retirees continue to pay 100% of the cost (with the exception of those retirees enrolled as a result of the Voluntary Early Retirement Window in 2013). These retirees by a special arrangement pay the active employee rate for either three years or until they turn 65, whichever is sooner.

The activity in the Plan and Postretirement Medical Plan using valuation dates of September 30, 2024 and 2023, consists of the following (in thousands):

	<u>Defined Benefit Pension Plan</u>		<u>Postretirement Medical Plan</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net periodic benefit cost:				
Service cost	\$ 28,098	\$ 28,229	\$ —	\$ —
Interest cost	44,496	41,387	121	131
Expected return on plan assets	(52,990)	(53,495)	—	—
Amortization of actuarial loss	6,083	3,074	(35)	(6)
Prior service credit	<u>—</u>	<u>—</u>	<u>(193)</u>	<u>(199)</u>
Net periodic benefit cost	<u>\$ 25,687</u>	<u>\$ 19,195</u>	<u>\$ (107)</u>	<u>\$ (74)</u>
Change in benefit obligation:				
Benefit obligation, beginning of year	\$756,025	\$ 763,389	\$ 2,108	\$ 2,488
Service cost	28,098	28,229	—	—
Interest cost	44,496	41,387	121	131
Actuarial loss (gain)	99,316	(3,330)	(57)	(215)
Benefits paid	(66,283)	(67,979)	(277)	(296)
Expenses paid	<u>(6,771)</u>	<u>(5,671)</u>	<u>—</u>	<u>—</u>
Benefit obligation, end of year	854,881	756,025	1,895	2,108

MAINEHEALTH SYSTEM
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

13. Retirement Benefits (Continued)

	<u>Defined Benefit Pension Plan</u>		<u>Postretirement Medical Plan</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Change in plan assets:				
Net assets of plan, beginning of year	\$682,776	\$ 653,979	\$ —	\$ —
Actual return on plan assets	143,194	62,847	—	—
Employer contribution	40,000	39,600	277	296
Benefits paid	(66,283)	(67,979)	(277)	(296)
Expenses paid	<u>(6,771)</u>	<u>(5,671)</u>	<u>—</u>	<u>—</u>
Net assets of plan, end of year	<u>792,916</u>	<u>682,776</u>	<u>—</u>	<u>—</u>
Net amount recognized	<u>\$ (61,965)</u>	<u>\$ (73,249)</u>	<u>\$ (1,895)</u>	<u>\$ (2,108)</u>

The additional defined benefit pension plan and Postretirement Medical Plan disclosure information for the years ended September 30, 2024 and 2023, is as follows (in thousands):

	<u>Defined Benefit Pension Plan</u>		<u>Postretirement Medical Plan</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Amounts recognized in the consolidated balance sheets – accrued retirement benefits	\$ (61,965)	\$ (73,249)	\$ (1,895)	\$ (2,108)
Additional information – accumulated benefit obligation	(813,005)	(724,624)	—	—

Net assets without donor restrictions at September 30, 2024 and 2023, include unrecognized losses of \$214,380,000 and \$211,182,000, respectively, related to the Plan. The aggregate gain in 2024 and 2023 was due to a change in the discount rate.

The assumptions of the Plan as of September 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Measurement date	September 30	September 30
Census date	January 1	January 1
Used to determine net periodic pension cost:		
Discount rate	6.19%	5.68%
Rate of compensation increase	5.00%/4.00%	5.00%/3.50%
Expected long-term rate of return on plan assets	6.50%	7.00%
Used to determine benefit obligation:		
Discount rate	5.05%	6.19%
Rate of compensation increase	5.00%/4.00%	5.00%/4.00%

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September 30, 2024 and 2023

13. Retirement Benefits (Continued)

The expected long-term rate of return on plan assets for the Plan reflects the System's estimate of future investment returns (expressed as an annual percentage) taking into account the allocation of plan assets among different investment classes and long-term expectations of future returns on each class.

The targeted allocation for the Plan investments are: debt securities – 40.0%, U.S. equity securities – 22.5%, international equity securities – 11.2%, emerging market equity securities – 3.8%, natural resources – 5.0%, and alternative investments – 17.5%. The Plan's investments as of September 30, 2024 and 2023 are disclosed in Note 8.

The Plan's overall financial objective is to provide sufficient assets to satisfy the retirement benefit requirements of the Plan's participants. This objective is to be met through a combination of contributions to the Plan and investment returns. The primary long-term investment objective of the Plan is to attain the average annual nominal total return, net of investment management fees, assumed in the Plan's most recent actuarial assumptions over the long term. The nature and duration of benefit obligations, liquidity requirements, financial condition, operating margins, risk posture, and Plan funded status are considered when determining an appropriate asset allocation to achieve the investment objectives.

Investment policies and strategies governing the assets of the Plan are designed to achieve the financial objectives within prudent risk parameters. Risk management practices include the use of external investment managers, 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.

All of the Postretirement Medical Plan participants are over age 65 and are receiving, or are eligible to receive when they retire, medical coverage through a private healthcare exchange. The Plan provides them with a subsidy in the form of an HRA of \$1,100 - \$1,600 per year. Per capita costs and medical inflation trend assumptions are no longer relevant for this Plan's valuation.

Future benefits are expected to be paid as follows at September 30, 2024 (in thousands):

	<u>Defined Benefit Pension Plan</u>	<u>Postretirement Medical Plan (net of Retiree Contributions)</u>
Years ended September 30:		
2025	\$ 64,198	\$ 269
2026	61,597	255
2027	60,913	236
2028	63,359	218
2029	64,092	200
2030 – 2034	317,521	748

The estimated expected contribution to be made during the year ending September 30, 2025 is \$40,269,000.

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September 30, 2024 and 2023

13. Retirement Benefits (Continued)

Defined Contribution Pension Plans

The System sponsors the MaineHealth 403(b) Retirement Plan, which benefits substantially all of their employees. This plan assumed the Maine Medical Center 403(b) Retirement Plan and subsequently over the course of several years merged in the various 403(b) plans of the various subsidiaries. Amounts expensed under these plans were \$76,612,000 and \$61,120,000 in 2024 and 2023, respectively.

Nonqualified Deferred Compensation Plan

The System offers a 457(b) nonqualified deferred compensation plan to certain eligible employees. Eligible employees may elect up to the maximum dollar amount as defined by Section 402(g) of the Internal Revenue Service code. The plan is funded solely by employee contributions that are invested in various marketable securities at the direction of the employees. These investments are classified as Level 1 and Level 2 investments which are valued using quoted prices for active markets of identical assets. The assets of the plan are the legal assets of the System until they are distributed to participants, and therefore the plan assets and corresponding liability are reported as other assets and accrued retirement benefits in the accompanying consolidated balance sheet. As of September 30, 2024 and 2023 the balances of the plan were \$186,021,000 and \$145,999,000, respectively.

14. Net Assets

Resources are classified for reporting purposes as net assets without donor restrictions and net assets with donor restrictions, according to the absence or existence of donor-imposed restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted. Net assets with donor restrictions represent funds including contributions and accumulated investment returns, whose use has been restricted by donors to a specific period or purpose or that have been restricted by donors to be maintained in perpetuity to provide a permanent source of income. Generally, the donors of these donor-restricted assets permit the use of part of the income earned on related investments for specific purposes. Net assets are as follows at September 30 (in thousands):

	<u>2024</u>	<u>2023</u>
Without donor restrictions	\$2,416,338	\$2,188,281
With donor restrictions:		
Perpetual in nature	118,906	125,534
Purpose restricted	188,040	144,361
Time restricted	<u>18,656</u>	<u>15,838</u>
Net assets	<u>\$2,741,940</u>	<u>\$2,474,014</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

14. Net Assets (Continued)

Endowment Funds

The System's endowment consists of funds established for a variety of purposes. For the purposes of this disclosure, endowment funds include donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The System has interpreted state law as requiring realized and unrealized gains on net assets with donor restrictions to be retained in a net assets with donor restrictions classification until appropriated by the Board and expended. State law allows the Board to appropriate so much of the net appreciation of net assets with donor restrictions as is prudent considering the System's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions.

As a result of this interpretation, the System classifies as net assets with donor restrictions (a) the original value of the gifts donated to the endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present and (b) the original value of the subsequent gifts to the endowment when explicit donor stipulations requiring maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund composed of accumulated gains not required to be maintained in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations. The System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of funds, purposes of the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the System, and the investment policies of the System.

Endowment Investment Return Objectives

The System has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, the endowment assets are invested in a manner to attain a total return (net of investment management fees) of at least 5.0% per year in excess of inflation, measured by the Consumer Price Index. To satisfy its long-term rate of return objectives, the System targets a diversified asset allocation that places a greater emphasis on equity-based investments within prudent risk constraints.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2024 and 2023

14. Net Assets (Continued)

Endowment Investment Activity

The following is a summary of the endowment activity by type of fund at September 30, 2024 and 2023, and the changes therein for the years then ended (in thousands):

	<u>With Donor Restrictions</u>
Endowment investment, end of year, September 30, 2022	\$119,584
Investment return, net	15,981
Contributions	843
Interest and dividends transferred to specific purpose	(3,141)
Appropriation of endowment assets for expenditure	<u>(6,017)</u>
Endowment investment, end of year, September 30, 2023	127,250
Investment return, net	28,117
Contributions	7,169
Interest and dividends transferred to specific purpose	(4,573)
Appropriation of endowment assets for expenditure	<u>(5,021)</u>
Endowment investment, end of year, September 30, 2024	<u>\$152,942</u>

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration.

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September 30, 2024 and 2023

15. Functional Expenses

The System provides health care services through its acute care, specialty care, and ambulatory care facilities. Expenses relating to providing these services for the years ended September 30, 2024 and 2023, are as follows (in thousands):

	<u>Program Services</u>		<u>Supporting Activities</u>	
	<u>Healthcare Services</u>	<u>Research</u>	<u>Management and General</u>	<u>Total Expenses</u>
September 30, 2024				
Salaries, wages and fringe benefits	\$1,998,583	\$23,179	\$569,026	\$2,590,788
Patient care supplies	593,003	6,852	168,214	768,069
Professional fees and purchased services	404,750	4,686	115,041	524,477
Depreciation and amortization	129,277	1,500	36,836	167,613
Other operating expenses	165,152	1,932	47,432	214,516
Interest expense	<u>18,414</u>	<u>214</u>	<u>5,247</u>	<u>23,875</u>
	<u>\$3,309,179</u>	<u>\$38,363</u>	<u>\$941,796</u>	<u>\$4,289,338</u>
September 30, 2023				
Salaries, wages and fringe benefits	\$1,623,839	\$23,740	\$684,006	\$2,331,585
Patient care supplies	674,132	1,966	22,296	698,394
Professional fees and purchased services	500,313	6,844	44,822	551,979
Depreciation and amortization	122,908	1,142	39,074	163,124
Other operating expenses	126,156	1,780	74,174	202,110
Interest expense	<u>8,919</u>	<u>—</u>	<u>6,470</u>	<u>15,389</u>
	<u>\$3,056,267</u>	<u>\$35,472</u>	<u>\$870,842</u>	<u>\$3,962,581</u>

16. Contingencies

The System is subject to complaints, claims, and litigation, which have risen in the normal course of business. In addition, the System is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with these laws and regulations has increased resulting in fines and penalties for noncompliance by individual health care providers. Compliance with these laws and regulations is subject to future government review, interpretation, or actions, which are unknown and un-asserted at this time.