



November 15, 2013

Phyllis Powell, Assistant Director
Medical Facilities Unit
Division of Licensing & Regulatory
Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

Larry Carbonneau, Manager
Health Care Oversight
Division of Licensing and Regulatory
Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

RE: Lincoln County Health Care
Reorganization of Lincoln County Health Care
Certificate of Need Application
Certificate of completeness

Dear Ms. Powell and Mr. Carbonneau:

The purpose of this letter is to certify that the Department should consider the enclosed application for the above referenced project to be complete as of this date.

By letter of October 23, 2013 in response to a "Request for Determination that the Transaction is Not Subject to Certificate of Need Review" regarding the merger of Miles Memorial Hospital and St. Andrews Hospital by MaineHealth and Lincoln County Health Care, the Department notified MaineHealth and Lincoln County Health Care that both the Merger of Miles Memorial Hospital and St. Andrews Hospital and the establishment of Lincoln County Health Care are subject to Certificate of Need review and approval. The enclosed application addresses both transactions.

MaineHealth, Lincoln County Health Care and LincolnHealth are waiving the technical assistance meeting normally scheduled within 15 days of filing the letter of intent.

MaineHealth, Lincoln County Health Care and LincolnHealth are requesting that the Department hold a public hearing on this application.

The application package includes the following:

- 2 hard copies of the application,
- Check payable to Treasurer, State of Maine for filing fee (submitted under protest) and
- USB drive with PDF version of the application and exhibits.

Lincoln County Health Care
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For the reasons described in the Application, the Application and fee are submitted without waiver of or prejudice to the Applicants' position that neither the Application nor the payment of the Application fee in the specified amount is required under the circumstances. Please see Application, Section IX. Other Considerations.

All communications regarding this application may be directed to:

Rich Linehan
Director of Planning, MaineHealth
c/o Maine Medical Center
22 Bramhall Street
Portland, Maine 04102
Linehr@mmc.org
207-662-2451

I look forward to hearing from you soon.

Sincerely,

A handwritten signature in black ink, appearing to read "Rich Linehan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Rich Linehan
Director of Planning

Lincoln County Health Care
Reorganization of Lincoln County Health Care
Certificate of Need Application
November 15, 2013

Date: November 15, 2013

Project Title: Reorganization of Lincoln County Health Care

Contact Person: Rich Linehan, Director of Planning, MaineHealth
c/o Maine Medical Center
22 Bramhall Street
Portland, Maine 04102-3175

Telephone: 207-662-2451

E-mail: linehr@mmc.org

Applicant Name: Lincoln County Health Care

Applicant Address: 6 St. Andrews Lane
Boothbay Harbor, Maine 04538

Copies of all notices, correspondence and decisions relating to this project's CON Application should also be copied to the following third party*:

Name: Does not apply

Company:

Address:

Telephone:

E-mail:

***This does not give CONU the authority or obligation to communicate directly with this third party.**



Signature
James W. Donovan
President and Chief Executive Officer
Lincoln County Health Care

November 15, 2013
Date

I. Abstract

Lincoln County Health Care

In January 2008 MaineHealth established Lincoln County Health Care as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group. Lincoln County Health Care has been the immediate corporate parent of these entities from that time to the present.

Lincoln County Health Care's purposes are:

- To promote and support the provision of integrated health care services for the residents and visitors of Lincoln County and the nearby area;
- To oversee and coordinate activities of Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group; and
- To provide for the planning and development and deployment of cost-efficient and effective health care services among health care service organizations in the Lincoln County area.

Since its inception Lincoln County Health Care has been integrating health care delivery in Lincoln County and improving the quality and value of the services provided by Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group. There is a unified governance and management structure for the operating entities. Lincoln County access to physicians has been stabilized. Quality is being improved. Costs and charges are being controlled. Lincoln County residents and visitors are receiving improved care at lower charges due to the efforts of Lincoln County Health Care.

Since the reorganization became effective in January 2008, there has been a unified governance and management structure, which oversees and coordinates the activities of the operating entities. The boards of trustees of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital have been identical in constitution. The management of Miles Memorial Hospital and St. Andrews Hospital has been integrated. The same persons who serve as senior executives of Miles Memorial Hospital hold the same positions as senior executives of St. Andrews Hospital. The same persons serve as Department Directors for both hospitals.

This single integrated management structure has been at the core of Lincoln County Health Care's ability develop an integrated health care delivery system in Lincoln County and to increase efficiency, improve quality and lower costs of the services provided. These benefits have been accruing to the communities served for six years. Further, the creation of a single employed physician group (Lincoln County Medical Group) has served to stabilize the physician work force across Lincoln County and particularly in the Boothbay Region.

Quality of care is being improved. The integration has created enough scale to develop a robust Quality and Performance Improvement Program that serves the hospitals, physician practices and senior living services. The creation of Lincoln County Health Care has strengthened and made sustainable our commitment to quality and community. Together as an integrated system for six years, Miles Memorial Hospital and St. Andrews Hospital have better served the residents of Lincoln County.

This commitment to quality is demonstrated by Miles Memorial Hospital in 2011 being one of the first 3 hospitals nationally to earn a Top Rural Hospital distinction by the Leap Frog Group. This group, representing many of the largest corporations in the country, ranks hospitals based on quality and patient safety. Their scoring is comprehensive and rigorous. It was an honor to receive this distinction once and we have just learned Miles has received it again for 2013. Quality, affordability and access will continue to improve with LincolnHealth's ability to further enhance the integration of hospital programs and services.

Costs and prices are being controlled, and Lincoln County residents and visitors are experiencing lower charges as a result. Since the formation of Lincoln County Health Care annual price increases and expense increases both average less than 2%, which benefits residents and visitors using our services. In the years preceding the formation of Lincoln County Health Care Miles Memorial Hospital and St. Andrews Hospital experienced annual increases in expenses averaging 8% and price increases averaging 6%.

In just the first two years of Lincoln County Health Care's existence more than \$3,222,000 in cost savings was realized. The ability to share administration and clinical management functions between Miles Memorial Hospital and St. Andrews Hospital resulted in:

- \$287,000 decrease in annual wages and benefits for hospital administrative departments,
- \$632,000 decrease in annual wages and benefits for hospital clinical management and
- Additional savings were also realized in home health, long-term care and physician services

LincolnHealth

The integration of Miles Memorial Hospital and St. Andrews Hospital accomplished by the merger of the two entities:

- Consolidates 24-hour inpatient and emergency care at LincolnHealth's Damariscotta campus,
- Creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care,
- Reduces the risk of erosion in quality due to low volume,
- Reduces LincolnHealth's operating expenses by more than 9% and
- Allows LincolnHealth to reduce pricing by 7%, passing these savings along to Lincoln County residents and visitors.

The integration of St. Andrews Hospital and Miles Memorial Hospital allows all acute patients in Lincoln County to have better access to a broad array of specialists and highly technical care. The evolution of the practice of acute care requires the immediate availability of a team of health care providers. Under the new LincolnHealth, all emergency patients have immediate access to highly trained emergency physicians who are supported by a team of experienced emergency nurses, respiratory therapists, diagnostic imaging specialists and consulting physicians. Hospital Medicine physicians are in house 24 hours a day to support the emergency physicians and provide timely admission to the hospital when needed. The specialties of Pediatrics, Obstetrics and Gynecology, General Surgery, Orthopedic Surgery and Anesthesiology are all readily available to respond to emergencies in the hospital and the emergency department.

Importantly, integration of these two facilities allows for significant advances in the standardization and optimization of care for patients throughout Lincoln County. The consolidation of services also creates operational efficiencies which allow LincolnHealth to invest in the development of ambulatory services such as the Patient Centered Medical Home. These investments will allow LincolnHealth to more effectively deliver on its commitment to achieving the triple aim of an enhanced patient experience, decreased cost of care, and improved population health. Please see Exhibit 1-A.

In 2013, the boards of trustees of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital determined that it was in the best interest of their respective missions to merge the two hospitals. The merger plan, which has already been executed, provided that Miles Memorial Hospital be merged into St. Andrews Hospital. Please see Exhibit 1-B.

The merger was structured in this way so as to permit the facilities and services of Miles Memorial Hospital to be covered by St. Andrews Hospital's critical access hospital designation for Medicare and Medicaid purposes. The Centers for Medicare and Medicaid Services (CMS) has provided St. Andrews Hospital with preliminary approval in its regulatory parlance to "relocate" its service area to include Miles Memorial Hospital.

The details of the transaction are as follows:

- Effective 12:01 am October 1, 2013 Lincoln County Health Care merged Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital is the surviving entity and has undergone a name change to “LincolnHealth”.
- Ownership and control, for Certificate of Need purposes, of the entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, continues to reside with Lincoln County Health Care, the sole corporate member of LincolnHealth, and ultimately with MaineHealth, Lincoln County Health Care’s sole corporate member.
- The entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, has maintained its State of Maine hospital license, CMS’ provider agreement and Critical Access Hospital designation. The Department has issued a conditional license confirming that LincolnHealth’s services are broad enough to cover the services offered at the former Miles Memorial Hospital.
- LincolnHealth is operating a maximum of 25 licensed acute care and swing beds and providing 24-hour emergency services at its Damariscotta campus (the former Miles Memorial Hospital campus). The St. Andrews Campus located in Boothbay Harbor continues to support LincolnHealth’s delivery of outpatient and ambulatory care.

There are no new incremental annual operating costs as a result this transaction. There are cost savings. As a result of this restructuring and rationalizing of services LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits, Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors.

The transaction is structured so that services previously offered at Miles Memorial Hospital’s Damariscotta main campus and other sites are covered by the critical access hospital designation of St. Andrews Hospital. The Department actively facilitated this feature of the transaction. By letter of April 23, 2013, St. Andrews requested the Department’s Director of Rural Health and Primary Care to certify that St. Andrews could relocate to Damariscotta and still be classified as a “necessary provider” critical access hospital. Please see Exhibit 1-C.

By letter of May 24, 2013, the Director of the Department’s Center for Disease Prevention and Control granted the request. Please see Exhibit 1-D. This enabled St. Andrews to seek CMS’s permission to relocate to Damariscotta and retain its critical access designation. Please see Exhibit 1-E.

By letter of June 23, 2013, which was also copied to the Department, CMS notified St. Andrews that it had granted preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital’s location in Damariscotta. Please see Exhibit 1-F.

II. Fit, Willing and Able

Lincoln County Health Care

6 St. Andrews Lane
Boothbay Harbor, Maine 04538

Corporate Purposes:

Lincoln County Health Care is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") and in connection with Miles Memorial Hospital and St. Andrews Hospital, existing charitable corporations and their related charitable tax-exempt organizations. The purposes for which the Corporation was formed are as follows:

- A. To promote and support the provision of integrated health care services for the residents and visitors of Lincoln County and the nearby area within a cost-effective system along a continuum from prevention to long term care for those in need regardless of race, religion, color, age, sex, disability, sexual orientation, national origin and social or economic status.
- B. To oversee and coordinate activities of operating nonprofit hospitals and other related organizations in the Lincoln County area engaged in health care activities.
- C. To provide for the planning and development and deployment of cost-efficient and effective health care services among health care service organizations in the Lincoln County area and otherwise to assist such organizations in the performance of their activities and pursuit of their charitable purposes.
- D. To conduct such other activities which are permitted by Maine law for charitable public benefit corporations and are related to, helpful to, or appropriate to the pursuit of the Corporation's primary purposes described in paragraphs (a), (b), and (c) above, and to engage in activities that benefit the Corporation's parent and its subsidiary organizations so long as any of them is similarly operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Code.

Service Area: Lincoln County

Licenses & Certifications

Lincoln County Health Care's operating entities - Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group – have provided these health care services for years in a manner that has been consistent with applicable licensing and certification standards. Any "Statements of Deficiencies" and site visit reports from the previous three years for St. Andrews Hospital and Miles Memorial Hospital are on file with the Department of Health and Human Services' Division of Licensing and Regulatory Services.

Communications with State Officials since Inception of Lincoln County Health Care

In 2007 MaineHealth, Miles Memorial Hospital and St. Andrews Hospital first informed State representatives of MaineHealth's intent to establish a subsidiary, Lincoln County Health Care, as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group. This message was communicated in a meeting with Trish Riley, Director of the Governor's Office of Health Policy and Finance, and Catherine Cobb, Director of the Department's Division of Licensing and Regulatory Services. At that time these officials expressed their support of the transaction and did not indicate in any fashion that Certificate of Need review and approval of the transaction might be required.

Relying in part on these indications of support, MaineHealth established Lincoln County Health Care as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group. Lincoln County Health Care has been the immediate corporate parent of these entities from that time to the present. In the parlance of the certificate of need statute, MaineHealth owns and controls Lincoln County Health Care, and Lincoln County Health Care owns and controls the above named operating entities.

Since January 2008 MaineHealth and Lincoln County Health Care have declared Lincoln County Health Care as the parent company of Miles Memorial Hospital and St. Andrews Hospital in every MaineHealth-related Certificate of Need application filed with the Division of Licensing and Regulatory Services, every Miles Memorial Hospital and St. Andrews Hospital licensing renewal application filed with the Division of Licensing and Regulatory Services, every Miles Memorial Hospital and St. Andrews Hospital MaineCare Cost Report filed with the Department of Health and Human Services' Division of Audits and every Maine Health Data Organization filing made by Miles Memorial Hospital and St. Andrews Hospital.

LincolnHealth

35 Miles Street
Damariscotta, Maine 04543

Mission: To ensure access to high quality, patient-centered and affordable care.

Service Area: Lincoln County

Merger of Miles Memorial Hospital and St. Andrews Hospital

Effective 12:01 am October 1, 2013 Lincoln County Health Care merged Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital is the surviving entity and has undergone a name change to "LincolnHealth".

Ownership and control of the entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, continues to reside with Lincoln County Health Care, the sole corporate member of LincolnHealth, and ultimately with MaineHealth, Lincoln County Health Care's sole corporate member.

The entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, has maintained its State of Maine hospital license, CMS' provider agreement and Critical Access Hospital designation. The Department has issued a conditional license confirming that

LincolnHealth's services are broad enough to cover the services offered at the former Miles Memorial Hospital.

LincolnHealth is operating a maximum of 25 licensed acute care and swing beds and providing 24-hour emergency services at its Damariscotta campus (the former Miles Memorial Hospital campus). The St. Andrews Campus located in Boothbay Harbor continues to support LincolnHealth's delivery of outpatient and ambulatory care.

Please refer to Exhibit 2-A for both Lincoln County Health Care's pre-merger and post-merger organizational charts.

Please refer to Exhibit 2-B and 2-C for Miles Memorial Hospital's and St. Andrews Hospital's pre-merger organizational charts and Exhibit 2-D for LincolnHealth's post-merger organizational chart.

Licenses & Certifications

LincolnHealth is licensed by the State of Maine and certified to participate in Medicare. Any "Statements of Deficiencies" and site visit reports from the previous three years for St. Andrews Hospital and Miles Memorial Hospital are on file with the Department of Health and Human Services' Division of Licensing and Regulatory Services.

Please refer to Exhibit 2-E: Division of Licensing and Regulatory Services letter granting LincolnHealth a conditional license, September 30, 2013.

Lincoln County Health Care and LincolnHealth

Fit, Willing and Able

The Certificate of Need Act states: "If the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the requirements of this paragraph are deemed to have been met if the services previously provided in the State by the applicant are consistent with applicable licensing and certification standards." (22 MRSA §335, sub-1 §7 A) LincolnHealth provides these services and is currently licensed by the State of Maine.

Lincoln County Health Care and LincolnHealth are fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, the quality of the health care provided in the past by St. Andrews Hospital, Miles Memorial Hospital, Cove's Edge and other MaineHealth members meeting industry standards. The strength and success of the integration of services made possible by the creation of Lincoln County Health Care is evident in both the financial performance of the system as well as in the high scores achieved in the quality metrics of organizations such as CMS, Anthem and Leap Frog. LincolnHealth provides the health care services that are being reviewed and licensed in the State and its services are consistent with applicable licensing and certification standards.

MaineHealth

465 Congress Street
Suite 600
Portland, Maine 04101

<http://www.mainehealth.com>

MaineHealth's vision is: *Working together so our communities are the healthiest in America.*

MaineHealth is a non-profit § 501(c) (3) health care corporation, with the purpose of developing a broad range of integrated health care services in Maine through member organizations, including hospitals and other health care provider organizations.

Licenses, Certifications & Accreditations

MaineHealth's current member affiliates' licenses, certifications and accreditations are numerous with all being State Licensed, CMS Certified and several are Joint Commission accredited. MaineHealth has demonstrated that its member organizations are capable of delivering the proposed services at the proper standard of care. Any "Statements of Deficiencies" and site visit reports from the previous three years for all the health care facilities and services in which MaineHealth and its members have been involved are on file with the Department of Health and Human Services' Division of Licensing and Regulatory Services.

Please refer to Exhibit 2-F: MaineHealth.

III. Financial Feasibility

Lincoln County Health Care

- A. **Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project.**

Please refer to Exhibit 3-A: Lincoln County Health Care's audited financial statements. These documents demonstrate Lincoln County Health Care's ability to govern and manage Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group. Lincoln County Health Care has been the immediate corporate parent of these entities since January 1, 2008.

- B. **The applicant's ability to establish and operate the project in accordance with existing and reasonable anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.**

The Certificate of Need Act states: "If the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the applicant is deemed to have fulfilled the requirements of this subparagraph if the services provided in the State by the applicant during the most recent 3-year period are of similar size and scope and are consistent with applicable licensing and certification standards." (22 MRSA §335, sub-1 §7 B)

Lincoln County Health Care's operating entities - Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group – have provided these health care services for years in a manner that has been consistent with applicable licensing and certification standards.

LincolnHealth

- A. **Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project.**

Please refer to Exhibit 3-A: Lincoln County Health Care's audited financial statements. These documents demonstrate Lincoln County Health Care's ability to support LincolnHealth financially over its useful life.

The merger of Miles Memorial Hospital and St. Andrews Hospital was undertaken in the good-faith belief that a CON is not necessary because there is no change in ownership and no capital expenditure. Certain aspects of this transaction are irreversible and attempts to dissolve this merger would have devastating impact on health care in Lincoln County.

An essential component of this change was CMS approval for LincolnHealth (formerly St. Andrews Hospital) to relocate to Damariscotta while maintaining Critical Access Hospital

status. Specific requirements had to be met to qualify for this approval. These requirements will not be met in any attempt by LincolnHealth to relocate back to Boothbay Harbor. Critical Access Hospital status will be lost for both hospital campuses. Miles Memorial Hospital has surrendered its hospital license and terminated its provider agreement with CMS. Miles had Sole Community Hospital status with Medicare; it would not re-qualify for that status today.

The combined impact of losing both CAH status and SCH status would impact health care reimbursement in Lincoln County by about \$8 million per year. Such a reduction in reimbursement would be unsustainable. It would adversely impact local access to health care services and the affordability of those services. Both of these impacts run contrary to the stated intent of the CON law.

Possible actions to preserve as much as possible of Lincoln County Health Care could include:

- Rollback of last month's 7.1% price reduction, plus an additional 5% price increase,
- Significant curtailment of services offered in the Boothbay Region,
- Significant staff lay-offs,
- Inability to continue developing Patient Centered Medical Homes for primary care,
- Increased dependence on emergency room visits by the population,
- Elimination of voluntary wellness programs offered in the community and/or
- Reduction or elimination of certain specialty physician services in Lincoln County.

B. The applicant's ability to establish and operate the project in accordance with existing and reasonable anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.

The Certificate of Need Act states: "If the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the applicant is deemed to have fulfilled the requirements of this subparagraph if the services provided in the State by the applicant during the most recent 3-year period are of similar size and scope and are consistent with applicable licensing and certification standards." (22 MRSA §335, sub-1 §7 B)

LincolnHealth is licensed and certified, and, previously as St. Andrews Hospital and Miles Memorial Hospital, has been providing services of this scale and scope for years.

As a result this transaction there are cost savings. LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors.

The merger and attendant consolidation of 24-Hour acute care onto a single campus allow LincolnHealth to reduce pricing by 7% and operating expenses by more than 9%. To demonstrate this LincolnHealth developed FY14 financial projections for standalone operations of Miles Memorial Hospital and St. Andrews Hospital and compared those consolidated projections to LincolnHealth's FY14 financial projection.

Miles Memorial Hospital (*Hospital Operations*)

FY14 Projection

Gross Revenues

Inpatient - Hospital	\$34,679,932
Outpatient - Hospital	57,054,897
Swing - Hospital	17,228
Physician Services	17,870,999
Village Revenue	-
TOTAL GROSS PATIENT SERVICES REVENUE	\$109,623,056

Deductions from Revenue

Charity Care	\$3,365,636
Contractual Adjustments	47,247,923
Other Deductions	<u>917,018</u>
TOTAL DEDUCTIONS FROM REVENUE	\$51,530,577
NET PATIENT SERVICE REVENUE (After Contractual Adjustments & Free Care)	\$58,092,479
Provisions for Bad Debt	<u>3,471,316</u>
NET PATIENT SERVICE REVENUE NET OF PROVISION FOR BAD DEBT	\$54,621,163
Other Operating Revenue	741,799
Net Assets Released for Operations	<u>52,217</u>
TOTAL UNRESTRICTED REVENUE & OTHER SUPPORT	\$55,415,179

Operating Expenses

Salaries	\$14,674,880
Benefits	4,776,471
Non-Medical Supplies	610,491
Medical Supplies	3,573,257
Contract Labor	529,850
Purchased Services	5,804,926
Professional Fees	13,272,674
Facility Costs	2,017,193
Insurance	227,076
State Taxes	1,221,719
Other	452,303
Interest	209,397
Depreciation & Amortization	<u>1,671,949</u>
TOTAL DIRECT EXPENSES	\$49,042,185
CONTRIBUTION MARGIN	6,372,994
LCH Allocations	<u>6,095,235</u>
INCOME (LOSS) FROM OPERATIONS	\$277,759

St. Andrews Hospital (*Hospital Operations*)

Gross Revenues	FY14 Projection
Inpatient - Hospital	\$36,161
Outpatient - Hospital	12,344,289
Swing - Hospital	3,567,443
Physician Services	-
Village Revenue	-
TOTAL GROSS PATIENT SERVICES REVENUE	\$15,947,893
Deductions from Revenue	
Charity Care	\$428,773
Contractual Adjustments	3,831,050
Other Deductions	<u>78,776</u>
TOTAL DEDUCTIONS FROM REVENUE	\$4,338,599
NET PATIENT SERVICE REVENUE (After Contractual Adjustments & Free Care)	\$11,609,294
Provisions for Bad Debt	<u>393,443</u>
NET PATIENT SERVICE REVENUE NET OF PROVISION FOR BAD DEBT	\$11,215,851
Other Operating Revenue	445,227
Net Assets Released for Operations	<u>31,729</u>
TOTAL UNRESTRICTED REVENUE & OTHER SUPPORT	\$11,692,807
Operating Expenses	
Salaries	\$3,073,335
Benefits	985,454
Non-Medical Supplies	122,614
Medical Supplies	412,967
Contract Labor	235,505
Purchased Services	1,221,119
Professional Fees	1,213,877
Facility Costs	611,172
Insurance	65,250
State Taxes	304,713
Other	124,470
Interest	152,747
Depreciation & Amortization	<u>732,165</u>
TOTAL DIRECT EXPENSES	\$9,255,390
CONTRIBUTION MARGIN	\$2,437,418
LCH Allocations	<u>2,237,174</u>
INCOME (LOSS) FROM OPERATIONS	\$200,244

Lincoln County Health Care
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Comparative Projection: Miles & St. Andrews Combined vs LincolnHealth merger

Gross Revenues	MMH &SAH	LincolnHealth	Difference
Inpatient - Hospital	34,716,093	32,460,731	(2,255,362)
Outpatient - Hospital	69,399,186	63,018,608	(6,380,578)
Swing - Hospital	3,584,671	1,659,171	(1,925,500)
Physician Services	17,870,999	17,870,999	-
Village Revenue	-	-	-
TOTAL GROSS PATIENT SERVICES REVENUE	125,570,949	115,009,509	(10,561,440)
Deductions from Revenue			
Charity Care	3,794,409	3,317,239	(477,170)
Contractual Adjustments	51,078,973	44,733,753	(6,345,220)
Other Deductions	995,794	947,267	(48,527)
TOTAL DEDUCTIONS FROM REVENUE	55,869,176	48,998,259	(6,870,917)
NET PATIENT SERVICE REVENUE (After Contractual Adjustments & Free Care)	69,701,773	66,011,250	(3,690,523)
Provisions for Bad Debt	3,864,759	3,154,275	(710,484)
NET PATIENT SERVICE REVENUE NET OF PROVISION FOR BAD DEBT	65,837,014	62,856,975	(2,980,039)
Other Operating Revenue	1,187,026	839,144	347,882
Net Assets Released for Operations	83,946	67,615	16,331
TOTAL UNRESTRICTED REVENUE & OTHER SUPPORT	67,107,986	63,763,734	(2,615,826)
Operating Expenses			
Salaries	17,748,215	16,606,308	(1,141,907)
Benefits	5,761,925	5,535,343	(226,581)
Non-Medical Supplies	733,106	664,008	(69,098)
Medical Supplies	3,986,224	4,222,032	235,808
Contract Labor	765,355	401,138	(364,217)
Purchased Services	7,026,045	6,962,527	(63,518)
Professional Fees	14,486,551	13,162,159	(1,324,392)
Facility Costs	2,628,365	2,351,145	(277,220)
Insurance	292,326	362,752	70,426
State Taxes	1,526,432	255,521	(1,270,911)
Other	576,773	574,763	(2,010)
Interest	362,144	147,020	(215,124)
Depreciation & Amortization	2,404,114	2,792,172	388,058
TOTAL DIRECT EXPENSES	58,297,574	54,036,887	(4,260,687)
CONTRIBUTION MARGIN	8,810,412	9,726,847	916,435
LCH Allocations	8,332,409	8,974,648	642,239
INCOME (LOSS) FROM OPERATIONS	\$478,003	\$752,199	\$274,196

IV. Public Need

Lincoln County Health Care

Community Health Needs: The project will substantially address specific health problems as measured by health needs in the area to be served by the project.

Lincoln County Health Care's defined service area is Lincoln County. Until October 1, 2013 Miles had Sole Community Hospital status with CMS. LincolnHealth (formerly St. Andrews Hospital) continues to be designated a Critical Access Hospital by CMS.

Access to Care: The services affected by the project will be accessible to all residents of the area proposed to be served.

All services provided by Miles Memorial Hospital and St. Andrews Hospital prior to the formation of Lincoln County Health Care were accessible to all residents and visitors to Lincoln County. Nothing changed after the formation of Lincoln County Health Care.

Quality of Care: The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project

The integration has created enough scale to develop a robust Quality and Performance Improvement Program that serves the hospitals, physician practices and senior living services. The creation of Lincoln County Health Care has strengthened and made sustainable our commitment to quality and community. Together as an integrated system for six years, Miles Memorial Hospital and St. Andrews Hospital have better served the residents of Lincoln County.

This commitment to quality is demonstrated by Miles Memorial Hospital in 2011 being one of the first 3 hospitals nationally to earn a Top Rural Hospital distinction by the Leap Frog Group. This group, representing many of the largest corporations in the country, ranks hospitals based on quality and patient safety. Their scoring is comprehensive and rigorous. It was an honor to receive this distinction once and we have just learned Miles has received it again for 2013. Quality, affordability and access will continue to improve with LincolnHealth's ability to further enhance our integration of programs and services.

LincolnHealth

Community Health Needs: The project will substantially address specific health problems as measured by health needs in the area to be served by the project.

LincolnHealth's defined service area is Lincoln County. The Department's Maine Center for Disease Control and Prevention has determined that LincolnHealth is a necessary provider of healthcare services, which qualifies it to be designated a Critical Access Hospital. Please refer to Exhibit 1-C.

The Centers for Medicare and Medicaid Services has granted preliminary approval for the proposed relocation of LincolnHealth to Damariscotta. Please refer to Exhibit 1-E.

Access to Care: The services affected by the project will be accessible to all residents of the area proposed to be served.

All services currently provided by Miles Memorial Hospital and St. Andrews Hospital prior to the merger and provided by LincolnHealth after the merger are accessible to all residents and visitors to Lincoln County. Nothing has changed.

Quality of Care: The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project

The integration of Miles Memorial Hospital and St. Andrews Hospital accomplished by the merger of the two entities results in the consolidation of 24-hour inpatient and emergency care at LincolnHealth's Damariscotta campus. This consolidation creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care while reducing the risk of erosion in quality due to low volume.

Lincoln County Health Care and LincolnHealth

Health Status: The project will have a positive impact on the health status indicators of the population to be served.

Both of these transactions are one aspect of Lincoln County Health Care's integrated approach to chronic disease management and health status improvement. Lincoln County Health Care, LincolnHealth, Cove's Edge and Lincoln County Medical Group participate in MaineHealth's health status improvement, clinical integration and quality improvement initiatives, which should over time impact utilization positively. Management of populations with chronic diseases has become a major focus of MaineHealth's clinical integration initiatives.

Please see Section VII. Service Utilization for further information on these MaineHealth initiatives.

V. Orderly and Economic Development

Lincoln County Health Care

Impact on Health Care Expenditures: Project's Benefit and Potential Impact on Other Providers' Costs

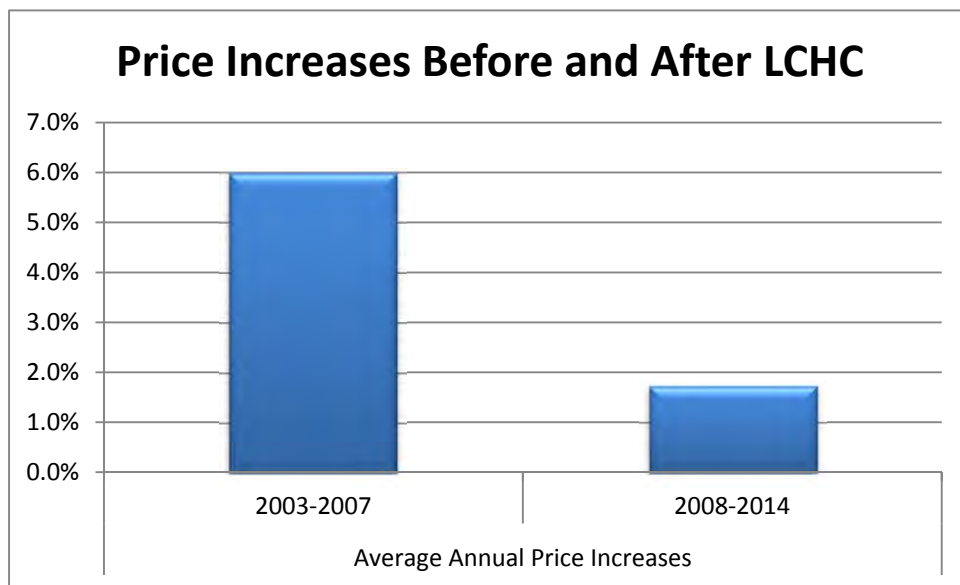
The transaction's benefits are discussed throughout this application.

Approval of this transaction does not affect the cost of care delivered by other existing Maine service providers.

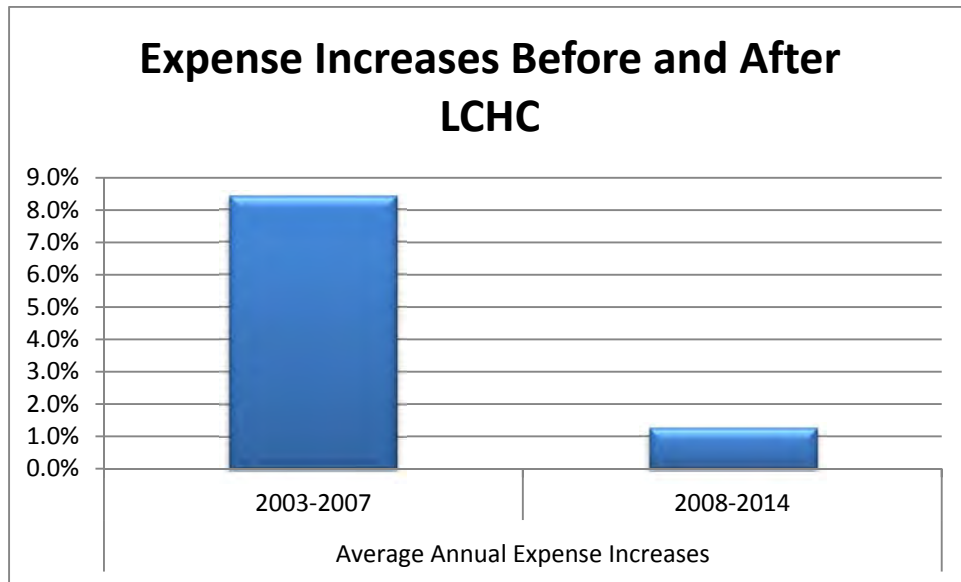
This transaction primarily involved the day-to-day operation of Miles Memorial Hospital, St. Andrews Hospital and related entities. The transaction has had no impact on other providers' volume of services, quality of care or costs.

There was no addition to any facilities or services as a result of this transaction. The services that had been offered by Miles Memorial Hospital, St. Andrews Hospital and related entities continued without any changes.

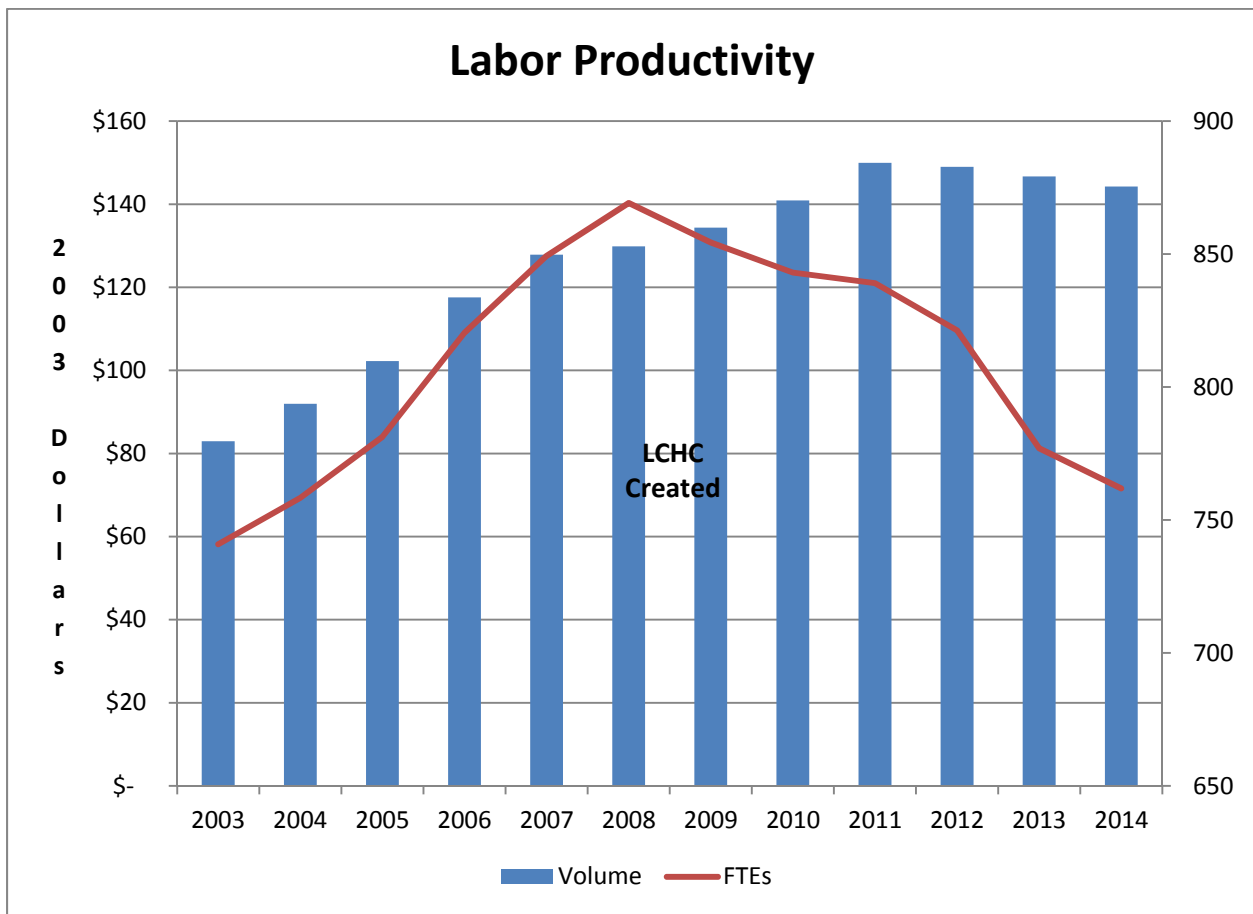
The following chart demonstrates the positive impact that the formation of Lincoln County Health Care has had in the rates it charges for services provided. Included in this comparison is the 7.1% price decrease implemented in October, 2013 that was made possible by the merger of Miles Memorial Hospital and St. Andrews Hospital under the control and governance of Lincoln County Health Care.



This next chart illustrates the Lincoln County Health Care's ability to control expenses through a single governance and management structure better than Miles Health Care and St. Andrews Hospital were able to do independently.



A significant component of health care cost is labor related. The chart below represents the system FTE's relative to volume expressed as gross revenue in 2003 revenue; the price increases are eliminated. The trends illustrate the increasing difficulty in controlling labor costs for two small hospitals subject to core staffing requirements. The creation of LCHC enabled the sharing of administration and managerial costs, along with the ability to coordinate clinical services. Since the formation of LCHC we have been able to care for more patients with fewer FTEs. This is a key component of the slowing expense trends in the previous chart.



The lower prices and expense control made possible through the creation of Lincoln County Health Care speak directly to the intent of the Certificate of Need law in:

- Support of health planning,
- Ensuring access to cost-effective services,
- Maintaining the availability of health care services regardless of the ability to pay and
- Avoiding excessive duplication of services.

Availability of state funds: Impact on MaineCare

Approval of this transaction has no impact on MaineCare.

Alternatives: Potential of More Effective, More Accessible or Less Costly Technologies or Methods

There were no new incremental annual operating costs as a result this transaction. There are cost savings. In just the first two years of Lincoln County Health Care’s existence more than \$3,222,000 in cost savings was realized.

LincolnHealth

Impact on Health Care Expenditures: Project's Benefit and Potential Impact on Other Providers' Costs

The transaction's benefits are discussed throughout this application.

Approval of this transaction does not affect the cost of care delivered by other existing Maine service providers.

This transaction primarily involved the day-to-day operation of LincolnHealth. The transaction should have no impact on other providers' volume of services, quality of care or costs.

There is no addition to any facilities or services as a result of this transaction. The services that had been offered under the subsidiary corporation Miles Memorial Hospital have simply been deemed re-allocated to the surviving subsidiary St. Andrews Hospital, whose name has been changed to LincolnHealth.

Availability of state funds: Impact on MaineCare

LincolnHealth's FY 14 budget assumes a payor mix the same as FY13 and no volume growth. Based on these assumptions, LincolnHealth would receive \$716,000 in additional MaineCare reimbursement during FY14, the State's share being about \$240,000. That compares to \$2.1 million in direct savings to commercial and self-pay patients.

There will likely be some offsets to that MaineCare number that are hard to quantify. Examples include:

- Former ED patients that seek Urgent Care,
- LincolnHealth's ability to continue funding Patient Centered Medical Homes to reduce ED and Urgent Care utilization,
- Further cost reductions made possible by the merger and
- MaineCare eligibility restrictions effective January 1, 2014.

Alternatives: Potential of More Effective, More Accessible or Less Costly Technologies or Methods

There are no new incremental annual operating costs as a result this transaction. There are cost savings. LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors.

VI. Outcomes and Community Impact

Lincoln County Health Care

High Quality Outcomes

The integration has created enough scale to develop a robust Quality and Performance Improvement Program that serves the hospitals, physician practices and senior living services. The creation of Lincoln County Health Care has strengthened and made sustainable our commitment to quality and community. Together as an integrated system for six years, Miles Memorial Hospital and St. Andrews Hospital have better served the residents of Lincoln County.

This commitment to quality is demonstrated by Miles Memorial Hospital in 2011 being one of the first 3 hospitals nationally to earn a Top Rural Hospital distinction by the Leap Frog Group. This group, representing many of the largest corporations in the country, ranks hospitals based on quality and patient safety. Their scoring is comprehensive and rigorous. It was an honor to receive this distinction once and we have just learned Miles has received it again for 2013. Quality, affordability and access will continue to improve with LincolnHealth's ability to further enhance our integration of programs and services.

Potential Impact on Existing Providers' Quality of Care

This transaction has had no impact on other provider's quality of care.

LincolnHealth

High Quality Outcomes

The integration of Miles Memorial Hospital and St. Andrews Hospital accomplished by the merger of the two entities results in the consolidation of 24-hour inpatient and emergency care at LincolnHealth's Damariscotta campus. This consolidation creates a higher quality and more sustainable model for delivering urgent and emergency care and inpatient care while reducing the risk of erosion in quality due to low volume.

Potential Impact on Existing Providers' Quality of Care

This project has no impact on other provider's quality of care.

VII. Service Utilization

Lincoln County Health Care

Risk of Inappropriate Increases in Service Utilization

This transaction has met a documented health care need as opposed to creating a health care demand. This transaction has not increased health care utilization unnecessarily and has not created inappropriate or unnecessary demand.

LincolnHealth

Risk of Inappropriate Increases in Service Utilization

This transaction meets a documented health care need as opposed to creating a health care demand. This transaction will not increase health care utilization unnecessarily and will not create inappropriate or unnecessary demand.

MaineHealth Population-based Initiatives

Lincoln County Health Care, LincolnHealth, Cove's Edge and Lincoln County Medical Group participate in MaineHealth's health status improvement, clinical integration and quality improvement initiatives, which should over time impact utilization positively.

The mission of MaineHealth is "Working together so our communities are the healthiest in America". MaineHealth has made financial and human resource commitments to this mission, based on the following beliefs:

- Health care costs in Maine (and nationally) will continue to increase due to demographic, technological and normal inflation factors which are generally beyond our control;
- If healthcare is to remain affordable to the vast majority of our citizens, changes will need to be made to the manner in which we currently provide and finance that care;
- The long-term solution to balancing increased utilization is to improve the health of the people of Maine;
- The health care challenge requires short-term solutions which improve the quality (both care delivery and outcomes), cost-efficiency (both clinical and administrative) and access to health care.

MaineHealth's approach to improving the health of its communities focuses on two major types of initiatives:

- Health status improvement initiatives which address a health issue which is amenable to intervention based on specific, scientifically based programs

- Clinical integration initiatives which seek to improve the delivery of coordinated, integrated services to selected populations, particularly those with chronic diseases or for conditions where clinical guidelines and protocols have been demonstrated to improve outcomes.

Management of populations with chronic diseases has become a major focus of MaineHealth’s clinical integration initiatives. During the next 15 years, the population in Maine over the age of 65 is expected to double. Based on national studies, it may be anticipated that 60% of the population will have at least one chronic condition and 40% will have two or more. A recent study by researchers at Johns Hopkins, the US HHS Agency for Health Research and Quality and the University of Pennsylvania predicts that by 2030, 87% of the population will be overweight, 51% will be obese and the prevalence of overweight children will nearly double. Since 1999, MaineHealth has been building health status improvement and clinical integration initiatives to address these challenges, funding them through a combination of MaineHealth dues, investment income and grants.

MaineHealth and its members are clearly committed to population based health and prevention and are redirecting resources to support those initiatives. MaineHealth has been building health status improvement and clinical integration initiatives to address these challenges, funding them through a combination of MaineHealth dues, investment income and grants. Beginning in FY 2006, MaineHealth began providing partial support for these initiatives through fund balance transfers from member organizations.

Below are the MaineHealth budgets for these initiatives for FY 2010, 2011, 2012 and 2013.

**MaineHealth Clinical Integration / Health Status Improvement Budgets
 (in 000s)**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Clinical Integration	\$4,733	\$4,995	\$6,173	\$6,913
Health Status Improvement	3,804	4,314	4,971	\$4,707
Community Education	<u>2,537</u>	<u>2,573</u>	<u>2,540</u>	<u>\$2,359</u>
Total	\$11,074	\$11,882	\$13,684	\$13,979

MaineHealth has not asked for more than we thought could be well used, and we have continued to be successful in securing other support through grants. MaineHealth has adopted a strategy that recognized that, while it has been reasonably successful in its initiatives, MaineHealth must step up the scope and pace of these initiatives by committing over the next several years up to 1% of its net assets annually to support these initiatives.

MaineHealth emphasizes collaboration in developing and implementing clinical integration and health status improvement initiatives; all provider organizations are welcome to join us and use our tools. There are no competitors. Our approach is based

on bringing together providers to design and implement evidence based approaches to the care of patients and on measuring results.

Presented below are brief summaries of the major health status improvement and clinical integration initiatives supported by these resources. Detailed descriptions of these initiatives and the outcomes they have produced to improve the health of communities MaineHealth serves are on file with the Certificate of Need Unit as part of the public record associated with the MaineHealth and Waldo County Healthcare certificate of need application for WCH Membership in MaineHealth and are included in this application by reference.

- AH! Asthma Health – a comprehensive patient and family education and care management program targeting childhood asthma initially and now expanded to include adults;
- Target Diabetes – a comprehensive diabetes education and care management program;
- Caring for ME – designed to improve the ability of primary care providers to care for patients with depression and to educate patients and families on their roles in self-management;
- Healthy Hearts – designed to improve the care of patients with congestive heart failure and to educate patients and families on their roles in self-management;
- Clinical Improvement Registry – a computer based system provided to primary care practices in the MMC Physician-Hospital Organization and several other hospital physician organizations. The Registry provides patients and physicians with data on the management of chronic illnesses including asthma, diabetes, cardiovascular disease, depression and heart failure;
- MMC Physician Hospital Organization Clinical Improvement Plan – the Plan includes funding 23 practice based registered nurse care managers which support 265 physicians in 71 primary care practices; currently they are focusing on diabetes, depression and asthma;
- Raising Readers – a health and literacy project that provides books to all Maine Children from birth to age five at their Well Child visits;
- Care Partners – provides free physician and hospital care, drugs and care management to over 1,000 adults in Cumberland, Kennebec and Lincoln counties who do not qualify for federal and state programs;
- Center for Tobacco Independence – MaineHealth through a contract with the State manages the statewide smoking cessation program;

- Acute Myocardial Infarction/Primary Coronary Intervention Project – collaborative effort of 11 southern, central and western Maine hospitals, and their medical staffs that standardizes and improves the care of patients experiencing a heart attack;
- Stroke Program – assures that all patients with stroke receive the most up to date, high quality, efficient care; provides a coordinated system of care for stroke patients who must be transferred to another facility;
- Emergency Department Psychiatric Care – follows a medical clearance protocol for patients seen in the ED who need hospitalization; follows medication recommendations for agitated patients; and decreases the need for restraints and seclusion, including training ED staff how best to work with agitated patients;
- Healthy Weight Initiative – addresses adult and youth obesity, including a 12 step action plan (“Preventing Obesity: A Regional Approach to Reducing Risk and Improving Youth and Adult Health”);
- Youth Overweight – MaineHealth and MMC have joined with several other organizations including Hannaford, United Way, Unum, Anthem and TD Banknorth, to design and implement a 5 year initiative on youth overweight;
- Blood Transfusion – system protocols to reduce blood transfusions
- Hand Hygiene - system plan to reduce hospital infections through hand hygiene monitoring.
- The MaineHealth Cancer Resource Center – MaineHealth’s major initiative focusing on cancer. Goals for this new initiative include:
 - For the five most prevalent cancers, adopt evidence-based clinical care guidelines, identify quality metrics and reporting methodology, and provide a range of educational support to promote consistent use of guidelines.
 - Support each MaineHealth organization in attaining or maintaining the appropriate level of cancer care accreditation, including appropriate level of credentialing necessary for delivering care in accordance with desired accreditation
 - Improve access to clinical trials.
 - Improve access to genetic counseling services.
 - Support the development of patient navigation and survivorship programs to improve patient access, engagement, and satisfaction.
 - Improve the Network Registry to support increased access and data review for outcomes and quality metrics.
 - Coordinate services regionally to provide maximum access to care (i.e. improve access to specialists.)

Lincoln County Health Care
Reorganization of Lincoln County Health Care
Certificate of Need Application
November 15, 2013

MaineHealth and its members are clearly committed to population based health and prevention and are redirecting resources to support those initiatives. MaineHealth believes that these initiatives are entirely consistent with the best evidence-based practices regarding how to approach chronic disease. Evidence from our programs demonstrates that the Chronic Care Model can and does work [Letourneau et al, “Rural Communities Improving Quality through Collaboration,” Journal for Healthcare Quality, (National Association for Healthcare Quality, Vol. 28, No. 5, pp. 15-27)].

VIII: Timely Notice

MaineHealth, Lincoln County Health Care and LincolnHealth have followed the appropriate procedures regarding timely submitting of the Letter of Intent, waiving of the Technical Assistance meeting, submitting of the Application and certifying the Application complete as outlined in the Maine Certificate of Need Procedures Manual for this type of project.

MaineHealth, Lincoln County Health Care and LincolnHealth are willing and reserve the right to submit information that is responsive to any concern, issue, question or allegation of facts contrary to those in the application made by the department or any other person.

Lincoln County Health Care Transaction Timeline

In 2007 MaineHealth, Miles Memorial Hospital and St. Andrews Hospital first informed State representatives of MaineHealth's intent to establish a subsidiary, Lincoln County Health Care, as the sole corporate member of Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group. This message was communicated in a meeting with Trish Riley, Director of the Governor's Office of Health Policy and Finance, and Catherine Cobb, Director of the Department's Division of Licensing and Regulatory Services. At that time these officials expressed their support of the transaction and did not indicate in any fashion that Certificate of Need review and approval of the transaction might be required.

Since 2007 MaineHealth and Lincoln County Health Care have declared Lincoln County Health Care as the parent company of Miles Memorial Hospital and St. Andrews Hospital in every MaineHealth-related Certificate of Need application filed with the Division of Licensing and Regulatory Services, every Miles Memorial Hospital and St. Andrews Hospital licensing renewal application filed with the Division of Licensing and Regulatory Services, every Miles Memorial Hospital and St. Andrews Hospital MaineCare Cost Report filed with the Department of Health and Human Services' Division of Audits and every Maine Health Data Organization filing made by Miles Memorial Hospital and St. Andrews Hospital.

September 16, 2013: Meeting with representatives of the Department's Medical Facilities Health Care Oversight Unit and the Office of the Attorney General outlining the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. Discussion included formation and operation of Lincoln County Health Care.

September 23, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit providing notification of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. Letter included overview of formation and operation of Lincoln County Health Care.

September 25, 2013: Letter from Department's Medical Facilities Health Care Oversight Unit requesting information on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. Request included Lincoln County Health Care current (pre-merger of Miles Memorial Hospital and St. Andrews Hospital) and proposed organizational charts, Board of Trustees rosters and management team.

September 27, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit providing information on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. Letter included overview of formation and operation of Lincoln County Health Care.

September 30, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit responding to the Unit's September 25 information request on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine.

October 1, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit requesting a "Determination of Not Subject to Review" of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. Letter included overview of formation and operation of Lincoln County Health Care.

October 23, 2013: Letter from Department's Medical Facilities Health Care Oversight Unit notifying MaineHealth and Lincoln County Health Care that the formation of Lincoln County Health Care is subject to Certificate of Need review and approval.

November 15, 2013: Certificate of Need application submitted to Department's Medical Facilities Health Care Oversight Unit and certified complete, technical assistance meeting waived, public hearing requested.

To Be Determined: Public Hearing on Certificate of Need application.

LincolnHealth Transaction Timeline

July 5, 2013: Discussion with the Department's Acute Care Health Facility Survey Unit outlining the proposed relocation of St. Andrews Hospital to 35 Miles Street, Damariscotta, Maine.

July 15, 2013: Letter of Intent to the Department's Acute Care Health Facility Survey Unit notifying the Department of the intent to relocate St. Andrews Hospital to 35 Miles Street, Damariscotta, Maine. (Exhibit 8-A)

August 13, 2013: Letter to the Department's Acute Care Health Facility Survey Unit outlining the proposed transition plan for the relocation of St. Andrews Hospital. (Exhibit 8-B)

August 26, 2013: Letter to the Department's Acute Care Health Facility Survey Unit requesting the voluntary retirement of Miles Memorial Hospital license effective October 1, 2013. (Exhibit 8-C)

Lincoln County Health Care
Reorganization of Lincoln County Health Care
Certificate of Need Application
November 15, 2013

August 27, 2013: Letter to the Department's Acute Care Health Facility Survey Unit requesting revisions of St. Andrews Hospital license effective October 1, 2013. (Exhibit 8-D)

September 16, 2013: Meeting with representatives of the Department's Medical Facilities Health Care Oversight Unit and the Office of the Attorney General outlining the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine.

September 23, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit providing notification of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. (Exhibit 8-E)

September 25, 2013: Letter from Department's Medical Facilities Health Care Oversight Unit requesting information on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine.

September 27, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit providing information on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. (Exhibit 8-F)

September 30, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit responding to the Unit's September 25 information request on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. (Exhibit 8-G)

October 1, 2013: Letter from Department's Division of Licensing and Regulatory Services granting a conditional license for the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine.

October 1, 2013: Letter to Department's Medical Facilities Health Care Oversight Unit requesting a "Determination of Not Subject to Review" of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. (Exhibit 8-H)

October 23, 2013: Letter from Department's Medical Facilities Health Care Oversight Unit notifying MaineHealth and Lincoln County Health Care that the proposed relocation is subject to Certificate of Need review and approval.

November 15, 2013: Certificate of Need application submitted to Department's Medical Facilities Health Care Oversight Unit and certified complete, technical assistance meeting waived, public hearing requested.

To Be Determined: Public Hearing on Certificate of Need application.

IX: Other Considerations

Certificate of Need

By letter of October 23, 2013 in response to a “Request for Determination that the Transaction is Not Subject to Certificate of Need Review” regarding the merger of Miles Memorial Hospital and St. Andrews Hospital by MaineHealth and Lincoln County Health Care, the Department notified Lincoln County Health Care that both the 2013 Merger of Miles Memorial Hospital and St. Andrews Hospital and the 2008 establishment of Lincoln County Health Care are subject to Certificate of Need review and approval. Please see Exhibit 1-G.

Although filing this application, the Applicants are not waiving any argument that Certificate of Need review and approval are required for these transactions. The Applicants believe, despite the Department’s letter of October 23, 2013, that the transactions described in this application are not subject to review under the Certificate of Need Law as presented in our letter of October 1, 2013 to the Department’s Medical Facilities Health Care Oversight Unit requesting a “Determination of Not Subject to Review” of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine. Please see Exhibit 8-H.

The Applicants are filing this Application because the Department has advised the Applicants that the licensing status of LincolnHealth (formerly known as St. Andrews Hospital) may be in jeopardy if a Certificate of Need is not obtained before the expiration of the six month temporary license for that the Department issued effective October 1, 2013. Under such circumstances, the Applicants are effectively compelled to file the Application and seek a Certificate of Need in order to preserve LincolnHealth’s licensing status and its ability to provide hospital care for the residents of Lincoln County without disruption.

For the same reason, the filing fee is submitted under protest because the Applicants believe, despite the Department’s letter of October 23, 2013, that the transactions described in the application are not subject to review under the Certificate of Need Law.

In addition, even if the transactions were subject to Certificate of Need review, neither transaction entails a capital expenditure, and thus the required filing fee based on the absence of any capital expenditure should be the minimum fee, which we believe to be \$5,000. The Applicants understand that the Department will not process the CON without payment of a fee calculated on a basis as if the transactions involved a capital expenditure. Accordingly, the Applicants are submitting payment of the enclosed fee under protest, and are reserving their right to seek a refund of the fee, should it be finally determined by the Department in this proceeding or in separate proceedings, or by a court, that the fee was improperly determined or exacted.

As this Application was being finalized, the Applicants received a notice from the Department that the Department was seeking to impose a civil penalty on the Applicants arising out of the formation of Lincoln County Healthcare in 2007, and the merger of Miles Memorial Hospital into St. Andrews Hospital effective October 1, 2013, on the theory that the Applicants were required by law but did not seek and obtain in advance a certificate of need for each of these transactions. No prior notice of intent to impose a penalty on this basis was provided by the Department to the Applicant. The Applicants contend that the imposition of penalties under these circumstances is unlawful, for the reasons noted above, and for additional reasons that need not be articulated in this Application.

The Applicants will process their opposition and defenses to such penalties through whatever separate administrative and judicial processes are available for relief from the threatened or actual imposition of civil penalties. The purpose of mentioning the Department's recent action in this Application is to make clear that, by filing this Application, the Applicants are not admitting in any way that a Certificate of Need was required for such transactions. To the contrary, as noted above, the Applicants are filing this Application because they are essentially compelled to do so, given the positions taken by the Department with respect to LincolnHealth's hospital licensing status.

Lincoln County Health Care

The January 1, 2008 reorganization entailed no change of control or ownership of the hospitals. This transaction was simply a corporate reorganization within MaineHealth and specifically its two hospital subsidiaries, Miles Memorial and St. Andrews Hospitals, and related entities. Both before and after the transaction, MaineHealth directly, and indirectly as the parent of Lincoln County Health Care, owned and controlled these hospitals. No new outside entity gained control of these hospitals. There was no capital expenditure as a result of this reorganization transaction. There was no addition to any facilities or services as a result of this transaction. The services that had been offered under the subsidiary corporations Miles Memorial Hospital, St. Andrews Hospital, Cove's Edge and Lincoln County Medical Group were maintained. There were no new incremental annual operating costs as a result this transaction. There were cost savings that have been passed along to Lincoln County residents and visitors in the former of lower charges.

LincolnHealth

The merging entities, Miles Memorial Hospital and St. Andrews Hospital have been members in the MaineHealth system of hospitals for over a decade. In 1997 and 1996, respectively, the Department issued certificates of a need for transactions by which MaineHealth became the sole corporate member of these hospitals.

The 2013 reorganization entails no change of control or ownership of the hospitals. This transaction is simply a corporate reorganization within Lincoln County Health Care and specifically its two hospital subsidiaries, Miles Memorial and St. Andrews Hospitals.

Both before and after the transaction, Lincoln County Health Care directly and MaineHealth indirectly, as the parent of Lincoln County Health Care, own and control these hospitals. No new outside entity is gaining control of these hospitals.

There is no material capital expenditure as a result of this transaction. The aggregation of the assets and liabilities of Miles Memorial Hospital and St. Andrews Hospital into the single surviving entity LincolnHealth (the former St. Andrews Hospital) occurs by operation of corporate law, 1-B Me. Rev. Stat. Ann. § 905(2), not as the result of any deed of transfer or bill of sale between transacting parties.

There is no addition to any facilities or services as a result of this transaction. The services that had been offered under the subsidiary corporation Miles Memorial Hospital have simply been deemed re-allocated to the surviving subsidiary St. Andrews Hospital, whose name has been changed to LincolnHealth.

There are no new incremental annual operating costs as a result this transaction. There are cost savings. As a result of this restructuring and rationalizing of services LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million. As a result of these savings and benefits, Lincoln County Health Care has announced price reductions in the amount of \$7.7 million effective October 2013, which will benefit Lincoln County employers, residents and visitors.

The transaction is structured so that services previously offered at Miles Memorial Hospital's Damariscotta main campus and other sites are covered by the critical access hospital designation of St. Andrews Hospital. The Department actively facilitated this feature of the transaction. By letter of April 23, 2013, St. Andrews requested the Department's Director of Rural Health and Primary Care to certify that St. Andrews could relocate to Damariscotta and still be classified as a "necessary provider" critical access hospital. Please see Exhibit 1-C.

Control and Ownership

The Department is in error in its assertions that the formation of Lincoln County Health Care and the merger of Miles Memorial Hospital into St. Andrews hospital constitute a "transfer of ownership" or "acquisition of control" within the meaning of 22 MRSA 329 (1). The statute itself does not provide a definition of these terms. Generally accepted accounting principles, however, do provide the appropriate understanding of these terms. In the absence of any statutory definition, generally accepted accounting principles are the best source for the understanding of these terms, because the Certificate of Need statute itself invokes the authority of generally accepted accounting principles explicitly in its definitional sections, 22 MRSA 328(3), (7).

As the Certificate of Need statute recognizes, generally accepted accounting principles are established by the American Institute of Certified Public Accountants. 22 MRSA 328(3)(7). The Institute has adopted and endorsed the accounting standards promulgated

by Financial Accounting Standards Board (FASB).¹ FASB Statement of Financial Accounting standard NO. 164 specifically addresses the proper accounting for mergers and acquisitions involving not-for-profit entities. It expressly excludes from its scope “a combination between not-for-profit entities, businesses or nonprofit activities *under common control . . .*” (Emphasis added). Under FASB Standard No. 164, combination of commonly controlled subsidiaries is not treated as a merger or acquisition.²

Prior to the formation of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital were under the common control of MaineHealth. Prior to their merger, Miles Memorial Hospital and St. Andrews Hospitals were under the common control of Lincoln County Health Care, and ultimately, MaineHealth.

In addition, the Department is in error in asserting that the formation of Lincoln County Health Care and the merger of Miles Memorial Hospital into St. Andrews Hospital constitute a “capital expenditure” within the meaning of the Certificate of Need Law. The law defines “capital expenditure” as “an *expenditure . . .* That under generally accepted accounting principles is not properly chargeable as an expensive operation and maintenance . . .” (Emphasis added). The formation of Lincoln County Health Care involves no “expenditure” by Lincoln County Health Care for any capital item owned by Miles Memorial Hospital and St. Andrews Hospital. The merger transaction involves no “expenditure” by St. Andrews Hospital for any capital item belonging to Miles Memorial Hospital.

To summarize, our position is that no change in control or ownership took place given the common ownership of all entities involved and the chain of control inherent in that ownership. And, given the common ownership, no “capital expenditure” occurred.

- Maine Revised Statute Title 22, Chapter 103-A: CERTIFICATE OF NEED (CON Law) provides no definition of “control” or “ownership” in Chapter 3 of the manual for specific applicability in CON matters.

¹ FASB standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC) (Financial Reporting Release No. 1, Section 101, and reaffirmed in its April 2003 Policy Statement) and the American Institute of Certified Public Accountants (Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979).

² Under FASB ASC 958-810-25-to, a nonprofit entity with a controlling financial interest in another not-for-profit entity, either through direct or indirect ownership of a majority voting interest or so corporate membership in the other not-for-profit entity, is required to present the financial condition of the entities on a consolidated basis. Sole corporate membership in the not-for-profit is considered a controlling financial interest, unless the member has surrendered the control through bankruptcy or other legal or contractual limitations. See also FASB Staff Position, No. SOP 94-3-1 and AAG HCO-1, page 4.

- The Manual provides no definition of “control” or “ownership” in Chapter 3 of the manual for specific applicability in CON matters.
- Both THE MANUAL and CON Law do define *Generally Accepted Accounting Principles* (GAAP) as “...accounting principles approved by the American Institute of Certified Public Accountants...” (AICPA).
- AICPA pronouncements derive primarily from the Financial Accounting Standards Board (FASB).
- Both THE MANUAL and CON Law specifically reference *Generally Accepted Accounting Principles* in the definition of Capital Expenditures.
- MaineHealth was the sole corporate member of Miles Memorial Hospital and St. Andrews Hospital prior to the formation of Lincoln County Health Care.
- MaineHealth exercised its right as sole corporate member (i.e. control) in approving the formation of Lincoln County Health Care as the sole corporate member of Miles Memorial Hospital and St. Andrews Hospital.
- MaineHealth is the sole corporate member of Lincoln County Health Care, Inc.
- Lincoln County Health Care, Inc. is the sole corporate member of Miles Memorial Hospital and of St. Andrews Hospital.
- MaineHealth and Lincoln County Health Care, Inc. exercised their rights as sole corporate members (i.e. control) in approving the merger of the two hospitals.

Exhibits

- 1-A: Vision for Health Care Delivery at St. Andrews
- 1-B: Plan of Merger, Miles Memorial Hospital and St. Andrews Hospital
- 1-C: St. Andrews Hospital requesting DHHS Rural and Primary Care Program Director to certify that St. Andrews Hospital could relocate to Damariscotta and maintain its “necessary provider” critical access status, April 23, 2013.
- 1-D: DHHS Director of Maine Center for Disease Control and Prevention letter certifying that St. Andrews could relocate to Damariscotta and still be classified as a “necessary provider” critical access hospital, May 24, 2013.
- 1-E: St. Andrews Hospital requesting Centers for Medicare and Medicaid Services to certify that St. Andrews Hospital could relocate to Damariscotta and maintain its “necessary provider” critical access status, June 10, 2013.
- 1-F: Centers for Medicare and Medicaid Services letter granting preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital’s location in Damariscotta, June 27, 2013.
- 1-G: October 23, 2013: Letter from Department’s Medical Facilities Health Care Oversight Unit notifying MaineHealth and Lincoln County Health Care that the proposed relocation is subject to Certificate of Need review and approval
- 2-A: Lincoln County Health Care’s pre –merger and post-merger organizational charts
- 2-B: Miles Memorial Hospital’s pre-merger organizational chart
- 2-C: St. Andrews Hospital’s pre-merger organizational chart
- 2-D: LincolnHealth’s post-merger organizational chart.
- 2-E: Division of Licensing and Regulatory Services letter granting LincolnHealth a conditional license, September 30, 2013.
- 2-F: MaineHealth
- 2-G: MaineHealth’s Organizational Chart
- 2-H: MaineHealth’s Community Benefit Report
- 3-A: Lincoln County Health Care’s Audited Financial Statements
- 8-A: Letter of Intent to the Department’s Acute Care Health Facility Survey Unit notifying the Department of the intent to relocate St. Andrews Hospital to 35 Miles Street, Damariscotta, Maine., July 15, 2013
- 8-B: Letter to the Department’s Acute Care Health Facility Survey Unit outlining the proposed transition plan for the relocation of St. Andrews Hospital, August 13, 2013.

Lincoln County Health Care
Reorganization of Lincoln County Health Care
Certificate of Need Application
November 15, 2013

- 8-C: Letter to the Department's Acute Care Health Facility Survey Unit requesting the voluntary retirement of Miles Memorial Hospital license effective October 1, 2013, August 26, 2013.
- 8-D: Letter to the Department's Acute Care Health Facility Survey Unit requesting revisions of St. Andrews Hospital license effective October 1, 2013, August 27, 2013.
- 8-E: Letter to Department's Medical Facilities Health Care Oversight Unit providing notification of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine, September 23, 2013.
- 8-F: Letter to Department's Medical Facilities Health Care Oversight Unit providing notification of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine, September 27, 2013.
- 8-G: Letter to Department's Medical Facilities Health Care Oversight Unit responding to the Unit's September 25 information request on the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine, September 30, 2013.
- 8-H: Letter to Department's Medical Facilities Health Care Oversight Unit requesting a "Determination of Not Subject to Review" of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine, October 1, 2013.

Exhibit 1-A: Vision for Health Care Delivery at St. Andrews

In our last communication that was posted to area websites – including www.lchcare.org – and mailed to homes in Lincoln County, we answered a number of questions about the future of St. Andrews Hospital and Healthcare Center. We wrote about the local, volunteer board of trustees, the value of MaineHealth membership, honoring local charitable donations, and challenging finances.

In this communication, we wish to present our forward thinking efforts and vision to ensure fulfillment of St. Andrews' core mission of providing quality care to the people of the Boothbay region. This vision is compelling, clear, community and family centered, and based on the current needs of the region.

From its very beginning, St. Andrews has continually evolved to meet the community's healthcare needs and adjusted often to challenging market conditions, and our efforts today are no different.

This vision does NOT close St. Andrews – 94% of Current Services Will Remain

First and foremost, St. Andrews services will remain open to serve the Boothbay community for many years to come. The primary objective of this new vision is to ensure the vast majority of services provided today will continue to be available to patients close to home. And these services will be enhanced to meet the ever-changing healthcare needs of the community.

These services include:

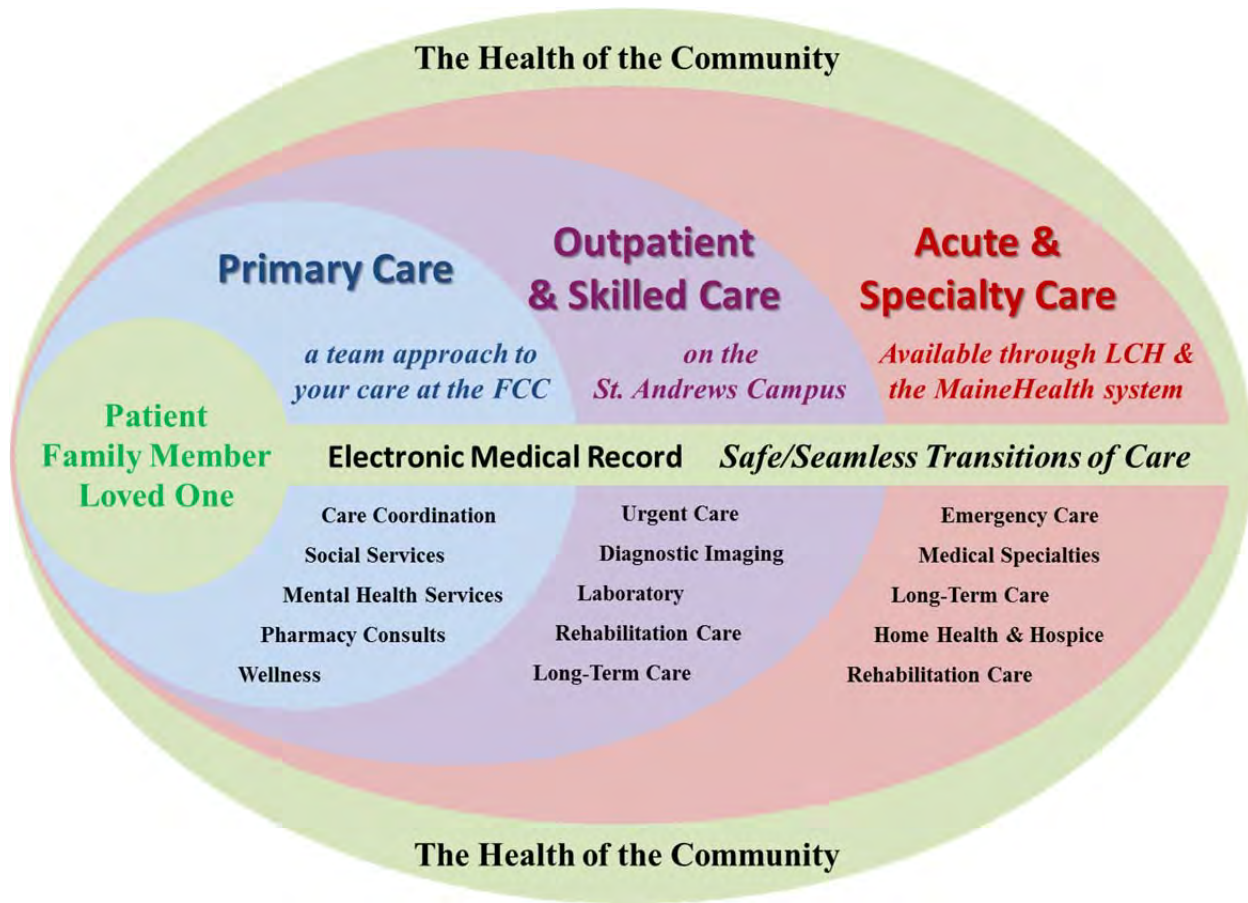
- Primary Care through the Family Care Center
 - Your relationship with your family doctor is extremely important. The vision for St. Andrews builds and strengthens this bond to improve overall health.
- Social Services
 - Connecting the community with needed support services including local and state government assistance and community-based outreach programs is a vitally important component of care.
- Mental Health Services
 - A large portion of clinical care in the family physician's office today is linked to behavioral health and this new vision preserves and enhances the access to this important clinical service.
- Pharmacy Consulting
 - Helping to ensure a clear understanding of your prescriptions, the reasons for their use, and even the availability of low cost (or no cost) prescriptions.
- Wellness
 - Providing the community education classes and resources necessary to promote an emphasis on good health maintenance and disease prevention.
- Urgent Care

- Available on a walk-in basis, emergency medicine trained physicians ready to care for those with an injury or illness that requires immediate care.
- Diagnostic Imaging
 - Ensuring you and your physician have access to the medical imaging needed to properly diagnose and care for you and your family.
- Laboratory Services
 - Ensuring you and your physician have access to specialized outpatient testing.
- Occupational Therapy
 - Delivering treatments to develop, recover, or maintain the daily living and work skills of patients with a physical, mental or developmental condition.
- Physical Therapy
 - Promoting mobility and functional ability to improve the quality of life for those with physical impairments or disabilities.
- Rehabilitation Care
 - Skilled care for those recovering from injuries or surgery.
- Long-Term Care
 - Care for those residents who need 24-hour nursing care.
- Home Health and Hospice
 - For those who wish to stay home, yet require health care services to remain there safely and comfortably.

A New Vision for the Boothbay Region

Lincoln County Healthcare trustees, management, and clinical staff have worked for many months to develop a vision that maintains and enhances a high level of quality and affordable care for the patients we serve. Not just a model to survive in the near term, but a model to thrive, serve and care for families throughout Lincoln County for years to come.

This shared vision centers on the idea of working together to ensure Lincoln County has the healthiest communities in Maine. As shown in the diagram below, we begin with you, your family and loved ones. From there, we apply a team approach to primary care that forms a strong, lifelong bond between patients and primary care physicians and other caregivers – all close to home. Outpatient (or ambulatory) care at St. Andrews will continue to support preventive and primary care with a range of services, including urgent care, diagnostic imaging, laboratory, as well as occupational and physical therapy.



When patients need acute or specialty care, our new, integrated model provides a full range of emergency care, medical specialties, long-term care, home health, and rehabilitation care. Organizing around a unified model for community-based healthcare in Lincoln County offers a safe and seamless transition for care, ensuring a positive community health profile for decades to come.

Additional resources will be added to the Family Care Center to insure that patients will have their care better coordinated through the help of a Nurse Care Manager. Pharmacists will be available to help sort through medications and make certain you are taking the correct medication and dose.

A new electronic medical record system helps to make sure your vitally important medical information is readily available, where and when clinicians need it, to care for you and your loved ones. This system helps to make the clinical connections required to ensure quality of care while reducing the need for duplicate tests (and the expense that comes with repeating medical images and laboratory tests).

This new model will help lead the change for rural healthcare delivery in Maine. The vision places a premium on quality, affordability, accessibility and sustainability. Over the next few

weeks, Lincoln County Healthcare will unveil this new approach and engage the community in a conversation about the future of healthcare in the region.

A Challenging Environment for Healthcare Delivery

Hospitals across the U.S. and throughout Maine face an unprecedented convergence of economic, clinical and regulatory pressures. These developments directly influence the delivery of care here in Lincoln County. Here are just a few trends that have lead us to rethink our approach and reinvent St. Andrews for the next generation.

- **Inpatient volumes are dropping while outpatient services are expanding at an explosive rate.** In the past two decades, national inpatient volume has declined by 15 percent and outpatient visits have increased by 125 percent. St. Andrews continues to experience a steady decline in volume, with more patients selecting to receive care at a variety of hospitals throughout the Midcoast region.
- **The cost of providing care continues to rise while revenues and margins decline each year.** Since 2001 and based on audited financial statements, St. Andrews has had operating losses totaling more than \$7 million. Even after considering the Critical Access Hospital subsidy, charitable donations, community support and investment returns, the 12-year accumulated loss was nearly \$2 million.
- **A dramatic shift in patient demographics places undue strain on the system.** Our community is aging, which means a greater shift from private insurance plans to Medicare and drastically lower reimbursements. This will continue to compound the financial strain on St. Andrews.
- **The standard of care has advanced as the community has evolved.** The practice of medicine has changed greatly over the past twenty years. Care has become more complex and highly technical leading to specialization in all areas of medicine. This requires physicians to undergo years of specialty training and multiple examinations to demonstrate they are able to meet this new higher standard of care. Because of the complexity and scope of this care, physicians are now trained to work in highly coordinated teams to deliver the best possible care. Simply said, the way we provide care must adjust to ensure high-quality care and patient safety.

The Boothbay Region and St. Andrews are not immune from these pressures. Over time, decreasing patient volumes pose much more than just an economic challenge; they present a serious impact on overall quality and patient safety.

Changes and Service Enhancements at St. Andrews

The major change in service at St. Andrews will be the conversion of the Emergency Department to an urgent care center, and there are strong clinical reasons for this decision.

The number of patients who turn to St. Andrews for emergency care has been steadily declining for years. Today, at St. Andrews, that number is approximately one patient every other night. Given this figure, maintaining two Emergency Departments in Lincoln County is unsustainable and not a clinical best practice.

After analyzing these trends, our own board-certified emergency physicians, believe that an urgent care model at St. Andrews coupled with an enhanced EMS response and definitive care at a larger, busier ED will provide better, safer care for our patients. This is not a trend unique to St. Andrews, but one that hospitals throughout the country are implementing.

For serious emergencies, the Boothbay Region Ambulance Service and LifeFlight are staffed by highly trained, professional EMS personnel who can quickly and efficiently transport patients to the facility with the most appropriate level of emergency care. Every critically ill or injured patient currently seen in the St. Andrews ED requires transportation to another facility for definitive care. This new arrangement will have the patient immediately going to the most appropriate level of care without an intermediate stop. And we're using the simple accessibility and flexibility of an iPad to ensure a better standard of care for those transports as EMS personnel can easily connect with an emergency medicine physician.

Patients who do not have life threatening emergencies can be readily treated at the urgent care center on the St Andrew's campus. This latter group comprises the vast majority of patients who are currently seen in the St Andrew's Emergency Department today.

The trustees understand the community's concerns about the next chapter at St. Andrews, but it is important to point out that the changes are designed to protect patient safety, enhance quality, and respond to clinical concerns raised by our doctors. Because the vast majority of Emergency Department visits occur during the day, and 82 percent of all these visits do not require emergency care, our medical staff believes an urgent care center along with a highly coordinated emergency response system will meet the needs of the community in a safe, high-quality manner.

Lincoln County Healthcare is committed to partnering with the Boothbay Region Ambulance Service to continue to enhance the excellent emergency medical response system. In fact, we have committed to provide a total of \$250,000 in unrestricted gifts to the three communities in the Boothbay Region. This money could be used to reduce the need for a tax increase to these residents based on reported changes in the Boothbay Region Ambulance Service budget.

Our Continued Discussion

The vision for the Boothbay Region shared above is a healthcare model that focuses on community need, is family centered and enhances and strengthens the bond between patients and their physicians; empowering patients to take greater control of their health. Our primary care model will follow recognized clinical best practices, elevating the St. Andrews Family Care Center to a new level of care tailored to meet individual patient needs and whole-life care.

This approach will serve the diverse needs of the Boothbay Region while maintaining an affordable, high-quality and sustainable model for the future. These are the services that the residents of the Boothbay region are choosing; services that are meeting a need close to home.

The Trustees of St. Andrews Hospital and Lincoln County Healthcare look forward to continued, constructive discussions about healthcare in our community and how St. Andrews will continue to serve the Boothbay Region for many years to come. This will depend upon a model that emphasizes quality, affordability, accessibility and sustainability.

In the spirit of working together for a safe and healthy future for Lincoln County, we welcome the community to join us on March 20 for a special presentation of this vision at the Opera House in Boothbay Harbor from 6:30 to 8:00 p.m.

Sincerely,

Peter Mundy
Chair, Board of Trustees
St. Andrews Hospital & Healthcare Center
Lincoln County Healthcare

James Donovan
President & CEO
St. Andrews Hospital & Healthcare Center
Lincoln County Healthcare

Exhibit 1-B: Plan of Merger, Miles Memorial Hospital and St. Andrews Hospital

A Plan of Merger is hereby proposed between Miles Memorial Hospital ("Miles"), a Maine nonprofit corporation and St. Andrews Hospital ("St. Andrews"), a Maine nonprofit corporation, in accordance with which Miles ("Merging Corporation") will be merged into St. Andrews ("Surviving Corporation") according to the provisions of the Maine Nonprofit Corporation Act, Title 13-B, Section 901 et seq. of the Me. Rev. Stat. Ann., and the name of the Surviving Corporation will be changed to "LincolnHealth."

The Merging Corporation, Miles, is a Maine nonprofit corporation incorporated under the laws of the State of Maine in accordance with Articles of Incorporation duly filed with the Office of the Secretary of State. The Merging Corporation was organized originally for the purposes of establishing and maintaining institutions for the care of the sick and maintaining a school for the training of nurses and has continually since organized maintained inpatient and outpatient facilities and programs delivering health care services.

The Surviving Corporation, St. Andrews, is a Maine nonprofit corporation incorporated under the laws of the State of Maine in accordance with Articles of Incorporation duly filed with the Office of the Secretary of State. The Surviving Corporation was organized originally for the purposes of establishing and maintaining institutions for the care and treatment of ill, injured, infirm or aged persons, including a public hospital, clinic and infirmary, and maintaining a school for the training of nurses, with the subsequently added purposes of establishing and maintaining a retirement community and a doctors' office building, and has continually since organized maintained inpatient and outpatient facilities and programs delivering health care services. Both the Surviving Corporation and the Merging Corporation are subsidiaries of Lincoln County Health Care ("LCHC").

In furtherance of the purposes of the Merging Corporation and Surviving Corporation there is proposed a merger whereby Miles will be merged with and into St. Andrews and thereby have its charitable purposes better achieved through integration and more cost-effective provision of health care services and facilities throughout the Lincoln County service area, as well as preservation of the St. Andrews designation by the Centers for Medicare and Medicaid Services as a Critical Access Hospital and relocation to the Miles facility in Damariscotta. St. Andrews shall survive the merger and thereafter be renamed "LincolnHealth" on the following terms and conditions:

1. Merger Approval. The merger shall be effective after (1) adoption of resolutions approving this Plan by the Boards of the Merging Corporation and the Surviving Corporation, (2) approval of this Plan by the Board of LCHC as the parent and sole corporate member of both the Surviving and Merging Corporations and approval of this Plan by the Board of MaineHealth as the parent and sole corporate member of LCHC, and (3) filing of Articles of Merger with the Secretary of State.

2. Merger Date. The merger shall be effective and complete at 12:01 a.m. on October 1, 2013, which shall be known as the "Merger Date," subject to filing of Articles of Merger with the Secretary of State on or before such date.
3. Merging Corporation. The separate corporate existence and organization of the Merging Corporation shall cease on the Merger Date at which time the Merging Corporation shall be merged with and into the Surviving Corporation.
4. Articles of Incorporation and Bylaws; Name. Upon the Merger Date, the Restated Articles of Incorporation and the revised Bylaws of the Surviving Corporation adopted by the sole corporate member on August 29, 2013, to take effect at 11:59 p.m. on September 30, 2013, shall become the Restated Articles of Incorporation and the Bylaws of the Surviving Corporation until duly amended or repealed. The Restated Articles of Incorporation and new Bylaws shall reflect that the Surviving Corporation's name shall be changed to "LincolnHealth."
5. Charitable Purposes. Upon the Merger Date, the Surviving Corporation shall seek to carry out the charitable purposes set forth in the Restated Articles of Incorporation of the Surviving Corporation, which purposes reflect a blending of the charitable purposes of Miles and St. Andrews as they existed prior to the Merger Date.
6. Registered Office. Upon the Merger Date, there shall be no change in the registered agent and registered office of the Surviving Corporation.
7. Trustees. Upon the Merger Date, all Trustees of the Surviving Corporation shall remain the Trustees of the Surviving Corporation until the next annual meeting of the corporation and until their successors are elected and qualified.
8. Officers. Upon the Merger Date, all Officers of the Surviving Corporation shall remain those previously elected by the Board of Trustees and serve until the next annual meeting of the Board and until their successors are elected and qualified.
9. Policies. Upon the Merger Date, all corporate policies and procedures of the Surviving Corporation prior to the Merger Date shall remain the policies and procedures of the Surviving Corporation effective except as duly modified by the Surviving Corporation.
10. Effect of Merger. Upon the Merger Date, the Surviving Corporation shall acquire and possess all the rights, privileges, powers, franchises, and immunities of a public as well as a private nature, and be subject to all the liabilities, restrictions, duties and penalties of the Merging Corporation; and all property and property rights, real, personal and mixed, and other interests of the Merging Corporation, including but not limited to bequests which may become effective after this merger, shall be deemed to be transferred and vested in the Surviving Corporation without further act or deed; and all debts, liabilities and obligations of the

Merging Corporation on the Merger Date shall be assumed and paid by the Surviving Corporation as they fall due; and all property, rights, privileges, powers, franchises and immunities and all and every other interest shall be after such merger as effectively the property of the Surviving Corporation as they were of the Merging Corporation. The title to any real estate, or any interest therein, vested in the Surviving Corporation shall not revert to the Merging Corporation or be in any way impaired by reason of such merger. Any claim existing or action or proceeding, whether civil, criminal or administrative pending by or against the Merging Corporation may be prosecuted to judgment or decree as if such merger had not taken place, or the Surviving Corporation may be substituted in such action or proceeding.

11. Trust Assets. All trust funds and other funds, held, managed or supervised by the Merging Corporation, whether dedicated for specific uses or purposes or given for the general purposes of the Merging Corporation, shall pass to the management, supervision and possession of the Surviving Corporation, which shall be bound to honor and comply with all conditions and dedicated purposes or uses of such funds from and after the Merger Date so that such funds shall continue to be used in conformity with the express intent of their donors and otherwise in conformity with the Uniform Prudent Management of Institutional Funds Act. The Board of Trustees of the Surviving Corporation shall adopt such policies and procedures as are consistent with the foregoing.
12. Required Actions. The Merging Corporation shall take, or cause to be taken, all actions or do, or cause to be done, all things necessary, proper or advisable under the laws of the State of Maine to consummate and make effective the Merger. Without limiting the foregoing, the Merging Corporation, its officers and directors, shall execute or cause to be executed such assignments, assurances, or the like as may be necessary or desirable to vest title to its properties, assets and rights in the Surviving Corporation, or otherwise to carry out the purposes of this Plan of Merger.
13. Miscellaneous. Nothing expressed or implied in this Plan of Merger is intended, or shall be construed, to confer upon or give any person, firm or corporation, other than the Merging Corporation and Surviving Corporation and their respective affiliates, any rights or remedies under, or by reason of this Plan.
14. Indemnity. The Surviving Corporation shall indemnify and hold harmless the Trustees and Officers of the Merging Corporation from any damages, liability, and expenses, including legal fees, arising out of any actual or alleged failure or refusal by the Surviving Corporation to honor or assume any of the liabilities, obligations, or penalties of the Merging Corporation transferred under this Plan.

15. Merger Abandonment. This Plan of Merger may be terminated and abandoned by resolutions of the Board of Trustees of the Merging Corporation or the Surviving Corporation prior to the Merger Date. In the event of the termination and abandonment of the Plan of Merger, this Plan shall become void and of no further effect and there shall be no liability on the part of either corporation or their respective Trustees or Officers as a result hereof.

Exhibit 1-C: St. Andrews Hospital requesting DHHS Rural and Primary Care Program Director to certify that St. Andrews Hospital could relocate to Damariscotta and maintain its “necessary provider” critical access status, April 23, 2013.



St. Andrews Hospital & Healthcare Center
MaineHealth

June 10, 2013

Mr. Daniel M. Kristola
Branch Chief
U.S. Department of Health & Human Services
Centers for Medicare and Medicaid Services
Certification & Enforcement Branch
JFK Federal Building, Room 2350
Boston, Massachusetts 02203

Dear Mr. Kristola:

On behalf of St. Andrews Hospital (the Hospital), a Critical Access Hospital (CAH), please find enclosed our Pre-Relocation Attestation stating our intention to relocate our main campus effective October 1, 2013. The Hospital is currently located in Boothbay Harbor, Maine, serving a community of approximately 6,000 residents.

St. Andrews Hospital was certified as a CAH effective May 1, 1999. Further, the Hospital was granted CAH status as the result of meeting the State of Maine “necessary provider” (NP) criteria. It is under State Operations Manual, Appendix W, Section 2256 F and 42 CFR 485.610 (d), that this attestation is filed. Specifically,

“§485.610(d) Standard: Relocation of CAHs that have a necessary provider designation.

A CAH that has a necessary provider designation from the State that was in effect prior to January 1, 2006, and relocates its facility after January 1, 2006, can continue to meet the location requirement of paragraph (c) of this section based on the necessary provider designation only if the relocated facility meets the requirements as specified in paragraph (d)(1) of this section.

The Hospital hereby attests that all the requirements of 42 CFR, Section 485.610 (d)(1) have been met in addition to continuing to satisfying the State of Maine criteria as a NP. We have attached a Pre-Relocation Attestation, along with supporting documentation.

The Hospital attests it will continue to be essentially the same provider serving the original community but at a new location.


Page 2
Mr. Daniel M. Kristola
June 10, 2013

A representative of the Hospital has met with the local Medicare Administrative Contractor (National Government Services) to ensure the Hospital has appropriately identified the requirements of 485.610(d) and that the filing of this attestation for Regional Office approval prior to filing the Form 855 is in accordance with the instructions contained in the State Operations Manual, Chapter 2 section 2256F.

Per the instructions contained in the SOM, Chapter 2, Section 2256F, the Hospital is requesting from the Regional Office, preliminary approval that the Hospital appears to meet the relocation criteria as contained in this section. The Hospital understands that final approval will not be determined until after the actual relocation occurs when the attestation is verified against actual data.

We appreciate your prompt attention to this matter and St. Andrews Hospital looks forward to receiving your determination. If you have any questions, please contact me by email (james.donovan@lchcare.org) or call me directly at (207) 563-4501.

Sincerely,



James W. Donovan
President and Chief Executive Officer
St. Andrews Hospital

Cc: William Dunham, Branch Manager (Boston)
Vinal Doody, Baker Newman Noyes

Exhibit 1-D: DHHS Director of Maine Center for Disease Control and Prevention letter certifying that St. Andrews could relocate to Damariscotta and still be classified as a “necessary provider” critical access hospital, May 24, 2013.



Department of Health and Human Services
Maine Center for Disease Control and Prevention
286 Water Street
11 State House Station
Augusta, Maine 04333-0011
Tel.: (207) 287-8016; Fax: (207) 287-9058
TTY Users: Dial 711 (Maine Relay)

May 24, 2013

Mr. James Donovan
Mr. Wayne Printy
St. Andrews Hospital
6 St. Andrews Lane
Boothbay Harbor, Maine 04538

Mr. Donovan and Mr. Printy:

As requested in the letter you presented to Matthew Chandler, Director, Rural Health and Primary Care Program, dated April 23, 2013, the Maine CDC, Rural Health and Primary Care Program has completed a review of the Boothbay Harbor/Damariscotta service area. Through your interpretation of the CMS rules (42 CFR Ch. IV §485.610) you stated that, “...it is the responsibility of the State to confirm that the hospital will continue to meet the State’s NP (necessary provider) criteria.”

The State of Maine criteria for determining necessary provider of health care services states that the service area needs to meet one of three criteria to be eligible. The attached document will show that the Boothbay Harbor/Damariscotta service area combination meets one of the three criteria, which is, *percent population over the age of 65 is greater than the State’s average*. It is our understanding that, by meeting one of the three criteria, the service area remains a necessary provider of healthcare services.

Again, I greatly appreciate your willingness to meet with the Rural Health and Primary Care Program on April 23rd and to share the opportunities for Lincoln County Healthcare. I encourage continued collaboration. Please continue to reach out to the Maine CDC if we can be of further assistance.

Sincerely,

Dr. Sheila G. Pinette
Director
Maine Center for Disease Control and Prevention

1-E: St. Andrews Hospital requesting Centers for Medicare and Medicaid Services to certify that St. Andrews Hospital could relocate to Damariscotta and maintain its “necessary provider” critical access status, June 10, 2013.



St. Andrews Hospital & Healthcare Center
MaineHealth

June 10, 2013

Mr. Daniel M. Kristola
Branch Chief
U.S. Department of Health & Human Services
Centers for Medicare and Medicaid Services
Certification & Enforcement Branch
JFK Federal Building, Room 2350
Boston, Massachusetts 02203

Dear Mr. Kristola:

On behalf of St. Andrews Hospital (the Hospital), a Critical Access Hospital (CAH), please find enclosed our Pre-Relocation Attestation stating our intention to relocate our main campus effective October 1, 2013. The Hospital is currently located in Boothbay Harbor, Maine, serving a community of approximately 6,000 residents.

St. Andrews Hospital was certified as a CAH effective May 1, 1999. Further, the Hospital was granted CAH status as the result of meeting the State of Maine "necessary provider" (NP) criteria. It is under State Operations Manual, Appendix W, Section 2256 F and 42 CFR 485.610 (d), that this attestation is filed. Specifically,

"§485.610(d) Standard: Relocation of CAHs that have a necessary provider designation.

A CAH that has a necessary provider designation from the State that was in effect prior to January 1, 2006, and relocates its facility after January 1, 2006, can continue to meet the location requirement of paragraph (c) of this section based on the necessary provider designation only if the relocated facility meets the requirements as specified in paragraph (d)(1) of this section.

The Hospital hereby attests that all the requirements of 42 CFR, Section 485.610 (d)(1) have been met in addition to continuing to satisfying the State of Maine criteria as a NP. We have attached a Pre-Relocation Attestation, along with supporting documentation.

The Hospital attests it will continue to be essentially the same provider serving the original community but at a new location.

Page 2
Mr. Daniel M. Kristola
June 10, 2013

A representative of the Hospital has met with the local Medicare Administrative Contractor (National Government Services) to ensure the Hospital has appropriately identified the requirements of 485.610(d) and that the filing of this attestation for Regional Office approval prior to filing the Form 855 is in accordance with the instructions contained in the State Operations Manual, Chapter 2 section 2256F.

Per the instructions contained in the SOM, Chapter 2, Section 2256F, the Hospital is requesting from the Regional Office, preliminary approval that the Hospital appears to meet the relocation criteria as contained in this section. The Hospital understands that final approval will not be determined until after the actual relocation occurs when the attestation is verified against actual data.

We appreciate your prompt attention to this matter and St. Andrews Hospital looks forward to receiving your determination. If you have any questions, please contact me by email (james.donovan@lchcare.org) or call me directly at (207) 563-4501.

Sincerely,



James W. Donovan
President and Chief Executive Officer
St. Andrews Hospital

Cc: William Dunham, Branch Manager (Boston)
Vinal Doody, Baker Newman Noyes

Exhibit 1-F: Centers for Medicare and Medicaid Services letter granting preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital's location in Damariscotta, June 27, 2013.

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
JFK Federal Building, Room 2275
Government Center
Boston, Massachusetts 02203



Northeast Division of Survey & Certification

June 27, 2013

James W. Donovan
President and Chief Executive Officer
St. Andrews Hospital
6 St. Andrews Lane
P.O. Box 417
Boothbay Harbor, ME 04538

CCN (CMS Certification Number): 201302

Dear Mr. Donovan:

Our office has received a Letter of Attestation from St. Andrews Hospital, a Necessary Provider (NP) Critical Access Hospital (CAH) regarding relocating its facility to 35 Miles Street, Damariscotta, ME 04543 to the above address. It is our understanding that the new location is the current site of Miles Memorial Hospital, CCN 200002 which is planned to be combined with St. Andrews Hospital. Miles Memorial Hospital will need to retire its provider agreement before the relocation of St. Andrews Hospital. If Miles Memorial Hospital does not retire its provider agreement prior to St. Andrews Hospital's relocation, the NP CAH provider agreement for St. Andrews Hospital will be terminated [See §42 CFR 485.610(e)].

After careful review of the attestation, CMS is giving preliminary approval of the relocation of St. Andrews Hospital providing it demonstrates that the proposed relocation complies with the regulations at §42 CFR 485.610(b) and (d) as well as the regulations at §42 CFR 485.62(a).

Two 855A applications will need to be completed. One application for St. Andrews Hospital stating it is relocating and combining with Miles Memorial Hospital and indicate that St. Andrews Hospital is retaining its provider agreement. A second application will be for Miles Memorial Hospital stating that it is combining with St. Andrews Hospital and is retiring its provider agreement.

Please work with National Heritage Insurance Corporation (NHIC) your Medicare Administrative Contractor (MAC) to complete the combination of St. Andrews Hospital and Miles Memorial Hospital.

A final determination can only be made after the relocation is completed. If you have any questions, please call Terri Smith at 617-565-1307.

Sincerely,

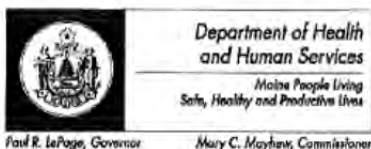
A handwritten signature in black ink, appearing to read 'DKristola', with a long horizontal flourish extending to the right.

Daniel Kristola
Branch Chief
Certification & Enforcement Branch

cc: ME State Agency



Exhibit 1-G: October 23, 2013: Letter from Department's Medical Facilities Health Care Oversight Unit notifying MaineHealth and Lincoln County Health Care that the proposed relocation is subject to Certificate of Need review and approval



Department of Health and Human Services
Licensing and Regulatory Services
41 Anthony Avenue
11 State House Station
Augusta, Maine 04333-0011
Tel.: (207) 287-9300; Fax: (207) 287-9307
Toll Free (800) 791-4080; TTY Users: Dial 711 (Maine Relay)

October 23, 2013

James Donovan
President and Chief Executive Officer
Lincoln County Health Care
6 St. Andrews Lane
Boothbay Harbor, Maine 04538

RE: Merger of Miles Memorial Hospital & St. Andrews Hospital

Dear Mr. Donovan:

I am writing in response to your Letter of Intent (entitled "Request for Determination that the Transaction is Not Subject to Certificate of Need Review") dated October 1, 2013.

The Department of Health and Human Services has determined that the Transaction is subject to review under the Maine Certificate of Need Act of 2002, as amended, because the Transaction involves:

- A transfer of ownership or acquisition of control pursuant to 22 M.R.S. § 329(1), and
- A capital expenditure of \$10,000,000 or more pursuant to 22 M.R.S. § 329(3).

Although additional information was provided in the context of determining whether or not this proposal was subject to review, further information and analysis may be needed to determine whether review would be necessary for the establishment of a new health service or services pursuant to 22 M.R.S. § 329(4).

Even though it pre-dates the current transaction, please be advised that the transaction in 2007 whereby MaineHealth formed Lincoln County Health Care and Lincoln County Health Care acquired ownership and control of Miles Memorial Hospital and St. Andrews Hospital would also be subject to review pursuant to 22 M.R.S. § 329(1). As you state in your letter, "MaineHealth owns and controls Lincoln County Health Care and Lincoln County Health Care owns and controls Miles Memorial Hospital and St. Andrews Hospital." We have not found – nor have you provided – any documentation establishing that MaineHealth or Lincoln County Health Care sought or received a non-applicability determination regarding that transaction.

The review process for the Transaction will include all requirements adopted by the Maine Certificate of Need Act of 2002, as amended, and the Maine Certificate of Need Procedures Manual.

A technical assistance meeting in accordance with 22 M.R.S. §337(2)(B) will be scheduled at a mutually acceptable time if you do not waive the requirement to have a technical assistance meeting.

If you have any questions, I may be reached at 287-9216.

Sincerely,

Larry Carbonneau, Manager
Health Care Oversight Program

cc: Kenneth Albert, III JD, RN Director
Phyllis Powell, Assistant Director – Medical Facilities
Janine Raquet, AAG
file

Exhibit 2-A: Lincoln County Health Care' pre –merger and post-merger organizational charts

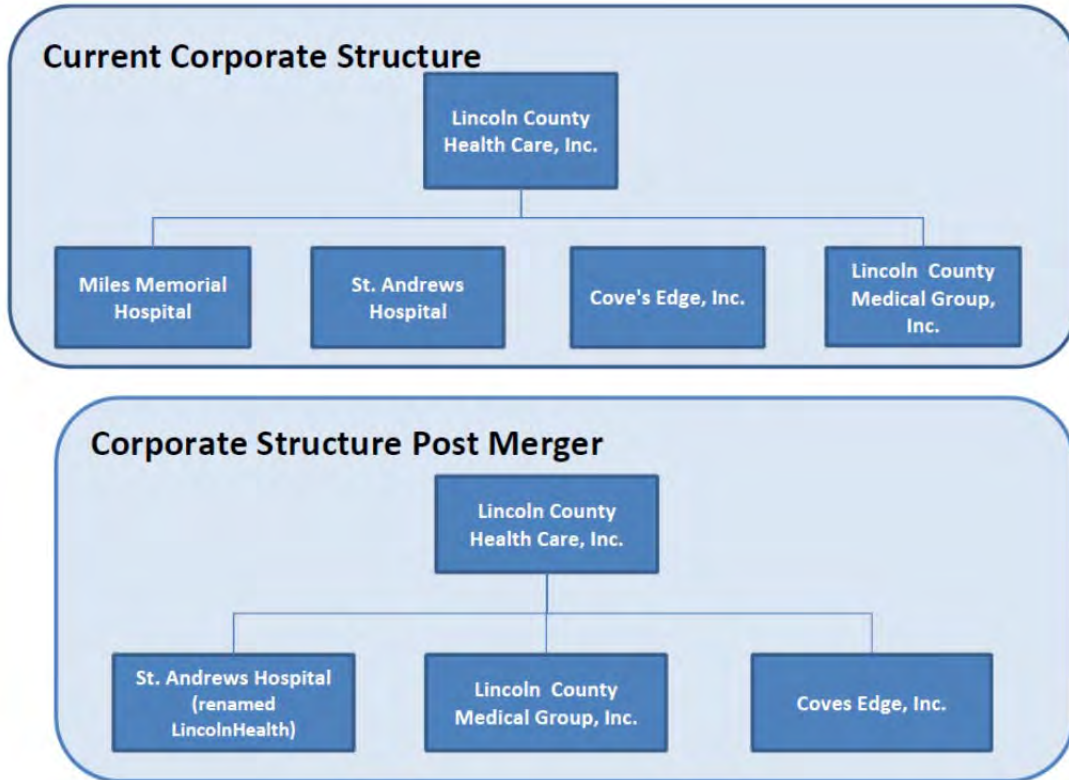


Exhibit 2-B: Miles Memorial Hospital's pre-merger organizational chart

Miles Memorial Hospital (* denotes common management with St. Andrews Hospital)

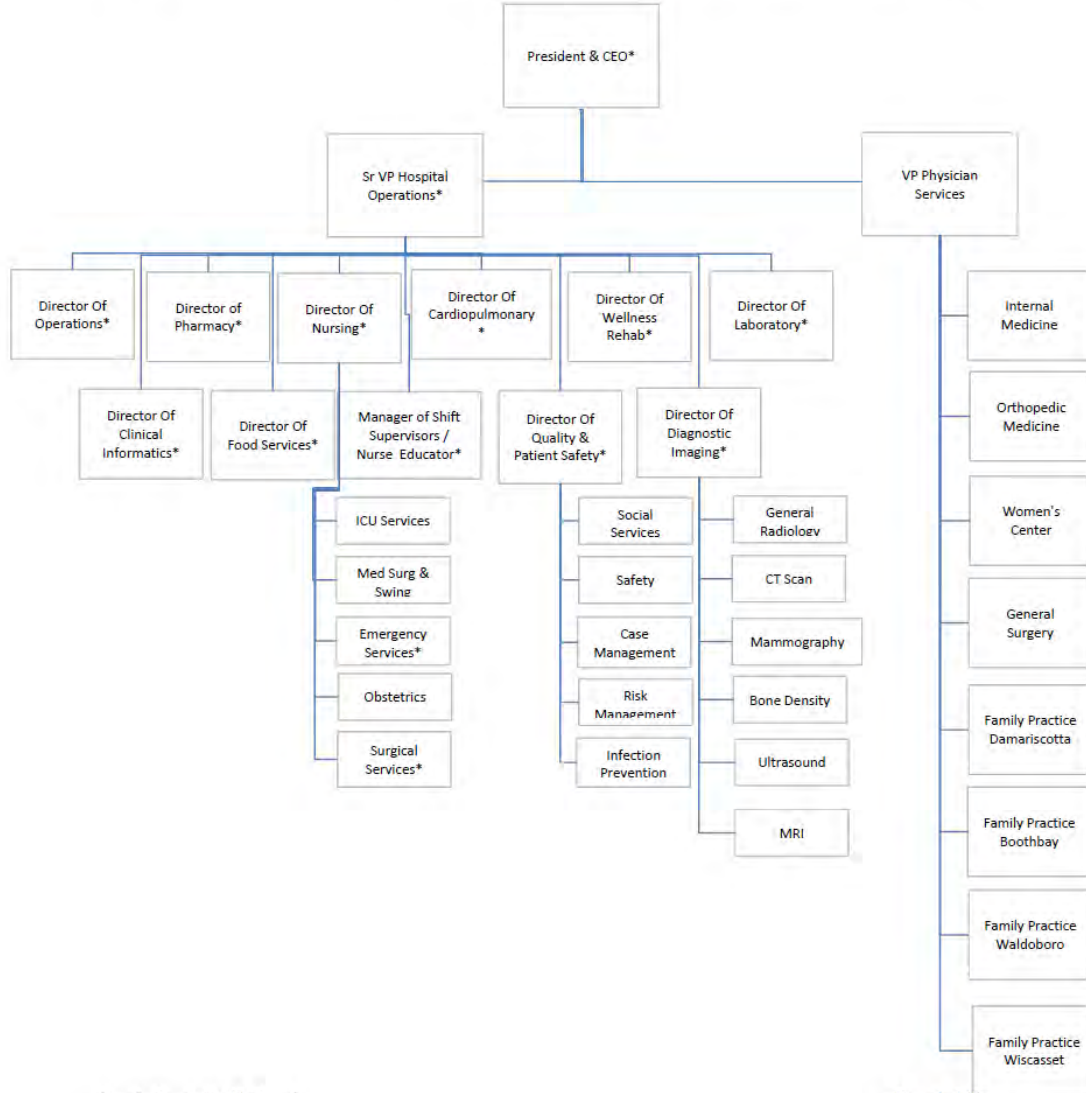


Exhibit 2-C: St. Andrews Hospital's pre-merger organizational chart
St. Andrews Hospital (* denotes common management with Miles Memorial Hospital)

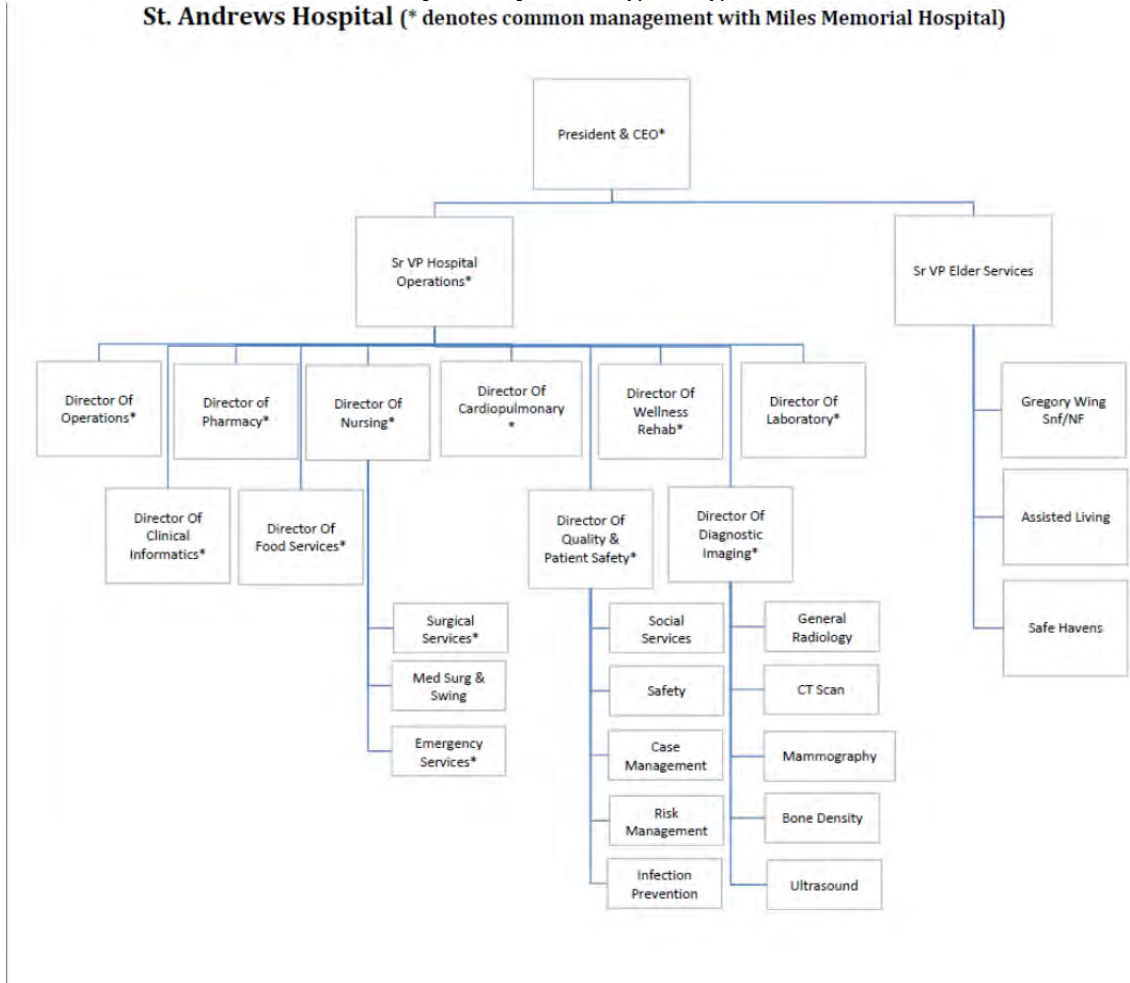


Exhibit 2-D: LincolnHealth's post-merger organizational chart.

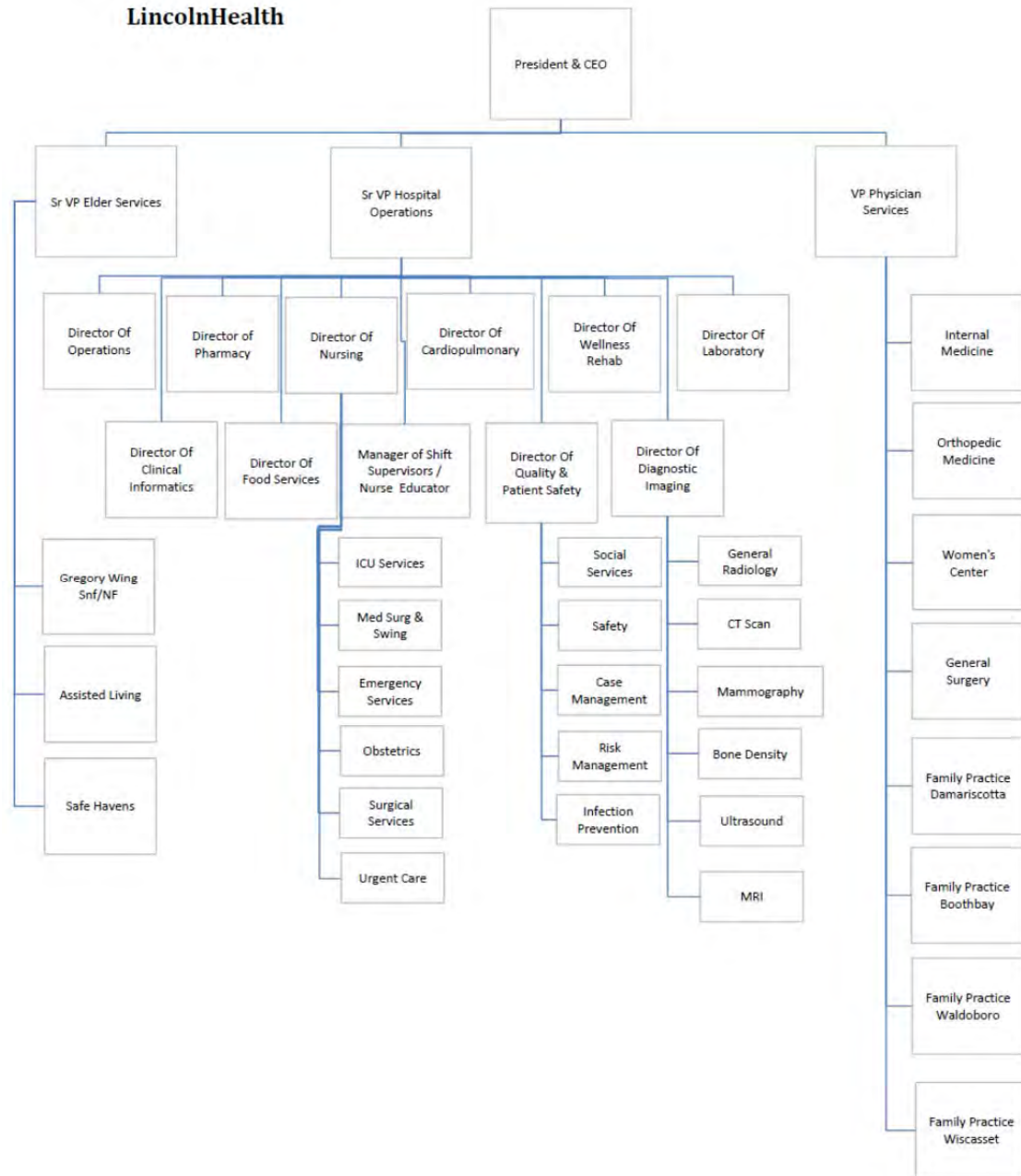
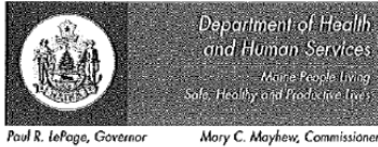


Exhibit 2-E: Division of Licensing and Regulatory Services letter granting LincolnHealth a conditional license, September 30, 2013.



Department of Health and Human Services
Licensing and Regulatory Services
41 Anthony Avenue
11 State House Station
Augusta, Maine 04333-0011
Tel.: (207) 287-9300; Fax: (207) 287-9307
Toll Free (800) 791-4080; TTY Users: Dial 711 (Maine Relay)

September 30, 2013

James W. Donovan, FACHE
President and Chief Executive Officer
LincolnHealth Hospital
35 Miles Street
Damariscotta, Maine 04543

Dear Mr. Donovan,

Effective October 1, 2013 the Department of Health and Human Services is granting a Conditional License to LincolnHealth Hospital, 35 Miles Street Damariscotta, Maine 04543. The term of the license is six (6) months. The license is effective from October 1, 2013 to March 31, 2014. Effective October 1, 2013 the Department of Health and Human Services is rescinding the licenses of St. Andrews Hospital, 6 St. Andrews Lane, Boothbay Harbor, Maine, effective from May 1, 2013 to April 30, 2014 and Miles Memorial Hospital, 35 Miles Street, Damariscotta, Maine, effective from December 1, 2012 to November 30, 2013.

LincolnHealth Hospital is licensed to maintain and operate a Critical Access Hospital with 25 acute care/swing beds located at 35 Miles Street, Damariscotta, Maine. Services provided at LincolnHealth Hospital include those services described the St. Andrews Hospital 2013 license application submitted to the Division of Licensing and Regulatory Services (DLRS) in a letter and application from Kristine Hepburn, Executive Administrative Assistant, Quality and Patient safety, Lincoln County Healthcare dated January 31, 2013 and those services described in a license change request submitted by Cindy Wade, Senior Vice President, Hospital Operation, Lincoln County Healthcare, submitted to DLRS in a letter dated August 27, 2013.

LincolnHealth Hospital is required to meet the following conditions during the term of this license:

1. LincolnHealth Hospital will submit a Critical Access Hospital License Reapplication, form DLRS-NLTC Hospital #4, to the Division of Licensing Regulatory Services.
2. MaineHealth will submit a Non-Applicability Determination request to DLRS with sufficient description of the merger of St. Andrews Hospital and Miles Memorial Hospital.
3. LincolnHealth Hospital will meet all requirements for licensing hospitals in the state of Maine as required in Rules of the Licensing of Hospitals, 10-144 C.M.P., Chapter 112, effective January 1, 2009.

If you have any questions with regard to the requirements of the Conditional License please submit them in writing to my office.

Sincerely,



Kenneth J. Albert, RN, Esq.
Director, Division of Licensing and Regulatory Services

cc: Michael Swan, Health Facility Survey Manager, DLRS

Exhibit 2-F: MaineHealth

MaineHealth

110 Free Street
Portland, Maine 04101
<http://www.mainehealth.com>

MaineHealth's vision is: *Working together so our communities are the healthiest in America.*

MaineHealth's service area is defined in the following manner:

Primary: Androscoggin, Cumberland, Franklin, Kennebec, Knox, Lincoln, Oxford, Sagadahoc, Somerset, Waldo and York counties.

Secondary: Aroostook, Hancock, Penobscot, Piscataquis and Washington counties.

Members, Affiliated Entities & Related Parties

MaineHealth consists of the following members:

Maine Medical Center – hospital; Maine Medical Partners – physician practices, physician and practice management services; MMC Realty Corp - real estate. Maine Medical Center is involved in the following joint ventures:

- Maine Heart Center – joint venture with cardiologists, cardiac surgeons and anesthesiologists for managed care contracting;
- MMC Physician Hospital Organization (PHO) - a joint venture with the Portland Community Physicians Organization;
- New England Rehabilitation Hospital of Portland - joint venture rehabilitation hospital with HealthSouth;
- MMC/MaineGeneral Medical Center Joint Venture Cath. Lab;
- Cancer Care Center of York County –MMC/Southern Medical Center/Goodall Hospital joint venture radiation therapy center.

Spring Harbor Hospital – psychiatric hospital.

Lincoln County Healthcare – oversees and coordinates integrated health care services of St. Andrews Hospital, Miles Memorial Hospital, Cove's Edge and Lincoln County Medical Group.

- St. Andrews Hospital – hospital, nursing home and assisted living.
- Miles Memorial Hospital – hospital and physician practices.
- Cove's Edge - nursing home and assisted living.
- Lincoln County Medical Group – physician employment.

Western Maine Health Care – hospital (Stephens Memorial Hospital), nursing home, assisted living and physician practices.

Southern Maine Health Care– oversees and coordinates integrated health care services of Southern Maine Medical Center and Henrietta D. Goodall Hospital.

- Southern Maine Medical Center – hospital, physician practices and home health agency.
- Henrietta D. Goodall Hospital – hospital, physician practices and nursing homes.

Waldo County Healthcare – hospital, home health agency, hospice and retirement community.

Pen Bay Healthcare – hospital, nursing home, home health agency and retirement community.

NorDx, Scarborough, Maine – general and reference lab.

Home Health Visiting Nurses of Southern Maine – home health care.

Concentra Health – Formerly Occupational Health & Rehabilitation, Inc., joint venture limited liability corporation providing occupational health services.

Maine Molecular Imaging – joint venture providing positron emission tomography (PET) scans.

Maine PHO – joint Physician-Hospital Organization (PHO) of the PHO's of MaineGeneral Medical Center, Southern Medical Center, Maine Medical Center, Stephens Memorial Hospital and St. Mary's Regional Medical Center.

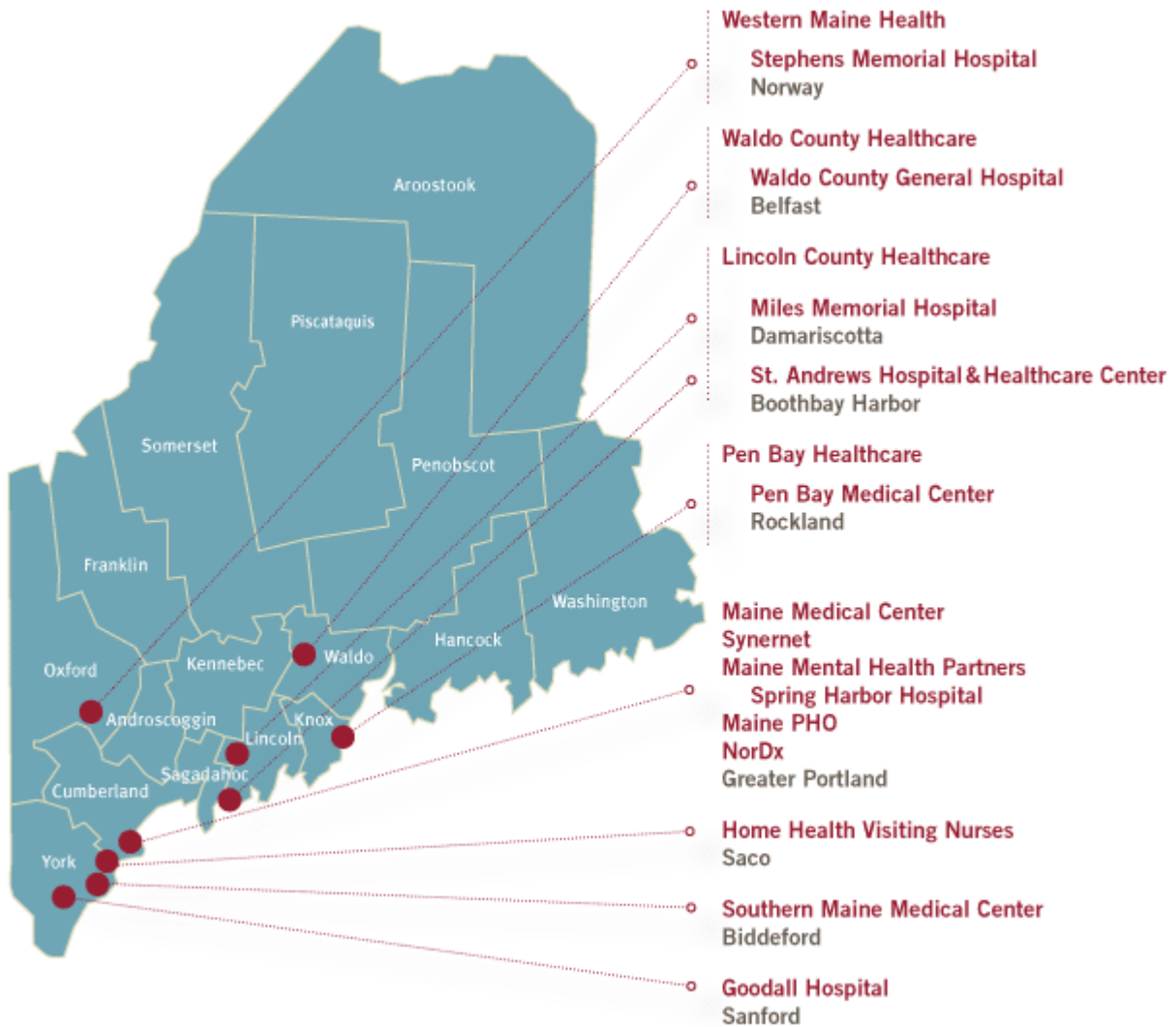
Maine Mental Health Partners – an integrated system of mental health providers serving MaineHealth's eleven county service area.

Synernet – not for profit organization providing group purchasing and consulting services for its member organizations.

Pending: Memorial Hospital, North Conway, New Hampshire – hospital, physician practice, nursing home.

Please see the accompanying map for locations of MaineHealth members.

Locations of MaineHealth Members



Management Approach

Through definitive agreements, MaineHealth and the organizations that have joined MaineHealth as members have defined the roles, responsibilities and expectations of the organizations. MaineHealth’s approach to governance and management can best be described as a “decentralized model”.

Each member organization’s board, medical staff and management retain field responsibility for policy, management, fiscal affairs, clinical program development, quality and safety and performance improvement. The CEOs of the member organizations along with the MaineHealth senior staff recommend policy and program development and budget performance targets to the MaineHealth Board of Trustees. The MaineHealth Board reviews and approves member organizations’ budgets, strategic and financial plans, property acquisitions and dispositions, debt financing above a certain level and major capital projects.

In addition to bringing these organizations into its corporate structure, MaineHealth has established various affiliation agreements with the following organizations. These affiliations seek to improve quality, access and efficiency through cooperative efforts:

- MaineGeneral Health/MaineGeneral Medical Center (1997)
- Mid Coast Health Services/Mid Coast Hospital (1999)
- St. Mary's Regional Medical Center (2000)
- One Maine Health Collaborative (MaineHealth, Eastern Maine Health Care and MaineGeneral Health) (2007)

The rationale for these organizations joining MaineHealth or establishing formal affiliations has the following common themes:

- Achievement of clinical and financial benefits from economies of scale;
- Cost effective access to capital;
- Avoidance of unnecessary duplication of services and improving efficiency, access and quality.

Please refer to Exhibit 2-G: MaineHealth's organizational chart.

Commitment to Quality

MaineHealth is committed to being recognized by patients, payers and providers as the benchmark for quality and safety, patient and family experience and evidence based use of resources. On a quarterly basis the MaineHealth board reviews quality performance measures for all member and affiliate organizations, including:

- National Quality Forum hospitals measures,
- Performance of participants in the MaineHealth Vital Network (electronic ICU monitoring system),
- Home health clinical measures,
- Long term care clinical measures and
- Patient satisfaction measures.

In 2007, the MaineHealth Board adopted the following 10-year vision for quality and safety:

In 2017 MaineHealth will be a nationally recognized leader in health care quality and safe patient and family centered care. We will achieve that status not because we seek national prominence for its sake but rather it will be founded on an unwavering system level commitment to quality and safety and continuously improving the health of the communities we serve. Achieving and sustaining excellence starts with our belief that every single patient in the communities we serve deserves the highest quality health care services that we can provide in an efficient and cost effective manner. We will communicate publicly our quality, safety and cost information to aid patients and their families in making informed choices when seeking

health care services. The core of our success will be our boards and management teams focusing at all levels on quality and safety as the critical elements driving strategic planning. Across the continuum of care our physicians, nurses, staff, patients and their families will collaborate to set high standards, monitor performance, openly share results and work together to continuously improve quality and safety.

To implement this vision, MaineHealth has established its Center for Quality and Patient Safety under the direction of Dr. Vance Brown, MaineHealth Chief Medical Officer. The Center focuses on:

- Board Engagement – All MaineHealth and member board members complete a core curriculum in quality and safety developed by the Center. That training enables every board member to better understand quality, safety and performance improvement and enable them to take a greater role in ensuring quality and safety in their organization
- Education and Consultation – Center staff provide support and expertise to member organizations in developing and implementing quality and safety initiatives. Responsibility for quality improvement and monitoring remains at the local level
- Performance Measurement and Reporting – Member organizations are overwhelmed at present by the number of organizations requesting quality and safety performance information. The Center provides support for data collection, measurement and reporting allowing members to focus on actual quality and performance improvement
- Accreditation and Regulatory Support – The Center provides the support and expertise to ensure member organizations attain and maintain all appropriate licensure and accreditation standards
- System Wide Performance Targets – Working with members, MaineHealth identifies system wide performance targets to ensure consistency and accountability for major clinical processes. Included in these efforts are clinical decision support systems that facilitate the monitoring of performance.

Under MaineHealth's leadership, our member organizations have been recognized by a wide variety of organizations for the quality of services they provide to their communities. From 2007 through 2012 MaineHealth has been named by SDI (formerly Verispan) to its annual lists of the Top 100 Integrated Health Networks (based on grades for operations, quality, scope of services and efficiency). IMS purchased SDI and did not release a 2013 top 100 list.

Licenses, Certifications & Accreditations

"Statements of Deficiencies" and site visit reports for MaineHealth member services and facilities are on file with the Maine Department of Health and Human Services' Division of Licensing and Regulatory Services.

MaineHealth members' current licenses, certifications and accreditations demonstrate that MaineHealth related parties meet industry standards.

MaineHealth Members' Current Licenses, Certifications and Accreditations				
MaineHealth Member	Facility/ Service	State Licensed	CMS Certified	JCAHO/Other Accredited
Maine Medical Center	Hospital	✓	✓	✓
New England Rehabilitation Hospital (MMC joint venture)	Hospital	✓	✓	✓
Spring Harbor Hospital	Hospital	✓	✓	✓
St Andrews Hospital	Hospital	✓	✓	
	Nursing Home	✓	✓	
	Assisted Living	✓		
Miles Memorial Hospital	Hospital	✓	✓	
Cove's Edge	Nursing Home	✓	✓	
	Assisted Living	✓		
Western Maine Health Care	Hospital	✓	✓	
	Nursing Home	✓	✓	
Home Health Visiting Nurses of Southern Maine	Home Health	✓	✓	✓
NorDx	Lab Services		✓	✓
Southern Maine Medical Center	Hospital	✓	✓	✓
	Home Health	✓	✓	
Waldo County General Hospital	Hospital	✓	✓	
	Home Health	✓	✓	
Pen Bay Healthcare	Hospital	✓	✓	✓
	Nursing Home	✓	✓	
	Home Health	✓	✓	
Henrietta D Goodall	Hospital	✓	✓	✓
	Nursing Home	✓	✓	
Memorial Hospital (Pending)	Hospital	✓	✓	
	Nursing Home	✓		

Exhibit 2-G: MaineHealth's Organizational Chart

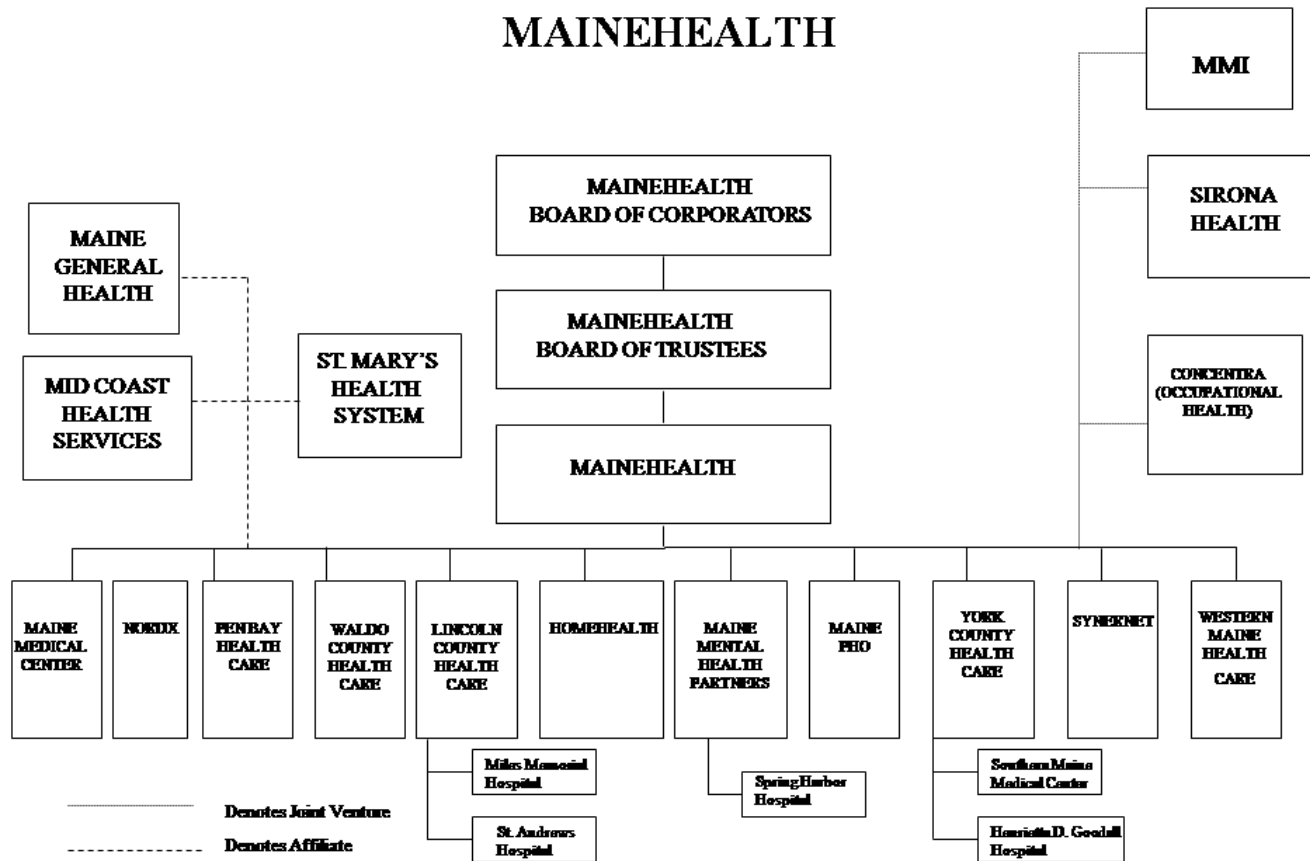


Exhibit 2-H: MaineHealth's Community Benefit Report



Your Healthcare System in Action

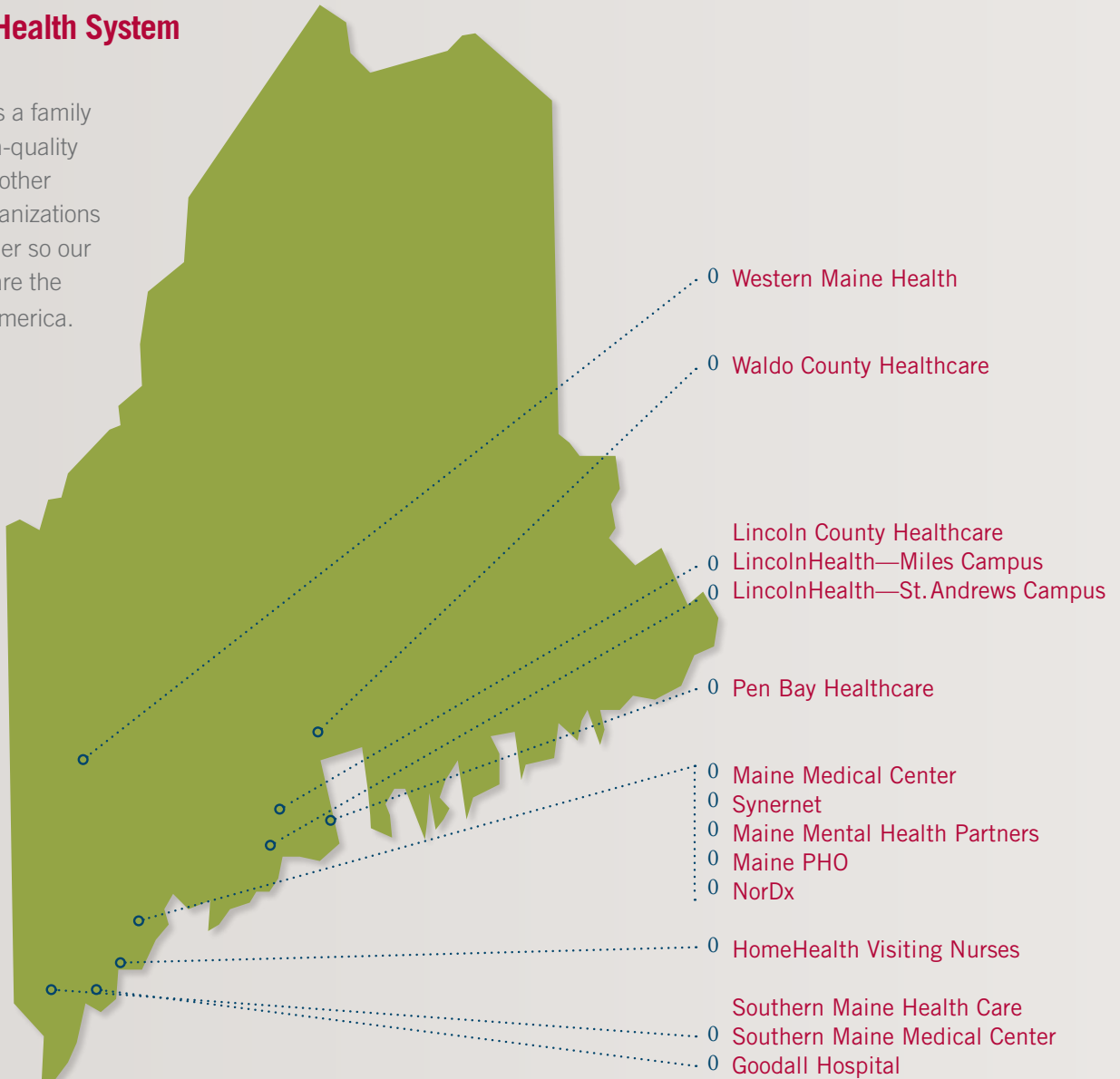
MaineHealth



Communities in action

The MaineHealth System

MaineHealth is a family of leading high-quality providers and other healthcare organizations working together so our communities are the healthiest in America.



MaineHealth



About the Community Benefit Report

Our members deny no one care, regardless of an individual's ability to pay. This report describes many of the programs MaineHealth and its members delivered—without reimbursement or other compensation—in fiscal year 2012. The value of these community benefits was \$315,288,018.

MaineHealth includes the following member organizations: Goodall Hospital, Lincoln County Healthcare, Maine Medical Center, Maine Mental Health Partners, Pen Bay Healthcare, Southern Maine Medical Center, Waldo County Healthcare, Western Maine Health, HomeHealth Visiting Nurses, Maine PHO, NorDx and Synernet.

Affiliates of MaineHealth include MaineGeneral Health, Mid Coast Health Services, New England Rehabilitation Hospital and St. Mary's Health System.

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Partners in action

To Susan Higgins Walker, medical care, at least the kind offered in doctors' offices and medical centers, was something to be avoided.

As a self-employed massage therapist, Susan couldn't afford health insurance, and she had always taken a proactive approach to health by staying active, practicing yoga and eating healthy foods. For most of her life, that philosophy worked well.

But about four years ago, Susan noticed a rough patch of skin on her chest. Her mother had experienced a similar skin condition that turned out to be skin cancer. And while in her mother's case the cancer proved to be very treatable, Susan knew it was important to have her examined by a doctor.

After learning about Lincoln County CarePartnersPlus from an employee at St. Andrews Hospital, Susan signed up and was pleasantly surprised by how easy it was to access the care she needed. A partnership of Lincoln County Healthcare, MaineHealth, Lincoln County physicians and others, CarePartners offers uninsured people who meet income guidelines a full spectrum of low- or no-cost health care services with a focus on preventive care. Perhaps most important, CarePartners provides a medical home, a network of providers who are committed to providing a full spectrum of care to support patients in every aspect of their life.

Lincoln Medical Partners Family Care Center Nurse Practitioner Anne Barker referred Susan to a specialist who removed the area that was worrying Susan and determined it was precancerous.

The care was seamless, but just as important, said Susan, the providers were respectful and professional. "I couldn't believe how easy it was and how emotionally supported I felt," she said.

CarePartners was there for her again when Susan began to suffer from crippling anxiety.

Her primary care provider, Dr. Aquilino Alamo, was kind, approachable and thorough, said Susan. He prescribed a medication that was of enormous help in controlling her anxiety, and he also referred her to Stephanie Field, LCSW, a behavioral health specialist integrated within the Family Care Center.

Working with Field, Susan got the support she needed to address her anxiety and to work through the financial issues that were behind it.

Today, she has her finances under control and she is off the medication, and she says being a member of CarePartners has given her a real sense of security in uncertain times.

"With CarePartners, I feel I have a base of support," said Susan. "I can see a doctor without paying a month's rent. I don't have to choose between seeing the doctor for something and paying the bills. That's a big thing. If I am supported, I can support others."



MAINEHEALTH MEMBER HIGHLIGHTS

- Lincoln County Healthcare Education Center is a collaborative effort of Central Maine Community College and Lincoln County Healthcare and offers the first college degree program in Lincoln County.
- Lincoln County Medical Group provides a mid-level clinician for the Lincoln Academy School Based Health Clinic at no charge.



MAINEHEALTH MEMBER HIGHLIGHTS

- MMC's pharmacy provides free medications to qualifying MMC cancer patients and discharged patients. In addition, patients of the Emergency Department and Brighton FirstCare receive "starter packs" and some routine drugs at no charge when they are discharged.
- The Maine Medical Center Research Institute is the largest hospital-based biomedical research facility in northern New England. Many clinicians author scholarly work or participate in various studies and research activities, and the institute offers a summer student program.

Renewal in action

Sebastian and Penine Bukuru came to this country three years ago from Burundi, a small nation in East Africa. After the couple settled in Maine, Penine found work as a nurse's aide in an assisted living facility. The American Dream seemed within reach.

But a serious car accident in November 2012 landed Penine in Maine Medical Center, where she lay in a coma for the first month of a four-month stay. Over time, her health improved. She was discharged and headed home to begin a long recovery.

While no bones were broken, Penine's legs were weak from inactivity. In addition, a brain injury made walking — even standing — nearly impossible. Under Sebastian's care, and with the help of physical and speech therapists, she began making steady progress.

It's a long road back, but Sebastian says they're hopeful for her full recovery. After the first few months of rehab, Penine was able to stand with help and was beginning to speak more. "She's doing better now," he said of her early progress.

Penine's care also includes regular appointments with Christina Edward, DO, at the Adult Medicine Clinic at Maine Medical Center. Dr. Edward is optimistic that Penine will see additional improvement.

Sebastian is highly appreciative of the care provided, as well as the compassion shown by staff. He and Penine are also grateful for the Free Care program at Maine Medical Center. Sebastian says they learned about the program prior to Penine's injury.

The Free Care program at Maine Medical Center, which is more generous than the state requires, helps ensure that no one requiring care will be turned away.

"Being in a horrible situation ... if it had happened without the Free Care program, I don't know what we would have done," Sebastian says.



Connection in action

When Larry Watters first began attending The Common Connection Club in Biddeford in 1999, he admits he was very shy. But the club was a place where he felt comfortable. "I fit in here," he explained. "Everyone is so supportive—we're like family."

The Common Connection is one of two community clubs operated by Counseling Services, Inc. a member of Maine Mental Health Partners. The clubs offer an inviting, safe and friendly social environment for individuals who may have mental, emotional or behavioral health issues.

In time, the club helped Larry build his self-esteem and confidence. He made friends, wrote a book, led a class on writing for his peers and began to think about what he'd like to do with his life. With support and access to a computer, he began to develop a resume.

Tish Rimmer coordinates the Life Enrichment program at the Common Connection and has witnessed the progress Larry has made.

"Larry has made incredible contributions to the club," Tish stated. "It's gratifying to see how he and the other club members work together. They are so creative and smart."

The Life Enrichment program was added to the club's offerings four years ago. Every week, participants are introduced to a new activity. From watercolors to collage and writing, the club's members have the opportunity to improve their mental health through a variety of healthy and joyful experiences.

"We get together and use our imaginations," Larry stated. "We forget everything else in the world."

"The club offers a calming environment where our members can really enjoy themselves," Tish said. "Sometimes a participant might be having a rough day, and the others help lift him or her up."

Larry is just one of many adults who have benefited from the club's socially rich environment. Like his peers, without the club Larry would have spent far too many hours isolated and alone at home.

"I feel like I'm in a good place now," Larry said. "I like who I am."





MAINEHEALTH MEMBER HIGHLIGHTS

- As a teaching hospital, Spring Harbor Hospital offers residency training and educational experiences for medical, nursing, social work and other health professions students. Students from local nursing schools perform their clinical rotations in psychiatry at Spring Harbor Hospital. Social work, occupational therapy and psychology interns also spend time at the hospital. Staffing costs associated with these training programs were \$104,000.
- Through a community initiative called “It Takes a Community,” Maine Mental Health Partners helps improve the experience of those with mental illness and their families through education, community outreach projects and awareness building. The staffing and miscellaneous costs associated with this coalition-building initiative were \$4,500.



▶▶▶▶▶▶▶▶

MAINEHEALTH MEMBER HIGHLIGHTS

- Pen Bay Healthcare provides major support to the Knox County Free Health Clinic in several ways, including assistance qualifying patients for MaineCare; clinical and administrative volunteers; physician services (as needed); and free space.
- Pen Bay's Picker Family Resource Center helps to build community by providing health resources, classes and support groups such as FreshStart smoking cessation, a women's cancer support group, Let's Go! 5-2-1-0, a new parents' support group, Living Well for Better Health (a free evidence-based education program for people living with chronic conditions) and many more.



Support in action

John Morse and his wife, Beth, are going places. As students, their chronic health concerns might have stopped them from pursuing dreams of studying criminal justice and dentistry, but Pen Bay Medical Center's Free Care program helped ensure that health issues didn't get in the way of their dreams.

Managing the cost of continual routine lab tests was a juggling act, and bills were pouring in. John and Beth wondered how long they could go between diabetes and thyroid screenings. Before they had to choose between required tests and rent, the staff at Knox County Health Clinic referred them to Pen Bay's Free Care program.

"It's a godsend. There are no words to tell you how it has helped us. It's crazy how fast the bills add up!" said Beth, when asked how the Free Care program helped them.

John was especially thankful for Pen Bay's Free Care program last fall when, a few days after running out of needed medications, he had a terrible headache. Dr. Klainer saw John in the Health Clinic, and, with his blood pressure skyrocketing, John was sent to Pen Bay's Emergency Department for further testing.

At the emergency department, John was dizzy and sweating and couldn't even remember signing his paperwork.

Beth watched as her husband was scanned, had blood drawn and underwent a lumbar puncture—but instead of worrying about how they were going to pay for it, she was able to comfort John. John was referred for follow-up at Pen Bay Neurology with Dr. Degenhardt where he was thoroughly checked to make sure that his headache was a result of running out of medication and not any other underlying condition. He also had an MRI and received help sorting all his medications out.

Through all of this, John and Beth were very grateful to have Free Care. "I cannot tell you how relieved we were—living off a part-time salary and going to school."

Since benefiting from the Knox County Health Clinic and Pen Bay's Free Care program, Beth has realized that she has an opportunity to give back. After sitting for her dental boards, she plans to work in a dental clinic serving those who need it most.





MAINEHEALTH MEMBER HIGHLIGHTS

- Southern Maine Medical Center (SMMC) offers free support to the child care centers, schools, after school programs, healthcare, worksites and community around the Let's Go! 5-2-1-0 childhood obesity prevention program.
- SMMC maintains an EDAP (Emergency Department Acute Psychiatry) unit so patients experiencing a mental health crisis receive a unique level of emergency care privacy as well as a smooth transition of care to York County's only inpatient adult mental health unit, if hospitalization is required. In addition, SMMC offers outpatient services through its Behavioral Health programs.



Commitment in action

Single mom Debi Harmon was newly re-employed after losing her job of 28 years when she learned she had breast cancer. The cancer survivor recalls the moment she received the results of her routine mammogram: “I started to cry. Helene [Langley, RN, breast cancer nurse navigator] explained everything clearly, but I didn’t hear anything.” She added, “After you find out what’s going on, you don’t even have time to think about it. You have appointment after appointment.”

Looking back on the whirlwind that began in the early days following her diagnosis, she recalled, “Bills started arriving before procedures even began.” In order to make up for the time she knew she would lose in days to come, when her surgery would put her out of work, Debi worked overtime any chance she was given. With this burden fast approaching, on top of recent financial stress, Debi had little time to take care of her own needs. “I had supported myself and my son with no assistance for years.”

Eventually, she decided it was time to ask for help. “I was so overwhelmed,” she reiterated, “but when I called Grace [Bennett, financial counselor] and she told me not to worry about the bills for three months, I felt like I could finally breathe again.”

“Both Grace and Helene went above and beyond.” Debi recalled them each setting up appointments on her behalf when she was busy at work. “Going in there, you’re feeling bad, but everyone was so kind. Grace never made me feel ashamed. I had enough to cope with as it was, and she was very reassuring throughout the process. She cared.”

Debi’s cancer had to be faced despite her chaotic schedule, but with the help of many hands, not only was she able to receive the healthcare she needed, but it was made affordable and efficient.

Today Debi is doing well and is in remission. She is back at work full time and is busy caring for her son. She attributes her wellness to the time she was able to spend on healing rather than worrying about the expenses. “Getting the help took a great deal of the pressure off. I finally had time to relax and do the things I needed to do to take care of myself and get better. I’m grateful to SMMC for the assistance. I feel lucky—some women have it much worse.”



Progress in action

The Journey to a Healthier You program at Waldo County General Hospital has helped George Orestis change his life. An excellent athlete in his youth, in his late 20s George says he stopped sleeping well and almost overnight became fat.

In the 25 years since, he says, "I've tried every diet under the sun but never a comprehensive approach."

The hospital's free 12-week program isn't about losing weight, it's about getting healthier. And George has.

His glucose has dropped from 102 to 93, which is a relief since diabetes runs in his family, and his triglycerides, which are linked to an increased chance of heart disease, dropped significantly from 176 to 78. He's also dropped almost two pants sizes, and his flexibility has improved immensely.

So what did he learn from the hospital program that helped? "I've changed how I deal with food. I now eat breakfast and a number of smaller meals instead of two or three big meals. My portion size is a little smaller and I'm more aware of what I'm eating." He also discovered that he has sleep apnea, and dealing with that gave him more energy.

George's motivation is his three boys, two 12-year-olds and one 10-year-old. He wants to watch them grow up, and he wants to teach them habits that will help them avoid the struggles he has faced.

When the boys were little, he used to take them in his rowing shell with him. Then he wouldn't go for a week, then for two weeks. "I'm doing more consistent activities with the kids now. My energy level is up, and I'm willing to do more," he says. One of his sons has become his personal trainer.

That doesn't mean it is always easy. "Last night I went home and I was tired. I visited my neighbors and had supper. After supper, I wanted to sit down. Instead I mowed the lawn." This is great news to Healthier You Coordinator Hester Kohl, who has watched George's progress.

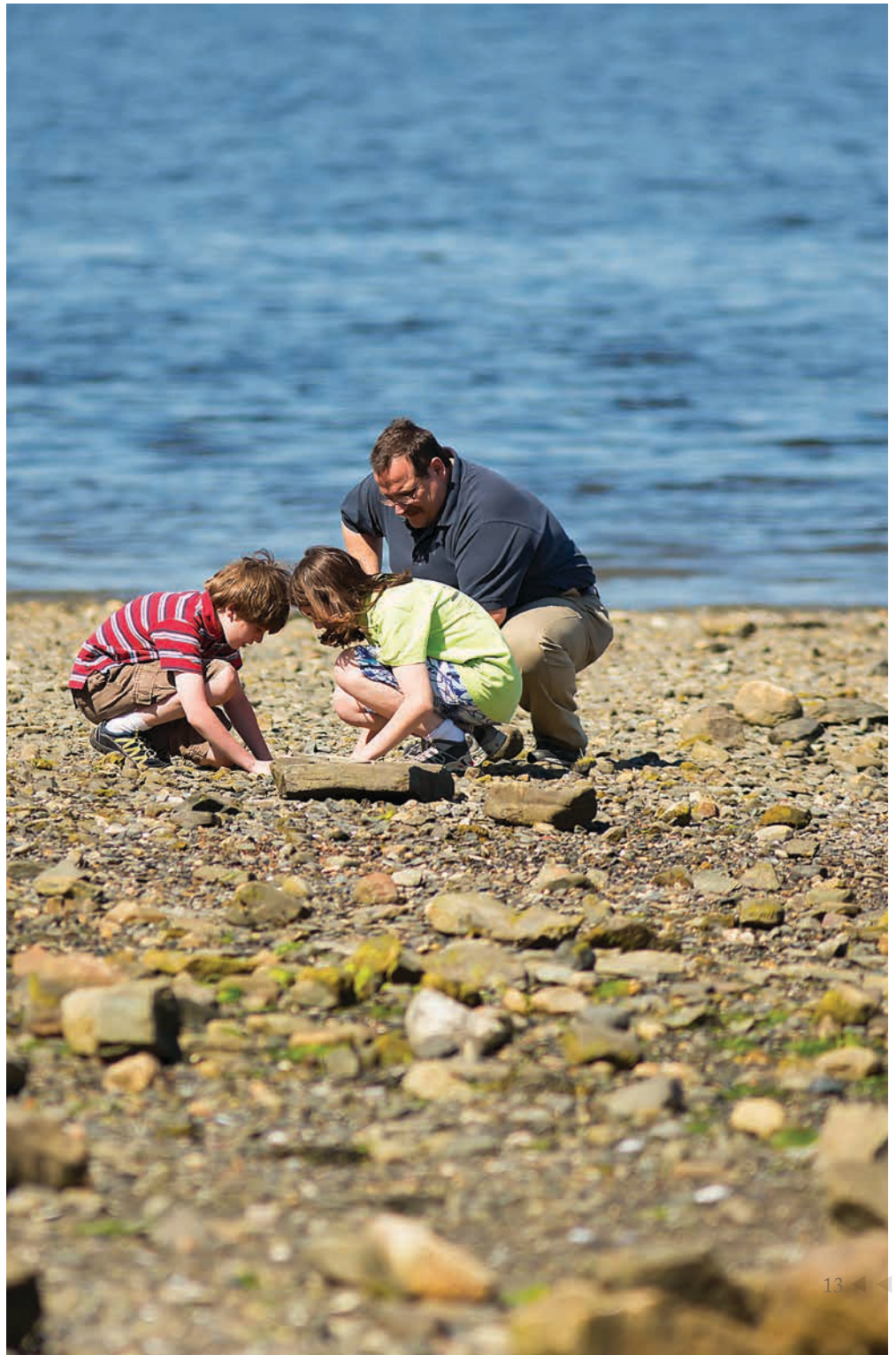
"Attitude is everything," says George, "and love is the best motivator. This is good for me and good for our family."

Journey to a Healthier You, which is geared for people with a BMI above 35, got him started. And while he hasn't weighed himself, he knows he is getting healthier. He says the program helped him realize that the keys to a healthy weight are lifestyle changes, not a fad diet. "I've lost 100 pounds a couple of times, but this is different. I've changed my life," he concludes.



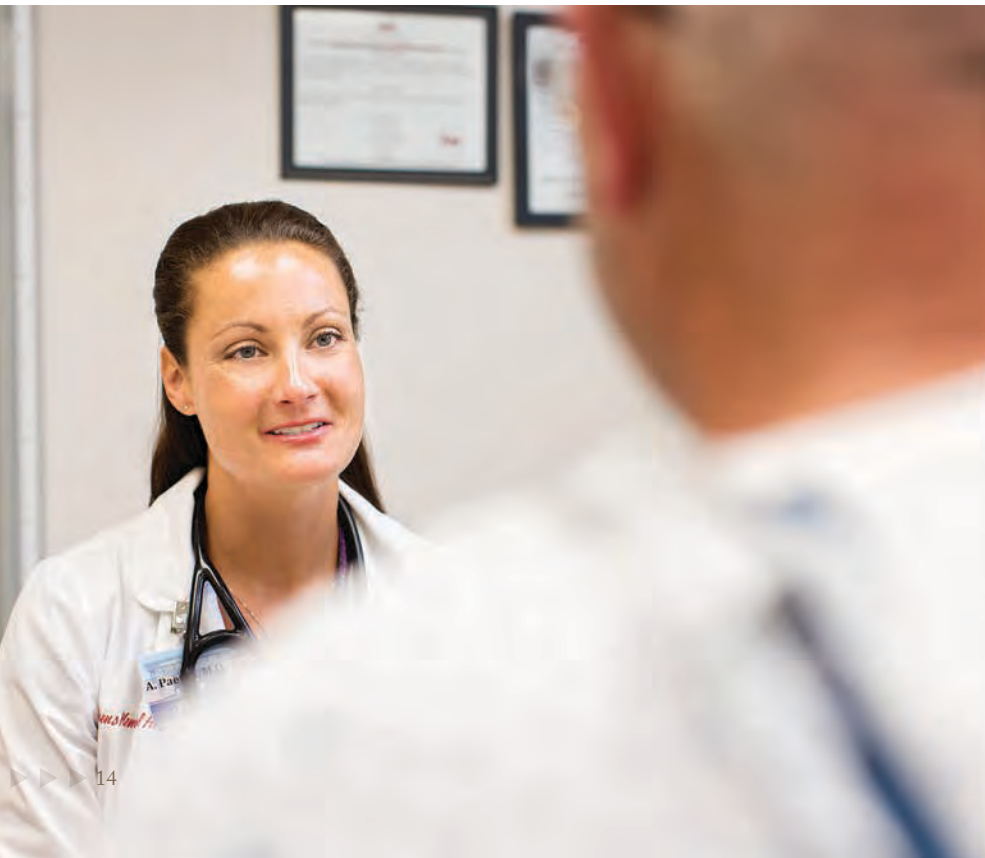


Waldo County
Healthcare



MAINEHEALTH MEMBER HIGHLIGHTS

- The Waldo County General Hospital Oncology Patient Assistance Fund and Mammography Fund provided \$19,326 to help cancer patients, as well as \$7,010 for free mammograms.
- Journey to a Healthier You, a free 12-week program, helped 35 people start a long-term weight-loss journey by providing the education and group support necessary to make lifestyle changes, including food choices and exercise habits, for individuals with a BMI above 35.



MAINEHEALTH MEMBER HIGHLIGHTS

- Community forums were held to discuss Oxford County results from the 2011 OneMaine Health Community Health Needs Assessment. Health priorities identified in the forums paved the way for the formation of a new, county-wide group called the Oxford County Wellness Collaborative, whose mission is to make Oxford County one of the healthiest counties in Maine and one of the most desirable in which to live, work and play.
- Events were held to educate 73 caregivers and inspect a total of 80 child car seats. Of the seats inspected by certified child passenger safety technicians, 96 percent were incorrectly installed or uninstalled upon arrival. The hospital is an inspection and distribution site in Maine and provides car seats and boosters to families at no cost, if they meet the state financial requirements.

Prevention in action

Throughout his life David has tried to be responsible, work hard and carry health insurance.

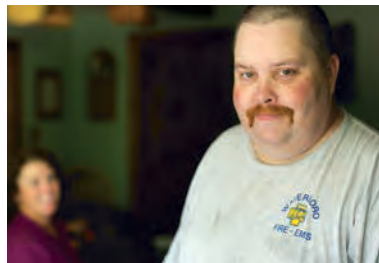
In the summer of 2012, David found himself in the unfortunate situation where without a steady income, he could no longer afford health insurance. Shortly thereafter, he began to experience some health issues causing him a lot of pain and discomfort. He visited his primary care physician, who recommended that David have a colonoscopy to find the source of the problem.

Without health insurance David was reluctant to undergo any procedure and considered not having a colonoscopy. David knew the cost of the procedure would be a struggle for him to manage. David's doctor informed him about the Free Care program at Stephens Memorial Hospital and encouraged him to consider applying to the program.

David made the decision to move forward and have the colonoscopy. Dr. Alyssa Paetau performed David's colonoscopy and encouraged him to have abdominal surgery, which he agreed to do. David shares that he was very impressed with the care that he received throughout the entire process. "Everyone treated me so respectfully and always had my best care in mind."

Since his surgery, David has not had any complications or additional episodes. If it were not for the Free Care program at Stephens Memorial Hospital, David admits that he most likely would not have had the colonoscopy and would have lived with the pain and discomfort. David describes the Free Care program at Stephens Memorial Hospital as his lifesaver. "This is a true humanitarian cause that deserves praise," notes David.





MAINEHEALTH MEMBER HIGHLIGHTS

- In one year, HomeHealth Visiting Nurses improved the health and independence of more than 23,000 children, adults and elders throughout York, Cumberland and southern Oxford counties. As part of its mission and promise to care for all those in need of services, HomeHealth Visiting Nurses provided more than \$237,000 of charity care and \$600,000 in care not reimbursed by government programs.
- The Community Health and Wellness Program expanded clinics throughout the service area and helped more than 3,600 people improve their health with foot care, screenings and tests and vaccinated 8,000 people as a step toward flu prevention.

MainePHO
MaineHealth



Collaboration in action

Richard's high blood pressure was landing him in and out of the hospital and preventing him from doing the things he loves. He was struggling to keep all of his medications straight and had no idea how one interacted with the other. These frequent hospital trips were taking their toll on Richard's health and happiness.

In July 2012, after being admitted to Southern Maine Medical Center, Richard was referred to Katrina Randall, an RN care manager at MMC Physician-Hospital Organization (MMC PHO), a member of the Maine PHO. Katrina is part of a team of people working together to help patients transition out of the hospital, using an evidence-based intervention proven to reduce readmission rates. Care managers follow a specific coaching model that includes conducting medication reconciliation, assisting patients with identifying early signs of complications, ensuring that all patients have a follow-up visit with their physician within seven days of discharge and helping patients create a personal health record. Care managers collaborate with various local resources, such as Southern Maine Agency on Aging (SMAA), and maintain close contact with the patient, making home visits and follow-up calls to provide patient-centered, coordinated care to those who need it the most.

"Having a better handle on who the individual is really aids care," explains the MMC PHO manager of special initiatives, Christopher Murry, Jr. "We have to take the time to invest in understanding our patient from a personal perspective."

Today, Richard's wife says his attitude is very different. His outlook is more positive and his demeanor more cheerful. He is frequently out walking with the dog that he cares for, and his SMAA resource specialist found him an opportunity to volunteer his time at a local soup kitchen. With Katrina's help, Richard has established a system of organizing his medications on a weekly basis, ensuring that he takes all 22 of his pills at the appropriate dose and time.

"At first it was a change, because I used to do it daily, but now it's much easier. And I know everything is in there," said Richard.

Small changes can have a profound positive impact on patient care. In 2012, MMC PHO RN care managers worked to help 2,963 patients transition from inpatient facilities back to their homes. They found and corrected medication discrepancies in nearly 40 percent of patients served. Helping patients manage their medications, understand their conditions and connect with resources in their own communities is an effective formula for reducing hospital readmissions and improving patient well-being.



Synernet's unique ability to leverage specialists, technology and best practices has fostered a growing list of organizations that look to Synernet for outsourcing solutions to improve efficiencies and cost-savings. With an investment in staff specialists and technology, Synernet has grown to an organization with 230 employees in 30 states serving more than 130 clients across six states. In June of 2012, Synernet launched Coding Services based on client requests—now offering six service lines to healthcare clients.

In 2012, Synernet continued to invest in technology and infrastructure to meet the current needs of clients and allow for planned growth. By partnering with recognized leaders in their field — Dolbey Fusion, Morrissey, Recordsforce, Microsoft, Time Warner Cable, GWI and others, Synernet affirmed secure HIPPA-compliant services for healthcare organizations.



Service Specialization

- Medical Transcription
- Credentials Verification Organization
- Provider Enrollment
- Coding Services
- Clinical Engineering
- Insurance Services

Resources in action

With growth comes the scale necessary to improve efficiency for clients. Synernet's shared services model allows clients to utilize specialists to accelerate process improvement and cost savings.

Synernet invests in employee training, certifications and professional growth as a means to gain the in-depth industry knowledge that is critical for our success. Our employees attended more than 30 conferences around the country in 2012—through industry knowledge Synernet develops and implements best practices that improve healthcare efficiencies.



Programs in action

Members of the MaineHealth system work together to offer the people we serve in 11 Maine counties an extensive array of disease-management, community health and prevention programs. Many of our programs dramatically reduce unnecessary emergency room visits and hospitalizations, helping keep Mainers healthy. These programs ensure that Maine people receive high-quality care that's cost-effective.

Chronic Disease Programs

The **AH! Asthma and Chronic Obstructive Pulmonary Disease programs** work to improve the care and outcomes for people with lung disease. The programs provide training and education about lung health treatment, medications and devices.

The **TARGET Diabetes Program** helps improve care and outcomes for people with Type 1 and Type 2 diabetes and increases awareness of diabetes.

Community and Provider Support

MaineHealth is one of three health system partners involved in conducting the statewide **OneMaine Health Community Health Needs Assessment**, with all results and data made available to the public.

The Health Index Report presents key factors and specific elements of the health status throughout many Maine counties, focusing on measures of health improvement and specific health outcomes and goals.

The **Emergency Medicine Program** improves the quality of care received by patients in the emergency departments of MaineHealth member and affiliate hospitals.

MaineHealth made a significant financial contribution to support **HealthInfoNet's** effort to create a statewide health information exchange.

The **Osteopathic Heritage Fund** provides grants to advance the principles of osteopathy, preserve osteopathic history, and promote the recognition and validity of osteopathic principles.

The **Pharmacy and Therapeutics Program** works to improve outcomes of patients in the MaineHealth system by reducing variations in care and promoting best practices.

The **Prehospital Care/Emergency Medical Services program** works with hospital emergency medical service medical directors to support education, quality management and case follow-up.

The **Surgical Quality Collaborative** brings together surgical and quality staff from the MaineHealth system hospitals to foster learning, measure improvement, and use empirical data to improve the quality, safety and value of surgical care.

The **Patient Center Medical Home program** staff provide tools, training and educational opportunities for physician practices to help them develop a comprehensive approach to primary care that facilitates partnerships between patients, their personal physicians, and when appropriate, the patient's family.



▶▶▶▶▶▶▶▶▶▶

The total value of the MaineHealth system's community benefits in 2012 was \$315,288,018, a 24 percent increase over fiscal year 2011.



The **Telehealth Program** works to improve the health status of our communities by integrating, advancing and optimizing the use of telehealth technologies to provide access to specified services in remote areas.

The **Transitions of Care Program** works to ensure that patients receive excellent care throughout the transition from hospital to home and to community-based provider.



▶▶▶▶▶ **The MaineHealth Community in Action**

Elder Care

Partnership for Healthy Aging (PFHA) leads the implementation of evidence-based prevention programs for older adults throughout Maine. PFHA focuses on improving transitions, prevention and quality across the care continuum.

Heart and Vascular Care

The **AMI/PERFUSE Program** helps caregivers provide the highest quality care for patients who experience an acute myocardial infarction (heart attack) — regardless of the patient's point of entry into the MaineHealth system.

The **Heart Failure Program** improves health outcomes for patients with heart failure by promoting best practices in care at MaineHealth hospitals and across all care settings.

The **Stroke Program** works to standardize stroke care across the continuum of providers within the MaineHealth system.

Medication and Care Programs for Low-Income Community Members

CarePartners arranges donated healthcare services for low-income, uninsured Mainers in Cumberland, Kennebec, Lincoln and Waldo counties.

MedAccess provides access to free medications. CarePartners provides this community resource to uninsured and underinsured community members through the **Patient Assistance Program**.

Mental Health

The **Mental Health Integration Program** works to improve patient care by bringing mental health clinicians into medical settings and by improving the collaboration between medical and mental health providers.

Oncology

The **Oncology Program** promotes high-quality oncology care across the system, ensuring easy access and effective transitions among specialists and locations.



1,331 physicians work in MaineHealth member and affiliate hospitals.



►►►►► The MaineHealth Community in Action



►►►►►
Last year, MaineHealth hospitals
saw more than 171,000
emergency department visits.





Palliative Care

The **Palliative Care Program** promotes palliative care across the system, including clinician education, identification of patients who may benefit from palliative care, provision of services for complex medical conditions, addressing ethical issues and engaging patients in discussing goals of care.

Prevention Programs

The **Child Immunization Program** focuses on improving up-to-date childhood immunization rates among young children, by working closely with hospitals, primary care practices, parents and family members, community health partners, state government, and the Maine Vaccine Board.

The **Infection Prevention Program** works to reduce infection rates, improve outcomes for patients and decrease preventable hospitalizations across the MaineHealth system.

Let's Go! 5-2-1-0 is aimed at reducing childhood obesity in Maine through a unique, multisector approach that targets schools, child care, after school, health care, worksites, and communities across the state. All MaineHealth member hospitals help to lead regional Let's Go! initiatives that also involve their own employees and food service programs.

The **Preventive Health Program** works to deliver consistent, high-quality preventive healthcare for adults and children across the MaineHealth region by providing best-practice, evidence-based tools and support to primary care practice teams.

Resource and Referral Centers

The **MaineHealth Learning Resource Centers** provide patients, healthcare providers and community members with easy access to quality health information and a wealth of educational reference material at locations in Falmouth, Norway, Portland and Scarborough.

The **Parkinson's Information and Referral Center** is a resource for people with Parkinson's disease as well as their families and healthcare providers.

MaineHealth also made carefully selected contributions throughout the year to local nonprofit organizations.

▶▶▶▶▶ **MaineHealth's Consolidated Community Benefit Financial Summary, Fiscal Year 2012**

	CHARITY CARE *	BAD DEBT *
Lincoln County Healthcare	\$2,020,701	\$1,741,201
Maine Medical Center	\$18,517,063	\$15,747,180
Maine Mental Health Partners	\$3,552,000	\$1,314,634
Pen Bay Healthcare	\$2,337,659	\$2,454,729
Southern Maine Medical Center	\$3,503,000	\$4,826,000
Waldo County Healthcare	\$2,263,930	\$2,491,734
Western Maine Health	\$2,225,428	\$1,552,320
HomeHealth Visiting Nurses	\$199,334	\$278,780
NorDx	\$369,000	\$584,000
MaineHealth Corporate	\$0	\$0
MaineHealth Consolidated Community Benefit Summary	\$34,988,115	\$30,990,578

GOVERNMENT-SPONSORED HEALTHCARE**	NET COMMUNITY BENEFIT INVESTMENT PROGRAMS	TOTAL VALUE OF QUANTIFIABLE COMMUNITY BENEFITS
\$6,132,749	\$3,534,777	\$13,429,428
\$70,158,239	\$103,599,112	\$208,021,594
\$1,419,162	\$559,966	\$6,845,762
\$19,041,692	\$4,109,750	\$27,943,830
\$19,029,000	\$1,309,269	\$28,667,269
\$1,917,872	\$4,469,766	\$11,143,302
\$1,318,389	\$2,173,983	\$7,270,120
\$654,852	\$51,775	\$1,184,741
\$1,288,000	\$0	\$2,241,000
\$0	\$8,540,972	\$8,540,972
\$120,959,955	\$128,349,370	\$315,288,018

* Calculated "at cost"

** Calculated as total shortfall (unpaid cost) for government-sponsored healthcare—including Medicare, MaineCare and other hospital-specific inpatient care programs (for hospitals, this uses the new Schedule H guidelines)

LINCOLN COUNTY HEALTHCARE
MAINE MEDICAL CENTER
MAINE MENTAL HEALTH PARTNERS
PEN BAY HEALTHCARE
SOUTHERN MAINE HEALTH CARE
WALDO COUNTY HEALTHCARE
WESTERN MAINE HEALTH
HOMEHEALTH VISITING NURSES
MAINE PHO
NORDX
SYNERNET

**Exhibit 3-A: Lincoln County Health Care's Audited Financial
Statements**



**LINCOLN COUNTY HEALTH CARE, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

September 30, 2012 and 2011

With Independent Auditors' Report



LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lincoln County Health Care

We have audited the accompanying consolidated balance sheets of Lincoln County Health Care, Inc. and Subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Lincoln County Health Care, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln County Health Care, Inc. and Subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying additional information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
February 8, 2013

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 2,002,326	\$ 1,688,029
Investments	1,235,243	1,382,373
Patient deposits	184,910	244,617
Current portion of investments whose use is limited	445,860	-
Patient accounts receivable, net	9,634,552	12,988,932
Current portion of pledges receivable	5,366	38,865
Estimated third-party payor settlements	844,462	309,299
Inventories, prepaid expenses, and other current assets	2,554,900	2,615,711
Due from MaineHealth and other member organizations	<u>190,843</u>	<u>59,155</u>
Total current assets	<u>17,098,462</u>	<u>19,326,981</u>
Investments whose use is limited by:		
Bond indenture	445,860	-
Board designation	8,876,791	7,190,850
Donor-restriction	<u>2,525,778</u>	<u>2,131,813</u>
	11,848,429	9,322,663
Less current portion	<u>445,860</u>	<u>-</u>
	<u>11,402,569</u>	9,322,663
Estimated third-party payor settlements	3,901,000	2,367,000
Interest in charitable remainder trust	81,410	71,495
Beneficial interest in perpetual trusts	3,726,808	3,349,126
Property and equipment, net	39,567,122	41,735,746
Deferred charges, net of amortization	237,654	267,893
Other assets	<u>3,920,005</u>	<u>1,061,078</u>
Total assets	<u>\$ 79,935,030</u>	<u>\$ 77,501,982</u>

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current liabilities		
Line of credit	\$ 2,242,054	\$ -
Accounts payable and accrued expenses	2,096,288	2,109,077
Accrued payroll, payroll taxes and amounts withheld	2,085,331	1,458,621
Accrued earned time	2,028,292	2,278,879
Accrued interest payable	199,543	-
Patient deposits liability	184,910	244,615
Estimated third-party payor settlements	1,355,000	2,120,408
Deferred revenue	347,994	220,281
Due to MaineHealth and other member organizations	3,058,949	4,362,710
Current portion of long-term debt	<u>1,249,937</u>	<u>1,439,252</u>
Total current liabilities	14,848,298	14,233,843
Other long-term liabilities	1,011,172	1,103,293
Long-term debt, net of current portion	<u>19,477,236</u>	<u>20,768,574</u>
Total liabilities	<u>35,336,706</u>	<u>36,105,710</u>
Commitments and contingencies (Notes 12 and 14)		
Net assets		
Unrestricted	38,287,118	35,831,600
Temporarily restricted	738,551	632,627
Permanently restricted	<u>5,572,655</u>	<u>4,932,045</u>
Total net assets	<u>44,598,324</u>	<u>41,396,272</u>
Total liabilities and net assets	<u>\$ 79,935,030</u>	<u>\$ 77,501,982</u>

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues and other support		
Net patient service revenue	\$ 89,017,219	\$ 91,278,985
Other revenues	3,267,162	2,072,027
Net assets released from restrictions used for operations	<u>269,591</u>	<u>172,033</u>
Total unrestricted revenues and other support	<u>92,553,972</u>	<u>93,523,045</u>
Expenses		
Salaries	44,484,877	44,716,518
Employee benefits	12,090,774	12,151,186
Nonmedical supplies	1,685,644	1,682,035
Medical supplies	4,602,173	4,814,237
Purchased services	11,609,464	9,778,524
Professional fees	784,754	640,152
Facility costs	4,514,026	4,319,423
State taxes	2,513,071	2,200,201
Interest	992,097	1,072,933
Depreciation and amortization	3,708,425	3,716,624
Provision for bad debts	3,257,491	4,165,086
Other	<u>1,967,600</u>	<u>2,000,676</u>
Total expenses	<u>92,210,396</u>	<u>91,257,595</u>
Operating income	<u>343,576</u>	<u>2,265,450</u>
Nonoperating gains (expenses):		
Other expenses	(37,443)	(9,413)
Unrestricted gifts and donations	628,271	248,293
Interest and dividends	<u>253,361</u>	<u>236,077</u>
Nonoperating gains (expenses), net	<u>844,189</u>	<u>474,957</u>
Excess of revenue over expenses before gain (loss) in fair value of investments	1,187,765	2,740,407
Recognized gain (loss) in fair value of investments	<u>1,237,509</u>	<u>(412,711)</u>
Excess of revenue over expenses	<u>\$ 2,425,274</u>	<u>\$ 2,327,696</u>

The accompanying notes are an integral part of these consolidated financial statements.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenue and other support:		
Excess of revenue over expenses	\$ 2,425,274	\$ 2,327,696
Net assets released from restrictions used for property and equipment	241,114	504,099
Equity transfers to MaineHealth	<u>(210,870)</u>	<u>(138,030)</u>
Increase in unrestricted net assets	<u>2,455,518</u>	<u>2,693,765</u>
Temporarily restricted net assets		
Gifts and donations	525,114	436,102
Interest, dividends and realized gains	36,224	52,115
Change in net unrealized gains and losses on investments	55,291	(29,694)
Net assets released from restrictions	<u>(510,705)</u>	<u>(676,132)</u>
Increase (decrease) in temporarily restricted net assets	<u>105,924</u>	<u>(217,609)</u>
Permanently restricted net assets		
Gifts and donations	262,928	60,960
Change in perpetual trusts	<u>377,682</u>	<u>(165,055)</u>
Increase (decrease) in permanently restricted net assets	<u>640,610</u>	<u>(104,095)</u>
Increase in net assets	3,202,052	2,372,061
Net assets, beginning of year	<u>41,396,272</u>	<u>39,024,211</u>
Net assets, end of year	<u>\$ 44,598,324</u>	<u>\$ 41,396,272</u>

The accompanying notes are an integral part of these consolidated financial statements.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 3,202,052	\$ 2,372,061
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	3,708,425	3,716,624
Provision for bad debts	3,257,491	4,165,086
Net realized and change in unrealized gains (losses) on investments	(1,293,083)	418,199
Discount and allowance for pledges receivable	-	(6,335)
Change in beneficial interest in perpetual trusts and charitable remainder trust	(387,597)	167,402
Restricted contributions and investment income	(824,266)	(549,177)
Loss on sale of property and equipment	37,443	9,413
Transfer to MaineHealth	210,870	138,030
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	96,889	(7,202,810)
Pledges receivable	33,499	51,207
Inventories, prepaid expenses, and other current assets	120,518	166,837
Accounts payable and other current liabilities	503,172	(1,074,466)
Accretion/amortization of deferred revenue	127,713	(77,695)
Other long-term liabilities	(92,121)	18,538
Estimated third-party payor settlements	(2,834,571)	(4,000,174)
Due to/due from affiliates	(1,435,449)	(354,374)
Net cash provided (used) by operating activities	<u>4,430,985</u>	<u>(2,041,634)</u>
Cash flows from investing activities		
Purchases of investments	(4,822,749)	(3,718,774)
Proceeds from sales of investments	3,737,196	3,875,471
Increase (decrease) in other assets	(2,858,927)	(49,424)
Proceeds from sale of property and equipment	10,118	300
Purchases of property and equipment	<u>(1,533,299)</u>	<u>(2,402,648)</u>
Net cash used by investing activities	<u>(5,467,661)</u>	<u>(2,295,075)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, notes payable and line of credit	2,742,054	18,231,117
Payments of long-term debt, notes payable and line of credit	(2,004,477)	(19,394,510)
Additions to deferred finance costs, net	-	(62,431)
Proceeds from restricted contributions and investment income	824,266	549,177
Transfer to MaineHealth	<u>(210,870)</u>	<u>(138,030)</u>
Net cash provided (used) by financing activities	<u>1,350,973</u>	<u>(814,677)</u>
Net increase (decrease) in cash and cash equivalents	314,297	(5,151,386)
Cash and cash equivalents, beginning of year	<u>1,688,029</u>	<u>6,839,415</u>
Cash and cash equivalents, end of year	<u>\$ 2,002,326</u>	<u>\$ 1,688,029</u>
Supplemental disclosure for cash flow information:		
Cash paid for interest	<u>\$ 893,505</u>	<u>\$ 1,291,740</u>
Noncash transactions:		

During 2012, LCHC entered into a capital lease obligation, acquiring an asset with a value of \$23,824. The lease commitment and capital asset have been treated as noncash transactions.

The accompanying notes are an integral part of these consolidated financial statements.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

1. Reporting Entity

Organization

The consolidated financial statements of Lincoln County Health Care, Inc. and Subsidiaries (LCHC) include the accounts of St. Andrews Hospital (SAH), Lincoln County Medical Group (LCMG), Miles Memorial Hospital (MMH) and Cove's Edge, Inc. (Cove's Edge). All significant intercompany activity is eliminated in consolidation. LCHC is a subsidiary of MaineHealth, an integrated health care delivery system serving southern, western and central Maine. MaineHealth is also the parent company of Maine Medical Center and Subsidiaries, Western Maine Health Care Corporation and Subsidiaries, Home Health Visiting Nurses of Southern Maine, NorDx, Maine Physician Hospital Organization, Inc., Synernet, Inc., Maine Mental Health Partners and Subsidiaries, Waldo County Healthcare, Inc. and Subsidiaries, Southern Maine Medical Center and Subsidiaries, and Pen Bay Healthcare and Subsidiaries. All activity with these other entities is disclosed as activity with related parties.

LCHC's vision is to provide the best in community health care. Collectively, the Organizations of LCHC work towards constantly improving the health and well-being of the people and the communities it serves, principally in Lincoln County.

2. Summary of Significant Accounting Policies

The accounting policies that affect the more significant elements of the consolidated financial statements are summarized below:

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable, estimated third-party payor settlements, and certain accruals.

Cash and Cash Equivalents

Cash and cash equivalents include all demand deposit accounts, short-term money market accounts and certificates of deposit with original maturities of three months or less, excluding investments whose use is limited.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

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Investments Whose Use is Limited

Investments whose use is limited primarily includes investments held by trustees under bond indenture agreements, designated investments set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and investments purchased with donor-restricted funds. Amounts required to meet current liabilities of LCHC have been classified as current in the consolidated balance sheets at September 30, 2012 and 2011.

Investments

All investments are measured at fair market value based on market quotations in the consolidated balance sheets.

As provided under Accounting Standards Codification (ASC) Section 825 *Financial Instruments*, entities may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in the excess of revenues over expenses. This election was made by LCHC for all financial instruments classified as investments and investments whose use is limited. As a result of this election, LCHC reflects changes in the fair value, including both increases and decreases in value whether realized or unrealized, in its excess of revenues 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 balance sheets, statements of operations, and changes in net assets.

Investment income or loss, including realized and unrealized gains and losses on investments, interest and dividends, is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Realized gains or losses on the sale of investment securities are determined by the specific identification method.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

Inventories

Inventories of supplies are stated at the lower of cost (determined by the first-in, first-out method) or market.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

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Property and Equipment

Property and equipment acquisitions are recorded at cost. The carrying value of long-lived assets is reviewed if the facts and circumstances suggest that it may be impaired. 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.

Gifts of long-lived assets such as land, buildings or equipment are reported as increases in unrestricted net assets at fair market value and are excluded from the excess of revenue over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire or construct long-lived assets are reported as restricted support. Absent explicit donor stipulation 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.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to LCHC are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by LCHC has been limited by donors or law to a specific time period or use. Permanently restricted net assets reflect the original value of gifts that have been restricted by donors to be maintained by LCHC in perpetuity, as well as the net present value of the expected future cash flows of perpetual trusts. Substantially all income from permanently restricted net assets is unrestricted.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements represent estimates of final settlements under government programs (Medicare and MaineCare) and Anthem Blue Cross and Blue Shield. Amounts due under these programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

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Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Contracts, laws, and regulations governing the Medicare and MaineCare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity Care and Bad Debts

MMH and SAH (the Hospitals) accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. Essentially, these policies define charity care as those services for which limited or no payment is anticipated. In assessing a patient's ability to pay, the Hospitals utilize generally recognized poverty income levels. Charity care is measured based on the Hospitals' established rates. The Hospitals utilize annual federal guidelines and adjust accounts for those whose income is 225% of the poverty level taking family size into consideration. The costs and expenses incurred in providing these services are included in operating expenses. Revenue for services rendered to individuals from whom payment is expected and ultimately not received is written off and included as part of the allowance for bad debts.

Excess of Revenue over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include contributions of long-lived assets (including assets using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and equity transfers.

Retirement Benefits

LCHC sponsors a defined contribution pension plan for the benefit of all employees of its subsidiaries who meet certain age and service requirements. Contributions are made for eligible employees based on their contributions and salary level. Employees are immediately fully vested in employer contributions. Amounts expensed under the plan by LCHC were approximately \$1,218,000 and \$1,222,000 for the years ended September 30, 2012 and 2011, respectively.

Income Taxes

LCHC, MMH, SAH and Cove's Edge are not-for-profit corporations recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. LCMG is a not-for-profit corporation and is in the process of applying to be recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

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Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the consolidated financial statements. Management has evaluated subsequent events through February 8, 2013, which is the date the consolidated financial statements were available to be issued.

Recently Issued Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"), which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The provisions of ASU 2010-24 were effective for LCHC beginning October 1, 2011. The adoption of ASU No. 2010-24 did not impact LCHC's statements of financial position, statements of operations, or cash flow statements.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"), which requires reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. It also requires enhanced disclosure about the policies for recognizing revenue and assessing bad debts, disclosure of patient service revenue, as well as qualitative and quantitative information about charges in the allowance for doubtful accounts. The provisions of ASU 2011-07 are effective for LCHC beginning October 1, 2012. LCHC has not determined the impact of ASU No. 2011-07 on its financial statements.

Reclassifications

Certain 2011 amounts have been reclassified to permit comparison with the current year's presentation format.

3. Net Patient Service Revenue

LCHC has agreements with third-party payors that provide for payments to the Hospitals at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

MMH — Inpatient and outpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical diagnosis and other factors. Inpatient nonacute services are paid based upon a combination of prospective fees and cost reimbursement. *MMH* is reimbursed at an interim rate with final settlement determined after submission of annual cost

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reports and reviews thereof by the Medicare fiscal intermediary. MMH's Medicare cost reports have been settled through September 30, 2004.

SAH - Inpatient acute care services rendered to Medicare program beneficiaries are paid under a cost reimbursement methodology. Outpatient services are paid based on a combination of rate schedules and reimbursed cost. SAH is reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by SAH and reviews thereof by the Medicare fiscal intermediary. SAH's Medicare cost reports have been settled through September 30, 2006.

MaineCare

MaineCare is a medical assistance program offered by the State of Maine, Department of Health and Human Services. Inpatient and outpatient services rendered to MaineCare program beneficiaries are reimbursed under a cost reimbursement methodology subject to certain limitations. Effective July 1, 2011, MMH inpatient services became paid at prospectively determined rates per discharge. The Hospitals are reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the State of Maine. MaineCare cost reports have been settled through September 30, 2005.

In 2004, the State of Maine, facing significant budget deficits, enacted legislation establishing a health care provider tax (State tax). The enactment of the State tax allowed the State of Maine to add revenues to the State of Maine General Fund while optimizing federal matching funds to the MaineCare Program. As a result, LCHC recorded \$2,513,071 and \$2,200,201 of State tax for the years ended September 30, 2012 and 2011, respectively. The amount of the tax is shown separately in expenses on the consolidated statements of operations.

In 2003, the State of Maine enacted legislation to provide affordable health insurance to small businesses and individuals and to control health care costs. This legislation is known as Dirigo Health. The law provides for access to health care coverage through the expansion of eligibility for the MaineCare program and also the development of an affordable health care plan with sliding scale premium subsidies. The law also covers quality and cost containment strategies such as the development of a State Health Plan, voluntary caps on cost and operating margins of hospitals and insurers, and revised Certificate of Need regulations including a Capital Investment Fund.

In 2005, the Dirigo Health law was supplemented by additional legislation titled "An Act to Implement Certain Recommendations of the Commission to Study Maine's Community Hospitals". The law requests hospitals to voluntarily hold their consolidated operating margins to 3% and to voluntarily restrain their increases in expense per case mix adjusted discharge to less than 110% of the forecasted increase in the Centers for Medicare and Medicaid Services (CMS) hospital market basket index for the coming federal fiscal year. This law also addresses the jurisdiction of Dirigo Health, calls for the standardization of the reporting of hospital financial information, and establishes a workgroup to identify opportunities to streamline hospital administrative costs.

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The balance sheets at September 30, 2012 and 2011 include amounts due from the State of Maine under the MaineCare program of \$3,788,000 and \$2,690,000, respectively. Although the State's current budget does not fully provide for amounts due to LCHC, the amounts recorded have been determined based upon applicable regulations, and LCHC expects that these amounts will ultimately be paid in full. Due to the complex nature of such regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Other Payors

LCHC also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements are discounts from established charges.

Revenues from the Medicare and MaineCare programs accounted for approximately 54% and 53% for the years ended September 30, 2012 and 2011, respectively, of the Hospitals' net patient service revenue. Laws and regulations governing the Medicare and MaineCare programs are complex and subject to interpretation. The Hospitals believe that they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and MaineCare programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During 2012 and 2011, LCHC net patient service revenue in the consolidated statements of operations increased by approximately \$1,588,000 and \$220,000, respectively, due to prior year settlements and changes in prior year estimated third-party estimates.

Net patient service revenue for the years ended September 30 consists of the following:

	<u>2012</u>	<u>2011</u>
Inpatient services	\$ 30,980,337	\$ 30,240,559
Inpatient ancillary services	30,522,804	31,354,754
Outpatient services	<u>87,483,302</u>	<u>88,346,980</u>
	148,986,443	149,942,293
Deductions from gross charges:		
Contractual adjustments	56,198,794	55,521,974
Charity care	<u>3,770,430</u>	<u>3,141,334</u>
Net patient service revenue	<u>\$ 89,017,219</u>	<u>\$ 91,278,985</u>

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The Hospitals provide care without charge or at amounts less than its established rates to patients who meet certain criteria under its Board established free care policy. The Hospitals provide free care on a sliding scale to anyone whose income falls below 225% of the federal poverty level. In addition, the Hospitals offer a prompt pay discount to those not otherwise covered by third-party payor contracts. Because the Hospitals do not pursue collection of amounts determined to qualify as free care, they are not reported as net patient service revenue. The Hospitals estimate the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated costs of caring for charity care patients for the years ended September 30, 2012 and 2011 were \$2,020,772 and \$1,682,867, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended September 30, 2012 and 2011 were \$72,313 and \$94,000, respectively.

4. Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The Medicare criteria for meaningful use financial incentives will be staged in three steps up through fiscal year 2016. The meaningful use attestation is subject to audit by CMS in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation.

The Medicaid program provides incentive payments to hospitals and eligible professionals with a certain percentage of Medicaid patient volumes. In the first year of participation, they must adopt and implement, upgrade or demonstrate meaningful use and then demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program.

During 2012, LCHC recorded meaningful use revenue of \$1,117,074 from the Medicaid EHR program which is included in other revenues in the consolidated statements of operations. LCHC has demonstrated the required Medicaid volumes and is upgrading to a certified EHR.

5. Patient Accounts Receivable

Patient accounts receivable consists of the following at September 30:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable:	\$ 19,863,267	\$ 25,406,433
Less:		
Allowances for contractual adjustments	7,955,232	9,962,104
Allowance for bad debts	<u>2,273,483</u>	<u>2,455,397</u>
	<u>\$ 9,634,552</u>	<u>\$ 12,988,932</u>

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6. Investments and Investments Whose Use is Limited

The composition of investments and investments whose use is limited at September 30 is set forth in the following table:

	<u>2012</u>	<u>2011</u>
Investments (current assets)	\$ 1,235,243	\$ 1,382,373
Investments whose use is limited	11,848,429	9,322,663
Interest in charitable remainder trust	81,410	71,495
Beneficial interest in perpetual trusts	<u>3,726,808</u>	<u>3,349,126</u>
	<u>\$ 16,891,890</u>	<u>\$ 14,125,657</u>
Cash and cash equivalents	\$ 3,470,661	\$ 1,756,831
Marketable equity securities	2,481,292	2,161,960
Mutual funds and exchange traded funds	6,062,891	5,336,799
Bonds and notes	1,068,828	1,449,446
Interest in charitable remainder trust	81,410	71,495
Beneficial interest in perpetual trust	<u>3,726,808</u>	<u>3,349,126</u>
	<u>\$ 16,891,890</u>	<u>\$ 14,125,657</u>

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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The following table provides the assets carried at fair value as of September 30, 2012 and 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2012</u>				
Cash and cash equivalents	\$ 3,470,661	\$ 3,470,661	\$ -	\$ -
Debt instruments:				
U.S. government bonds	213,413	213,413	-	-
Corporate bonds	<u>855,415</u>	<u>-</u>	<u>855,415</u>	<u>-</u>
Total debt instruments	1,068,828	213,413	855,415	-
Marketable equity securities:				
Consumer	546,858	546,858	-	-
Healthcare	365,382	365,382	-	-
Financial services	292,071	292,071	-	-
Energy	504,122	504,122	-	-
Basic industry	410,741	410,741	-	-
Industrials	49,973	49,973	-	-
Communication	263,538	263,538	-	-
Technology	<u>48,607</u>	<u>48,607</u>	<u>-</u>	<u>-</u>
Total marketable equity securities	2,481,292	2,481,292	-	-
Mutual funds:				
Equity funds	1,612,081	1,612,081	-	-
Fixed income funds	1,615,518	1,615,518	-	-
International fixed income	917,670	917,670	-	-
International equity funds	<u>182,511</u>	<u>182,511</u>	<u>-</u>	<u>-</u>
Total mutual funds	4,327,780	4,327,780	-	-
Other:				
Exchange — traded funds	1,735,111	1,735,111	-	-
Beneficial interest in trusts	<u>3,808,218</u>	<u>-</u>	<u>-</u>	<u>3,808,218</u>
	<u>5,543,329</u>	<u>1,735,111</u>	<u>-</u>	<u>3,808,218</u>
	<u>\$ 16,891,890</u>	<u>\$ 12,228,257</u>	<u>\$ 855,415</u>	<u>\$ 3,808,218</u>

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	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2011</u>				
Cash and cash equivalents	\$ 1,756,831	\$ 1,756,831	\$ -	\$ -
Debt instruments:				
U.S. government bonds	642,038	642,038	-	-
Corporate bonds	<u>807,408</u>	<u>-</u>	<u>807,408</u>	<u>-</u>
Total debt instruments	1,449,446	642,038	807,408	-
Marketable equity securities:				
Consumer	493,926	493,926	-	-
Healthcare	248,929	248,929	-	-
Financial services	218,761	218,761	-	-
Energy	229,368	229,368	-	-
Basic industry	36,667	36,667	-	-
Industrials	434,479	434,479	-	-
Communication	80,700	80,700	-	-
Technology	<u>419,130</u>	<u>419,130</u>	<u>-</u>	<u>-</u>
Total marketable equity securities	2,161,960	2,161,960	-	-
Mutual funds:				
Equity funds	2,085,172	2,085,172	-	-
Fixed income funds	614,376	614,376	-	-
International fixed income	175,881	175,881	-	-
International equity funds	<u>730,587</u>	<u>730,587</u>	<u>-</u>	<u>-</u>
Total mutual funds	3,606,016	3,606,016	-	-
Other:				
Exchange — traded funds	1,730,783	1,730,783	-	-
Beneficial interest in trusts	<u>3,420,621</u>	<u>-</u>	<u>-</u>	<u>3,420,621</u>
	<u>5,151,404</u>	<u>1,730,783</u>	<u>-</u>	<u>3,420,621</u>
	<u>\$ 14,125,657</u>	<u>\$ 9,897,628</u>	<u>\$ 807,408</u>	<u>\$ 3,420,621</u>

The fair value for Level 2 assets and liabilities is primarily based on market prices of underlying assets and comparable securities.

Level 3 assets for LCHC include the beneficial interest in perpetual trusts and interest in the charitable remainder trust as LCHC's legal interest is in its pro rata portion of the trust and not the trusts' underlying assets. LCHC's interest is valued based upon its pro rata ownership of the total trust. The actual assets are not readily available to LCHC, and thus are considered to be Level 3.

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The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 3,420,621	\$ 3,588,023
Unrealized gains (losses)	<u>387,597</u>	<u>(167,402)</u>
Balance at end of year	<u>\$ 3,808,218</u>	<u>\$ 3,420,621</u>

Investments whose use is limited include amounts required to be held in reserve by debt agreements and restricted by donors. The Board of Trustees also segregates certain unrestricted net assets as Board designated in order to provide for future capital improvements and for other specific purposes.

Investment income and gains (losses) on investments whose use is limited, cash equivalents, and other investments consist of the following:

	<u>2012</u>	<u>2011</u>
Income (loss):		
Interest and dividends	\$ 289,302	\$ 263,986
Net realized gains on investments	<u>250,377</u>	<u>440,640</u>
	<u>539,679</u>	<u>704,626</u>
Net unrealized gain (loss) on investments	<u>1,042,706</u>	<u>(858,839)</u>
	<u>\$ 1,582,385</u>	<u>\$ (154,213)</u>

Investment Return Objectives, Risk Parameters and Spending Policies

LCHC has adopted an investment policy that is diversified and whose objective is to provide income with growth over the long term. Investment accounts exist to benefit and support the mission and organizations of LCHC in accordance with any stipulations set forth by donors. The benefit and support to the organization is achieved through the preservation and the growth of investment assets through reinvestment of capital gains and/or interest and dividend income. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, the endowment equity assets are invested in a manner to generate returns at least equal to that of the Standard & Poor's 500 stock index, over the most recent 5-year period, plus 2 percentage points. LCHC asset allocation targets a diversified asset allocation that places a greater emphasis on equity-based investments within prudent risk constraints.

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7. Property, Plant and Equipment

Property, plant and equipment consists of the following at September 30:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 7,937,922	\$ 7,815,796
Buildings	57,526,987	57,408,130
Equipment	26,559,494	33,632,859
Construction in progress	<u>136,488</u>	<u>92,969</u>
	92,160,891	98,949,754
Less accumulated depreciation	<u>(52,593,769)</u>	<u>(57,214,008)</u>
	<u>\$ 39,567,122</u>	<u>\$ 41,735,746</u>

Depreciation expense for the years ended September 30, 2012 and 2011 was \$3,678,186 and \$3,704,510, respectively.

8. Long-Term Debt

At September 30, long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
<u>MMH</u>		
Note payable, Maine Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds:		
Series 2011A; Serial bonds, due July 2026 plus original issue premium of \$133,486 and \$155,286 in 2012 and 2011, respectfully, and 4.75% term bonds due July 2031	\$ 4,557,184	\$ 4,923,984
Other	<u>376,414</u>	<u>445,665</u>
	<u>4,933,598</u>	<u>5,369,649</u>
 <u>Cove's Edge</u>		
Note payable, MHHEFA Revenue Bonds		
Series 2011A; Serial bonds, due July 2026 plus original issue premium of \$261,067 and \$311,783 in 2012 and 2011, respectfully, and 4.75% term bonds due July 2028	<u>5,071,841</u>	<u>5,542,557</u>
 <u>SAH</u>		
Note payable, MHHEFA Revenue Bonds:		
Series 2011A; Serial bonds, due July 2026 plus original issue premium of \$202,838 and \$231,274 in 2012 and 2011, respectfully, and 4.75% term bonds due July 2029	7,220,776	7,624,212
Note payable with Bank of America	3,487,456	3,631,112
Other	<u>13,502</u>	<u>40,296</u>
	<u>10,721,734</u>	<u>11,295,620</u>
	20,727,173	22,207,826
Less current portion	<u>1,249,937</u>	<u>1,439,252</u>
	<u>\$ 19,477,236</u>	<u>\$ 20,768,574</u>

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September 30, 2012 and 2011

MMH

In August 2011, MMH refunded its Series 2001D and Series 1999A Revenue Bonds with new financing of \$5,305,000 undertaken in conjunction with MHHEFA Series 2011A Revenue Bonds. The serial bonds mature at variable amounts ranging from \$300,000 on July 1, 2013 to \$175,000 on July 1, 2026 and have interest rates ranging from 2% to 5%. The term bonds mature in increasing annual amounts ranging from \$185,000 on July 1, 2027 to \$220,000 on July 1, 2031 and have an interest rate of 4.75%.

Cove's Edge

In August 2011, Cove's Edge refunded its Series 2001D and Series 1998B Revenue Bonds with new financing of \$5,860,000 undertaken in conjunction with MHHEFA Series 2011A Revenue Bonds. The serial bonds mature at variable amounts ranging from \$370,000 on July 1, 2013 to \$235,000 on July 1, 2026 and have interest rates ranging from 2% to 5%. The term bonds mature in increasing annual amounts ranging from \$245,000 on July 1, 2027 to \$260,000 on July 1, 2028 and have an interest rate of 4.75%.

SAH

In August 2011, SAH refunded its Series 1998C Revenue Bonds with new financing of \$8,085,000 undertaken in conjunction with MHHEFA Series 2011A Revenue Bonds. The serial bonds mature at variable amounts ranging from \$315,000 on July 1, 2013 to \$555,000 on July 1, 2026 and have interest rates ranging from 2% to 5%. The term bonds mature in increasing annual amounts ranging from \$585,000 on July 1, 2027 to \$640,000 on July 1, 2029 and have an interest rate of 4.75%.

The note payable with Bank of America has a maturity date of December 31, 2027. The term note is at a fixed rate of 4.205%. Interest is paid monthly and principal is to be repaid over 20 years.

The MHHEFA Series 2011A Revenue Bonds and the fixed rate notes with Bank of America are currently guaranteed under the Master Trust Indenture Agreement (Note 12).

Under the terms of the Bonds, MMH, SAH and Cove's Edge are required to maintain certain deposits with a trustee. Such deposits are included with investments whose use is limited in the financial statements.

Annual principal maturities of long-term debt for the five fiscal years after September 30, 2012 and the years thereafter are as follows:

2013 (included in current liabilities)	\$ 1,249,937
2014	1,177,515
2015	1,204,861
2016	1,268,473
2017	1,306,222
Thereafter	<u>14,520,165</u>
	<u>\$ 20,727,173</u>

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Notes Payable and Lines of Credit

At September 30, 2012, MMH had available a \$1,500,000 revolving line of credit with the First National Bank of Damariscotta. Interest rates on specific borrowings can be fixed as of the date requested under various interest rate options. There were no amounts outstanding as of September 30, 2012 and 2011. The note is secured by investments and has a variable interest rate (3.25% at September 30, 2012).

In November 2011, LCHC obtained a line of credit with another bank. The line of credit is available up to the amount of the investments pledged. The purpose of the additional line of credit is to fund capital expenditures for information systems. The amount outstanding under this line of credit agreement at September 30, 2012 was \$2,242,054. The line of credit has a variable interest rate (3.25% at September 30, 2012).

9. Temporarily and Permanently Restricted Net Assets and Endowment Funds

Temporarily restricted net assets are restricted primarily for health care services and to fund capital improvements and consist of the following at September 30:

	<u>2012</u>	<u>2011</u>
Education	\$ 211,564	\$ 167,757
Plant replacement funds	188,429	300,514
Other specific purpose funds	<u>338,558</u>	<u>164,356</u>
	<u>\$ 738,551</u>	<u>\$ 632,627</u>

Permanently restricted net assets are required to be held in perpetuity, the income from which is expendable primarily to support LCHC's operations:

	<u>2012</u>	<u>2011</u>
Beneficial interest in perpetual trusts	\$ 3,726,808	\$ 3,349,126
Other endowment funds	<u>(3,043,727)</u>	<u>(2,717,866)</u>
	<u>\$ 683,081</u>	<u>\$ 631,260</u>

LCHC endowment consists of funds established for a variety of purposes. For the purposes of this disclosure, endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The income on the restricted assets in the endowment funds is not restricted by the donor. The changes in LCHC's endowment funds by net asset category for the years ended September 30 are as follows:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2012</u>			
Endowment funds	<u>\$ 8,876,791</u>	<u>\$ (3,043,727)</u>	<u>\$ 5,833,064</u>
<u>2011</u>			
Endowment funds	<u>\$ 7,190,850</u>	<u>\$ 1,582,919</u>	<u>\$ 8,773,769</u>
Changes in endowment net assets:			
Endowment net assets, October 1, 2010	\$ 7,440,615	\$ 1,521,959	\$ 8,962,574
Net depreciation	(247,006)	-	(247,006)
Contributions	50,000	60,960	110,960
Expenditures	<u>(52,759)</u>	<u>-</u>	<u>(52,759)</u>
Endowment net assets, September 30, 2011	7,190,850	1,582,919	8,773,769
Net appreciation	1,380,353	-	1,380,353
Contributions	337,299	262,928	600,227
Expenditures	<u>(31,711)</u>	<u>-</u>	<u>(31,711)</u>
Endowment net assets, September 30, 2012	<u>\$ 8,876,791</u>	<u>\$ 1,845,847</u>	<u>\$10,722,638</u>

LCHC classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations exist requiring permanent maintenance of the historical fair value, and (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund comprised of accumulated gains, if not required to be maintained in perpetuity, is classified as unrestricted net assets. If donor-imposed stipulations exist relative to the use of accumulated gains, then those assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations.

Included in endowment funds are assets totaling \$245,235 at September 30, 2012 and 2011, whose earnings are unrestricted and which totaled approximately \$5,500 and \$8,700 for the years ended September 30, 2012 and 2011, respectively. The remainder of earnings on the endowment funds are restricted to be spent for a particular purpose by the donor.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Beneficial Interest in Trusts

LCHC is the beneficiary of various trusts for which it is not the trustee. These trusts include the following as of September 30:

	<u>2012</u>	<u>2011</u>
Charitable remainder trust	\$ 81,410	\$ 71,495
Irrevocable perpetual trusts	<u>3,726,808</u>	<u>3,349,126</u>
	<u>\$ 3,808,218</u>	<u>\$ 3,420,621</u>

LCHC has reflected as assets in the balance sheets its pro rata share of the fair value of investments in the trusts. Receipts of income are included as unrestricted investment income when received. Receipts from the trusts were approximately \$187,000 and \$153,000 for the years ended September 30, 2012 and 2011, respectively.

10. Concentration of Credit Risk

Financial instruments which potentially subject LCHC to concentration of credit risk consist of cash and cash equivalents, patient accounts receivable and certain investments. The risk with respect to cash equivalents is minimized by LCHC's policies of investing in financial instruments with short-term maturities issued by highly rated financial institutions. LCHC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. LCHC has not experienced any losses in such accounts and believes it is not exposed to any significant risk at September 30, 2012. Investments, which include government and agency securities, stocks and corporate bonds, are not concentrated in any corporation or industry.

LCHC grants credit without collateral to their patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	36 %	39 %
MaineCare	14	17
Anthem Blue Cross and Blue Shield	8	8
Other third-party payors	24	22
Patients	<u>18</u>	<u>14</u>
	<u>100 %</u>	<u>100 %</u>

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

11. Functional Expenses

LCHC provides general health care services to residents within their geographic location. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Professional care of patients	\$ 54,028,343	\$ 53,659,537
Dietary	2,100,829	2,034,163
Household and property	4,645,439	4,413,062
Administrative services	7,594,913	6,659,181
State taxes	2,513,071	2,200,201
General services	13,105,737	13,077,475
Interest	992,097	1,072,933
Depreciation and amortization	3,708,425	3,716,624
Provision for bad debts	3,257,491	4,165,086
Fundraising	<u>264,051</u>	<u>259,333</u>
	<u>\$ 92,210,396</u>	<u>\$ 91,257,595</u>

12. Commitments and Contingencies

Malpractice Insurance

LCHC maintains malpractice and general liability insurance on a claims-made basis. As of September 30, 2012 and 2011, no known malpractice claims have been asserted against LCHC which, either individually or in the aggregate, that are in excess of insurance coverage. LCHC intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

LCHC and its subsidiaries are subject to complaints, claims and litigation which have risen in the normal course of business. U.S. generally accepted accounting principles require LCHC and its subsidiaries to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. LCHC and its subsidiaries have evaluated their exposure to losses arising from potential claims and determined that no such accrual is necessary for the year ended September 30, 2012. In addition, LCHC 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 unasserted at this time.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Information System

On December 2, 2010, MaineHealth's Board of Trustees approved \$90.5 million in capital expenditures to acquire and implement an enterprise-wide software solution to include inpatient clinical information systems, financial management systems, and human resource management systems. MaineHealth management has proposed that the budget for this initiative be increased by \$15.5 million to \$106 million in order to expand its scope to include several additional clinical modules and complete the installation of the new systems at all the organization's member hospitals in time for them to recover the maximum subsidies available to them under the American Reinvestment and Recovery Act (ARRA). MaineHealth management currently estimates that such recoveries will exceed \$40 million. LCHC's allocated portion of the expenditure is estimated at \$6.6 million. LCHC will use ARRA funds to finance its portion of the project, along with an available line of credit. At September 30, 2012, LCHC has funded \$2,697,625 of its estimated total allocation. This amount is included in other assets in the consolidated balance sheets.

Other

In March 1999, LCHC and Subsidiaries entered into a Master Trust Indenture Agreement (the "Agreement") with MaineHealth and certain of its member organizations. Under the Agreement, LCHC and Subsidiaries are jointly and severally liable with MaineHealth and certain of its member organizations (collectively, the Obligated Group) for the payment of certain obligations and performance of covenants. At September 30, 2012, the Obligated Group has obligations totaling approximately \$180,845,000 (which included \$20,337,257 of LCHC debt which was part of the Obligated Group debt) that were covered under the Agreement.

13. Volunteer Services (Unaudited)

Total volunteer service hours received by LCHC were approximately 29,600 and 23,700 and in 2012 and 2011, respectively. The volunteers provide various services to MMH, SAH and Cove's Edge, none of which have been recognized as revenue or expense in the statements of operations.

14. Related Party Transactions

LCHC participates in the MaineHealth plan for employee health benefits.

During fiscal years 2012 and 2011, LCHC was billed approximately \$16,117,000 and \$12,069,000, respectively, for expenses related to affiliation fees, employee health, dental, life and disability insurance, workers' compensation insurance, outreach education, property, auto and directors' and officers' insurance, and Meditech and Information Systems by Maine Medical Center. There are no retroactive adjustments to LCHC for amounts paid to Maine Medical Center for the employee health benefits or workers compensation.

During fiscal years 2012 and 2011, LCHC was billed approximately \$643,000 and \$695,000, respectively, in expenses related to short-term disability insurance, strategic health initiatives, and EPIC Ambulatory Electronic Medical Records by MaineHealth.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

During fiscal year 2012 and 2011, LCHC incurred approximately \$470,000 and \$356,000, respectively, in expenses related to physician billing and consulting, services, provided by Maine Medical Partners, a MaineHealth subsidiary.

Other expenses related to services provided by MaineHealth subsidiaries are as follows:

	<u>2012</u>	<u>2011</u>
Maine Mental Health Partners	\$ 346,000	\$ 97,000
NorDx	2,986,000	2,955,000
Synernet, Inc.	342,000	255,000

At September 30, 2012 and 2011, prepaid expenses and other current assets include an amount due from Schooner Cove Cooperative, Inc. (the "Cooperative"), totaling \$33,463 and \$38,267, respectively. Additionally, LCHC recognized other revenue of approximately \$450,000 and \$461,000 for the years ended September 30, 2012 and 2011, respectively, for services provided to the Cooperative. At September 30, 2012 and 2011, prepaid expenses and other current assets include an amount due from St. Andrews Village Association totaling \$50,261 and \$65,803, respectively. LCHC recognized other revenue of approximately \$166,000 and \$158,000 for the years ended September 30, 2012 and 2011, respectively, for services provided to the Association.

Amounts due from (to) MaineHealth and member organizations as of September 30 are as follows:

	<u>2012</u>	<u>2011</u>
Due from:		
MaineHealth	\$ 176,959	\$ 46,828
NorDx	<u>13,884</u>	<u>12,327</u>
	<u>\$ 190,843</u>	<u>\$ 59,155</u>
Due to:		
MaineHealth	\$ (2,942,151)	\$ (4,254,532)
Maine Medical Partners	(79,359)	(65,386)
Synernet, Inc.	(49,598)	(42,792)
NorDx	<u>12,159</u>	<u>-</u>
	<u>\$ (3,058,949)</u>	<u>\$ (4,362,710)</u>

In 2012 and 2011, LCHC transferred \$210,870 and \$138,030, respectively, to MaineHealth.

ADDITIONAL INFORMATION

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2012

ASSETS

	Miles Memorial Hospital	Cove's Edge, Inc.	Lincoln County Medical Group	St. Andrews Hospital	Lincoln County Healthcare	Eliminations	Consolidated
Current assets							
Cash and cash equivalents	\$ 973,608	\$ 329,216	\$ (5,474)	\$ 381,343	\$ 323,633	\$ -	\$ 2,002,326
Investments	390,741	-	-	836,087	8,415	-	1,235,243
Patient deposits	-	11,220	-	173,690	-	-	184,910
Current portion of investments whose use is limited	129,156	151,409	-	165,295	-	-	445,860
Patient accounts receivable, net	6,371,900	1,521,981	-	1,740,671	-	-	9,634,552
Current portion of pledges receivable	5,068	-	-	-	298	-	5,366
Estimated third-party payor settlements	844,462	-	-	-	-	-	844,462
Inventories, prepaid expenses, and other current assets	1,673,520	160,645	9,737	544,573	166,425	-	2,554,900
Due from MaineHealth and other member organizations	4,200,307	771,113	1,051,663	1,278,189	4,210,695	(11,321,124)	190,843
Total current assets	14,588,762	2,945,584	1,055,926	5,119,848	4,709,466	(11,321,124)	17,098,462
Investments whose use is limited by:							
Bond indenture	129,156	151,409	-	165,295	-	-	445,860
Board designation	3,273,829	1,058,909	-	4,527,640	16,413	-	8,876,791
Donor-restricted	1,370,525	418,604	-	215,231	521,418	-	2,525,778
	4,773,510	1,628,922	-	4,908,166	537,831	-	11,848,429
Less current portion	129,156	151,409	-	165,295	-	-	445,860
	4,644,354	1,477,513	-	4,742,871	537,831	-	11,402,569
Estimated third-party payor settlements	3,901,000	-	-	-	-	-	3,901,000
Interest in charitable remainder trust	-	-	-	81,410	-	-	81,410
Beneficial interest in perpetual trusts	3,190,084	-	-	536,724	-	-	3,726,808
Property and equipment, net	16,803,262	5,163,778	-	17,253,075	347,007	-	39,567,122
Deferred charges, net of amortization	95,381	52,947	-	89,326	-	-	237,654
Other assets	2,173,457	195,310	-	597,000	2,826,238	(1,872,000)	3,920,005
Total assets	\$ 45,396,300	\$ 9,835,132	\$ 1,055,926	\$ 28,420,254	\$ 8,420,542	\$ (13,193,124)	\$ 79,935,030

LIABILITIES AND NET ASSETS (DEFICIT)

	Miles Memorial Hospital	Cove's Edge, Inc.	Lincoln County Medical Group	St. Andrews Hospital	Lincoln County Healthcare	Eliminations	Consolidated
Current liabilities							
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ 2,242,054	\$ -	\$ 2,242,054
Accounts payable and accrued expenses	635,908	31,815	296	171,863	1,256,406	-	2,096,288
Accrued payroll, payroll taxes and amounts withheld	618,654	329,928	664,594	240,655	231,500	-	2,085,331
Accrued earned time	822,524	478,282	42,916	288,433	396,137	-	2,028,292
Accrued interest payable	54,134	58,886	-	86,523	-	-	199,543
Patient deposits liability	-	11,220	-	173,690	-	-	184,910
Estimated third-party payor settlements	-	270,000	-	1,085,000	-	-	1,355,000
Deferred revenue	-	77,267	-	185,938	84,789	-	347,994
Due to MaineHealth and other member organizations	3,516,096	538,391	846,662	920,294	8,558,630	(11,321,124)	3,058,949
Current portion of long-term debt	399,087	370,000	-	480,850	-	-	1,249,937
Total current liabilities	6,046,403	2,165,789	1,554,468	3,633,246	12,769,516	(11,321,124)	14,848,298
Other long-term liabilities	270,105	-	600,900	140,167	-	-	1,011,172
Long-term debt, net of current portion	4,534,511	4,701,841	-	10,240,884	-	-	19,477,236
Total liabilities	10,851,019	6,867,630	2,155,368	14,014,297	12,769,516	(11,321,124)	35,336,706
Net assets (deficit)							
Unrestricted	29,979,094	2,548,898	(1,099,442)	13,601,259	(4,870,691)	(1,872,000)	38,287,118
Temporarily restricted	263,756	131,460	-	121,618	221,717	-	738,551
Permanently restricted	4,302,431	287,144	-	683,080	300,000	-	5,572,655
Total net assets (deficit)	34,545,281	2,967,502	(1,099,442)	14,405,957	(4,348,974)	(1,872,000)	44,598,324
Total liabilities and net assets (deficit)	\$ 45,396,300	\$ 9,835,132	\$ 1,055,926	\$ 28,420,254	\$ 8,420,542	\$ (13,193,124)	\$ 79,935,030

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Statement of Operations

Years Ended September 30, 2012

	<u>Miles Memorial Hospital</u>	<u>Cove's Edge, Inc.</u>	<u>Lincoln County Medical Group</u>	<u>St. Andrews Hospital</u>	<u>Lincoln County Healthcare</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted revenue and other support							
Net patient service revenue	\$ 57,772,050	\$ 14,393,395	\$ -	\$ 16,907,747	\$ -	\$ (55,973)	\$ 89,017,219
Other revenues	1,577,819	582,680	13,757,294	984,551	10,398,009	(24,033,191)	3,267,162
Net assets released from restrictions used for operations	<u>141,962</u>	<u>18,451</u>	<u>-</u>	<u>64,761</u>	<u>44,417</u>	<u>-</u>	<u>269,591</u>
Total unrestricted revenue and other support	<u>59,491,831</u>	<u>14,994,526</u>	<u>13,757,294</u>	<u>17,957,059</u>	<u>10,442,426</u>	<u>(24,089,164)</u>	<u>92,553,972</u>
Expense							
Salaries	14,448,207	8,049,860	10,689,362	6,426,112	4,871,336	-	44,484,877
Employee benefits	4,490,379	2,614,796	1,810,331	1,761,911	1,413,357	-	12,090,774
Nonmedical supplies	596,877	523,378	-	513,122	52,267	-	1,685,644
Medical supplies	3,519,701	433,247	-	592,133	57,092	-	4,602,173
Purchased services	12,899,657	1,986,574	-	4,010,704	2,771,379	(10,058,850)	11,609,464
Professional fees	12,579,570	20,715	602,850	1,167,532	3,168	(13,589,081)	784,754
Facility costs	2,401,587	482,611	487,123	1,254,313	329,625	(441,233)	4,514,026
State taxes	1,409,302	525,928	-	577,841	-	-	2,513,071
Interest	230,161	211,382	-	505,609	44,945	-	992,097
Depreciation and amortization	1,746,503	607,570	-	1,266,833	87,519	-	3,708,425
Provision for bad debts	2,796,536	115,429	-	345,526	-	-	3,257,491
Other	<u>538,472</u>	<u>247,195</u>	<u>167,628</u>	<u>176,949</u>	<u>837,356</u>	<u>-</u>	<u>1,967,600</u>
Total expenses	<u>57,656,952</u>	<u>15,818,685</u>	<u>13,757,294</u>	<u>18,598,585</u>	<u>10,468,044</u>	<u>(24,089,164)</u>	<u>92,210,396</u>
Operating income (loss)	<u>1,834,879</u>	<u>(824,159)</u>	<u>-</u>	<u>(641,526)</u>	<u>(25,618)</u>	<u>-</u>	<u>343,576</u>
Nonoperating gains (expenses):							
Other income (expenses)	(11,446)	(15,878)	-	(10,119)	-	-	(37,443)
Unrestricted gifts and donations	452,904	340	-	175,027	-	-	628,271
Interest and dividends	<u>109,018</u>	<u>55,895</u>	<u>-</u>	<u>88,448</u>	<u>-</u>	<u>-</u>	<u>253,361</u>
Nonoperating gains (expenses), net	<u>550,476</u>	<u>40,357</u>	<u>-</u>	<u>253,356</u>	<u>-</u>	<u>-</u>	<u>844,189</u>
Excess (deficiency) of revenue over expenses before gain in fair value of investments	2,385,355	(783,802)	-	(388,170)	(25,618)	-	1,187,765

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Statement of Operations (Concluded)

Years Ended September 30, 2012

	<u>Miles Memorial Hospital</u>	<u>Cove's Edge, Inc.</u>	<u>Lincoln County Medical Group</u>	<u>St. Andrews Hospital</u>	<u>Lincoln County Healthcare</u>	<u>Eliminations</u>	<u>Consolidated</u>
Excess (deficiency) of revenue over expenses before gain in fair value of investments	\$ 2,385,355	\$ (783,802)	\$ -	\$ (388,170)	\$ (25,618)	\$ -	\$ 1,187,765
Recognized gain in fair value of investments	<u>539,764</u>	<u>127,982</u>	<u>-</u>	<u>569,763</u>	<u>-</u>	<u>-</u>	<u>1,237,509</u>
Excess (deficiency) of revenue over expenses	2,925,119	(655,820)	-	181,593	(25,618)	-	2,425,274
Net assets released from restrictions for property and equipment	122,429	13,390	-	103,069	2,226	-	241,114
Intercompany equity transfers	(4,609,937)	(1,351,159)	204,585	(367,739)	6,124,250	-	-
Equity transfers to MaineHealth	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(210,870)</u>	<u>-</u>	<u>(210,870)</u>
Increase (decrease) in unrestricted net assets	<u>\$ (1,562,389)</u>	<u>\$ (1,993,589)</u>	<u>\$ 204,585</u>	<u>\$ (83,077)</u>	<u>\$ 5,889,988</u>	<u>\$ -</u>	<u>\$ 2,455,518</u>



Exhibit 8-A: Letter of Intent to the Department's Acute Care Health Facility Survey Unit notifying the Department of the intent to relocate St. Andrews Hospital to 35 Miles Street, Damariscotta, Maine., July 15, 2013



July 15, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Subject: Letter of Intent

Dear Ali,

Per our discussion on July 5, 2013, I am submitting this document as a letter of intent to support the relocation of St. Andrews Hospital, a Necessary Provider (NP) Critical Access Hospital (CAH), CCN 201302 to 35 Miles Street, Damariscotta, ME. 04543.

The new location is the current site of Miles Memorial Hospital, CCN 20002 which is planned to be combined with St. Andrews Hospital. Miles Memorial Hospital will retire its provider agreement concurrent with the relocation of St. Andrews Hospital occurs on October 1, 2013.

Please let me know if there is anything further that you or your office needs at this time.

Sincerely,

A handwritten signature in black ink, appearing to read "Cindy Leavitt".

Cindy Leavitt, RN, BSN, CPHQ
Senior VP Hospital Operations
(207) 563-4597

Exhibit 8-B: Letter to the Department's Acute Care Health Facility Survey Unit outlining the proposed transition plan for the relocation of St. Andrews Hospital, August 13, 2013.



August 13, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Ali,

Please see below a Transition Plan for the change of Hospital licensing and the closure of the beds at St Andrews Hospital:

St. Andrew's Hospital historically has an average Swing census of 10 with an average length of stay (LOS) of 15 days.

With the closing of this unit, management has developed the following plan for the care of patients from the current date to September 30, 2013 as follows:

August 10, 2013: The average daily census will be capped at 8.

September 1, 2013: The Manager will evaluate every request for Swing admission for on-going capacity to meet the patient's needs. If referred patients are assessed to need greater than 15 days LOS we will help to find an alternative bed for the patient.

September 15, 2013: The Manager will no longer accept referrals for Swing due to capacity and closure of the unit. He will assist in finding alternative placements for patients as needed.

Any patient remaining in a bed at this time will be evaluated for needs post September 30, 2013. Discussion will take place with patients and families as necessary for alternative Swing/SNF placement for each remaining patient per the patient's choice. Transfer plans will be made for any patient who is in a bed who will not be ready for discharge on or before September 30, 2013.

Letters to all regular referral sources will be sent regarding this transition plan. Any questions will be referred to the Manager, Steve Gould; Director of Nursing, Christine Anderson; and/or Senior VP of Hospital Operations, Cindy Leavitt.

Please let me know if this plan meets the State requirements and if you have any question at cindy.wade@lccare.org or by phone at (207) 563-4597.

Sincerely,


Cindy Wade, RN, BSN, CPHQ
Senior VP Hospital Operations

Exhibit 8-C: Letter to the Department's Acute Care Health Facility Survey Unit requesting the voluntary retirement of Miles Memorial Hospital license effective October 1, 2013, August 26, 2013.

Lincoln County Healthcare

August 26, 2013

Alelia Hilt-Lash
Licensing and Regulatory Services
State House Station 1
41 Anthony Avenue
Augusta Maine 04333

Dear Ali,

Per our discussion on August 15, 2013, I am submitting this letter as request for a Voluntary Retirement of the Miles Memorial Hospital, 35 Miles Street, Damariscotta, license (200002) effective October 1, 2013.

If you have any questions, please contact me at (207) 563-4597. Thank you for your attention to this matter.

Sincerely,

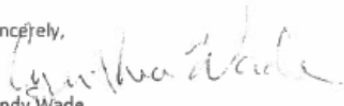

Cindy Wade
SVP Hospital Operations
Lincoln County Healthcare

Exhibit 8-D: Letter to the Department's Acute Care Health Facility Survey Unit requesting revisions of St. Andrews Hospital license effective October 1, 2013, August 27, 2013.

Lincoln County Healthcare
MaineHealth

August 27, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Dear Ali,

Per the discussion we had on August 15, 2013, I am sending this letter with the following requests to be in effect as of October 1, 2013:

- Change of St Andrew's Hospital name to LincolnHealth.
- Change of address to LincolnHealth 35 Miles Street, Damariscotta, Maine 04543.
- Addition of the following services to the license:
 - Obstetrics/Labor and Deliver/Newborns – Miles Campus
 - ICU – Miles Campus
 - Nuclear Medicine – Miles Campus
 - MRI – Miles Campus
 - Urgent Care Center – St. Andrew's Campus
 - Surgical Services – Miles Campus
 - OR
 - PACU
 - ASU
- Addition of the following Clinics from the current Miles license to the LincolnHealth license:
 - LMP General Surgery, 5 Miles Center Way, Unit 2, Damariscotta
 - LMP Women's Center, 24 Miles Center Way, Damariscotta
 - LMP Orthopedics, 39 Miles Street, Damariscotta
 - OPT Extension, 19 St Andrews Lane, Boothbay Harbor

Please disregard the letter with these requests dated August 19, 2013 as it did not contain the effective date of October 1, 2013.

If you have any questions please call me at (201) 563-4597. Thank you for your assistance.

Sincerely,


Cindy Wade, RN, BSN, CPHQ
Senior VP Hospital Operations

Exhibit 8-E: Letter to Department's Medical Facilities Health Care Oversight Unit providing notification of the proposed relocation of LincolnHealth to 35 Miles Street, Damariscotta, Maine, September 23, 2013.

MaineHealth

September 23, 2013

Phyllis Powell, Assistant Director
Medical Facilities Unit
and
Larry Carbonneau, Manager
Health Care Oversight
Division of Licensing and Regulatory Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

RE: Lincoln County Health Care
Merger of Miles Memorial Hospital
and St. Andrews Hospital

Dear Ms. Powell and Mr. Carbonneau:

Lincoln County Health Care is providing this notification to the Certificate of Need Unit as a follow up to our discussion held on September 16, 2013 among representatives of MaineHealth, Lincoln County Health Care and the Certificate of Need Unit. Effective October 1, 2013 Lincoln County Health Care is merging Miles Memorial Hospital and St. Andrews Hospital with the approval of its parent, MaineHealth. This merger does not involve a transfer of ownership, acquisition of control, capital expenditure, additional operating expense or introduction of new health service.

MaineHealth has sought Certificate of Need review and approval by the Department of Health and Human Service for every transaction that involved a transfer of ownership and system control of a health care facility to MaineHealth when such entities have sought to become system members or subsidiaries of MaineHealth. MaineHealth received certificate of need authorization for both St Andrews and Miles to become members of MaineHealth in 1996 and 1997 respectively.

Effective October 1, 2013 Lincoln County Health Care is merging Miles Memorial Hospital and St. Andrews Hospital with the approval of its parent, MaineHealth. St. Andrews Hospital is the surviving entity and undergoes a name change to "LincolnHealth".

Lincoln County Health Care continues to govern and manage the merged hospital subject to the governance of MaineHealth. LincolnHealth maintains its State of Maine hospital license, Centers for Medicare and Medicaid Services' provider agreement and Critical Access Hospital designation.

In 2007 MaineHealth established a subsidiary, Lincoln County Health Care, as the parent nonprofit corporation to provide governance and management to St. Andrews Hospital, Miles Memorial Hospital, Coves Edge and Lincoln County Medical Group, its then subsidiaries in Lincoln County. St Andrews Hospital had a single corporation in which it maintained hospital services, employed physicians and long term care (St Andrews Village). Miles Healthcare then existed with three subsidiaries: Miles Memorial Hospital, Cove's Edge (long-term care) and Miles Medical Group (employed physicians and mid-level providers). The two organizations shared control of an administrative services entity, Lincoln County Shared Services.

The 2007 restructuring involved several significant changes:

- MaineHealth changed the governance and management structures of Miles Healthcare and St Andrews Hospital. Their Articles of Incorporation were further amended to provide that the Board of Trustees and Corporate Officers of Lincoln County Health Care would at all times serve as the Board and Officers of Miles and St Andrews. Senior Management for both organizations was similarly made identical. Results from operations and audited financial performance were combined into a consolidated financial statement for Lincoln County Health Care.
- St Andrews Hospital, then subject to governance control by its parent, MaineHealth, had its Articles of Incorporation amended by MaineHealth to direct governance over St Andrews Hospital to Lincoln County Health Care while MaineHealth retained governance over its newly formed subsidiary, Lincoln County Health Care.
- Miles Healthcare was merged by MaineHealth into Lincoln County Health Care to produce subsidiaries similar to St Andrews Hospital for Miles Memorial Hospital and Cove's Edge.
- Lincoln County Medical Group was organized to combine the employed physicians and mid-level providers at Miles Memorial Hospital and St Andrews Hospital into a single organization.
- All administrative services provided by Lincoln County Shared Services were transferred to Lincoln County Health Care.

In effect the operating entities are functioning as a single community integrated healthcare delivery system serving Lincoln County as demonstrated by Lincoln County Health Care's Consolidated Audited Financial Statements. (See Attachment A – Lincoln County Health Care Audited Financial Statements for Fiscal Years 2012 and 2011)

Even with the unified governance and management structure and the resulting integration of hospital services, it has become apparent that continuing 24-hour acute inpatient and emergency care at St Andrews Boothbay Harbor campus is no longer sustainable due to volume, quality of care and financial concerns. Lincoln County Health Care needs to consolidate 24-hour acute inpatient and emergency care on its Damariscotta campus.

A consequence of consolidating 24-hour acute care services on a single campus is that Lincoln County Health Care will no longer be operating two separately licensed hospitals; there will be only one licensed hospital entity. MaineHealth and Lincoln County Health Care have selected St. Andrews Hospital, restructured by the merger and renamed “LincolnHealth”, as the surviving entity. Lincoln County Health Care continues to govern and manage LincolnHealth under the governance of MaineHealth. There is no transfer of ownership or acquisition of control.

In order to maintain its Critical Access Hospital designation LincolnHealth will operate a maximum of 25 licensed acute care and swing beds and provide 24-hour emergency services on the Damariscotta campus. The Boothbay Harbor facility will continue to support LincolnHealth’s delivery of outpatient and ambulatory care. The Centers for Medicare and Medicaid Services (CMS) have granted preliminary approval of the Hospital’s relocation request. (See Attachment B – June 27, 2013 Letter to James Donovan, President and Chief Executive Officer, Lincoln County Health Care from Daniel Kristola, Branch Chief, Certification and Enforcement Branch, CMS)

When the merger takes effect, LincolnHealth’s hospital license will need to be revised to reflect these changes:

- Changing the name to “LincolnHealth”,
- Changing the address to 35 Miles Street, Damariscotta, Maine,
- Changing service from “Emergency Services” to “Urgent Care Center” on the Boothbay Harbor campus,
- Eliminating 25 acute care / swing beds from the Boothbay Harbor campus,
- Recognizing the existing services and sites currently operating under Miles’ hospital license as previously governed and managed by Lincoln County Health Care,
- Recognizing 25 acute care / swing beds on the Damariscotta campus.

Miles Memorial Hospital license and CMS provider agreement will cease to exist as the merger is taking effect. (See Attachment C – August 27, 2013 Letter to Ali Hilt Lash, Licensing and Regulatory Services from Cindy Wade, Senior Vice President of Hospital Operations, Lincoln County Health Care)

We must emphasize that these reported changes for licensing purposes in no instance indicate the development of a new health service or increase in licensed bed complement. They reflect a continuation of services currently provided under the Lincoln County Health Care governance and management structure. There are no capital expenditures or additional incremental third year operating expenses associated with the continuation of these services and sites.

These changes will result in cost savings of \$6.3 million during Fiscal Year 2014, a 16% reduction in annual hospital operating expenses from the current FY13 budget to the FY14 budget. This will facilitate hospital price reductions of \$4.6 million in October and

Lincoln County Health Care
Merger of Miles Memorial Hospital and St Andrews Hospital
September 23, 2013
Page 4

an additional price reduction later in FY14. This aligns well with the stated purposes of the Certificate of Need Act, particularly with regard to: effective health planning, access to cost-effective services and avoiding excessive duplication.

Please feel free to contact me if you have any questions; I may be reached by telephone at 207-662-2451 or by email at linehr@mmc.org.

Sincerely,



Richard M. Linehan
Director of Planning

Attachment A – Lincoln County Health Care Audited Financial Statements for Fiscal Years 2012 and 2011

Attachment B – June 27, 2013 Letter to James Donovan, President and Chief Executive Officer, Lincoln County Health Care from Daniel Kristola, Branch Chief, Certification and Enforcement Branch, CMS

Attachment C – August 27, 2013 Letter to Ali Hilt Lash, Licensing and Regulatory Services from Cindy Wade, Senior Vice President of Hospital Operations, Lincoln County Health Care



**LINCOLN COUNTY HEALTH CARE, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

September 30, 2012 and 2011

With Independent Auditors' Report

September 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lincoln County Health Care

We have audited the accompanying consolidated balance sheets of Lincoln County Health Care, Inc. and Subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Lincoln County Health Care, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln County Health Care, Inc. and Subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying additional information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
February 8, 2013

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 2,002,326	\$ 1,688,029
Investments	1,235,243	1,382,373
Patient deposits	184,910	244,617
Current portion of investments whose use is limited	445,860	-
Patient accounts receivable, net	9,634,552	12,988,932
Current portion of pledges receivable	5,366	38,865
Estimated third-party payor settlements	844,462	309,299
Inventories, prepaid expenses, and other current assets	2,554,900	2,615,711
Due from MaineHealth and other member organizations	<u>190,843</u>	<u>59,155</u>
Total current assets	<u>17,098,462</u>	<u>19,326,981</u>
Investments whose use is limited by:		
Bond indenture	445,860	-
Board designation	8,876,791	7,190,850
Donor-restriction	<u>2,525,778</u>	<u>2,131,813</u>
	11,848,429	9,322,663
Less current portion	<u>445,860</u>	<u>-</u>
	<u>11,402,569</u>	9,322,663
Estimated third-party payor settlements	3,901,000	2,367,000
Interest in charitable remainder trust	81,410	71,495
Beneficial interest in perpetual trusts	3,726,808	3,349,126
Property and equipment, net	39,567,122	41,735,746
Deferred charges, net of amortization	237,654	267,893
Other assets	<u>3,920,005</u>	<u>1,061,078</u>
Total assets	<u>\$ 79,935,030</u>	<u>\$ 77,501,982</u>

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current liabilities		
Line of credit	\$ 2,242,054	\$ -
Accounts payable and accrued expenses	2,096,288	2,109,077
Accrued payroll, payroll taxes and amounts withheld	2,085,331	1,458,621
Accrued earned time	2,028,292	2,278,879
Accrued interest payable	199,543	-
Patient deposits liability	184,910	244,615
Estimated third-party payor settlements	1,355,000	2,120,408
Deferred revenue	347,994	220,281
Due to MaineHealth and other member organizations	3,058,949	4,362,710
Current portion of long-term debt	<u>1,249,937</u>	<u>1,439,252</u>
Total current liabilities	14,848,298	14,233,843
Other long-term liabilities	1,011,172	1,103,293
Long-term debt, net of current portion	<u>19,477,236</u>	<u>20,768,574</u>
Total liabilities	<u>35,336,706</u>	<u>36,105,710</u>
Commitments and contingencies (Notes 12 and 14)		
Net assets		
Unrestricted	38,287,118	35,831,600
Temporarily restricted	738,551	632,627
Permanently restricted	<u>5,572,655</u>	<u>4,932,045</u>
Total net assets	<u>44,598,324</u>	<u>41,396,272</u>
Total liabilities and net assets	<u>\$ 79,935,030</u>	<u>\$ 77,501,982</u>

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues and other support		
Net patient service revenue	\$ 89,017,219	\$ 91,278,985
Other revenues	3,267,162	2,072,027
Net assets released from restrictions used for operations	<u>269,591</u>	<u>172,033</u>
Total unrestricted revenues and other support	<u>92,553,972</u>	<u>93,523,045</u>
Expenses		
Salaries	44,484,877	44,716,518
Employee benefits	12,090,774	12,151,186
Nonmedical supplies	1,685,644	1,682,035
Medical supplies	4,602,173	4,814,237
Purchased services	11,609,464	9,778,524
Professional fees	784,754	640,152
Facility costs	4,514,026	4,319,423
State taxes	2,513,071	2,200,201
Interest	992,097	1,072,933
Depreciation and amortization	3,708,425	3,716,624
Provision for bad debts	3,257,491	4,165,086
Other	<u>1,967,600</u>	<u>2,000,676</u>
Total expenses	<u>92,210,396</u>	<u>91,257,595</u>
Operating income	<u>343,576</u>	<u>2,265,450</u>
Nonoperating gains (expenses):		
Other expenses	(37,443)	(9,413)
Unrestricted gifts and donations	628,271	248,293
Interest and dividends	<u>253,361</u>	<u>236,077</u>
Nonoperating gains (expenses), net	<u>844,189</u>	<u>474,957</u>
Excess of revenue over expenses before gain (loss) in fair value of investments	1,187,765	2,740,407
Recognized gain (loss) in fair value of investments	<u>1,237,509</u>	<u>(412,711)</u>
Excess of revenue over expenses	<u>\$ 2,425,274</u>	<u>\$ 2,327,696</u>

The accompanying notes are an integral part of these consolidated financial statements.

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenue and other support:		
Excess of revenue over expenses	\$ 2,425,274	\$ 2,327,696
Net assets released from restrictions used for property and equipment	241,114	504,099
Equity transfers to MaineHealth	<u>(210,870)</u>	<u>(138,030)</u>
Increase in unrestricted net assets	<u>2,455,518</u>	<u>2,693,765</u>
Temporarily restricted net assets		
Gifts and donations	525,114	436,102
Interest, dividends and realized gains	36,224	52,115
Change in net unrealized gains and losses on investments	55,291	(29,694)
Net assets released from restrictions	<u>(510,705)</u>	<u>(676,132)</u>
Increase (decrease) in temporarily restricted net assets	<u>105,924</u>	<u>(217,609)</u>
Permanently restricted net assets		
Gifts and donations	262,928	60,960
Change in perpetual trusts	<u>377,682</u>	<u>(165,055)</u>
Increase (decrease) in permanently restricted net assets	<u>640,610</u>	<u>(104,095)</u>
Increase in net assets	3,202,052	2,372,061
Net assets, beginning of year	<u>41,396,272</u>	<u>39,024,211</u>
Net assets, end of year	<u>\$ 44,598,324</u>	<u>\$ 41,396,272</u>

The accompanying notes are an integral part of these consolidated financial statements.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 3,202,052	\$ 2,372,061
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	3,708,425	3,716,624
Provision for bad debts	3,257,491	4,165,086
Net realized and change in unrealized gains (losses) on investments	(1,293,083)	418,199
Discount and allowance for pledges receivable	-	(6,335)
Change in beneficial interest in perpetual trusts and charitable remainder trust	(387,597)	167,402
Restricted contributions and investment income	(824,266)	(549,177)
Loss on sale of property and equipment	37,443	9,413
Transfer to MaineHealth	210,870	138,030
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	96,889	(7,202,810)
Pledges receivable	33,499	51,207
Inventories, prepaid expenses, and other current assets	120,518	166,837
Accounts payable and other current liabilities	503,172	(1,074,466)
Accretion/amortization of deferred revenue	127,713	(77,695)
Other long-term liabilities	(92,121)	18,538
Estimated third-party payor settlements	(2,834,571)	(4,000,174)
Due to/due from affiliates	<u>(1,435,449)</u>	<u>(354,374)</u>
Net cash provided (used) by operating activities	<u>4,430,985</u>	<u>(2,041,634)</u>
Cash flows from investing activities		
Purchases of investments	(4,822,749)	(3,718,774)
Proceeds from sales of investments	3,737,196	3,875,471
Increase (decrease) in other assets	(2,858,927)	(49,424)
Proceeds from sale of property and equipment	10,118	300
Purchases of property and equipment	<u>(1,533,299)</u>	<u>(2,402,648)</u>
Net cash used by investing activities	<u>(5,467,661)</u>	<u>(2,295,075)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, notes payable and line of credit	2,742,054	18,231,117
Payments of long-term debt, notes payable and line of credit	(2,004,477)	(19,394,510)
Additions to deferred finance costs, net	-	(62,431)
Proceeds from restricted contributions and investment income	824,266	549,177
Transfer to MaineHealth	<u>(210,870)</u>	<u>(138,030)</u>
Net cash provided (used) by financing activities	<u>1,350,973</u>	<u>(814,677)</u>
Net increase (decrease) in cash and cash equivalents	314,297	(5,151,386)
Cash and cash equivalents, beginning of year	<u>1,688,029</u>	<u>6,839,415</u>
Cash and cash equivalents, end of year	<u>\$ 2,002,326</u>	<u>\$ 1,688,029</u>
Supplemental disclosure for cash flow information:		
Cash paid for interest	<u>\$ 893,505</u>	<u>\$ 1,291,740</u>
Noncash transactions:		

During 2012, LCHC entered into a capital lease obligation, acquiring an asset with a value of \$23,824. The lease commitment and capital asset have been treated as noncash transactions.

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

1. Reporting Entity

Organization

The consolidated financial statements of Lincoln County Health Care, Inc. and Subsidiaries (LCHC) include the accounts of St. Andrews Hospital (SAH), Lincoln County Medical Group (LCMG), Miles Memorial Hospital (MMH) and Cove's Edge, Inc. (Cove's Edge). All significant intercompany activity is eliminated in consolidation. LCHC is a subsidiary of MaineHealth, an integrated health care delivery system serving southern, western and central Maine. MaineHealth is also the parent company of Maine Medical Center and Subsidiaries, Western Maine Health Care Corporation and Subsidiaries, Home Health Visiting Nurses of Southern Maine, NorDx, Maine Physician Hospital Organization, Inc., Synernet, Inc., Maine Mental Health Partners and Subsidiaries, Waldo County Healthcare, Inc. and Subsidiaries, Southern Maine Medical Center and Subsidiaries, and Pen Bay Healthcare and Subsidiaries. All activity with these other entities is disclosed as activity with related parties.

LCHC's vision is to provide the best in community health care. Collectively, the Organizations of LCHC work towards constantly improving the health and well-being of the people and the communities it serves, principally in Lincoln County.

2. Summary of Significant Accounting Policies

The accounting policies that affect the more significant elements of the consolidated financial statements are summarized below:

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable, estimated third-party payor settlements, and certain accruals.

Cash and Cash Equivalents

Cash and cash equivalents include all demand deposit accounts, short-term money market accounts and certificates of deposit with original maturities of three months or less, excluding investments whose use is limited.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Investments Whose Use is Limited

Investments whose use is limited primarily includes investments held by trustees under bond indenture agreements, designated investments set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and investments purchased with donor-restricted funds. Amounts required to meet current liabilities of LCHC have been classified as current in the consolidated balance sheets at September 30, 2012 and 2011.

Investments

All investments are measured at fair market value based on market quotations in the consolidated balance sheets.

As provided under Accounting Standards Codification (ASC) Section 825 *Financial Instruments*, entities may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in the excess of revenues over expenses. This election was made by LCHC for all financial instruments classified as investments and investments whose use is limited. As a result of this election, LCHC reflects changes in the fair value, including both increases and decreases in value whether realized or unrealized, in its excess of revenues 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 balance sheets, statements of operations, and changes in net assets.

Investment income or loss, including realized and unrealized gains and losses on investments, interest and dividends, is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Realized gains or losses on the sale of investment securities are determined by the specific identification method.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

Inventories

Inventories of supplies are stated at the lower of cost (determined by the first-in, first-out method) or market.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Property and Equipment

Property and equipment acquisitions are recorded at cost. The carrying value of long-lived assets is reviewed if the facts and circumstances suggest that it may be impaired. 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.

Gifts of long-lived assets such as land, buildings or equipment are reported as increases in unrestricted net assets at fair market value and are excluded from the excess of revenue over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire or construct long-lived assets are reported as restricted support. Absent explicit donor stipulation 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.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to LCHC are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by LCHC has been limited by donors or law to a specific time period or use. Permanently restricted net assets reflect the original value of gifts that have been restricted by donors to be maintained by LCHC in perpetuity, as well as the net present value of the expected future cash flows of perpetual trusts. Substantially all income from permanently restricted net assets is unrestricted.

Estimated Third-Party Payor Settlements

Estimated third-party payor settlements represent estimates of final settlements under government programs (Medicare and MaineCare) and Anthem Blue Cross and Blue Shield. Amounts due under these programs will become determinable and final only upon completion of cost reporting and subsequent audit as required under the terms of agreements with respective third-party reimbursing agencies.

Notes to Consolidated Financial Statements

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Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Contracts, laws, and regulations governing the Medicare and MaineCare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity Care and Bad Debts

MMH and SAH (the Hospitals) accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. Essentially, these policies define charity care as those services for which limited or no payment is anticipated. In assessing a patient's ability to pay, the Hospitals utilize generally recognized poverty income levels. Charity care is measured based on the Hospitals' established rates. The Hospitals utilize annual federal guidelines and adjust accounts for those whose income is 225% of the poverty level taking family size into consideration. The costs and expenses incurred in providing these services are included in operating expenses. Revenue for services rendered to individuals from whom payment is expected and ultimately not received is written off and included as part of the allowance for bad debts.

Excess of Revenue over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include contributions of long-lived assets (including assets using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and equity transfers.

Retirement Benefits

LCHC sponsors a defined contribution pension plan for the benefit of all employees of its subsidiaries who meet certain age and service requirements. Contributions are made for eligible employees based on their contributions and salary level. Employees are immediately fully vested in employer contributions. Amounts expensed under the plan by LCHC were approximately \$1,218,000 and \$1,222,000 for the years ended September 30, 2012 and 2011, respectively.

Income Taxes

LCHC, MMH, SAH and Cove's Edge are not-for-profit corporations recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. LCMG is a not-for-profit corporation and is in the process of applying to be recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Notes to Consolidated Financial Statements

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Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the consolidated financial statements. Management has evaluated subsequent events through February 8, 2013, which is the date the consolidated financial statements were available to be issued.

Recently Issued Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"), which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The provisions of ASU 2010-24 were effective for LCHC beginning October 1, 2011. The adoption of ASU No. 2010-24 did not impact LCHC's statements of financial position, statements of operations, or cash flow statements.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"), which requires reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. It also requires enhanced disclosure about the policies for recognizing revenue and assessing bad debts, disclosure of patient service revenue, as well as qualitative and quantitative information about charges in the allowance for doubtful accounts. The provisions of ASU 2011-07 are effective for LCHC beginning October 1, 2012. LCHC has not determined the impact of ASU No. 2011-07 on its financial statements.

Reclassifications

Certain 2011 amounts have been reclassified to permit comparison with the current year's presentation format.

3. Net Patient Service Revenue

LCHC has agreements with third-party payors that provide for payments to the Hospitals at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

MMH — Inpatient and outpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical diagnosis and other factors. Inpatient nonacute services are paid based upon a combination of prospective fees and cost reimbursement. MMH is reimbursed at an interim rate with final settlement determined after submission of annual cost

Notes to Consolidated Financial Statements

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reports and reviews thereof by the Medicare fiscal intermediary. MMH's Medicare cost reports have been settled through September 30, 2004.

SAH - Inpatient acute care services rendered to Medicare program beneficiaries are paid under a cost reimbursement methodology. Outpatient services are paid based on a combination of rate schedules and reimbursed cost. SAH is reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by SAH and reviews thereof by the Medicare fiscal intermediary. SAH's Medicare cost reports have been settled through September 30, 2006.

MaineCare

MaineCare is a medical assistance program offered by the State of Maine, Department of Health and Human Services. Inpatient and outpatient services rendered to MaineCare program beneficiaries are reimbursed under a cost reimbursement methodology subject to certain limitations. Effective July 1, 2011, MMH inpatient services became paid at prospectively determined rates per discharge. The Hospitals are reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the State of Maine. MaineCare cost reports have been settled through September 30, 2005.

In 2004, the State of Maine, facing significant budget deficits, enacted legislation establishing a health care provider tax (State tax). The enactment of the State tax allowed the State of Maine to add revenues to the State of Maine General Fund while optimizing federal matching funds to the MaineCare Program. As a result, LCHC recorded \$2,513,071 and \$2,200,201 of State tax for the years ended September 30, 2012 and 2011, respectively. The amount of the tax is shown separately in expenses on the consolidated statements of operations.

In 2003, the State of Maine enacted legislation to provide affordable health insurance to small businesses and individuals and to control health care costs. This legislation is known as Dirigo Health. The law provides for access to health care coverage through the expansion of eligibility for the MaineCare program and also the development of an affordable health care plan with sliding scale premium subsidies. The law also covers quality and cost containment strategies such as the development of a State Health Plan, voluntary caps on cost and operating margins of hospitals and insurers, and revised Certificate of Need regulations including a Capital Investment Fund.

In 2005, the Dirigo Health law was supplemented by additional legislation titled "An Act to Implement Certain Recommendations of the Commission to Study Maine's Community Hospitals". The law requests hospitals to voluntarily hold their consolidated operating margins to 3% and to voluntarily restrain their increases in expense per case mix adjusted discharge to less than 110% of the forecasted increase in the Centers for Medicare and Medicaid Services (CMS) hospital market basket index for the coming federal fiscal year. This law also addresses the jurisdiction of Dirigo Health, calls for the standardization of the reporting of hospital financial information, and establishes a workgroup to identify opportunities to streamline hospital administrative costs.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The balance sheets at September 30, 2012 and 2011 include amounts due from the State of Maine under the MaineCare program of \$3,788,000 and \$2,690,000, respectively. Although the State's current budget does not fully provide for amounts due to LCHC, the amounts recorded have been determined based upon applicable regulations, and LCHC expects that these amounts will ultimately be paid in full. Due to the complex nature of such regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Other Payors

LCHC also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements are discounts from established charges.

Revenues from the Medicare and MaineCare programs accounted for approximately 54% and 53% for the years ended September 30, 2012 and 2011, respectively, of the Hospitals' net patient service revenue. Laws and regulations governing the Medicare and MaineCare programs are complex and subject to interpretation. The Hospitals believe that they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and MaineCare programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During 2012 and 2011, LCHC net patient service revenue in the consolidated statements of operations increased by approximately \$1,588,000 and \$220,000, respectively, due to prior year settlements and changes in prior year estimated third-party estimates.

Net patient service revenue for the years ended September 30 consists of the following:

	<u>2012</u>	<u>2011</u>
Inpatient services	\$ 30,980,337	\$ 30,240,559
Inpatient ancillary services	30,522,804	31,354,754
Outpatient services	<u>87,483,302</u>	<u>88,346,980</u>
	148,986,443	149,942,293
Deductions from gross charges:		
Contractual adjustments	56,198,794	55,521,974
Charity care	<u>3,770,430</u>	<u>3,141,334</u>
Net patient service revenue	<u>\$ 89,017,219</u>	<u>\$ 91,278,985</u>

Notes to Consolidated Financial Statements

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The Hospitals provide care without charge or at amounts less than its established rates to patients who meet certain criteria under its Board established free care policy. The Hospitals provide free care on a sliding scale to anyone whose income falls below 225% of the federal poverty level. In addition, the Hospitals offer a prompt pay discount to those not otherwise covered by third-party payor contracts. Because the Hospitals do not pursue collection of amounts determined to qualify as free care, they are not reported as net patient service revenue. The Hospitals estimate the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated costs of caring for charity care patients for the years ended September 30, 2012 and 2011 were \$2,020,772 and \$1,682,867, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended September 30, 2012 and 2011 were \$72,313 and \$94,000, respectively.

4. Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The Medicare criteria for meaningful use financial incentives will be staged in three steps up through fiscal year 2016. The meaningful use attestation is subject to audit by CMS in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation.

The Medicaid program provides incentive payments to hospitals and eligible professionals with a certain percentage of Medicaid patient volumes. In the first year of participation, they must adopt and implement, upgrade or demonstrate meaningful use and then demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program.

During 2012, LCHC recorded meaningful use revenue of \$1,117,074 from the Medicaid EHR program which is included in other revenues in the consolidated statements of operations. LCHC has demonstrated the required Medicaid volumes and is upgrading to a certified EHR.

5. Patient Accounts Receivable

Patient accounts receivable consists of the following at September 30:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable:	\$ 19,863,267	\$ 25,406,433
Less:		
Allowances for contractual adjustments	7,955,232	9,962,104
Allowance for bad debts	<u>2,273,483</u>	<u>2,455,397</u>
	<u>\$ 9,634,552</u>	<u>\$ 12,988,932</u>

Notes to Consolidated Financial Statements

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6. Investments and Investments Whose Use is Limited

The composition of investments and investments whose use is limited at September 30 is set forth in the following table:

	<u>2012</u>	<u>2011</u>
Investments (current assets)	\$ 1,235,243	\$ 1,382,373
Investments whose use is limited	11,848,429	9,322,663
Interest in charitable remainder trust	81,410	71,495
Beneficial interest in perpetual trusts	<u>3,726,808</u>	<u>3,349,126</u>
	<u>\$ 16,891,890</u>	<u>\$ 14,125,657</u>
Cash and cash equivalents	\$ 3,470,661	\$ 1,756,831
Marketable equity securities	2,481,292	2,161,960
Mutual funds and exchange traded funds	6,062,891	5,336,799
Bonds and notes	1,068,828	1,449,446
Interest in charitable remainder trust	81,410	71,495
Beneficial interest in perpetual trust	<u>3,726,808</u>	<u>3,349,126</u>
	<u>\$ 16,891,890</u>	<u>\$ 14,125,657</u>

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The following table provides the assets carried at fair value as of September 30, 2012 and 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2012</u>				
Cash and cash equivalents	\$ 3,470,661	\$ 3,470,661	\$ -	\$ -
Debt instruments:				
U.S. government bonds	213,413	213,413	-	-
Corporate bonds	<u>855,415</u>	<u>-</u>	<u>855,415</u>	<u>-</u>
Total debt instruments	1,068,828	213,413	855,415	-
Marketable equity securities:				
Consumer	546,858	546,858	-	-
Healthcare	365,382	365,382	-	-
Financial services	292,071	292,071	-	-
Energy	504,122	504,122	-	-
Basic industry	410,741	410,741	-	-
Industrials	49,973	49,973	-	-
Communication	263,538	263,538	-	-
Technology	<u>48,607</u>	<u>48,607</u>	<u>-</u>	<u>-</u>
Total marketable equity securities	2,481,292	2,481,292	-	-
Mutual funds:				
Equity funds	1,612,081	1,612,081	-	-
Fixed income funds	1,615,518	1,615,518	-	-
International fixed income	917,670	917,670	-	-
International equity funds	<u>182,511</u>	<u>182,511</u>	<u>-</u>	<u>-</u>
Total mutual funds	4,327,780	4,327,780	-	-
Other:				
Exchange — traded funds	1,735,111	1,735,111	-	-
Beneficial interest in trusts	<u>3,808,218</u>	<u>-</u>	<u>-</u>	<u>3,808,218</u>
	<u>5,543,329</u>	<u>1,735,111</u>	<u>-</u>	<u>3,808,218</u>
	<u>\$ 16,891,890</u>	<u>\$ 12,228,257</u>	<u>\$ 855,415</u>	<u>\$ 3,808,218</u>

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2011</u>				
Cash and cash equivalents	\$ 1,756,831	\$ 1,756,831	\$ -	\$ -
Debt instruments:				
U.S. government bonds	642,038	642,038	-	-
Corporate bonds	<u>807,408</u>	<u>-</u>	<u>807,408</u>	<u>-</u>
Total debt instruments	1,449,446	642,038	807,408	-
Marketable equity securities:				
Consumer	493,926	493,926	-	-
Healthcare	248,929	248,929	-	-
Financial services	218,761	218,761	-	-
Energy	229,368	229,368	-	-
Basic industry	36,667	36,667	-	-
Industrials	434,479	434,479	-	-
Communication	80,700	80,700	-	-
Technology	<u>419,130</u>	<u>419,130</u>	<u>-</u>	<u>-</u>
Total marketable equity securities	2,161,960	2,161,960	-	-
Mutual funds:				
Equity funds	2,085,172	2,085,172	-	-
Fixed income funds	614,376	614,376	-	-
International fixed income	175,881	175,881	-	-
International equity funds	<u>730,587</u>	<u>730,587</u>	<u>-</u>	<u>-</u>
Total mutual funds	3,606,016	3,606,016	-	-
Other:				
Exchange — traded funds	1,730,783	1,730,783	-	-
Beneficial interest in trusts	<u>3,420,621</u>	<u>-</u>	<u>-</u>	<u>3,420,621</u>
	<u>5,151,404</u>	<u>1,730,783</u>	<u>-</u>	<u>3,420,621</u>
	<u>\$ 14,125,657</u>	<u>\$ 9,897,628</u>	<u>\$ 807,408</u>	<u>\$ 3,420,621</u>

The fair value for Level 2 assets and liabilities is primarily based on market prices of underlying assets and comparable securities.

Level 3 assets for LCHC include the beneficial interest in perpetual trusts and interest in the charitable remainder trust as LCHC's legal interest is in its pro rata portion of the trust and not the trusts' underlying assets. LCHC's interest is valued based upon its pro rata ownership of the total trust. The actual assets are not readily available to LCHC, and thus are considered to be Level 3.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 3,420,621	\$ 3,588,023
Unrealized gains (losses)	<u>387,597</u>	<u>(167,402)</u>
Balance at end of year	<u>\$ 3,808,218</u>	<u>\$ 3,420,621</u>

Investments whose use is limited include amounts required to be held in reserve by debt agreements and restricted by donors. The Board of Trustees also segregates certain unrestricted net assets as Board designated in order to provide for future capital improvements and for other specific purposes.

Investment income and gains (losses) on investments whose use is limited, cash equivalents, and other investments consist of the following:

	<u>2012</u>	<u>2011</u>
Income (loss):		
Interest and dividends	\$ 289,302	\$ 263,986
Net realized gains on investments	<u>250,377</u>	<u>440,640</u>
	<u>539,679</u>	704,626
Net unrealized gain (loss) on investments	<u>1,042,706</u>	<u>(858,839)</u>
	<u>\$ 1,582,385</u>	<u>\$ (154,213)</u>

Investment Return Objectives, Risk Parameters and Spending Policies

LCHC has adopted an investment policy that is diversified and whose objective is to provide income with growth over the long term. Investment accounts exist to benefit and support the mission and organizations of LCHC in accordance with any stipulations set forth by donors. The benefit and support to the organization is achieved through the preservation and the growth of investment assets through reinvestment of capital gains and/or interest and dividend income. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, the endowment equity assets are invested in a manner to generate returns at least equal to that of the Standard & Poor's 500 stock index, over the most recent 5-year period, plus 2 percentage points. LCHC asset allocation targets a diversified asset allocation that places a greater emphasis on equity-based investments within prudent risk constraints.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

7. Property, Plant and Equipment

Property, plant and equipment consists of the following at September 30:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 7,937,922	\$ 7,815,796
Buildings	57,526,987	57,408,130
Equipment	26,559,494	33,632,859
Construction in progress	<u>136,488</u>	<u>92,969</u>
	92,160,891	98,949,754
Less accumulated depreciation	<u>(52,593,769)</u>	<u>(57,214,008)</u>
	<u>\$ 39,567,122</u>	<u>\$ 41,735,746</u>

Depreciation expense for the years ended September 30, 2012 and 2011 was \$3,678,186 and \$3,704,510, respectively.

8. Long-Term Debt

At September 30, long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
<u>MMH</u>		
Note payable, Maine Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds:		
Series 2011A; Serial bonds, due July 2026 plus original issue premium of \$133,486 and \$155,286 in 2012 and 2011, respectively, and 4.75% term bonds due July 2031	\$ 4,557,184	\$ 4,923,984
Other	<u>376,414</u>	<u>445,665</u>
	<u>4,933,598</u>	<u>5,369,649</u>
 <u>Cove's Edge</u>		
Note payable, MHHEFA Revenue Bonds		
Series 2011A; Serial bonds, due July 2026 plus original issue premium of \$261,067 and \$311,783 in 2012 and 2011, respectively, and 4.75% term bonds due July 2028	<u>5,071,841</u>	<u>5,542,557</u>
 <u>SAH</u>		
Note payable, MHHEFA Revenue Bonds:		
Series 2011A; Serial bonds, due July 2026 plus original issue premium of \$202,838 and \$231,274 in 2012 and 2011, respectively, and 4.75% term bonds due July 2029	7,220,776	7,624,212
Note payable with Bank of America	3,487,456	3,631,112
Other	<u>13,502</u>	<u>40,296</u>
	<u>10,721,734</u>	<u>11,295,620</u>
	20,727,173	22,207,826
Less current portion	<u>1,249,937</u>	<u>1,439,252</u>
	<u>\$ 19,477,236</u>	<u>\$ 20,768,574</u>

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

MMH

In August 2011, MMH refunded its Series 2001D and Series 1999A Revenue Bonds with new financing of \$5,305,000 undertaken in conjunction with MHHEFA Series 2011A Revenue Bonds. The serial bonds mature at variable amounts ranging from \$300,000 on July 1, 2013 to \$175,000 on July 1, 2026 and have interest rates ranging from 2% to 5%. The term bonds mature in increasing annual amounts ranging from \$185,000 on July 1, 2027 to \$220,000 on July 1, 2031 and have an interest rate of 4.75%.

Cove's Edge

In August 2011, Cove's Edge refunded its Series 2001D and Series 1998B Revenue Bonds with new financing of \$5,860,000 undertaken in conjunction with MHHEFA Series 2011A Revenue Bonds. The serial bonds mature at variable amounts ranging from \$370,000 on July 1, 2013 to \$235,000 on July 1, 2026 and have interest rates ranging from 2% to 5%. The term bonds mature in increasing annual amounts ranging from \$245,000 on July 1, 2027 to \$260,000 on July 1, 2028 and have an interest rate of 4.75%.

SAH

In August 2011, SAH refunded its Series 1998C Revenue Bonds with new financing of \$8,085,000 undertaken in conjunction with MHHEFA Series 2011A Revenue Bonds. The serial bonds mature at variable amounts ranging from \$315,000 on July 1, 2013 to \$555,000 on July 1, 2026 and have interest rates ranging from 2% to 5%. The term bonds mature in increasing annual amounts ranging from \$585,000 on July 1, 2027 to \$640,000 on July 1, 2029 and have an interest rate of 4.75%.

The note payable with Bank of America has a maturity date of December 31, 2027. The term note is at a fixed rate of 4.205%. Interest is paid monthly and principal is to be repaid over 20 years.

The MHHEFA Series 2011A Revenue Bonds and the fixed rate notes with Bank of America are currently guaranteed under the Master Trust Indenture Agreement (Note 12).

Under the terms of the Bonds, MMH, SAH and Cove's Edge are required to maintain certain deposits with a trustee. Such deposits are included with investments whose use is limited in the financial statements.

Annual principal maturities of long-term debt for the five fiscal years after September 30, 2012 and the years thereafter are as follows:

2013 (included in current liabilities)	\$ 1,249,937
2014	1,177,515
2015	1,204,861
2016	1,268,473
2017	1,306,222
Thereafter	<u>14,520,165</u>
	<u>\$ 20,727,173</u>

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Notes Payable and Lines of Credit

At September 30, 2012, MMH had available a \$1,500,000 revolving line of credit with the First National Bank of Damariscotta. Interest rates on specific borrowings can be fixed as of the date requested under various interest rate options. There were no amounts outstanding as of September 30, 2012 and 2011. The note is secured by investments and has a variable interest rate (3.25% at September 30, 2012).

In November 2011, LCHC obtained a line of credit with another bank. The line of credit is available up to the amount of the investments pledged. The purpose of the additional line of credit is to fund capital expenditures for information systems. The amount outstanding under this line of credit agreement at September 30, 2012 was \$2,242,054. The line of credit has a variable interest rate (3.25% at September 30, 2012).

9. Temporarily and Permanently Restricted Net Assets and Endowment Funds

Temporarily restricted net assets are restricted primarily for health care services and to fund capital improvements and consist of the following at September 30:

	<u>2012</u>	<u>2011</u>
Education	\$ 211,564	\$ 167,757
Plant replacement funds	188,429	300,514
Other specific purpose funds	<u>338,558</u>	<u>164,356</u>
	<u>\$ 738,551</u>	<u>\$ 632,627</u>

Permanently restricted net assets are required to be held in perpetuity, the income from which is expendable primarily to support LCHC's operations:

	<u>2012</u>	<u>2011</u>
Beneficial interest in perpetual trusts	\$ 3,726,808	\$ 3,349,126
Other endowment funds	<u>(3,043,727)</u>	<u>(2,717,866)</u>
	<u>\$ 683,081</u>	<u>\$ 631,260</u>

LCHC endowment consists of funds established for a variety of purposes. For the purposes of this disclosure, endowment funds include both donor-restricted funds and funds designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The income on the restricted assets in the endowment funds is not restricted by the donor. The changes in LCHC's endowment funds by net asset category for the years ended September 30 are as follows:

	<u>Board Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2012</u>			
Endowment funds	<u>\$ 8,876,791</u>	<u>\$ (3,043,727)</u>	<u>\$ 5,833,064</u>
<u>2011</u>			
Endowment funds	<u>\$ 7,190,850</u>	<u>\$ 1,582,919</u>	<u>\$ 8,773,769</u>
Changes in endowment net assets:			
Endowment net assets, October 1, 2010	\$ 7,440,615	\$ 1,521,959	\$ 8,962,574
Net depreciation	(247,006)	-	(247,006)
Contributions	50,000	60,960	110,960
Expenditures	<u>(52,759)</u>	<u>-</u>	<u>(52,759)</u>
Endowment net assets, September 30, 2011	7,190,850	1,582,919	8,773,769
Net appreciation	1,380,353	-	1,380,353
Contributions	337,299	262,928	600,227
Expenditures	<u>(31,711)</u>	<u>-</u>	<u>(31,711)</u>
Endowment net assets, September 30, 2012	<u>\$ 8,876,791</u>	<u>\$ 1,845,847</u>	<u>\$10,722,638</u>

LCHC classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations exist requiring permanent maintenance of the historical fair value, and (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. The remaining portion of the donor-restricted endowment fund comprised of accumulated gains, if not required to be maintained in perpetuity, is classified as unrestricted net assets. If donor-imposed stipulations exist relative to the use of accumulated gains, then those assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donor's stipulations.

Included in endowment funds are assets totaling \$245,235 at September 30, 2012 and 2011, whose earnings are unrestricted and which totaled approximately \$5,500 and \$8,700 for the years ended September 30, 2012 and 2011, respectively. The remainder of earnings on the endowment funds are restricted to be spent for a particular purpose by the donor.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Beneficial Interest in Trusts

LCHC is the beneficiary of various trusts for which it is not the trustee. These trusts include the following as of September 30:

	<u>2012</u>	<u>2011</u>
Charitable remainder trust	\$ 81,410	\$ 71,495
Irrevocable perpetual trusts	<u>3,726,808</u>	<u>3,349,126</u>
	<u>\$ 3,808,218</u>	<u>\$ 3,420,621</u>

LCHC has reflected as assets in the balance sheets its pro rata share of the fair value of investments in the trusts. Receipts of income are included as unrestricted investment income when received. Receipts from the trusts were approximately \$187,000 and \$153,000 for the years ended September 30, 2012 and 2011, respectively.

10. Concentration of Credit Risk

Financial instruments which potentially subject LCHC to concentration of credit risk consist of cash and cash equivalents, patient accounts receivable and certain investments. The risk with respect to cash equivalents is minimized by LCHC's policies of investing in financial instruments with short-term maturities issued by highly rated financial institutions. LCHC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. LCHC has not experienced any losses in such accounts and believes it is not exposed to any significant risk at September 30, 2012. Investments, which include government and agency securities, stocks and corporate bonds, are not concentrated in any corporation or industry.

LCHC grants credit without collateral to their patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	36 %	39 %
MaineCare	14	17
Anthem Blue Cross and Blue Shield	8	8
Other third-party payors	24	22
Patients	<u>18</u>	<u>14</u>
	<u>100 %</u>	<u>100 %</u>

LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

11. Functional Expenses

LCHC provides general health care services to residents within their geographic location. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Professional care of patients	\$ 54,028,343	\$ 53,659,537
Dietary	2,100,829	2,034,163
Household and property	4,645,439	4,413,062
Administrative services	7,594,913	6,659,181
State taxes	2,513,071	2,200,201
General services	13,105,737	13,077,475
Interest	992,097	1,072,933
Depreciation and amortization	3,708,425	3,716,624
Provision for bad debts	3,257,491	4,165,086
Fundraising	<u>264,051</u>	<u>259,333</u>
	<u>\$ 92,210,396</u>	<u>\$ 91,257,595</u>

12. Commitments and Contingencies

Malpractice Insurance

LCHC maintains malpractice and general liability insurance on a claims-made basis. As of September 30, 2012 and 2011, no known malpractice claims have been asserted against LCHC which, either individually or in the aggregate, that are in excess of insurance coverage. LCHC intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

LCHC and its subsidiaries are subject to complaints, claims and litigation which have risen in the normal course of business. U.S. generally accepted accounting principles require LCHC and its subsidiaries to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. LCHC and its subsidiaries have evaluated their exposure to losses arising from potential claims and determined that no such accrual is necessary for the year ended September 30, 2012. In addition, LCHC 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 unasserted at this time.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Information System

On December 2, 2010, MaineHealth's Board of Trustees approved \$90.5 million in capital expenditures to acquire and implement an enterprise-wide software solution to include inpatient clinical information systems, financial management systems, and human resource management systems. MaineHealth management has proposed that the budget for this initiative be increased by \$15.5 million to \$106 million in order to expand its scope to include several additional clinical modules and complete the installation of the new systems at all the organization's member hospitals in time for them to recover the maximum subsidies available to them under the American Reinvestment and Recovery Act (ARRA). MaineHealth management currently estimates that such recoveries will exceed \$40 million. LCHC's allocated portion of the expenditure is estimated at \$6.6 million. LCHC will use ARRA funds to finance its portion of the project, along with an available line of credit. At September 30, 2012, LCHC has funded \$2,697,625 of its estimated total allocation. This amount is included in other assets in the consolidated balance sheets.

Other

In March 1999, LCHC and Subsidiaries entered into a Master Trust Indenture Agreement (the "Agreement") with MaineHealth and certain of its member organizations. Under the Agreement, LCHC and Subsidiaries are jointly and severally liable with MaineHealth and certain of its member organizations (collectively, the Obligated Group) for the payment of certain obligations and performance of covenants. At September 30, 2012, the Obligated Group has obligations totaling approximately \$180,845,000 (which included \$20,337,257 of LCHC debt which was part of the Obligated Group debt) that were covered under the Agreement.

13. Volunteer Services (Unaudited)

Total volunteer service hours received by LCHC were approximately 29,600 and 23,700 and in 2012 and 2011, respectively. The volunteers provide various services to MMH, SAH and Cove's Edge, none of which have been recognized as revenue or expense in the statements of operations.

14. Related Party Transactions

LCHC participates in the MaineHealth plan for employee health benefits.

During fiscal years 2012 and 2011, LCHC was billed approximately \$16,117,000 and \$12,069,000, respectively, for expenses related to affiliation fees, employee health, dental, life and disability insurance, workers' compensation insurance, outreach education, property, auto and directors' and officers' insurance, and Meditech and Information Systems by Maine Medical Center. There are no retroactive adjustments to LCHC for amounts paid to Maine Medical Center for the employee health benefits or workers compensation.

During fiscal years 2012 and 2011, LCHC was billed approximately \$643,000 and \$695,000, respectively, in expenses related to short-term disability insurance, strategic health initiatives, and EPIC Ambulatory Electronic Medical Records by MaineHealth.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

During fiscal year 2012 and 2011, LCHC incurred approximately \$470,000 and \$356,000, respectively, in expenses related to physician billing and consulting, services, provided by Maine Medical Partners, a MaineHealth subsidiary.

Other expenses related to services provided by MaineHealth subsidiaries are as follows:

	<u>2012</u>	<u>2011</u>
Maine Mental Health Partners	\$ 346,000	\$ 97,000
NorDx	2,986,000	2,955,000
Synernet, Inc.	342,000	255,000

At September 30, 2012 and 2011, prepaid expenses and other current assets include an amount due from Schooner Cove Cooperative, Inc. (the "Cooperative"), totaling \$33,463 and \$38,267, respectively. Additionally, LCHC recognized other revenue of approximately \$450,000 and \$461,000 for the years ended September 30, 2012 and 2011, respectively, for services provided to the Cooperative. At September 30, 2012 and 2011, prepaid expenses and other current assets include an amount due from St. Andrews Village Association totaling \$50,261 and \$65,803, respectively. LCHC recognized other revenue of approximately \$166,000 and \$158,000 for the years ended September 30, 2012 and 2011, respectively, for services provided to the Association.

Amounts due from (to) MaineHealth and member organizations as of September 30 are as follows:

	<u>2012</u>	<u>2011</u>
Due from:		
MaineHealth	\$ 176,959	\$ 46,828
NorDx	<u>13,884</u>	<u>12,327</u>
	<u>\$ 190,843</u>	<u>\$ 59,155</u>
Due to:		
MaineHealth	\$ (2,942,151)	\$ (4,254,532)
Maine Medical Partners	(79,359)	(65,386)
Synernet, Inc.	(49,598)	(42,792)
NorDx	<u>12,159</u>	<u>-</u>
	<u>\$ (3,058,949)</u>	<u>\$ (4,362,710)</u>

In 2012 and 2011, LCHC transferred \$210,870 and \$138,030, respectively, to MaineHealth.

ADDITIONAL INFORMATION

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2012

ASSETS

	Miles Memorial Hospital	Cove's Edge, Inc.	Lincoln County Medical Group	St. Andrews Hospital	Lincoln County Healthcare	Eliminations	Consolidated
Current assets							
Cash and cash equivalents	\$ 973,608	\$ 329,216	\$ (5,474)	\$ 381,343	\$ 323,633	\$ -	\$ 2,002,326
Investments	390,741	-	-	836,087	8,415	-	1,235,243
Patient deposits	-	11,220	-	173,690	-	-	184,910
Current portion of investments whose use is limited	129,156	151,409	-	165,295	-	-	445,860
Patient accounts receivable, net	6,371,900	1,521,981	-	1,740,671	-	-	9,634,552
Current portion of pledges receivable	5,068	-	-	-	298	-	5,366
Estimated third-party payor settlements	844,462	-	-	-	-	-	844,462
Inventories, prepaid expenses, and other current assets	1,673,520	160,645	9,737	544,573	166,425	-	2,554,900
Due from MaineHealth and other member organizations	4,200,307	771,113	1,051,663	1,278,189	4,210,695	(11,321,124)	190,843
Total current assets	14,588,762	2,945,584	1,055,926	5,119,848	4,709,466	(11,321,124)	17,098,462
Investments whose use is limited by:							
Bond indenture	129,156	151,409	-	165,295	-	-	445,860
Board designation	3,273,829	1,058,909	-	4,527,640	16,413	-	8,876,791
Donor-restricted	1,370,525	418,604	-	215,231	521,418	-	2,525,778
	4,773,510	1,628,922	-	4,908,166	537,831	-	11,848,429
Less current portion	129,156	151,409	-	165,295	-	-	445,860
	4,644,354	1,477,513	-	4,742,871	537,831	-	11,402,569
Estimated third-party payor settlements	3,901,000	-	-	-	-	-	3,901,000
Interest in charitable remainder trust	-	-	-	81,410	-	-	81,410
Beneficial interest in perpetual trusts	3,190,084	-	-	536,724	-	-	3,726,808
Property and equipment, net	16,803,262	5,163,778	-	17,253,075	347,007	-	39,567,122
Deferred charges, net of amortization	95,381	52,947	-	89,326	-	-	237,654
Other assets	2,173,457	195,310	-	597,000	2,826,238	(1,872,000)	3,920,005
Total assets	\$ 45,396,300	\$ 9,835,132	\$ 1,055,926	\$ 28,420,254	\$ 8,420,542	\$ (13,193,124)	\$ 79,935,030

LIABILITIES AND NET ASSETS (DEFICIT)

	Miles Memorial Hospital	Cove's Edge, Inc.	Lincoln County Medical Group	St. Andrews Hospital	Lincoln County Healthcare	Eliminations	Consolidated
Current liabilities							
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ 2,242,054	\$ -	\$ 2,242,054
Accounts payable and accrued expenses	635,908	31,815	296	171,863	1,256,406	-	2,096,288
Accrued payroll, payroll taxes and amounts withheld	618,654	329,928	664,594	240,655	231,500	-	2,085,331
Accrued earned time	822,524	478,282	42,916	288,433	396,137	-	2,028,292
Accrued interest payable	54,134	58,886	-	86,523	-	-	199,543
Patient deposits liability	-	11,220	-	173,690	-	-	184,910
Estimated third-party payor settlements	-	270,000	-	1,085,000	-	-	1,355,000
Deferred revenue	-	77,267	-	185,938	84,789	-	347,994
Due to MaineHealth and other member organizations	3,516,096	538,391	846,662	920,294	8,558,630	(11,321,124)	3,058,949
Current portion of long-term debt	399,087	370,000	-	480,850	-	-	1,249,937
Total current liabilities	6,046,403	2,165,789	1,554,468	3,633,246	12,769,516	(11,321,124)	14,848,298
Other long-term liabilities	270,105	-	600,900	140,167	-	-	1,011,172
Long-term debt, net of current portion	4,534,511	4,701,841	-	10,240,884	-	-	19,477,236
Total liabilities	10,851,019	6,867,630	2,155,368	14,014,297	12,769,516	(11,321,124)	35,336,706
Net assets (deficit)							
Unrestricted	29,979,094	2,548,898	(1,099,442)	13,601,259	(4,870,691)	(1,872,000)	38,287,118
Temporarily restricted	263,756	131,460	-	121,618	221,717	-	738,551
Permanently restricted	4,302,431	287,144	-	683,080	300,000	-	5,572,655
Total net assets (deficit)	34,545,281	2,967,502	(1,099,442)	14,405,957	(4,348,974)	(1,872,000)	44,598,324
Total liabilities and net assets (deficit)	\$ 45,396,300	\$ 9,835,132	\$ 1,055,926	\$ 28,420,254	\$ 8,420,542	\$ (13,193,124)	\$ 79,935,030

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Statement of Operations

Years Ended September 30, 2012

	<u>Miles Memorial Hospital</u>	<u>Cove's Edge, Inc.</u>	<u>Lincoln County Medical Group</u>	<u>St. Andrews Hospital</u>	<u>Lincoln County Healthcare</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted revenue and other support							
Net patient service revenue	\$ 57,772,050	\$ 14,393,395	\$ -	\$ 16,907,747	\$ -	\$ (55,973)	\$ 89,017,219
Other revenues	1,577,819	582,680	13,757,294	984,551	10,398,009	(24,033,191)	3,267,162
Net assets released from restrictions used for operations	<u>141,962</u>	<u>18,451</u>	<u>-</u>	<u>64,761</u>	<u>44,417</u>	<u>-</u>	<u>269,591</u>
Total unrestricted revenue and other support	<u>59,491,831</u>	<u>14,994,526</u>	<u>13,757,294</u>	<u>17,957,059</u>	<u>10,442,426</u>	<u>(24,089,164)</u>	<u>92,553,972</u>
Expense							
Salaries	14,448,207	8,049,860	10,689,362	6,426,112	4,871,336	-	44,484,877
Employee benefits	4,490,379	2,614,796	1,810,331	1,761,911	1,413,357	-	12,090,774
Nonmedical supplies	596,877	523,378	-	513,122	52,267	-	1,685,644
Medical supplies	3,519,701	433,247	-	592,133	57,092	-	4,602,173
Purchased services	12,899,657	1,986,574	-	4,010,704	2,771,379	(10,058,850)	11,609,464
Professional fees	12,579,570	20,715	602,850	1,167,532	3,168	(13,589,081)	784,754
Facility costs	2,401,587	482,611	487,123	1,254,313	329,625	(441,233)	4,514,026
State taxes	1,409,302	525,928	-	577,841	-	-	2,513,071
Interest	230,161	211,382	-	505,609	44,945	-	992,097
Depreciation and amortization	1,746,503	607,570	-	1,266,833	87,519	-	3,708,425
Provision for bad debts	2,796,536	115,429	-	345,526	-	-	3,257,491
Other	<u>538,472</u>	<u>247,195</u>	<u>167,628</u>	<u>176,949</u>	<u>837,356</u>	<u>-</u>	<u>1,967,600</u>
Total expenses	<u>57,656,952</u>	<u>15,818,685</u>	<u>13,757,294</u>	<u>18,598,585</u>	<u>10,468,044</u>	<u>(24,089,164)</u>	<u>92,210,396</u>
Operating income (loss)	<u>1,834,879</u>	<u>(824,159)</u>	<u>-</u>	<u>(641,526)</u>	<u>(25,618)</u>	<u>-</u>	<u>343,576</u>
Nonoperating gains (expenses):							
Other income (expenses)	(11,446)	(15,878)	-	(10,119)	-	-	(37,443)
Unrestricted gifts and donations	452,904	340	-	175,027	-	-	628,271
Interest and dividends	<u>109,018</u>	<u>55,895</u>	<u>-</u>	<u>88,448</u>	<u>-</u>	<u>-</u>	<u>253,361</u>
Nonoperating gains (expenses), net	<u>550,476</u>	<u>40,357</u>	<u>-</u>	<u>253,356</u>	<u>-</u>	<u>-</u>	<u>844,189</u>
Excess (deficiency) of revenue over expenses before gain in fair value of investments	2,385,355	(783,802)	-	(388,170)	(25,618)	-	1,187,765

Merger of Miles Memorial Hospital & St Andrews Hospital, September 23, 2013, Attachment A
LINCOLN COUNTY HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Statement of Operations (Concluded)

Years Ended September 30, 2012

	<u>Miles Memorial Hospital</u>	<u>Cove's Edge, Inc.</u>	<u>Lincoln County Medical Group</u>	<u>St. Andrews Hospital</u>	<u>Lincoln County Healthcare</u>	<u>Eliminations</u>	<u>Consolidated</u>
Excess (deficiency) of revenue over expenses before gain in fair value of investments	\$ 2,385,355	\$ (783,802)	\$ -	\$ (388,170)	\$ (25,618)	\$ -	\$ 1,187,765
Recognized gain in fair value of investments	<u>539,764</u>	<u>127,982</u>	<u>-</u>	<u>569,763</u>	<u>-</u>	<u>-</u>	<u>1,237,509</u>
Excess (deficiency) of revenue over expenses	2,925,119	(655,820)	-	181,593	(25,618)	-	2,425,274
Net assets released from restrictions for property and equipment	122,429	13,390	-	103,069	2,226	-	241,114
Intercompany equity transfers	(4,609,937)	(1,351,159)	204,585	(367,739)	6,124,250	-	-
Equity transfers to MaineHealth	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(210,870)</u>	<u>-</u>	<u>(210,870)</u>
Increase (decrease) in unrestricted net assets	<u>\$ (1,562,389)</u>	<u>\$ (1,993,589)</u>	<u>\$ 204,585</u>	<u>\$ (83,077)</u>	<u>\$ 5,889,988</u>	<u>\$ -</u>	<u>\$ 2,455,518</u>



DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
JFK Federal Building, Room 2275
Government Center
Boston, Massachusetts 02203

CENTERS FOR MEDICARE & MEDICAID SERVICES

Northeast Division of Survey & Certification

June 27, 2013

James W. Donovan
President and Chief Executive Officer
St. Andrews Hospital
6 St. Andrews Lane
P.O. Box 417
Boothbay Harbor, ME 04538

CCN (CMS Certification Number): 201302

Dear Mr. Donovan:

Our office has received a Letter of Attestation from St. Andrews Hospital, a Necessary Provider (NP) Critical Access Hospital (CAH) regarding relocating its facility to 35 Miles Street, Damariscotta, ME 04543 to the above address. It is our understanding that the new location is the current site of Miles Memorial Hospital, CCN 200002 which is planned to be combined with St. Andrews Hospital. Miles Memorial Hospital will need to retire its provider agreement before the relocation of St. Andrews Hospital. If Miles Memorial Hospital does not retire its provider agreement prior to St. Andrews Hospital's relocation, the NP CAH provider agreement for St. Andrews Hospital will be terminated [*See §42 CFR 485.610(e)*].

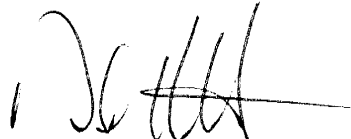
After careful review of the attestation, CMS is giving preliminary approval of the relocation of St. Andrews Hospital providing it demonstrates that the proposed relocation complies with the regulations at §42 CFR 485.610(b) and (d) as well as the regulations at §42 CFR 485.62(a).

Two 855A applications will need to be completed. One application for St. Andrews Hospital stating it is relocating and combining with Miles Memorial Hospital and indicate that St. Andrews Hospital is retaining its provider agreement. A second application will be for Miles Memorial Hospital stating that it is combining with St. Andrews Hospital and is retiring its provider agreement.

Please work with National Heritage Insurance Corporation (NHIC) your Medicare Administrative Contractor (MAC) to complete the combination of St. Andrews Hospital and Miles Memorial Hospital.

A final determination can only be made after the relocation is completed. If you have any questions, please call Terri Smith at 617-565-1307.

Sincerely,

A handwritten signature in black ink, appearing to read 'DKristola', with a long horizontal line extending to the right.

Daniel Kristola
Branch Chief
Certification & Enforcement Branch

cc: ME State Agency

Lincoln County Healthcare

MaineHealth

August 27, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Dear Ali,

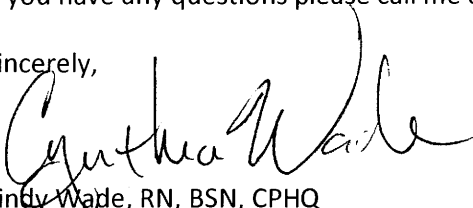
Per the discussion we had on August 15, 2013, I am sending this letter with the following requests to be in effect as of October 1, 2013:

- Change of St Andrew's Hospital name to LincolnHealth.
- Change of address to LincolnHealth 35 Miles Street, Damariscotta, Maine 04543.
- Addition of the following services to the license;
 - Obstetrics/Labor and Deliver/Newborns – Miles Campus
 - ICU – Miles Campus
 - Nuclear Medicine – Miles Campus
 - MRI – Miles Campus
 - Urgent Care Center – St. Andrew's Campus
 - Surgical Services – Miles Campus
 - OR
 - PACU
 - ASU
- Addition of the following Clinics from the current Miles license to the LincolnHealth license:
 - LMP General Surgery, 5 Miles Center Way, Unit 2, Damariscotta
 - LMP Women's Center, 24 Miles Center Way, Damariscotta
 - LMP Orthopedics, 39 Miles Street, Damariscotta
 - OPT Extension, 19 St Andrews Lane, Boothbay Harbor

Please disregard the letter with these requests dated August 19, 2013 as it did not contain the effective date of October 1, 2013.

If you have any questions please call me at (201) 563-4597. Thank you for your assistance.

Sincerely,



Cindy Wade, RN, BSN, CPHQ
Senior VP Hospital Operations

**Exhibit 8-F: Letter to Department's Medical Facilities
Health Care Oversight Unit providing notification of the
proposed relocation of LincolnHealth to 35 Miles Street,
Damariscotta, Maine, September 27, 2013**

MaineHealth

September 27, 2013

Phyllis Powell, Assistant Director
Medical Facilities Unit
and
Larry Carbonneau, Manager
Health Care Oversight
Division of Licensing and Regulatory Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

RE: Lincoln County Health Care
Merger of Miles Memorial Hospital
and St. Andrews Hospital

Dear Ms. Powell and Mr. Carbonneau:

The purpose of this letter is to provide further information to you regarding the October 1, 2013 merger of Miles Memorial Hospital and St. Andrews Hospital. This merger does not involve a transfer of ownership, acquisition of control, capital expenditure, additional operating expense or introduction of new health service.

Lincoln County Health Care and MaineHealth are requesting that you inform the Division's Health Facility Survey Unit that it may release the revised/amended LincolnHealth hospital license in a timely fashion to avoid any serious adverse effect of delay on Lincoln County Health Care and the community.

Effective October 1, 2013 Lincoln County Health Care is merging Miles Memorial Hospital and St. Andrews Hospital with the approval of its parent, MaineHealth. St. Andrews Hospital is the surviving entity and undergoes a name change to "LincolnHealth". Lincoln County Health Care continues to govern and manage the merged hospital subject to the governance of MaineHealth.

(See Attachment A Miles Memorial Hospital and St. Andrews Hospital Plan of Merger.)

As noted in our September 16, 2013 meeting and correspondence September 23, 2013, in 2007 MaineHealth established a subsidiary corporate entity known as Lincoln County Health Care to act as the immediate parent of both Hospitals and MaineHealth's other subsidiaries in Lincoln County. Since that time, the hospital operations have been under

the control of identical boards of trustees. That restructuring by MaineHealth to create Lincoln County Health Care as immediate hospital parent specifically provided that the Board of Lincoln County Health Care shall simultaneously constitute the boards of Miles Memorial Hospital and Saint Andrews Hospital.

(See Attachment B Lincoln County Health Care Board of Trustees.)

Since the 2007 formation of Lincoln County Health Care the management of Miles Memorial Hospital, St. Andrews Hospital and Lincoln County Health Care has been unified. The President and Chief Executive Officer, the Chief Financial Officer, the Chief Nursing Officer and the Chief Information Officer of each hospital are one and the same. The hospital operations of Miles Memorial Hospital and St. Andrews Hospital have been integrated.

The currently existing services at the two hospitals are offered to the community and provided as part of and on behalf of the integrated healthcare delivery system of hospitals and health providers known and managed as Lincoln County Health Care.

As described in our meeting and earlier correspondence, a consequence of consolidating 24-hour acute care services on a single campus is that Lincoln County Health Care will no longer be operating two separately licensed hospitals; there will be only one licensed and certified hospital entity, the merged entity LincolnHealth.

When the merger takes effect, LincolnHealth's hospital license will need to be revised to reflect these changes:

- Changing the name to "LincolnHealth",
- Changing the address to 35 Miles Street, Damariscotta, Maine,
- Changing service from "Emergency Services" to "Urgent Care Center" on the Boothbay Harbor campus,
- Eliminating 25 acute care / swing beds from the Boothbay Harbor campus,
- Recognizing the existing services and sites currently operating under Miles' hospital license as previously governed and managed by Lincoln County Health Care,
- Recognizing 25 acute care / swing beds on the Damariscotta campus,
- Continuing outpatient and ambulatory care services on the Boothbay campus.

(See Attachment C Lincoln County Health Care Correspondence with Ali Hilt Lash, Acute Care Supervisor, Licensing and Regulatory Services.)

These reported changes for licensing purposes in no instance indicate the development of a new health service or increase in licensed bed complement. They reflect a continuation of services currently provided by Miles Memorial Hospital under the Lincoln County Health Care governance and management structure; have been offered on a regular basis

within the 12-month period prior to the time the services would be offered by LincolnHealth and, given Lincoln County Health Care's integrated governance, management and healthcare delivery, can be considered to have been provided on behalf of Lincoln County Health Care and its subsidiaries, St. Andrews Hospital and Miles Memorial Hospital.

The continuation of these services and sites by LincolnHealth as a single licensed hospital results in annual cost savings of \$6.3 million during Fiscal Year 2014. There are no capital expenditures or incremental annual operating expenses associated with the provision of all of these services directly by LincolnHealth; there are significant savings.

Further there are no directly attributable incremental annual operating expenses of \$1,000,000 or more associated with the provision of any one of the services that appear on Miles Memorial Hospital's license that have not appeared on St. Andrews Hospital's license during the 12 months prior to October 1, 2013.

Those services and their directly attributable incremental annual operating expenses as defined by Certificate of Need Statute are:

- Obstetrics/Labor and Deliver/Newborns – Miles Memorial Hospital is currently incurring a total annual operating cost of \$858,359. The directly attributable incremental annual operating expense for LincolnHealth to change from routine medical/surgical acute inpatient care to obstetrical acute inpatient care is \$551,000.
- ICU – Miles Memorial Hospital is currently incurring a total annual operating cost of \$1,501,947. The directly attributable incremental annual operating expense for LincolnHealth to change from routine medical/surgical acute inpatient care to intensive medical/surgical acute inpatient care is \$602,000.
- Nuclear Medicine – Miles Memorial Hospital is currently incurring a total annual operating cost of \$173,000. This is the directly attributable incremental annual operating expense to LincolnHealth.
- MRI – Miles Memorial Hospital is currently incurring a total annual operating cost of \$579,000. This is the directly attributable incremental annual operating expense to LincolnHealth.
- LMP General Surgery – Physician service not subject to review.
- LMP Women's Center - Physician service not subject to review.
- LMP Orthopedics - Physician service not subject to review.

Lincoln County Health Care
Merger of Miles Memorial Hospital and St Andrews Hospital
September 27, 2013
Page 4

Please feel free to contact me if you have any questions; I may be reached by telephone at 207-662-2451 or by email at linehr@mmc.org.

Sincerely,



Richard M. Linehan
Director of Planning

Cc: Janine Raquet, Esq.

Attachment A – Miles Memorial Hospital and St. Andrews Hospital Plan of Merger

Attachment B – Lincoln County Health Care Board of Trustees

Attachment C – Lincoln County Health Care Correspondence with Ali Hilt Lash, Acute Care Supervisor, Licensing and Regulatory Services

PLAN OF MERGER
MILES MEMORIAL HOSPITAL
AND
ST. ANDREWS HOSPITAL

A Plan of Merger is hereby proposed between Miles Memorial Hospital ("Miles"), a Maine nonprofit corporation and St. Andrews Hospital ("St. Andrews"), a Maine nonprofit corporation, in accordance with which Miles ("Merging Corporation") will be merged into St. Andrews ("Surviving Corporation") according to the provisions of the Maine Nonprofit Corporation Act, Title 13-B, Section 901 et seq. of the Me. Rev. Stat. Ann., and the name of the Surviving Corporation will be changed to "LincolnHealth."

The Merging Corporation, Miles, is a Maine nonprofit corporation incorporated under the laws of the State of Maine in accordance with Articles of Incorporation duly filed with the Office of the Secretary of State. The Merging Corporation was organized originally for the purposes of establishing and maintaining institutions for the care of the sick and maintaining a school for the training of nurses and has continually since organized maintained inpatient and outpatient facilities and programs delivering health care services.

The Surviving Corporation, St. Andrews, is a Maine nonprofit corporation incorporated under the laws of the State of Maine in accordance with Articles of Incorporation duly filed with the Office of the Secretary of State. The Surviving Corporation was organized originally for the purposes of establishing and maintaining institutions for the care and treatment of ill, injured, infirm or aged persons, including a public hospital, clinic and infirmary, and maintaining a school for the training of nurses, with the subsequently added purposes of establishing and maintaining a retirement community and a doctors' office building, and has continually since organized maintained inpatient and outpatient facilities and programs delivering health care services. Both the Surviving Corporation and the Merging Corporation are subsidiaries of Lincoln County Health Care ("LCHC").

In furtherance of the purposes of the Merging Corporation and Surviving Corporation there is proposed a merger whereby Miles will be merged with and into St. Andrews and thereby have its charitable purposes better achieved through integration and more cost-effective provision of health care services and facilities throughout the Lincoln County service area, as well as preservation of the St. Andrews designation by the Centers for Medicare and Medicaid Services as a Critical Access Hospital and relocation to the Miles facility in Damariscotta. St. Andrews shall survive the merger and thereafter be renamed "LincolnHealth" on the following terms and conditions:

1. Merger Approval. The merger shall be effective after (1) adoption of resolutions approving this Plan by the Boards of the Merging Corporation and the Surviving Corporation, (2) approval of this Plan by the Board of LCHC as the parent and sole corporate member of both the Surviving and Merging Corporations and approval of this Plan by the Board of MaineHealth as the parent and sole

corporate member of LCHC, and (3) filing of Articles of Merger with the Secretary of State.

2. Merger Date. The merger shall be effective and complete at 12:01 a.m. on October 1, 2013, which shall be known as the "Merger Date," subject to filing of Articles of Merger with the Secretary of State on or before such date.
3. Merging Corporation. The separate corporate existence and organization of the Merging Corporation shall cease on the Merger Date at which time the Merging Corporation shall be merged with and into the Surviving Corporation.
4. Articles of Incorporation and Bylaws; Name. Upon the Merger Date, the Restated Articles of Incorporation and the revised Bylaws of the Surviving Corporation adopted by the sole corporate member on August 29, 2013, to take effect at 11:59 p.m. on September 30, 2013, shall become the Restated Articles of Incorporation and the Bylaws of the Surviving Corporation until duly amended or repealed. The Restated Articles of Incorporation and new Bylaws shall reflect that the Surviving Corporation's name shall be changed to "LincolnHealth."
5. Charitable Purposes. Upon the Merger Date, the Surviving Corporation shall seek to carry out the charitable purposes set forth in the Restated Articles of Incorporation of the Surviving Corporation, which purposes reflect a blending of the charitable purposes of Miles and St. Andrews as they existed prior to the Merger Date.
6. Registered Office. Upon the Merger Date, there shall be no change in the registered agent and registered office of the Surviving Corporation.
7. Trustees. Upon the Merger Date, all Trustees of the Surviving Corporation shall remain the Trustees of the Surviving Corporation until the next annual meeting of the corporation and until their successors are elected and qualified.
8. Officers. Upon the Merger Date, all Officers of the Surviving Corporation shall remain those previously elected by the Board of Trustees and serve until the next annual meeting of the Board and until their successors are elected and qualified.
9. Policies. Upon the Merger Date, all corporate policies and procedures of the Surviving Corporation prior to the Merger Date shall remain the policies and procedures of the Surviving Corporation effective except as duly modified by the Surviving Corporation.
10. Effect of Merger. Upon the Merger Date, the Surviving Corporation shall acquire and possess all the rights, privileges, powers, franchises, and immunities of a public as well as a private nature, and be subject to all the liabilities, restrictions, duties and penalties of the Merging Corporation; and all property and property rights, real, personal and mixed, and other interests of the Merging Corporation,

including but not limited to bequests which may become effective after this merger, shall be deemed to be transferred and vested in the Surviving Corporation without further act or deed; and all debts, liabilities and obligations of the Merging Corporation on the Merger Date shall be assumed and paid by the Surviving Corporation as they fall due; and all property, rights, privileges, powers, franchises and immunities and all and every other interest shall be after such merger as effectively the property of the Surviving Corporation as they were of the Merging Corporation. The title to any real estate, or any interest therein, vested in the Surviving Corporation shall not revert to the Merging Corporation or be in any way impaired by reason of such merger. Any claim existing or action or proceeding, whether civil, criminal or administrative pending by or against the Merging Corporation may be prosecuted to judgment or decree as if such merger had not taken place, or the Surviving Corporation may be substituted in such action or proceeding.

11. Trust Assets. All trust funds and other funds, held, managed or supervised by the Merging Corporation, whether dedicated for specific uses or purposes or given for the general purposes of the Merging Corporation, shall pass to the management, supervision and possession of the Surviving Corporation, which shall be bound to honor and comply with all conditions and dedicated purposes or uses of such funds from and after the Merger Date so that such funds shall continue to be used in conformity with the express intent of their donors and otherwise in conformity with the Uniform Prudent Management of Institutional Funds Act. The Board of Trustees of the Surviving Corporation shall adopt such policies and procedures as are consistent with the foregoing.
12. Required Actions. The Merging Corporation shall take, or cause to be taken, all actions or do, or cause to be done, all things necessary, proper or advisable under the laws of the State of Maine to consummate and make effective the Merger. Without limiting the foregoing, the Merging Corporation, its officers and directors, shall execute or cause to be executed such assignments, assurances, or the like as may be necessary or desirable to vest title to its properties, assets and rights in the Surviving Corporation, or otherwise to carry out the purposes of this Plan of Merger.
13. Miscellaneous. Nothing expressed or implied in this Plan of Merger is intended, or shall be construed, to confer upon or give any person, firm or corporation, other than the Merging Corporation and Surviving Corporation and their respective affiliates, any rights or remedies under, or by reason of this Plan.
14. Indemnity. The Surviving Corporation shall indemnify and hold harmless the Trustees and Officers of the Merging Corporation from any damages, liability, and expenses, including legal fees, arising out of any actual or alleged failure or refusal by the Surviving Corporation to honor or assume any of the liabilities, obligations, or penalties of the Merging Corporation transferred under this Plan.

15. Merger Abandonment. This Plan of Merger may be terminated and abandoned by resolutions of the Board of Trustees of the Merging Corporation or the Surviving Corporation prior to the Merger Date. In the event of the termination and abandonment of the Plan of Merger, this Plan shall become void and of no further effect and there shall be no liability on the part of either corporation or their respective Trustees or Officers as a result hereof.

Merger of Miles Memorial & St. Andrews Hospitals, September 27, 2013, Attachment B
LINCOLN COUNTY HEALTH CARE, INC.
BOARD OF TRUSTEES

2013		2014	
Peter Mundy, Chairman	Jane Hurd	Jeffrey Curtis Chairman	Robert McArtor, MD
Jeffrey Curtis Vice-Chairman	David W. Lawrence	William W. Logan Vice Chairman	Garth Miller, MD
William W. Logan Secretary	Robert McArtor, MD	David W. Lawrence Secretary	Barbara Mitchell
Patrick Lydon Treasurer	Garth Miller, MD	Patrick Lydon Treasurer	John Murray, MD
Aquilino Alamo, MD	Barbara Mitchell	Aquilino Alamo, MD	Jane G. Smith
Michael Clark, MD	John Murray, MD	Michael Clark, MD	Rev. Dr. Mary Jo Zimmerli
James Cosgrove	Jane G. Smith	James Cosgrove	William L. Caron, Jr President & CEO MaineHealth
Steven Feder, DO (Concurrent with Service as President of the Medical Staff(s))	Rev. Dr. Mary Jo Zimmerli	Mark Fourré, MD	James Donovan, President & CEO
Mark Fourré, MD	William L. Caron, Jr President & CEO MaineHealth	Timothy Fox, MD (Concurrent with Service as President of the Medical Staff(s))	Karen Filler, President MMH League
Daniel Friedland, MD	James Donovan, President & CEO	Daniel Friedland, MD	Carole Zalucky, President SAH Auxiliary
Jack T. Fulmer, MD	Karen Filler, President MMH League	Jack T. Fulmer, MD	
Catherine (Kitty) Gregg	Miriam Wade, President SAH Auxiliary	Catherine (Kitty) Gregg	
Norman Hochgraf		Jane Hurd	

Lincoln County Healthcare

MaineHealth

July 15, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Subject: Letter of Intent

Dear Ali,

Per our discussion on July 5, 2013, I am submitting this document as a letter of intent to support the relocation of St. Andrews Hospital, a Necessary Provider (NP) Critical Access Hospital (CAH), CCN 201302 to 35 Miles Street, Damariscotta, ME. 04543.

The new location is the current site of Miles Memorial Hospital, CCN 20002 which is planned to be combined with St. Andrews Hospital. Miles Memorial Hospital will retire its provider agreement concurrent with the relocation of St. Andrews Hospital occurs on October 1, 2013.

Please let me know if there is anything further that you or your office needs at this time.

Sincerely,



Cindy Leavitt, RN, BSN, CPHQ
Senior VP Hospital Operations
(207) 563-4597

Lincoln County Healthcare

MaineHealth

August 13, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Ali,

Please see below a Transition Plan for the change of Hospital licensing and the closure of the beds at St Andrews Hospital:

St. Andrew's Hospital historically has an average Swing census of 10 with an average length of stay (LOS) of 15 days.

With the closing of this unit, management has developed the following plan for the care of patients from the current date to September 30, 2013 as follows:

August 10, 2013: The average daily census will be capped at 8.

September 1, 2013: The Manager will evaluate every request for Swing admission for on-going capacity to meet the patient's needs. If referred patients are assessed to need greater than 15 days LOS we will help to find an alternative bed for the patient.

September 15, 2013: The Manager will no longer accept referrals for Swing due to capacity and closure of the unit. He will assist in finding alternative placements for patients as needed.

Any patient remaining in a bed at this time will be evaluated for needs post September 30, 2013. Discussion will take place with patients and families as necessary for alternative Swing/SNF placement for each remaining patient per the patient's choice. Transfer plans will be made for any patient who is in a bed who will not be ready for discharge on or before September 30, 2013.

Letters to all regular referral sources will be sent regarding this transition plan. Any questions will be referred to the Manager, Steve Goold; Director of Nursing, Christine Anderson; and/or Senior VP of Hospital Operations, Cindy Leavitt.

Please let me know if this plan meets the State requirements and if you have any question at cindy.wade@lccare.org or by phone at (207) 563-4597.

Sincerely,


Cindy Wade, RN, BSN, CPHQ
Senior VP Hospital Operations

Lincoln County Healthcare

August 26, 2013

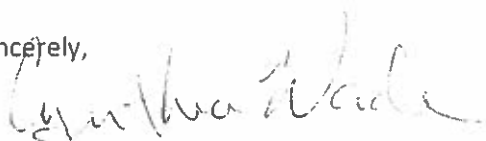
Alelia Hilt-Lash
Licensing and Regulatory Services
State House Station 1
41 Anthony Avenue
Augusta Maine 04333

Dear Ali,

Per our discussion on August 15, 2013, I am submitting this letter as request for a Voluntary Retirement of the Miles Memorial Hospital, 35 Miles Street, Damariscotta, license (200002) effective October 1, 2013.

If you have any questions, please contact me at (207) 563-4597. Thank you for your attention to this matter.

Sincerely,



Cindy Wade
SVP Hospital Operations
Lincoln County Healthcare

Lincoln County Healthcare

MaineHealth

August 27, 2013

Ali Hilt Lash
Licensing & Regulatory Services
State House Station #1
41 Anthony Avenue
Augusta, Maine 04333

Dear Ali,

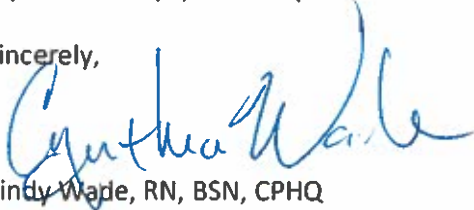
Per the discussion we had on August 15, 2013, I am sending this letter with the following requests to be in effect as of October 1, 2013:

- Change of St Andrew's Hospital name to LincolnHealth.
- Change of address to LincolnHealth 35 Miles Street, Damariscotta, Maine 04543.
- Addition of the following services to the license;
 - Obstetrics/Labor and Deliver/Newborns – Miles Campus
 - ICU – Miles Campus
 - Nuclear Medicine – Miles Campus
 - MRI – Miles Campus
 - Urgent Care Center – St. Andrew's Campus
 - Surgical Services – Miles Campus
 - OR
 - PACU
 - ASU
- Addition of the following Clinics from the current Miles license to the LincolnHealth license:
 - LMP General Surgery, 5 Miles Center Way, Unit 2, Damariscotta
 - LMP Women's Center, 24 Miles Center Way, Damariscotta
 - LMP Orthopedics, 39 Miles Street, Damariscotta
 - OPT Extension, 19 St Andrews Lane, Boothbay Harbor

Please disregard the letter with these requests dated August 19, 2013 as it did not contain the effective date of October 1, 2013.

If you have any questions please call me at (201) 563-4597. Thank you for your assistance.

Sincerely,



Cindy Wade, RN, BSN, CPHQ
Senior VP Hospital Operations

**Exhibit 8-G: Letter to Department's Medical Facilities
Health Care Oversight Unit responding to the Unit's
September 25 information request on the proposed relocation
of LincolnHealth to 35 Miles Street, Damariscotta, Maine,
September 30, 2013**

Lincoln County Healthcare

MaineHealth

September 30, 2013

Larry Carbonneau, Manager
Health Care Oversight
Division of Licensing & Regulatory
Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

Phyllis Powell, Assistant Director
Medical Facilities Unit
Division of Licensing and Regulatory
Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

RE: Response to Information Request
Lincoln County Health Care
Merger of Miles Memorial Hospital and St. Andrews Hospital

Dear Mr. Carbonneau and Ms. Powell:

Please find enclosed the Lincoln County Health Care and MaineHealth response to your information request dated September 25, 2013. (FYI: although the request is dated September 25, 2013, it was transmitted by the Department to Rich Linehan the email having been sent by the Department on last Friday, September 27 at 3:51 pm.)

In your letter you referred to the transaction as the merger of the two hospitals occurring “under a new entity called LincolnHealth.” LincolnHealth is not a new corporate entity. LincolnHealth will be the new name for the entity that is currently known as St. Andrews Hospital. The transaction consists of the merger of Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital will be the surviving entity in the merger, and then will undergo a name change to “LincolnHealth”. Lincoln County Health Care, the parent of St. Andrews Hospital and Miles Memorial Hospital, will continue to act as the parent of the entity formerly known as St. Andrews Hospital and re-named LincolnHealth, and will continue to govern and manage the hospital as a member of the MaineHealth system.

As we have previously indicated, Lincoln County Health Care and MaineHealth believe that the October 1, 2013 merger of Miles Memorial Hospital and St. Andrews Hospital does not involve a transfer of ownership, acquisition of control, capital expenditure,

St. Andrews Hospital ~ Miles Memorial Hospital ~ Cove’s Edge, Inc. ~ Lincoln County Medical Group

6 St. Andrews Lane ~ Boothbay Harbor, Maine ~ 04538 Phone (207)633-2121 Fax (207)633-1224

additional operating expense or introduction of a new health service. As a result, we believe the transaction does not require Certificate of Need review and approval.

The information request to which we are responding, in most of its 25 paragraphs, requests a level of detail that, in our view, is not necessary to resolve the question whether the transaction is CON reviewable. Nonetheless, the Department has indicated that it will not approve the required amendment to St. Andrews Hospital's license unless the Department affirmatively determines that the transaction is not reviewable. Since the Department has not yet reached a conclusion with respect to reviewability, we have worked throughout the weekend to assemble the information that you have requested and hereby transmit it to you.

Lincoln County Health Care and MaineHealth are responding to your information request although we believe that several of the requests are not germane to this transaction.

We look forward to meeting with you and to your favorable decision on this request. Thank you for your consideration,

Sincerely,



Wayne R. Printy
Chief Financial Officer
Lincoln County Health Care

c.c.: Mary Mayhew, Commissioner
Kenneth Albert, Director, Division of Licensing & Regulatory Services

Response to Request for Information

From:

Lincoln County Health Care, Inc.

To:

Larry Carbonneau, Manager Health Care Oversight

Department of Health and Human Services

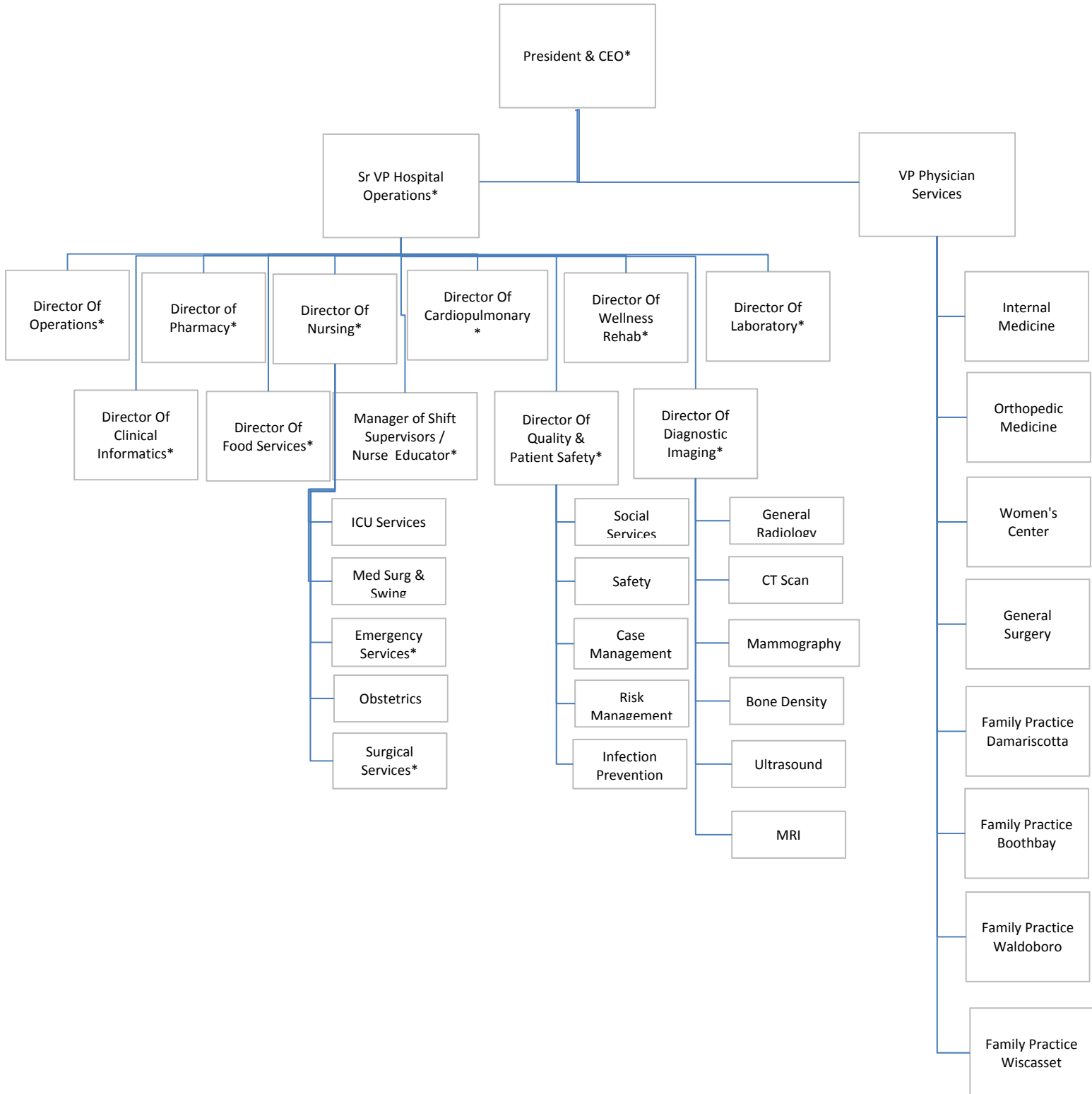
This response to your letter dated September 25, 2013 is assembled and labeled in the sequence in which you asked the information.

An appendix is attached as a separate file.

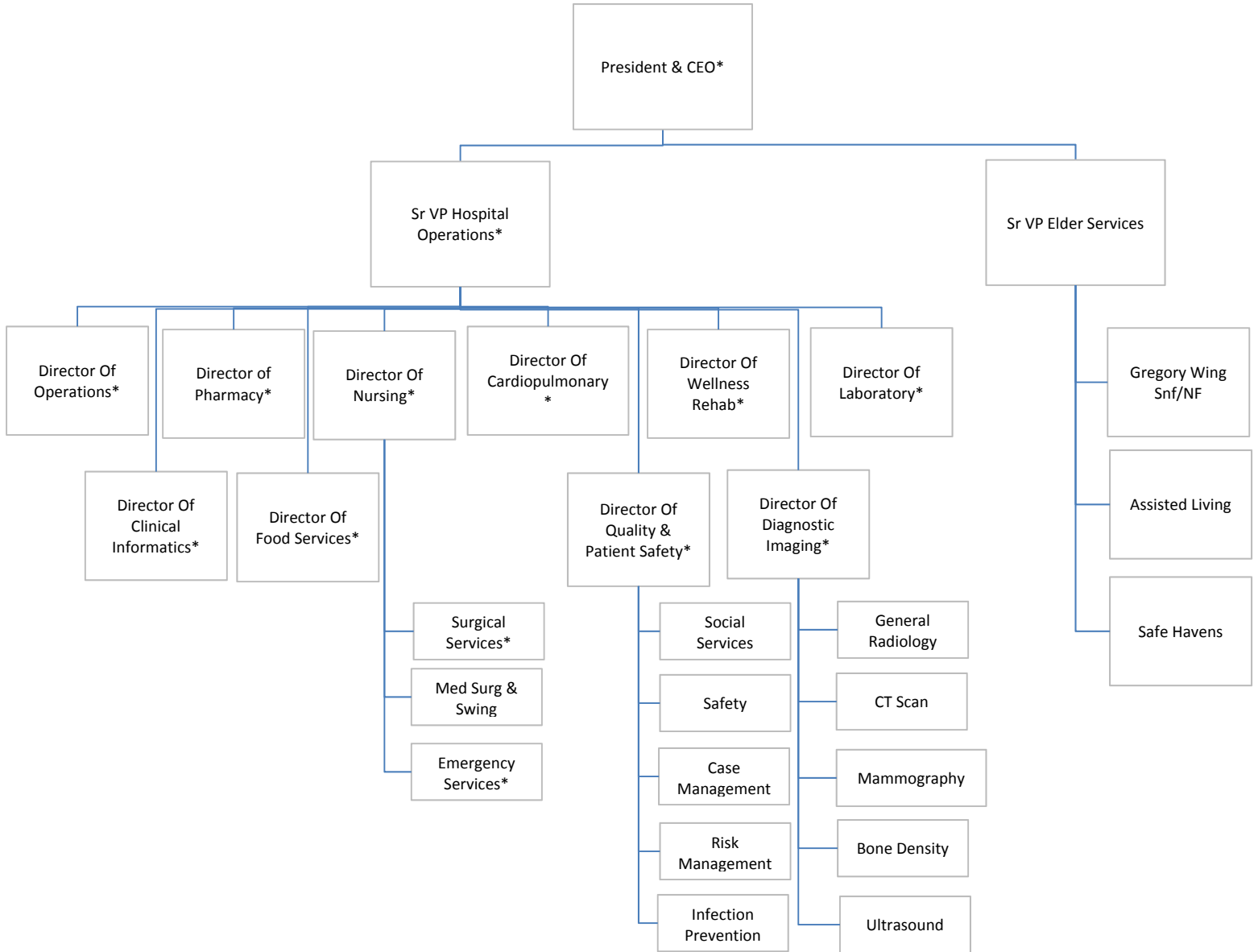
Please note the separately attached cover letter.

1. Organizational chart of the current corporate structure of Miles and St. Andrews and an organizational chart of the proposed corporate structure of Miles and St. Andrews post-merger.

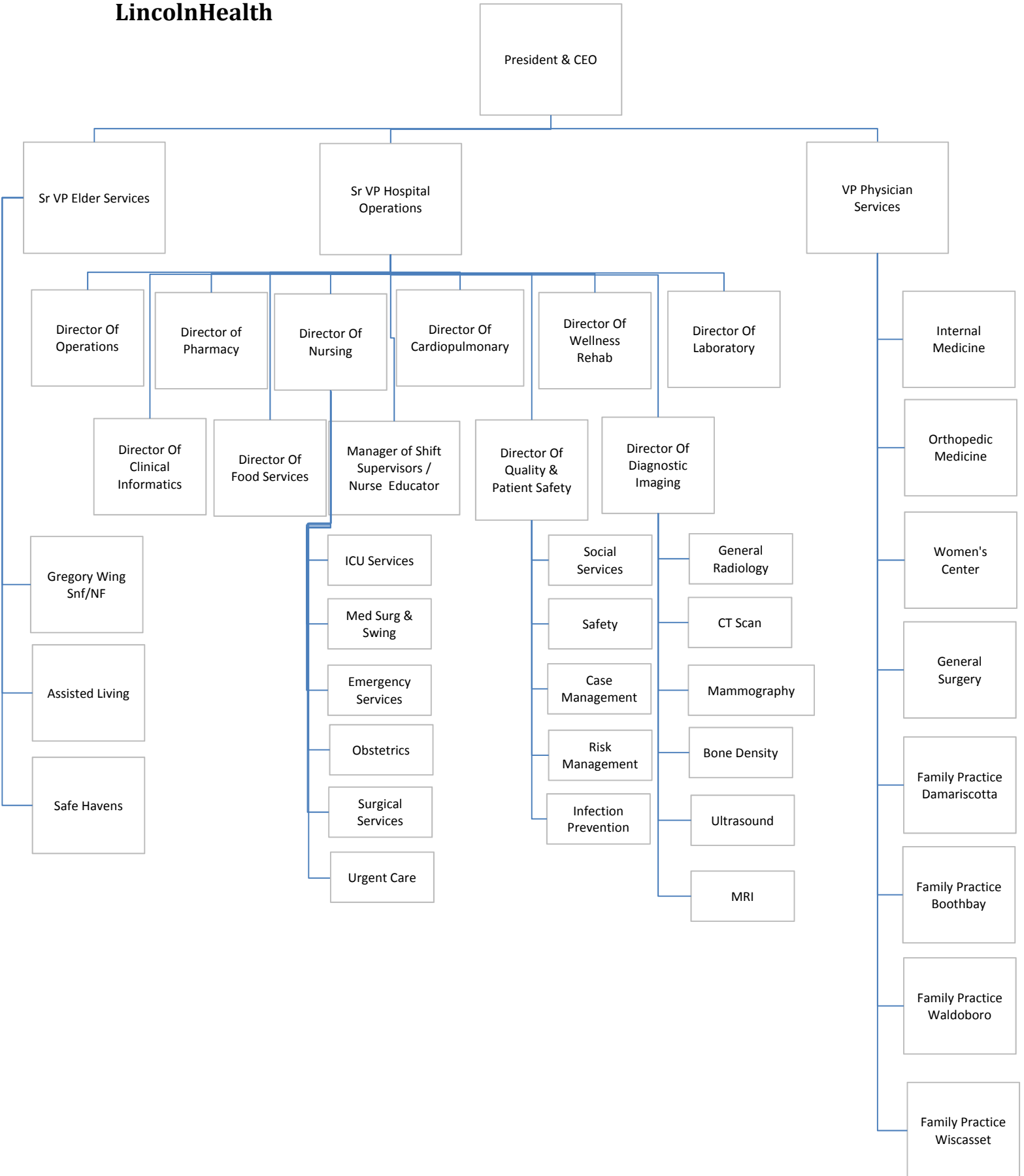
Miles Memorial Hospital (* denotes common management with St. Andrews Hospital)



St. Andrews Hospital (* denotes common management with Miles Memorial Hospital)

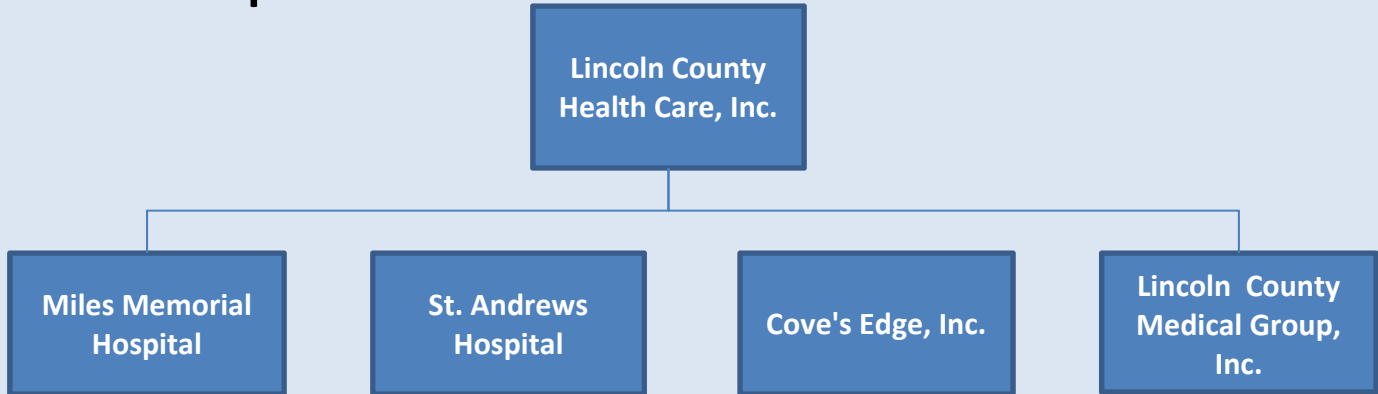


LincolnHealth

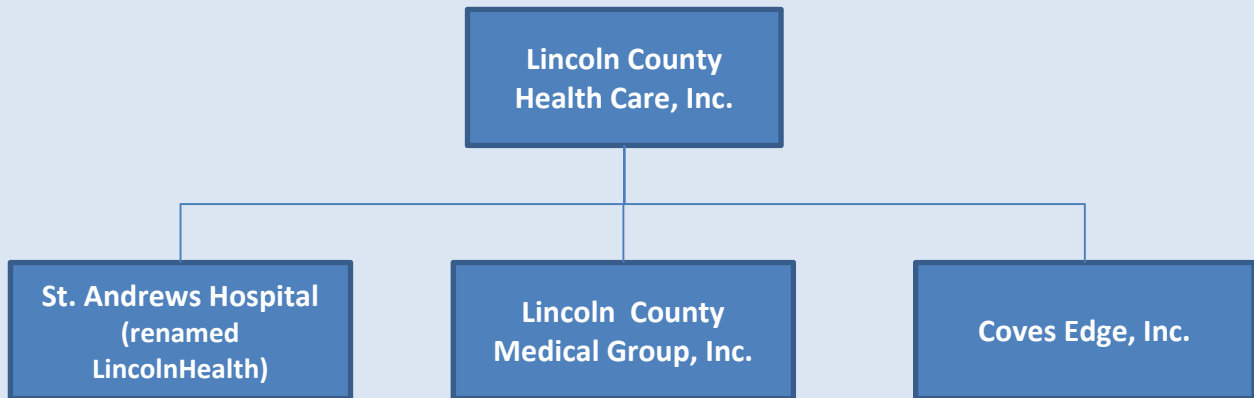


2. Organizational chart of the current corporate structure of LCHC and an organizational chart of the proposed corporate structure of LCHC post-merger.

Current Corporate Structure



Corporate Structure Post Merger



3. List of all rights, privileges, powers, franchises, immunities, property and property rights (including real, personal and mixed) and any other interests of Miles that will be acquired by St. Andrews and/or LincolnHealth post-merger.

Miles Memorial Hospital is merging with and into St. Andrews Hospital. Both of these corporations are currently owned and controlled by Lincoln County Health Care, Inc. The surviving corporation of the merger, St. Andrews Hospital, is then changing its name to LincolnHealth. LincolnHealth is not a new organization; it is a new name for the surviving corporation.

As described in the Articles of Merger (see Appendix)...

10. Effect of Merger. Upon the Merger Date, the Surviving Corporation shall acquire and possess all the rights, privileges, powers, franchises, and immunities of a public as well as a private nature, and be subject to all the liabilities, restrictions, duties and penalties of the Merging Corporation; and all property and property rights, real, personal and mixed, all other interests of the Merging Corporation, including but not limited to bequests which may become effective after this merger) shall be deemed to be transferred and vested in the Surviving Corporation without further act or deed;

Categories of such assets can be found on page 26 of FY2012 Audited Financial Statements (see Appendix).

4. List of all trust funds and other funds held, managed or supervised by Miles that will pass to the management, supervision and possession or St. Andrews and/or LCHC post-merger.

Miles Memorial Hospital is merging with and into St. Andrews Hospital. Both of these corporations are currently owned and controlled by Lincoln County Health Care, Inc. The surviving corporation of the merger, St. Andrews Hospital, is then changing its name to LincolnHealth. LincolnHealth is not a new organization; it is a new name for the surviving corporation.

8/31/2013	Board Designated Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Miles				
Unrestricted	3,604,290		100,030	
Education & Research			665,634	
Charity Care		17,412	125,492	
Medical Expense Assistance			10,000	
Employee Awards - Van Winkle			276,950	
Chapel			17,453	
Annual Fund FY11 - Digital Echo Reading				
Station		116,811		
Annual Funds FY13 - Digital Imaging Detector		125,699		
All other < \$10,000		81,943		
Total	3,604,290	341,865	1,195,560	5,141,715

5. List of services offered by or on behalf of St. Andrews and Miles on a regular basis within the past year, segregated by facility. If services offered by or on behalf of St. Andrews and Miles have changed substantially within the past year, please identify such changes.

St. Andrews Hospital	No substantial changes to services within the past year
Pharmacy	
Laboratory	
Diagnostic Imaging	
Emergency Services	
Acute/Swing Care	
Wound Care	
Cardiopulmonary	
Food Services	
Wellness Rehab	

Miles Memorial Hospital	No substantial changes to services within the past year
Pharmacy	
Laboratory	
Diagnostic Imaging	
Emergency Services	
Inpatient acute services: Med/Surg, ICU, Telemetry	
Swing care	
Emergency services	
Surgical Services	
Obstetrical/GYN services	
Wound care services	
Cardiopulmonary	
Food Services	
Wellness/Rehab services	
Outpatient clinics:	
	Family Medicine Wiscasset
	Family Medicine Waldo -- Rural Health Center
	Family Medicine/IM/Pediatrics Damariscotta -- Rural Health Center
	Family Care Center Boothbay -- Rural Health Center
	General Surgery
	Orthopedics
	Women's Center

6. List of services that will be offered by LincolnHealth at its Damariscotta and Boothbay Harbor locations post-merger.

St. Andrews Campus

Urgent Care
Laboratory
Diagnostic Imaging
Wound Care
Wellness Rehab
Family Care Center Boothbay -- Rural Health Center

Miles Campus

Pharmacy
Laboratory
Diagnostic
Imaging
Emergency
Services
Inpatient acute services: Med/Surg, ICU, Telemetry
Swing care
Emergency
services
Surgical Services
Obstetrical/GYN services
Wound Care
Cardiopulmonary
Food Services
Wellness/Rehab services
Outpatient clinics:
 General Surgery
 Orthopedics
 Women's Center

Other

Outpatient clinics:
 Family Medicine Wiscasset
 Family Medicine Waldoboro -- Rural Health Center

7. Pro forma financial statements for the first year of operation of LincolnHealth.

LincolnHealth Proforma Income Statement -- 10/01/13 - 09/30/14

Gross Revenue

Inpatient	32,460,731
Outpatient	63,018,608
Swing	1,659,171
Physician Services	17,870,999
Long Term Care	6,832,567
Total	<u>121,842,076</u>

Deductions from Revenue

Contractual Adjustments	(45,638,452)
Charity Care	(3,317,239)
Bad Debt	(3,212,206)
Other Deductions	(953,468)
Total Deductions	<u>(53,121,365)</u>

Net Patient Service Revenue	<u>68,720,711</u>
------------------------------------	-------------------

Other Operating Revenue

Other Operating Revenue	1,074,009
Net Assets Released from Operations	67,615
Total Other Operating Revenue	<u>1,141,624</u>

Total Operating Revenue	<u>69,862,335</u>
--------------------------------	-------------------

Operating Expenses

Salaries	19,382,303
Employee Benefits	6,365,273
Non-Medical Supplies	1,058,913
Medical Supplies	4,302,602
Contract Labor	401,138
Purchased Services	7,076,284
Professional Fees	13,162,159
State Taxes	471,521
Facility Costs	2,729,105
Insurance	369,561
Other	626,502
Interest	665,640

Depreciation		2,805,929
	Total Expenses	<u>59,416,930</u>
Contribution Margin		<u>10,445,405</u>
Indirect Costs (LCHC Contract Labor)		8,974,648
Gain(Loss) from Operations		<u>1,470,757</u>
Gifts and donations		239,100
Interest and dividends		187,408
Realized Gains and Losses		-
Change in Net Unrealized Gains & (Losses)		-
Other Income (Expense)		-
Other than Temporary Impairment		-
	Total Non-Operating Revenue	<u>426,508</u>
Excess of Rev & Gains (Loss)		<u>1,897,265</u>
Net Assets Released from Restriction		143,460
Contributed Capital		-
Transfer to Affiliate		-
Gain (Loss)		<u><u>2,040,725</u></u>

7A. Please segregate operating costs for those segments for any services currently offered at Miles that will be operated under the license of LincolnHealth (St. Andrews) post-merger.

The following table represents total LincolnHealth hospital expenses less those of the St. Andrews campus services. There are no new programs or services beyond what already exists on the two campuses today.

Operating Expenses	
Salaries	16,432,527
Benefits	5,568,560
Non-Medical Supplies	590,401
Medical Supplies	4,109,782
Contract Labor	407,710
Purchased Services	6,282,720
Professional Fees	13,128,658
Facility Costs	1,713,830
Insurance	102,631
State Taxes	242,727
Other	576,243
Interest	75,234
Depreciation & Amortization	<u>2,064,935</u>
TOTAL DIRECT EXPENSES	51,295,958

8. A list of the current management team at (a) St. Andrews; (b) Miles; and (c) LCHC and (d) the proposed management team at LincolnHealth post-merger.

(a) St. Andrews

Director of Operations	Patrick Parson
Materials Management Manager	Janet Lee
Facilities Site Supervisor-St Andrews Campus	Bruce Arsenault
Director of Pharmacy	Karen Philbrick
Director of Laboratory	Elisha Elliott
Director of Nursing	Christine Anderson
Director Emergency Services	Greg Coyne
Manager Acute/Swing	Steve Gould
Clinical Informatics Manager	Julia Longfellow
Nurse Education Manager	Michelle Angell
Director Cardiopulmonary	John Hepburn
Director Diagnostic Imaging	Lana Brandt
Director Food Services	Tom Schwarz
Director Wellness/Rehab	Kelly Holbrook
Director Quality Management	Cindy Coyne
Medical Director Emergency Services	Tim Fox, MD

(b) Miles

Director of Operations	Patrick Parson
Materials Management Manager	Janet Lee
Facilities Site Supervisor	Dan Baty
Environmental Site Supervisor	Carolyn Hatch
Director of Pharmacy	Karen Philbrick
Director of Laboratory	Elisha Elliott
Director of Nursing	Christine Anderson
Director Emergency Services	Greg Coyne
Director Surgical Services	Karen Howell
Manager Med/Surg/ICU/Swing	Elsa Parson
Manager Obstetrics	Lynn Plumb
Clinical Informatics Manager	Julia Longfellow
Nurse Education Manager	Michelle Angell
Director Cardiopulmonary	John Hepburn
Director Diagnostic Imaging	Lana Brandt
Director Food Services	Tom Schwarz
Director Wellness/Rehab	Kelly Holbrook
Director Quality Management	Cindy Coyne
Director Primary Care/Hospital Medicine	Lisa Bowers
Director Surgical Practices/ LMP Orthopedics	Mary York
Manager LMP Women's Center	Becky Banks
Manager LMP General Surgery	Becky Banks
Manager Physician Billing	Ellen McFarland

Manager LMP Family Medicine Waldoboro	Sheila Irving
Manager LMP Family Medicine, IM, Pediatrics Damariscotta	Kathy Wright
Manager Family Care Center	Carol McClure
Manager Physician Practice Coding	Sam Geroux
LMP Family Medicine Wiscasset	Andrea Feus
Medical Director Emergency Services	Tim Fox, MD
Medical Director Surgical Services	Garth Miller, MD
Medical Director Hospital Medicine	Jennifer Smith, MD
Medical Director Ambulatory Services	Andy Russ, MD
Medical Director Anesthesia Services	Russell Mack, MD
Medical Director LMP Information Services	Daniel Friedland, MD

(c) Lincoln County Health Care

President/CEO	James Donovan
Chief Medical Officer	Mark Fourre, MD
Vice President of Medical Affairs	Russell Mack, MD
Chief Financial Officer	Wayne Printy
Senior Vice President Hospital Operations	Cindy Wade
Vice President Physician Services	Stacey Miller
Chief Information Officer	Brooks Betts
Vice President Development, Community Relations	Scott Shott
Senior Vice President Senior Living, Home Health	Judy McGuire
Senior Director Human Resources	Tom Girard

(d) LincolnHealth

Director of Operations	Patrick Parson
Materials Management Manager	Janet Lee
Facilities Site Supervisor	Dan Baty
Environmental Site Supervisor-Miles campus	Carolyn Hatch
Environmental Site Supervisor-St. Andrews campus	Bruce Arsenault
Director of Pharmacy	Karen Philbrick
Director of Laboratory	Elisha Elliott
Director of Nursing	Christine Anderson
Director Emergency Services	Greg Coyne
Director Surgical Services	Karen Howell
Manager Med/Surg/ICU/Swing	Elsa Parson
Manager Obstetrics	Lynn Plumb
Clinical Informatics Manager	Julia Longfellow
Nurse Education Manager	Michelle Angell
Director Cardiopulmonary	John Hepburn
Director Diagnostic Imaging	Lana Brandt
Director Food Services	Tom Schwarz
Director Wellness/Rehab	Kelly Holbrook
Director Quality Management	Cindy Coyne
Director Primary Care/Hospital Medicine	Lisa Bowers
Director Surgical Practices/ LMP Orthopedics	Mary York
Manager LMP Women's Center	Becky Banks
Manager LMP General Surgery	Becky Banks

Manager Physician Billing	Ellen McFarland
Manager LMP Family Medicine Waldoboro	Sheila Irving
Manager LMP Family Medicine, IM, Pediatrics Damariscotta	Kathy Wright
Manager Family Care Center	Carol McClure
Manager Physician Practice Coding	Sam Geroux
Manager LMP Family Medicine Wiscasset	Andrea Feus
Medical Director Emergency Services	Tim Fox, MD
Medical Director Surgical Services	Garth Miller, MD
Medical Director Hospital Medicine	Jennifer Smith, MD
Medical Director Ambulatory Services	Andy Russ, MD
Medical Director Anesthesia Services	Russell Mack, MD
Medical Director LMP Information Services	Daniel Friedland, MD

9. A list of the current Board of Trustees, Officers and/or members of (a) St. Andrews; (b) Miles; and (c) LCHC and (d) a description of any changes to the Boards composition post-merger.

(a) Current St. Andrews Hospital Board

Terms & Expiration:	Name:
2 - 2013	Peter Mundy, Chairman
2 - 2013	Jeffrey Curtis Vice-Chairman
1 - 2013	William W. Logan Secretary
2 - 2013	Patrick Lydon Treasurer
1 - 2015	Aquilino Alamo, MD
1 - 2014	Michael Clark, MD
1 - 2014	James Cosgrove
Concurrent with Service as President of the Medical Staff(s)	Steven Feder, DO
2 - 2013	Mark Fourré, MD
3 - 2015	Daniel Friedland, MD
1 - 2014	Jack T. Fulmer, MD
3 - 2015	Catherine (Kitty) Gregg
2 - 2013	Norman Hochgraf
3 - 2015	Jane Hurd
1 - 2015	David W. Lawrence
1 - 2013	Robert McArtor, MD
1 - 2014	Garth Miller, MD
3 - 2015	Barbara Mitchell
1 - 2015	John Murray, MD
2 - 2013	Jane G. Smith

Terms & Expiration:	Name:
2 - 2014	Rev. Dr. Mary Jo Zimmerli
Ex-Officio Member	William L. Caron, Jr President & CEO MaineHealth
Ex-Officio Member	James Donovan, President & CEO
MMH League President	Karen Filler, President
SAH Auxilliary President	Miriam Wade, President

(b) Current Miles Memorial Hospital Board

Terms & Expiration:	Name:
2 - 2013	Peter Mundy, Chairman
2 - 2013	Jeffrey Curtis Vice-Chairman
1 - 2013	William W. Logan Secretary
2 - 2013	Patrick Lydon Treasurer
1 - 2015	Aquilino Alamo, MD
1 - 2014	Michael Clark, MD
1 - 2014	James Cosgrove
Concurrent with Service as President of the Medical Staff(s)	Steven Feder, DO
2 - 2013	Mark Fourné, MD
3 - 2015	Daniel Friedland, MD
1 - 2014	Jack T. Fulmer, MD
3 - 2015	Catherine (Kitty) Gregg
2 - 2013	Norman Hochgraf
3 - 2015	Jane Hurd
1 - 2015	David W. Lawrence
1 - 2013	Robert McArtor, MD
1 - 2014	Garth Miller, MD
3 - 2015	Barbara Mitchell
1 - 2015	John Murray, MD
2 - 2013	Jane G. Smith
2 - 2014	Rev. Dr. Mary Jo Zimmerli
Ex-Officio Member	William L. Caron, Jr President & CEO MaineHealth

Terms & Expiration:	Name:
Ex-Officio Member	James Donovan, President & CEO
MMH League President	Karen Filler, President
SAH Auxiliary President	Miriam Wade, President

(c) Current Lincoln County Health Care, Inc. Board

Terms & Expiration:	Name:
2 - 2013	Peter Mundy, Chairman
2 - 2013	Jeffrey Curtis Vice-Chairman
1 - 2013	William W. Logan Secretary
2 - 2013	Patrick Lydon Treasurer
1 - 2015	Aquilino Alamo, MD
1 - 2014	Michael Clark, MD
1 - 2014	James Cosgrove
Concurrent with Service as President of the Medical Staff(s)	Steven Feder, DO
2 - 2013	Mark Fourné, MD
3 - 2015	Daniel Friedland, MD
1 - 2014	Jack T. Fulmer, MD
3 - 2015	Catherine (Kitty) Gregg
2 - 2013	Norman Hochgraf
3 - 2015	Jane Hurd
1 - 2015	David W. Lawrence
1 - 2013	Robert McArtor, MD
1 - 2014	Garth Miller, MD
3 - 2015	Barbara Mitchell
1 - 2015	John Murray, MD
2 - 2013	Jane G. Smith
2 - 2014	Rev. Dr. Mary Jo Zimmerli
Ex-Officio Member	William L. Caron, Jr President & CEO MaineHealth
Ex-Officio Member	James Donovan, President & CEO

Terms & Expiration:	Name:
MMH League President	Karen Filler, President
SAH Auxiliary President	Miriam Wade, President

(d) Post-Merger Boards

There is no fundamental change in Board structure post merger. As a result of the merger, there will be no Miles Memorial Hospital Board. The St. Andrews Hospital Board will change its name to the LincolnHealth Board. Some Board members and officers will change as result of the normal annual process. These changes take place October 1, 2013 and are reflected below.

Lincoln County Health Care, Inc.

Terms & Expiration:	Name:
3 - 2016	Jeffrey Curtis Chairman
2 - 2016	William W. Logan Vice Chairman
1 - 2015	David W. Lawrence Secretary
3 - 2016	Patrick Lydon Treasurer
1 - 2015	Aquilino Alamo, MD
1 - 2014	Michael Clark, MD
1 - 2014	James Cosgrove
3 - 2016	Mark Fourné, MD
Concurrent with Service as President of the Medical Staff(s)	Timothy Fox, MD
3 - 2015	Daniel Friedland, MD
1 - 2014	Jack T. Fulmer, MD
3 - 2015	Catherine (Kitty) Gregg
3 - 2015	Jane Hurd
2 - 2016	Robert McArtor, MD
1 - 2014	Garth Miller, MD
3 - 2015	Barbara Mitchell
1 - 2015	John Murray, MD
3 - 2016	Jane G. Smith
2 - 2014	Rev. Dr. Mary Jo Zimmerli

Terms & Expiration:	Name:
Ex-Officio Member	William L. Caron, Jr President & CEO MaineHealth
Ex-Officio Member	James Donovan, President & CEO
Miles Memorial League President	Karen Filler, President
St. Andrews Hospital Auxiliary President	Carole Zalucky, President

LincolnHealth

Terms & Expiration:	Name:
3 - 2016	Jeffrey Curtis Chairman
2 - 2016	William W. Logan Vice Chairman
1 - 2015	David W. Lawrence Secretary
3 - 2016	Patrick Lydon Treasurer
1 - 2015	Aquilino Alamo, MD
1 - 2014	Michael Clark, MD
1 - 2014	James Cosgrove
3 - 2016	Mark Fourné, MD
Concurrent with Service as President of the Medical Staff(s)	Timothy Fox, MD
3 - 2015	Daniel Friedland, MD
1 - 2014	Jack T. Fulmer, MD
3 - 2015	Catherine (Kitty) Gregg
3 - 2015	Jane Hurd
2 - 2016	Robert McArtor, MD
1 - 2014	Garth Miller, MD
3 - 2015	Barbara Mitchell
1 - 2015	John Murray, MD
3 - 2016	Jane G. Smith
2 - 2014	Rev. Dr. Mary Jo Zimmerli
Ex-Officio Member	William L. Caron, Jr President & CEO MaineHealth
Ex-Officio Member	James Donovan, President & CEO
Miles Memorial League President	Karen Filler, President
St. Andrews Hospital Auxiliary President	Carole Zalucky, President

10. A description of the proposed new urgent care unit, wound care unit and behavioral health services to be located at Boothbay Harbor, along with a projection of capital expenditures to establish these services and a projection of first and third year operating costs for these services.

Description of Urgent Care Services:

Scope of Care:

The Urgent Care Center provides care for minor emergencies 12 hours a day. Physicians are all experienced in emergency medicine and are present in the building at all times.

All patients presenting to the Urgent Care Center will be seen and evaluated by a physician.

EMTs from area services provide EMS coverage at the basic, intermediate and paramedic levels as available and if needed will be called to the Urgent Care Center to transport patients as needed to a higher level of care.

This service is a replacement of Emergency Room service currently provided on the St. Andrews campus. This is not a new service.

Staffing Plan:

The following is the core staffing for the Urgent Care Center

0800-2000	1 Physician
0800-2000	1 RN
0800-2000	1 Urgent Care Technician

In the event core staffing cannot be provided the Nursing chain of command will be activated (Manager to the LCH Director of Nursing) and the following actions will take place:

1. Attempt to call in staff.
2. Evaluate other units for the possibility of floating nurses to provide general patient care as cross-trained.
3. The Manger will be utilized.
4. The LCH Director of Nursing will be utilized as trained.
5. Code Triage I or Code Triage II will be called.

Projected Capital Expenditures:

None. This service will be provided in the space currently used by the emergency department and utilize its existing equipment. There is no incremental capital cost.

Operating Costs:

Urgent Care direct operating costs are a replacement, and reduction to, the current Emergency Room expenses.

	<u>Year One</u>	<u>Year Three</u>
Salaries	325,783	338,945
Benefits	102,785	106,937
Non-Medical Supplies	2,105	2,190
Medical Supplies	29,000	30,766
Purchased Services	13,471	14,015
Physician Services	664,726	705,208
Facility Costs	1,800	1,873
Other	1,295	1,374
	\$	
TOTAL DIRECT EXPENSES	<u>1,140,965</u>	<u>1,201,308</u>

Description of Wound Care Services

Scope of Care:

An established wound care service is already provided on the Boothbay Campus on the first floor of the hospital building. Basic assessment, treatment and dressing changes are performed by a wound care certified nurse as directed by physician orders. Wound care is provided Monday-Friday on a scheduled as needed basis per patient.

In January, 2014 we plan to engage Healogics for program management and relocate the service to different space on the St. Andrews Campus. These plans are not related to the merger activity.

Projected Capital Expenditures:

None.

Operating Costs:

Description of Behavioral Health Services:

There are no definitive plans for this service. There are no plans for LincolnHealth to engage in provision of these additional services directly. Instead, talks will be held with Spring Harbor Hospital/Maine Mental Health Partners about what services they might offer on our St. Andrews campus.

Projected Capital Expenditures:

None.

Operating Costs:

For reasons described above, no LincolnHealth operating costs are anticipated.

11. A description of the proposed OPT extension to be located in Boothbay Harbor along with a projection of first and third year operating costs for these services.

Scope of Care:

The OPT extension will cover the outpatient services currently provided on the St. Andrews campus to facilitate billing for these services as a satellite location of the LincolnHealth hospital on the Miles campus.

- Urgent Care (Replacing Emergency care)
- Laboratory
- Diagnostic Imaging
- Wound Care
- Wellness Rehab

Operating Costs:

	Year One	Year Three
Salaries	1,742,504	1,812,901
Benefits	549,760	571,970
Non-Medical Supplies	54,822	57,037
Medical Supplies	119,600	126,884
Purchased Services	1,008,138	1,069,534
Professional Fees	33,500	34,853
Physician Services	664,726	705,208
Facility Costs	562,131	596,365
Insurance	55,493	57,735
Other	12,794	13,573
Interest	140,902	135,322
Depreciation & Amortization	727,235	698,436
TOTAL DIRECT EXPENSES	5,671,605	5,879,818

12. A description of LMP Orthopedics located in Damariscotta along with a projection of first and third year operating costs.

Scope of Care:

The Orthopedic Office provides general orthopedic care, including minimally invasive total joint replacements, arthroscopic shoulder and knee surgery, sports medicine and spine surgery. The office performs general orthopedic radiology for their patients.

Staffing Plan:

Staffing includes 4 providers; 2 medical assistants; 1 office coordinator; 2 patient services representatives; 1 medical record clerk; 3 part-time radiology techs; and a practice manager.

Patient care hours: Monday – Friday 0900–1700

Contingency Plan Includes:

In the event core staffing cannot be provided the following actions will take place:

1. Per diem staff will be called in.
2. Management will mobilize staff from another office.
3. The office manager would be utilized as appropriate.

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

	Year One	Year Three
Salaries	277,221	288,421
Benefits	89,774	93,401
Non-Medical Supplies	4,200	4,370
Medical Supplies	66,000	70,019
Purchased Services	34,346	36,438
Physician Services	1,397,248	1,482,340
Facility Costs	37,550	39,837
Insurance	15,972	16,617
Other	1,128	1,197
TOTAL DIRECT EXPENSES	1,923,439	2,032,640

13. A description of LMP Women's Center located in Damariscotta along with a projection of first and third year operating costs.

Scope of Care:

The Women’s Center provides comprehensive women’s health care:

Gynecological Care; annual physical exams, contraception, abdominal pap smears, menopause (peri & post), colposcopies, leeps, biopsies, Gyn surgeries, tubal ligations, assists with urogynecological surgeries and other incontinence related issues.

Obstetrical Care; pregnancy testing, pre and postnatal care and education, c-sections (first time and repeat), waterbirths, post-partum contraception, Healthy Family Program.

Staffing Plan:

Staffing includes; 1 provider; 2 Nurse Midwives; 1 RN triage; 2.5 medical assistant; 1.0 patient services representatives, and a practice manager.

Patient care hours: Monday-Friday 0730-1700

Contingency Plan Includes:

In the event core staffing cannot be provided the following actions will take place:

1. Per diem staff will be called in.
2. Management will mobilize staff from another office.
3. The office manager would be utilized as appropriate

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

	<u>Year One</u>	<u>Year Three</u>
Salaries	182,960	190,352
Benefits	51,338	53,412
Non-Medical Supplies	3,460	3,600
Medical Supplies	38,500	40,845
Purchased Services	35,813	37,994
Physician Services	925,770	982,149
Facility Costs	23,947	25,405
Insurance	8,929	9,290
Other	3,116	3,306
TOTAL DIRECT EXPENSES	1,273,833	1,346,352

14. A description of LMP General Surgery located in Damariscotta along with a projection of first and third year operating costs.

Scope of Care:

The General Surgery Office provides a full range of general surgical and laparoscopic procedures for all ages. General Surgery can be used for routine procedures performed in the physician's office, such as excision of skin lesions, or for more complicated operations requiring a medical team in a hospital setting, such as laparoscopic cholecystectomy (removal of the gall bladder). Some of the areas of the body treated by general surgery include the stomach, liver, intestines, appendix, breasts, hemorrhoids, and the skin.

We accept established patients or those referred to us by their primary care physicians.

Staffing Plan:

Staffing includes: 2 general surgeons, 2 medical assistants, 2 patient service representatives, and a practice manager.

Patient care hours: Monday – Friday 0900 – 1700

Contingency Plan Includes:

In the event core staffing cannot be provided the following actions will take place:

1. Per diem staff will be called in.
2. Management will mobilize staff from another office.
3. The office manager would be utilized as appropriate

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

	Year One	Year Three
Salaries	146,352	152,265
Benefits	56,604	58,891
Non-Medical Supplies	1,754	1,825
Medical Supplies	7,391	7,841
Purchased Services	24,440	25,928
Physician Services	1,431,607	1,518,792
Facility Costs	10,222	10,845
Insurance	3,482	3,623
Other	1,839	1,951
TOTAL DIRECT EXPENSES	1,683,691	1,781,960

15. A description of Surgical Services including OR/PACU and ASU located in Damariscotta along with a projection of first and third year operating costs.

Surgical Services Team: The surgical services team is comprised of Anesthesia, the Operating Rooms (OR), Post-Anesthesia Care Unit (PACU), Ambulatory Services (ASU) and Central Sterile Supply (CSS). The team process is dynamic, behavioral and technical, concerned with:

- the provision of high quality patient care during surgical intervention,
- providing those functions that ensure a safe physical environment and protection of patients, recognizing the patient's dignity as well as physical and spiritual needs,
- the promotion of knowledge and skills of its personnel to facilitate implementation of scientific and technological advances in health care, and
- continually adjusting its function in accordance with current health and educational programs.

Surgical procedures are performed 24 hours per day, 7 days per week, on either a scheduled or emergency basis in house or with regional call partners.

Scope of Care:

Anesthesia: Daily on-site anesthesiologist coverage is provided by Spectrum Anesthesia from 0700 until the end of elective cases. LMP provides CRNA coverage Mon-Fri from 0700-1530. Spectrum Anesthesia provides on-call coverage for all other hours 24/7; including weekends and major holidays. In addition to the OR, Anesthesia is available for the ED, OB, ICU, and all other departments for intubation, central lines, labor and non-labor epidurals, and intrathecal.

OR/PACU/ASU: Scope of care includes, but is not limited to, surgical procedures in the following specialty areas:

- General Surgery
- Ear, Nose, Throat Surgery
- Obstetrical and Gynecological Surgery
- Ophthalmologic Surgery
- Orthopedic Surgery
- Urological Surgery

ASU: In addition to caring for ambulatory (day) surgery patients in an eight-bed unit, ASU

also provides pre-operative teaching, and performs non-surgical procedures such as: administers and monitors blood transfusions, infusion therapies, dressing changes, and serves as a clearinghouse for Diagnostic Imaging when they are doing invasive procedures and procedural sedation.

PACU: After surgery, this unit cares for and monitors post-surgical patients until they meet Aldrete scale criteria and can be discharged from PACU to a nursing unit.

CSS: Responsible for reprocessing all re-usable items for the OR, LincolnHealth departments, Physician Office Practices, and other entities as needed.

Skill Levels: OR/CSS/PACU/ASU is staffed by experienced Registered Nurses, Certified Surgical Technicians and unit coordinators, with certification in their specialty areas as appropriate.

Staffing Plans:

- Most clinical staff on the surgical services team is cross-trained to be able to function in more than one area of service, although each individual has one primary area of expertise.
- The Operating Room is staffed Monday through Friday from 0630-1700 to meet each day's case load. A minimum of one RN and one surgical tech are on call from 1500 to 0700 weekdays Monday – Friday and 24 hr/day on weekend and major holidays.
- CSS is open Monday – Friday from 0600 to 1430. The on-call CST in the OR is available for sterile processing needs beyond those hours if needed.
- PACU is staffed from 0700-1630 Monday through Friday.
- ASU is staffed from 0600 to 1630 weekdays by a minimum of three RNs and a Unit Coordinator.
- Pre-op Teaching is staffed by 1 RN Monday-Thursday 0700-1630.
- PACU on call is covered by an Advanced Cardiac Life Support (ACLS) trained RN, Monday through Friday 1430 until 0700 the following morning and 24 hr/day on weekends and major holidays.

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

Operating Room	<u>Year One</u>	<u>Year Three</u>
Salaries	821,518	854,707
Benefits	259,189	269,660
Non-Medical Supplies	7,370	7,668
Medical Supplies	1,608,000	1,705,927
Purchased Services	108,000	112,363
Professional Fees	22,000	23,340
Facility Costs	227,000	236,171
Other	985	1,025
TOTAL DIRECT EXPENSES	<u>3,054,062</u>	<u>3,210,861</u>

PACU	<u>Year One</u>	<u>Year Three</u>
Salaries	159,433	165,874
Benefits	50,301	52,333
Non-Medical Supplies	1,855	1,930
Medical Supplies	5,740	6,090
Purchased Services	344	358
Professional Fees	-	-
Facility Costs	525	546
Other	186	194
TOTAL DIRECT EXPENSES	<u>218,384</u>	<u>227,325</u>

ASU	<u>Year One</u>	<u>Year Three</u>
Salaries	159,433	165,874
Benefits	50,301	52,333
Non-Medical Supplies	1,855	1,930
Medical Supplies	5,740	6,090
Purchased Services	344	358
Professional Fees	-	-
Facility Costs	525	546
Other	186	194
TOTAL DIRECT EXPENSES	<u>218,384</u>	<u>227,325</u>

16. A description of MRI Services located in Damariscotta along with a projection of first and third year operating costs.

The Diagnostic Imaging Team consists of full-time and part-time Radiology Techs, Mammo Techs, CT Techs, Ultrasound Techs, Bone Densitometry Techs and a Unit Coordinator. Charles Mullen, M.D. is the Medical Director.

MRI services are offered five days/week at the Miles campus - Monday, Tuesday, Thursday, Friday and Saturday – Services are provided 0730-1600. Open bore magnet is there on Tuesdays. Staffing consists of MRI Service Technician who is present during all hours of operation. Support Staff is based in the DI department.

We utilize a mobile MRI unit provided by Insight. Our only capital investment in this program is the walkway from the building to the mobile MRI. This service was approved and deemed not subject to CON review in 2010.

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital. All operating costs are paid through the Insight contract.

	<u>Year One</u>	<u>Year Three</u>
Salaries	-	-
Benefits	-	-
Non-Medical Supplies		-
Medical Supplies		-
Purchased Services	565,857	600,318
Professional Fees		
Other		-
TOTAL DIRECT EXPENSES	<u>565,857</u>	<u>600,318</u>

17. A description of Nuclear Medicine Services located in Damariscotta along with a projection of first and third year operating costs.

The Diagnostic Imaging Team consists of full-time and part-time Radiology Techs, Mammo Techs, CT Techs, Ultrasound Techs, Bone Densitometry Techs and a Unit Coordinator. Charles Mullen, M.D. is the Medical Director.

Nuclear Medicine is offered four days/week - Monday, Wednesday, Thursday and Friday. Staffing consists of a Nuclear Medicine Technologist who is present during hours of operations. Support Staff is based in the DI department.

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

	Year One	Year Three
Salaries	69,825	72,646
Benefits	21,995	22,883
Non-Medical Supplies		-
Medical Supplies	60,000	63,654
Purchased Services	30,000	31,827
Professional Fees		
Facility Costs	21,000	21,848
Other		-
TOTAL DIRECT EXPENSES	202,820	212,859

18. A description of ICU Services located in Damariscotta along with a projection of first and third year operating costs.

Intensive Care/Telemetry Unit: There are 4 ICU rooms and 4 telemetry/step down rooms (including one isolation, negative pressure room) available to accommodate critically ill medical/surgical patients.

Scope of Care:

The Intensive Care unit provides intensive care to critically ill medical surgical patients including pediatric to geriatric, as well as back-up monitoring of telemetry patients on Med-Surg.

Skill Levels: There are different skill levels for ICU RNs: Entry into Practice; RN's I; RN's II; and RN's III. All RN II's and RN III's are Advanced Cardiac Life Support (ACLS) certified at hire, and the RN I's within 6 months. All staff are Basic Life Support (BLS) certified. The US/CNA may be a monitor technician. All staff must meet mandatory core competencies as defined by Policy.

Staffing Plan:

Core staffing is three RNs and one unit secretary/CNA or unit secretary/CNA Monitor Technician 24 hrs/day, and one US/CNA from 0500-1300 Monday thru Friday (unless otherwise indicated by census and/or acuity).

Contingency Planning for Inpatient/Swing Units:

In the event safe staffing cannot be provided based on the level of acuity the nursing chain of command will be activated (manager and/or shift supervisor to the Director of Nursing, Senior VP Hospital Operations, or the Administrator on call in her absence) and the following actions will take place:

1. Attempt to call in additional staff
2. Evaluate other units for the possibility of floating nurses to provide general patient care for which they are trained and/or the "Helping Hands" guideline will be utilized.
3. Utilize shift supervisor.
4. The Manager may be utilized.
5. The Director of Nursing and/or Senior VP Hospital Operations may be called to assist in general patient care or to act as Shift Supervisor.
6. Call contracted agencies for agency Nursing.
7. Close beds to further admissions and consider transfer of patients as dictated by the acuity level (prior to bed closure, the Administrator on call must be notified).

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

	Year One	Year Three
Salaries	1,124,782	1,170,223
Benefits	354,869	369,205
Non-Medical Supplies	11,500	11,965
Medical Supplies	36,850	39,094
Purchased Services	95,286	101,089
Facility Costs	2,800	2,913
Other	3,168	3,296
TOTAL DIRECT EXPENSES	1,629,255	1,697,785

19. A description of OB/L&D/Newborns services located in Damariscotta along with a projection of first and third year operating costs.

1. Description of OB/L&D/Newborns

Obstetrics/Gynecology/Newborn: This Baby Friendly unit strives to create a safe and supportive atmosphere; providing information, physical care, affirmation, resources and education to families, enhancing their abilities to bond with and nurture their children and meet their individual health care needs. The staff believes in supporting women throughout their life span.

Four rooms are LDRP's (labor, delivery, recovery and postpartum rooms), with infants rooming in. There is no separate nursery though any empty patient room or infant procedure room can be used as a nursery if needed. Fathers or labor support persons are encouraged to stay with the patient and cots are provided. These rooms may also be used for gynecological surgery or medical inpatients as needed. Two additional rooms are used for outpatient services, including obstetrical testing and ambulatory surgery.

Patients less than 36 weeks gestation or very high risk are transferred to MMC (Maine Medical Center) in Portland or EMMC (Eastern Maine Medical Center) in Bangor. Patients less than 36 weeks who are not stable enough for transport may be delivered here and then transported when stable. Infants requiring Level 2 or 3 nurseries are also transferred to either of these hospitals. C-sections are performed in the operating room, using the regular OR staff with the OB nurse assisting with the baby.

Scope of Care:

OB/GYN/Newborn provides antenatal testing/procedures/care for labor and delivery, postpartum, newborns, gynecological patients and selected medical-surgical patients, home visits (if medically necessary), or post-partum in-house visits, ante partum/childbirth classes, water birth classes and sibling classes. Lactation consultants provide additional support and instruction for breastfeeding mothers as needed. A weekly support group for new and expectant mothers is offered and facilitated by unit nurses.

Skill Levels:

The unit is staffed by RNs and CNAs, all of whom are Basic Life Support (BLS) certified. RNs are also certified in Neonatal Resuscitation and some have Advanced Cardiac Life Support (ACLS) certification. Several are also certified lactation consultants. All staff must meet mandatory core competencies as defined by Policy.

Staffing Plan: Core Staffing is two RNs 24 hrs/day; one unit secretary/CNA 0645-1715, unless otherwise indicated by census and/or acuity.

Contingency Planning:

In the event safe staffing cannot be provided based on the level of acuity the nursing chain of command will be activated (manager and/or shift supervisor to the Director of Nursing, Senior VP Hospital Operations, or the Administrator on call in her absence) and the following actions will take place:

1. Attempt to call in additional staff
2. Evaluate other units for the possibility of floating nurses to provide general patient care for which they are trained and/or the “Helping Hands” guideline will be utilized.
3. Utilize shift supervisor.
4. The Manager may be utilized.
5. The Director of Nursing and/or Senior VP Hospital Operations may be called to assist in general patient care or to act as Shift Supervisor.
6. Call contracted agencies for agency Nursing.
7. Close beds to further admissions and consider transfer of patients as dictated by the acuity level (prior to bed closure, the Administrator on call must be notified).

Operating Costs:

The following operating costs are not new, incremental costs. This is an existing service under Miles Memorial Hospital.

	<u>Year One</u>	<u>Year Three</u>
Salaries	654,931	681,390
Benefits	206,631	214,979
Non-Medical Supplies	8,160	8,490
Medical Supplies	45,000	47,741
Purchased Services	652	678
Facility Costs	2,800	2,913
Other	3,168	3,296
TOTAL DIRECT EXPENSES	<u>921,342</u>	<u>959,486</u>

20. A description of swing bed services located in Damariscotta along with a projection of first and third year operating costs.

Scope of Care:

As part of the Medical Surgical unit, our license allows for 5 Swing beds. Swing status provides the patient with skilled care in accordance with the State Operations Manual. Eligibility for Swing is determined by the provider and case management per the UR Plan and the Continued Stay Notice Acute to Swing with physician concurrence and Notice of Exclusion from Medicare benefits – (Skilled Nursing Facility Policy 01.6060.107).

Skill Levels: The unit is staffed per the Med Surg skill level, with EIP RNs; RN I's; RN II's; RN III's; CNA I's; CNA II's and Unit Secretaries. All direct care staff have BLS certification and must meet mandatory core competencies.

Staffing Plan:

Core staffing is integrated with the Medical Surgical plan and is typically five RN's on day shift, one Unit Secretary and three CNA's. There are typically four RN's, one Unit Secretary and two CNA's on the night shift. A Unit secretary is staffed 24 hours.

Contingency Planning:

In the event safe staffing cannot be provided based on the level of acuity the nursing chain of command will be activated (manager and/or shift supervisor to the Director of Nursing, Senior VP Hospital Operations, or the Administrator on call in her absence) and the following actions will take place:

1. Attempt to call in additional staff
2. Evaluate other units for the possibility of floating nurses to provide general patient care for which they are trained and/or the "Helping Hands" guideline will be utilized.
3. Utilize shift supervisor.
4. The Manager may be utilized.
5. The Director of Nursing and/or Senior VP Hospital Operations may be called to assist in general patient care or to act as Shift Supervisor.
6. Call contracted agencies for agency Nursing.
7. Close beds to further admissions and consider transfer of patients as dictated by the acuity level (prior to bed closure, the Administrator on call must be notified).

Operating Costs:

We are confused as to why financial information is being requested for swing beds. Both Miles and St. Andrews are currently licensed for swing beds. This is not a new service for either hospital or for either location.

By definition, swing beds may be used for either acute inpatients or skilled care patients. There is no physical bed delineation and either class of patients is cared for by the same staff. An allocation of swing bed costs would be arbitrary and only have validity in retrospect. We do not have a cost accounting system that could possibly isolate swing bed costs. Our swing bed costs are projected and budgeted within the overall acute care budget.

21. The (a) purchase price and (b) fair market value of any medical equipment that will be transferred between Miles, St. Andrews and/or LincolnHealth in the referenced transaction.

Miles Memorial Hospital is merging with and into St. Andrews Hospital. Both of these corporations are currently owned and controlled by Lincoln County Health Care, Inc. The surviving corporation of the merger, St. Andrews Hospital, is then changing its name to LincolnHealth. LincolnHealth is not a new organization; it is a new name for the surviving corporation. Fair market value is not relevant to a transaction of this nature.

Below is a summary of the original purchase price and the current book value of medical assets from Miles Memorial Hospital included in this transaction.

Medical Equipment	Acquisition Cost	Net Book Value
01.6000 MMH PATIENT CARE SERVICE	132,932	70,897
01.6040 MMH QUALITY MANAGEMENT	2,271	300
01.6050 MMH SAFETY	1,442	1,202
01.6160 MMH MEDICAL/SURGICAL	345,865	179,991
01.6180 MMH OBSTETRICS	137,009	88,597
01.6200 MMH ICU	154,570	115,507
01.6220 MMH OPERATING ROOM	713,988	396,330
01.6260 MMH ASU/DAY SURGERY	76,128	41,391
01.6280 MMH ANESTHESIA	79,049	16,204
01.6320 MMH LABORATORY	5,785	822
01.6340 MMH DIAGNOSTIC IMAGING	497,644	226,090
01.6360 MMH PHARMACY	182,272	104,964
01.6380 MMH CARDIOPULMONARY	291,373	165,356
01.6400 MMH EMERGENCY DEPARTMENT	134,176	76,610
01.6480 MMH WELLNESS/REHAB	32,214	24,177
01.6500 MMH PHYSICAL THERAPY	17,518	10,814
01.6520 MMH CARDIAC REHAB	2,020	393
01.6740 MMH DIABETES SELF MGMT	969	388
01.7170 MMH ORTHO ISSUANCES	28,942	9,939
01.7175 MMH WALDOBORO CENTER	15,952	5,444
01.7180 MMH WOMEN'S CENTER	6,399	1,607
01.7181 MMH WISCASSET CENTER	46,027	6,556
07.7196 LMP BB HOME FP FCC.	163,412	75,935
07.7830 LMP PHYS BILLING HOME	2,990	897
07.7860 LMP PHYS ADMIN HOME	13,295	4,033
07.7870 LMP SURG HOME	6,586	4,437
07.7880 LMP IM HOME	51,252	41,392
07.7896 LMP HOSP HOME	592	329

Medical Equipment	Acquisition Cost	Net Book Value
07.7900 LMP WISC HOME	21,184	13,393
07.7920 LMP ED HOME	50,273	2,394
07.7925 LMP DAMFP HOME	7,194	4,573
07.7940 LMP ORTHO HOME	14,641	7,222
07.7950 LMP WALDOFP - HOME	23,597	12,165
07.7960 LMP WCOB HOME	17,015	9,880
Grand Total	3,276,576	1,720,227

22. A description of any other capital expenditure involved in the referenced transition.

There is very minimal capital expenditure related to this merger. No service expansion beyond what is already provided on the two campuses is planned.

The table below itemizes the few capital expenditure anticipated.

Replace Hospital Signage	9,000
Renovate Wellness Space on St. Andrews Campus	20,000
Enhanced St. Andrews Campus Security System	<u>9,196</u>
	<u><u>38,196</u></u>

23. Copy(ies) of any agreements between Miles, St. Andrews and/or LCHC regarding the referenced transaction.

Refer to the Articles of Merger in the appendix.

No other agreements were necessary in this case of merger between two corporations already under common ownership.

**Exhibit 8-H: Letter to Department’s Medical Facilities
Health Care Oversight Unit requesting a “Determination of
Not Subject to Review” of the proposed relocation of
LincolnHealth to 35 Miles Street, Damariscotta, Maine,
October 1, 2013**

Lincoln County Healthcare

MaineHealth

October 1, 2013

Phyllis Powell, Assistant Director
Medical Facilities Unit
Division of Licensing & Regulatory
Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

Larry Carbonneau, Manager
Health Care Oversight
Division of Licensing and Regulatory
Services
Department of Health and Human Services
State House Station # 11
41 Anthony Avenue
Augusta, Maine 04333-0011

RE: Lincoln County Health Care
Merger of Miles Memorial Hospital and St. Andrews Hospital
Request for Determination that the Transaction is Not Subject to
Certificate of Need Review

Dear Ms. Powell and Mr. Carbonneau:

MaineHealth and Lincoln County Health Care, for itself and on behalf of its subsidiaries Miles Memorial Hospital and St. Andrews Hospital, request that the Department make a determination that the transaction described in this letter, the merger of Miles Memorial Hospital and St. Andrews Hospital, is not subject to Certificate of Need review.

The merging entities, Miles Memorial Hospital and St. Andrews Hospital have been members in the MaineHealth system of hospitals for over a decade. In 1997 and 1996, respectively, the Department issued certificates of a need for transactions by which MaineHealth became the sole corporate member of these hospitals.

In 2007, MaineHealth established a subsidiary, Lincoln County Health Care, which has been the sole corporate member of each of these hospitals from that time to the present. In the parlance of the certificate of need statute, MaineHealth owns and controls Lincoln County Health Care, and Lincoln County Health Care owns and controls Miles Memorial Hospital and St. Andrews Hospital.

St. Andrews Hospital ~ Miles Memorial Hospital ~ Cove's Edge, Inc. ~ Lincoln County Medical Group

6 St. Andrews Lane ~ Boothbay Harbor, Maine ~ 04538 Phone (207)633-2121 Fax (207)633-1224

Since 2007, the boards of trustees of Lincoln County Health Care, Miles Memorial Hospital and St. Andrews Hospital have been identical in constitution. The management and medical staff of Miles Memorial Hospital and St. Andrews Hospital have been integrated.

In 2013, the board of trustees of Lincoln County Health Care determined that it was in the best interest of its mission, and that of Miles Memorial Hospital and St. Andrews Hospital, to merge the two hospitals. The merger plan (Attachment One) provides that Miles Memorial Hospital will be merged into St. Andrews Hospital. The merger was structured in this way so as to permit the facilities and services of Miles Memorial Hospital to be covered by St. Andrews Hospital's critical access hospital designation for Medicare and Medicaid purposes. With the assistance of the Department, CMS has provided St. Andrews Hospital with preliminary approval to "relocate" its service area to include Miles Memorial Hospital.

The details of the transaction are as follows:

- Effective 12:01 am October 1, 2013 Lincoln County Health Care merged Miles Memorial Hospital and St. Andrews Hospital. St. Andrews Hospital is the surviving entity and has undergone a name change to "LincolnHealth".
- Ownership, control, governance and management of the entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, continues to reside with Lincoln County Health Care, the sole corporate member of LincolnHealth, and ultimately with MaineHealth, Lincoln County Health Care's sole corporate member.
- The entity formerly known as St. Andrews Hospital, now renamed LincolnHealth, has maintained its State of Maine hospital license, Centers for Medicare and Medicaid Services' provider agreement and Critical Access Hospital designation. The Department has issued a conditional license confirming that Lincoln Health's services are broad enough to cover the services offered at the former Miles Memorial Hospital.
- LincolnHealth is operating a maximum of 25 licensed acute care and swing beds and providing 24-hour emergency services at its Damariscotta campus (the former Miles Memorial Hospital campus). The St. Andrews Campus located in Boothbay Harbor continues to support LincolnHealth's delivery of outpatient and ambulatory care.

There is no change of control or ownership of the hospitals. This transaction is simply a corporate reorganization within the Lincoln County Health Care and specifically its two hospital subsidiaries, Miles Memorial and St. Andrews Hospitals. As described above, both before and after the transaction, Lincoln County Health Care directly, and

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MaineHealth indirectly as the parent of Lincoln County Health Care, own and control these hospitals in the sense contemplated by the certificate of need statute. No new outside entity is gaining control of these hospitals.

There is no capital expenditure as a result of this transaction. The aggregation of the assets and liabilities of Miles Memorial Hospital and St. Andrews Hospital into the single surviving entity LincolnHealth (the former St. Andrews Hospital) occurs by operation of corporate law, 1-B Me. Rev. Stat. Ann. § 905(2), not as the result of any deed of transfer or bill of sale been transacting parties.

There is no addition to any facilities or services as a result of this transaction. The services that had been offered under the subsidiary corporation Miles Memorial Hospital have simply been deemed re-allocated to the surviving subsidiary St. Andrews Hospital, whose name has been changed to Lincoln Health.

There are no new incremental annual operating costs as a result this transaction. There are cost savings. As a result of this restructuring and rationalizing of services LincolnHealth is able to reduce operating costs by \$6.3 million and to receive more favorable reimbursement from Medicare in the amount of \$5.2 million, \$4.6 million of which Lincoln County Health Care is returning to the residents of Lincoln County through price reductions effective this October.

As noted above, the transaction is structured in this way so that the services previously offered at Miles Memorial Hospital's Damariscotta main campus and other sites are covered by the critical access hospital designation of St. Andrews Hospital. The Department actively facilitated this feature of the transaction last spring. By letter of April 23, 2013, St. Andrews requested the Department's Director of Rural Health and Primary Care to certify that St. Andrews could relocate to Damariscotta and still be classified as a "necessary provider" critical access hospital. By letter of May 23, 2013 (Attachment Two), the Director of the Department's Center for Disease Prevention and Control granted the request. This enabled St. Andrews to seek CMS's permission to relocate to Damariscotta and retain its critical access designation. By letter of June 23, 2013 (Attachment Three), which was also copied to the Department, CMS notified St. Andrews that it had granted preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital's location in Damariscotta.

Lincoln County Health Care and its parent MaineHealth believe that no Certificate of Need review and approval is required for this transaction, because their ownership and control of the two subsidiary hospitals has not changed and because there is no addition of any new health service, no capital expenditure and no incremental annual operating costs.

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Lincoln County Health Care
Merger of Miles Memorial Hospital and St. Andrews Hospital
Certificate of Need Not Subject to Review Determination Request
October 1, 2013
Page 4 of 4

We look forward to your favorable decision on this request. Thank you for your consideration,



James Donovan
President and Chief Executive Officer
Lincoln County Health Care

c.c.: Michael Swan, Manager, Health Facility Survey

Attachments

- One: Plan of Merger, Miles Memorial Hospital and St. Andrews Hospital
- Two: Director of the Department's Center for Disease Prevention and Control May 23, 2013 letter
- Three: CMS June 23, 2013 letter, copied to the Department, granting preliminary approval of the relocation of St. Andrews Hospital to Miles Memorial Hospital's location in Damariscotta.

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PLAN OF MERGER
MILES MEMORIAL HOSPITAL
AND
ST. ANDREWS HOSPITAL

A Plan of Merger is hereby proposed between Miles Memorial Hospital ("Miles"), a Maine nonprofit corporation and St. Andrews Hospital ("St. Andrews"), a Maine nonprofit corporation, in accordance with which Miles ("Merging Corporation") will be merged into St. Andrews ("Surviving Corporation") according to the provisions of the Maine Nonprofit Corporation Act, Title 13-B, Section 901 et seq. of the Me. Rev. Stat. Ann., and the name of the Surviving Corporation will be changed to "LincolnHealth."

The Merging Corporation, Miles, is a Maine nonprofit corporation incorporated under the laws of the State of Maine in accordance with Articles of Incorporation duly filed with the Office of the Secretary of State. The Merging Corporation was organized originally for the purposes of establishing and maintaining institutions for the care of the sick and maintaining a school for the training of nurses and has continually since organized maintained inpatient and outpatient facilities and programs delivering health care services.

The Surviving Corporation, St. Andrews, is a Maine nonprofit corporation incorporated under the laws of the State of Maine in accordance with Articles of Incorporation duly filed with the Office of the Secretary of State. The Surviving Corporation was organized originally for the purposes of establishing and maintaining institutions for the care and treatment of ill, injured, infirm or aged persons, including a public hospital, clinic and infirmary, and maintaining a school for the training of nurses, with the subsequently added purposes of establishing and maintaining a retirement community and a doctors' office building, and has continually since organized maintained inpatient and outpatient facilities and programs delivering health care services. Both the Surviving Corporation and the Merging Corporation are subsidiaries of Lincoln County Health Care ("LCHC").

In furtherance of the purposes of the Merging Corporation and Surviving Corporation there is proposed a merger whereby Miles will be merged with and into St. Andrews and thereby have its charitable purposes better achieved through integration and more cost-effective provision of health care services and facilities throughout the Lincoln County service area, as well as preservation of the St. Andrews designation by the Centers for Medicare and Medicaid Services as a Critical Access Hospital and relocation to the Miles facility in Damariscotta. St. Andrews shall survive the merger and thereafter be renamed "LincolnHealth" on the following terms and conditions:

1. Merger Approval. The merger shall be effective after (1) adoption of resolutions approving this Plan by the Boards of the Merging Corporation and the Surviving Corporation, (2) approval of this Plan by the Board of LCHC as the parent and sole corporate member of both the Surviving and Merging Corporations and approval of this Plan by the Board of MaineHealth as the parent and sole

Merger of Miles Memorial Hospital & St. Andrews Hospital, October 1, 2013, Attachment One
MaineHealth Board of Trustees Resolutions
Exhibit 2

corporate member of LCHC, and (3) filing of Articles of Merger with the Secretary of State.

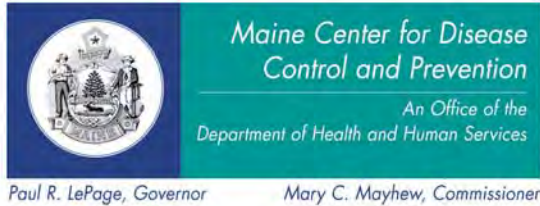
2. Merger Date. The merger shall be effective and complete at 12:01 a.m. on October 1, 2013, which shall be known as the "Merger Date," subject to filing of Articles of Merger with the Secretary of State on or before such date.
3. Merging Corporation. The separate corporate existence and organization of the Merging Corporation shall cease on the Merger Date at which time the Merging Corporation shall be merged with and into the Surviving Corporation.
4. Articles of Incorporation and Bylaws; Name. Upon the Merger Date, the Restated Articles of Incorporation and the revised Bylaws of the Surviving Corporation adopted by the sole corporate member on August 29, 2013, to take effect at 11:59 p.m. on September 30, 2013, shall become the Restated Articles of Incorporation and the Bylaws of the Surviving Corporation until duly amended or repealed. The Restated Articles of Incorporation and new Bylaws shall reflect that the Surviving Corporation's name shall be changed to "LincolnHealth."
5. Charitable Purposes. Upon the Merger Date, the Surviving Corporation shall seek to carry out the charitable purposes set forth in the Restated Articles of Incorporation of the Surviving Corporation, which purposes reflect a blending of the charitable purposes of Miles and St. Andrews as they existed prior to the Merger Date.
6. Registered Office. Upon the Merger Date, there shall be no change in the registered agent and registered office of the Surviving Corporation.
7. Trustees. Upon the Merger Date, all Trustees of the Surviving Corporation shall remain the Trustees of the Surviving Corporation until the next annual meeting of the corporation and until their successors are elected and qualified.
8. Officers. Upon the Merger Date, all Officers of the Surviving Corporation shall remain those previously elected by the Board of Trustees and serve until the next annual meeting of the Board and until their successors are elected and qualified.
9. Policies. Upon the Merger Date, all corporate policies and procedures of the Surviving Corporation prior to the Merger Date shall remain the policies and procedures of the Surviving Corporation effective except as duly modified by the Surviving Corporation.
10. Effect of Merger. Upon the Merger Date, the Surviving Corporation shall acquire and possess all the rights, privileges, powers, franchises, and immunities of a public as well as a private nature, and be subject to all the liabilities, restrictions, duties and penalties of the Merging Corporation; and all property and property rights, real, personal and mixed, and other interests of the Merging Corporation,

including but not limited to bequests which may become effective after this merger, shall be deemed to be transferred and vested in the Surviving Corporation without further act or deed; and all debts, liabilities and obligations of the Merging Corporation on the Merger Date shall be assumed and paid by the Surviving Corporation as they fall due; and all property, rights, privileges, powers, franchises and immunities and all and every other interest shall be after such merger as effectively the property of the Surviving Corporation as they were of the Merging Corporation. The title to any real estate, or any interest therein, vested in the Surviving Corporation shall not revert to the Merging Corporation or be in any way impaired by reason of such merger. Any claim existing or action or proceeding, whether civil, criminal or administrative pending by or against the Merging Corporation may be prosecuted to judgment or decree as if such merger had not taken place, or the Surviving Corporation may be substituted in such action or proceeding.

11. Trust Assets. All trust funds and other funds, held, managed or supervised by the Merging Corporation, whether dedicated for specific uses or purposes or given for the general purposes of the Merging Corporation, shall pass to the management, supervision and possession of the Surviving Corporation, which shall be bound to honor and comply with all conditions and dedicated purposes or uses of such funds from and after the Merger Date so that such funds shall continue to be used in conformity with the express intent of their donors and otherwise in conformity with the Uniform Prudent Management of Institutional Funds Act. The Board of Trustees of the Surviving Corporation shall adopt such policies and procedures as are consistent with the foregoing.
12. Required Actions. The Merging Corporation shall take, or cause to be taken, all actions or do, or cause to be done, all things necessary, proper or advisable under the laws of the State of Maine to consummate and make effective the Merger. Without limiting the foregoing, the Merging Corporation, its officers and directors, shall execute or cause to be executed such assignments, assurances, or the like as may be necessary or desirable to vest title to its properties, assets and rights in the Surviving Corporation, or otherwise to carry out the purposes of this Plan of Merger.
13. Miscellaneous. Nothing expressed or implied in this Plan of Merger is intended, or shall be construed, to confer upon or give any person, firm or corporation, other than the Merging Corporation and Surviving Corporation and their respective affiliates, any rights or remedies under, or by reason of this Plan.
14. Indemnity. The Surviving Corporation shall indemnify and hold harmless the Trustees and Officers of the Merging Corporation from any damages, liability, and expenses, including legal fees, arising out of any actual or alleged failure or refusal by the Surviving Corporation to honor or assume any of the liabilities, obligations, or penalties of the Merging Corporation transferred under this Plan.

15. Merger Abandonment. This Plan of Merger may be terminated and abandoned by resolutions of the Board of Trustees of the Merging Corporation or the Surviving Corporation prior to the Merger Date. In the event of the termination and abandonment of the Plan of Merger, this Plan shall become void and of no further effect and there shall be no liability on the part of either corporation or their respective Trustees or Officers as a result hereof.

Lincoln County Health Care
Merger of Miles Memorial Hospital St. Andrews Hospital, October 1, 2013, Attachment Two



Department of Health and Human Services
Maine Center for Disease Control and Prevention
286 Water Street
11 State House Station
Augusta, Maine 04333-0011
Tel.: (207) 287-8016; Fax: (207) 287-9058
TTY Users: Dial 711 (Maine Relay)

May 24, 2013

Mr. James Donovan
Mr. Wayne Printy
St. Andrews Hospital
6 St. Andrews Lane
Boothbay Harbor, Maine 04538

Mr. Donovan and Mr. Printy:

As requested in the letter you presented to Matthew Chandler, Director, Rural Health and Primary Care Program, dated April 23, 2013, the Maine CDC, Rural Health and Primary Care Program has completed a review of the Boothbay Harbor/Damariscotta service area. Through your interpretation of the CMS rules (42 CFR Ch. IV §485.610) you stated that, "...it is the responsibility of the State to confirm that the hospital will continue to meet the State's NP (necessary provider) criteria."

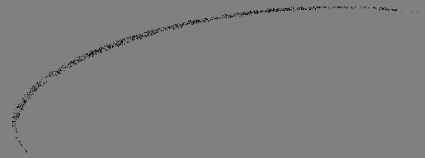
The State of Maine criteria for determining necessary provider of health care services states that the service area needs to meet one of three criteria to be eligible. The attached document will show that the Boothbay Harbor/Damariscotta service area combination meets one of the three criteria, which is, *percent population over the age of 65 is greater than the State's average*. It is our understanding that, by meeting one of the three criteria, the service area remains a necessary provider of healthcare services.

Again, I greatly appreciate your willingness to meet with the Rural Health and Primary Care Program on April 23rd and to share the opportunities for Lincoln County Healthcare. I encourage continued collaboration. Please continue to reach out to the Maine CDC if we can be of further assistance.

Sincerely,

Dr. Sheila G. Pinette
Director
Maine Center for Disease Control and Prevention

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
JFK Federal Building, Room 2275
Government Center
Boston, Massachusetts 02203



CENTERS FOR MEDICARE & MEDICAID SERVICES

Northeast Division of Survey & Certification

June 27, 2013

James W. Donovan
President and Chief Executive Officer
St. Andrews Hospital
6 St. Andrews Lane
P.O. Box 417
Boothbay Harbor, ME 04538

CCN (CMS Certification Number): 201302

Dear Mr. Donovan:

Our office has received a Letter of Attestation from St. Andrews Hospital, a Necessary Provider (NP) Critical Access Hospital (CAH) regarding relocating its facility to 35 Miles Street, Damariscotta, ME 04543 to the above address. It is our understanding that the new location is the current site of Miles Memorial Hospital, CCN 200002 which is planned to be combined with St. Andrews Hospital. Miles Memorial Hospital will need to retire its provider agreement before the relocation of St. Andrews Hospital. If Miles Memorial Hospital does not retire its provider agreement prior to St. Andrews Hospital's relocation, the NP CAH provider agreement for St. Andrews Hospital will be terminated [*See §42 CFR 485.610(e)*].

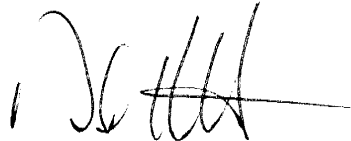
After careful review of the attestation, CMS is giving preliminary approval of the relocation of St. Andrews Hospital providing it demonstrates that the proposed relocation complies with the regulations at §42 CFR 485.610(b) and (d) as well as the regulations at §42 CFR 485.62(a).

Two 855A applications will need to be completed. One application for St. Andrews Hospital stating it is relocating and combining with Miles Memorial Hospital and indicate that St. Andrews Hospital is retaining its provider agreement. A second application will be for Miles Memorial Hospital stating that it is combining with St. Andrews Hospital and is retiring its provider agreement.

Please work with National Heritage Insurance Corporation (NHIC) your Medicare Administrative Contractor (MAC) to complete the combination of St. Andrews Hospital and Miles Memorial Hospital.

A final determination can only be made after the relocation is completed. If you have any questions, please call Terri Smith at 617-565-1307.

Sincerely,

A handwritten signature in black ink, appearing to read 'DKristola', with a long horizontal line extending to the right.

Daniel Kristola
Branch Chief
Certification & Enforcement Branch

cc: ME State Agency