



**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4,
D/B/A MAYO REGIONAL HOSPITAL**

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

September 30, 2009 and 2008

With Independent Auditors' Report

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

**Audited Financial Statements
and Additional Information**

Years Ended September 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hospital Administrative District No. 4,
d/b/a Mayo Regional Hospital

We have audited the accompanying balance sheets of Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital as of September 30, 2009 and 2008, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements. MD&A is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Hospital Administrative District No. 4,
d/b/a Mayo Regional Hospital

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital taken as a whole. The accompanying additional information (Schedules I and II) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berry, Dunn, McNeil & Parker

Portland, Maine
December 14, 2009

**HOSPITAL ADMINISTRATIVE DISTRICT #4
d/b/a MAYO REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2009**

Introduction

This section of the Hospital Administrative District #4, d/b/a, Mayo Regional Hospital's (the Hospital) financial statements provides a discussion and analysis of the Hospital's financial performance during the fiscal year ended September 30, 2009. This supplementary information is a requirement of the Governmental Accounting Standards Board. Although this information is not a required part of the basic financial statements, we encourage readers to read and consider the information presented here in conjunction with the Hospital's financial statements and notes, which follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Mayo Regional Hospital's audited financial statements. The financial statements include a balance sheet, statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements.

The Hospital's financial statements are prepared on a proprietary basis as a business-like entity. The accrual basis of accounting is utilized and the measurement focus is on economic resources. All revenues earned and expenses incurred during the fiscal year are recorded, regardless of when cash is received or paid. All assets and liabilities of the Hospital, both short-term and long-term, are also provided in the financial statements. The financial statements and information presented include:

Balance Sheet: Includes all of the Hospital's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheet provides the basis for an evaluation of the Hospital's capital structure and an assessment of the existing liquidity and financial flexibility. Over time, increases or decreases in net assets are one indicator of whether the overall financial position is improving or deteriorating. However, this financial indicator needs to be seasoned with other non-financial factors, such as economic changes, demographic changes and changes in governmental regulation and reimbursement rates.

Statement of Revenues, Expenses, and Changes in Net Assets: Includes all of the current year's revenue and expenses, and reflects the overall operating results of the Hospital. Revenues are recognized at the time the earnings process is complete and expenses when the liability is incurred, regardless of when the liability is paid or when the Hospital is paid for services delivered. Other revenues, not directly related to the daily operations, such as contributions and gifts, are also reflected on this statement because they increase the net assets of the Hospital.

Statement of Cash Flows: Includes all sources of cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. Cash flows, although related to net income, are not equivalent to net income. The cash flow statement provides additional information, such as where cash came from, how cash was used, and the change in the cash balance during the reporting period. Actual cash used for equipment, interest and payment of principal on debt, and investment purchases and sales are useful pieces of information clearly reflected on this statement.

Financial Highlights for the Fiscal Year:

- Total net assets increased by \$2,874,529 compared to an increase of \$1,682,075 in the prior year.
- Income before nonoperating revenues was \$2,415,569, or 5.57%, of operating revenues compared to \$1,691,944, or 4.25%, of operating revenues in the prior year.
- Total operating revenues increased by \$3,536,723, or 8.88%, compared to an increase of \$2,397,244, or 6.40%, in the prior year.
- Total operating expenses increased by \$2,839,653, or 7.50%, compared to \$2,880,287, or 8.24%, in the prior year.
- Total personnel and employee benefit expenses increased by 11.70%, or \$2,783,260, and represented 65.32% of the total operating expenses, compared to 62.86% in the prior year.
- Nonoperating revenues increased by \$439,122, due primarily to the increase in fair market value of investments and investment income.
- Cash, cash equivalents, and investments, unrestricted and board designated funds, increased by \$5,280,681, or 49.17%.
- Capital assets, net, decreased by \$76,577, or 0.53%, compared to an increase of \$1,150,853, or 8.74%, in the prior year.
- Total liabilities increased by \$324,937, or 3.11%, compared to a decrease of \$499,766, or 4.56%, in the prior year.
- Total short-term and long-term bond debt decreased by \$575,000, or 8.82%, compared to a decrease of \$560,000, or 7.91%, in the prior year.

Overview of Hospital Utilization

The Hospital segments the overall gross patient service revenues and utilization activity for reporting purposes among inpatient, outpatient and physician office sources. During the fiscal year, the Hospital's average daily census, and the utilization in many of the significant inpatient ancillary areas, was generally favorable in comparison to last year and to the budgeted level. The utilization of the Hospital's inpatient services was well in excess of budget and the volume experienced last year, which represented, on average, 15.1 patients per day, compared to 14.1 last year.

The overall activity, as measured by gross revenue, was 13.1% greater than last year and 1.2% greater than the budgeted level. The operating room, radiology, laboratory, physical therapy, and occupational therapy services all experienced increased outpatient utilization, but the cardiopulmonary volume, while 3.97% over budget, was 1.12% less than last year.

Emergency room utilization was 0.78% less than budgeted and 1.07% less than last year. Primary care visits decreased by 5.71% while surgical office visits increased by 13.60% in comparison to last year. Turnover of medical staff in primary care limited visit volume in the current fiscal year compared to the prior year. The activity in the hospital's ambulance service was 3.58% short of budget, but 3.23% greater than last year.

The overall utilization summary is as follows:

Summary Of Utilization								
	Actual FYE	Budget FYE	Last Year FYE					
	September 30, 2009	September 30, 2009	September 30, 2008	Actual vs Budget	Actual vs Last Year	Actual vs Budget	Actual vs Last Year	
Hospital Admissions:								
Acute	1,312	1,265	1,276	47	36	3.72%	2.82%	
Swing-Bed	40	45	35	-5	5	-11.11%	14.29%	
Patient Days								
Acute	4,880	4,367	4,664	513	216	11.75%	4.63%	
Swing-Bed	629	416	487	213	142	51.20%	29.16%	
Average Daily Census	15.1	13.1	14.1	2.0	1.0	15.27%	7.09%	
Births	180	160	156	20	24	12.50%	15.38%	
Surgical Procedures	2,333	2,589	2,080	-256	253	-9.89%	12.16%	
Radiology Exams	22,394	23,750	22,324	-1,356	70	-5.71%	0.31%	
Laboratory Tests	131,527	130,092	128,284	1,435	3,243	1.10%	2.53%	
Emergency Room Visits	13,147	13,250	13,289	-103	-142	-0.78%	-1.07%	
Physician Office Visits	45,489	52,577	46,183	-7,088	-694	-13.48%	-1.50%	
Ambulance Runs	3,423	3,550	3,316	-127	107	-3.58%	3.23%	

- Acute-care admissions were 3.72%, or 47, more than budgeted and 2.82%, or 36, more than last year. Admissions to the Hospital's swing beds increased to 40 compared to 35 last year, and there were 213 more patient days than budgeted.
- The average daily census was 15.1 patients versus a budget of 13.1 and 14.1 for last year. The increase in the average daily census was partially attributed to the 142 day increase, or 29.16%, related increase in swing bed utilization.
- Newborn admissions (births) increased by 15.38%, or 24, from last year and were 12.50%, or 20, more than the budgeted level.
- In the operating room, there were 9.89%, or 256, fewer cases than budgeted but 12.16%, or 253, more cases than last year. The variances between the budgeted expectation and the increase from the prior year is due to full staffing of surgical providers in the current year as compared to the prior year, but an expectation of surgical volume that appears to be overly optimistic in hindsight.
- Physician office visits were 13.48%, or 7,088, visits less than budgeted and 1.50%, or 694, visits less than last year. Within this change, visits to the primary care practices decreased by 2,063, from 36,115 to 34,052, and activity at the hospital owned surgical practices increased by 13.60%, from 10,068 to 11,437 visits.
- The ambulance service continued to experience an increase in their call volume and finished the year 3.23% greater than last year but 3.58% less than budgeted. The geographical area covered by this service has expanded over the recent years.

Analysis of Year-End Financial Position

The balance sheet reflects the net assets of the Hospital as of the fiscal year-end and changes to the net assets from last fiscal year. The Hospital's net assets change (the difference between assets and liabilities) is a way to measure financial health and financial position. The change in the Hospital's net assets is primarily due to changes in the financial operating results for each fiscal year. When reviewing changes in net assets and the balances as of the end of a period, the quality as well as the quantity of the balances should be considered.

During the fiscal year, the Hospital's total assets increased by \$3,199,466, or 9.10%, in comparison to the prior year. All of the improvement was related to the increase in the Hospital's current assets and limited use assets, which increased as a result of net positive third-party settlements. The Hospital's working capital (current assets minus current liabilities) increased by \$1,546,487 compared to an increase of \$166,973 last year.

A summary of the Hospital's balance sheets, as of September 30, 2009 and 2008, is presented below:

<u>Condensed Balance Sheet</u>				
	FYE	FYE	Total	Total
	9/30/2009	9/30/2008	Net Change	% Change
Current Assets	\$ 12,560,231	\$ 10,098,807	\$ 2,461,424	24.37%
Limited Use Assets, Less Current Portion	8,969,637	6,647,034	2,322,603	34.94%
Beneficial Interest in Perpetual Trust	126,910	130,766	(3,856)	(2.95)%
Estimated Third-Party Settlements, Less Current	2,150,258	3,711,817	(1,561,559)	(42.07)%
Other	311,320	253,889	57,431	22.62%
Capital Assets	<u>14,248,908</u>	<u>14,325,485</u>	<u>(76,577)</u>	(0.53)%
Total Assets	<u>\$ 38,367,264</u>	<u>\$ 35,167,798</u>	<u>\$ 3,199,466</u>	<u>9.10%</u>
Current Liabilities	\$ 5,422,708	\$ 4,507,771	\$ 914,937	20.30%
Long-Term Liabilities	<u>5,355,000</u>	<u>5,945,000</u>	<u>(590,000)</u>	(9.92)%
Total Liabilities	10,777,708	10,452,771	324,937	3.11%
Total Net Assets	<u>27,589,556</u>	<u>24,715,027</u>	<u>2,874,529</u>	11.63%
Total Net Assets and Liabilities	<u>\$ 38,367,264</u>	<u>\$ 35,167,798</u>	<u>\$ 3,199,466</u>	<u>9.10%</u>

Cash, cash equivalents and short-term investments increased by \$2.98M compared to a \$456,995 decrease last year. Net patient accounts receivable increased by \$594,945 in comparison to a net decrease of \$293,912 during last fiscal year. The Hospital's net days in receivables increased from 26 days last year to 29 days in the current year. The Hospital's turnover of gross patient accounts receivable, as measured by the average number of days of gross revenue in accounts receivable, increased from 65 days to 72 days during the fiscal year. The State of Maine claims processing system is still an issue, particularly in the inability to process Medicare/MaineCare cross-over claims. There are approximately four years of this claim type unprocessed as of year-end; however, the State has hired a consultant to research and document the cross-over claims in an effort to rectify the long-standing issue. It appears the consultant's process is working, and the State has begun to clear up the cross-over claims.

There was a large overall decrease in the amount due from third-party payors (Medicare, MaineCare and Anthem/Blue Cross) of \$3.9M. The primary reason for the decrease was due to settlement payments received from the State of Maine. The State made payments for fiscal years 2001 through 2006, which totaled about \$6.2M. The State of Maine has historically underpaid the Hospital during each fiscal year through inadequate periodic interim payments. This situation has recently improved and the upcoming year-end receivable will not be as large as in prior years. The cost reports for Medicare and MaineCare have been audited and settled through 2004. The estimated settlement amounts from all third-party payors are recorded in the period the related services are rendered and are adjusted in future periods for differences in assumptions related to cost reports, payment assumption factors, and payor utilization.

Assets limited as to use increased by a net amount of \$2,322,603 or 34.94% consisting primarily of an increase of \$2.3M to the board designated funds. The change in board designated funds was due to changes in investment valuation and earnings of approximately \$296K and net deposit activity of \$2.0M. The net deposit activity relates to the board's decision to fund depreciation with periodic deposits and allows for withdrawals related to capital outlays including the periodic principal payments related to outstanding bond issues.

Capital related expenditures for new assets amounted to \$2,219,862 compared to \$2,779,342 in the prior year. Approximately 62% of this spending was related to major movable equipment and 38% was related to land, buildings and building improvements, fixed equipment, and construction in progress. There were also \$499,926 of assets transferred from construction in progress and capitalized resulting in an overall net change of \$1,719,936 in capital assets at cost. Changes in accumulated depreciation amounted to \$1,796,513, and when combined with the capital asset change at cost, resulted in a total decrease in capital assets of \$76,577 for the fiscal year.

There was a \$914,937 or 20.30% increase in the level of current liabilities compared to a \$75,234 increase last fiscal year. The change is primarily due to the increase in third-party payor settlements of \$1,343,193 from the prior year, as well as a change in accrued payroll which decreased by \$659,099, or 25.93% from last year, to \$1,882,592. Long-term liabilities decreased by \$590,000 reflecting the principal payments on the outstanding bonds issued through the Maine Municipal Bond Bank.

The overall net asset position change of \$2,874,529, or 11.63%, was greater than the \$1,682,075 increase last year. Within this change, 84% was related to income before non-operating revenues and 16% of the change related to non-operating revenues, which would include interest, dividends and realized and unrealized gains on the Hospital's investments.

Analysis of Operating and Financial Results

The following table is a summary of the Hospital's revenues and expenses for each of the fiscal years ended September 30, 2009 and 2008:

Condensed Statement of Revenues, Expenses and Changes in Net Assets				
	FYE 9/30/2009	FYE 9/30/2008	Total Net Change	Total % Change
Net Patient Service Revenue	\$ 41,848,926	\$ 38,628,929	\$ 3,219,997	8.34%
Other Operating Revenue	<u>1,537,291</u>	<u>1,220,565</u>	<u>316,726</u>	25.95%
Total Operating Revenue	43,386,217	39,849,494	3,536,723	8.88%
Total Personnel and Benefit Expenses	26,575,018	23,791,758	2,783,260	11.70%
Non-Personnel Expenses	<u>14,112,304</u>	<u>14,055,911</u>	<u>56,393</u>	0.40%
Total Operating Expenses	<u>40,687,322</u>	<u>37,847,669</u>	<u>2,839,653</u>	7.50%
Operating Income	2,698,895	2,001,825	697,070	34.82%
Non-Operating Expenses	<u>283,326</u>	<u>309,881</u>	<u>(26,555)</u>	(8.57)%
Income Before Nonoperating Revenues	2,415,569	1,691,944	723,625	42.77%
Nonoperating Revenues	<u>462,384</u>	<u>23,262</u>	<u>439,122</u>	1887.72%
Income Before Other Losses	2,877,953	1,715,206	1,162,747	67.79%
Other Losses	<u>(3,424)</u>	<u>(33,131)</u>	<u>29,707</u>	(89.67)%
Increase in Net Assets	<u>\$ 2,874,529</u>	<u>\$ 1,682,075</u>	<u>\$ 1,192,454</u>	<u>70.89%</u>

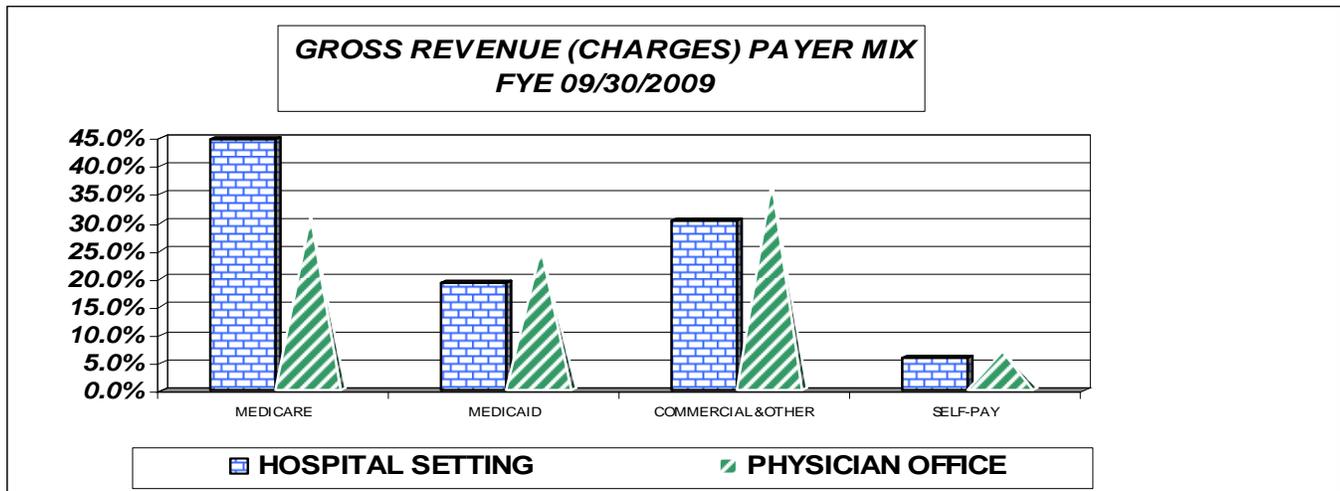
The Hospital finished the year with very strong financial results, which included an operating income of \$2,698,895, non-operating expense (interest) of \$283,326, and non-operating revenues of \$462,384. This change in net assets was \$1,192,454, or 70.89%, more than the change experienced last year. Overall, operating revenues increased by 8.88% and operating expenses and non-operating expenses increased by 7.37% during the fiscal year.

Net patient service revenue for the fiscal year was \$3,219,997, or 8.34%, greater than last year, and 4.65% greater than budgeted. Within this change, gross patient service revenue (charges) was \$7,374,059, or 13.07%, greater than last year. There was a general overall rate increase of 5.0% at the beginning of the fiscal year which contributed to the increase from the prior year's revenue level. Deductions from revenue, consisting of contractual adjustments, charity care, bad debts and other allowances, represented 34.41% of gross revenue in the current year compared to 31.54% in the prior year and a budgeted rate of 36.96%. Deductions for bad debt and charity care were 6.50% of gross revenue compared to 4.98% last year. The State of Maine continued the level of MaineCare reimbursement at 117% of inpatient costs and 110% of allowable outpatient costs until July 1, 2009. After July 1, 2009, MaineCare reimbursement was reduced to 109% of allowable inpatient and outpatient costs.

Within the overall gross revenue change, Hospital inpatient gross revenue (charges) increased by 16.0%, Hospital outpatient gross revenue (excluding physician office revenue) increased by 11.6%, and gross

revenue generated from physician office services increased by 14.5%. In comparison to budget, gross revenue was 1.2%, or \$774,093, more than budgeted with inpatient revenue greater than budget by \$902,926, or 6.0%, outpatient revenue more than budget by \$581,431, or 1.5%, and physician office revenue was \$710,264, or 7.3%, less than the budgeted amount. The budgeted inpatient revenue variance was primarily due to the strong acute-care admissions and patient days. The most significant budgeted outpatient favorable revenue variances occurred in the new service areas offered by the hospital for MRI (magnetic resonance imaging) and behavioral health counseling. The Hospital's gross revenue (excluding physician offices) by payor for the current year shifted slightly more toward self pay patients.

The Hospital's gross patient service revenue mix based on the financial class at registration was as follows:



Personnel and employee benefit expenses increased by 11.7%, or \$2,783,260, over the prior year with salary and wage expense increasing by 13.0%, or \$2,528,609, and fringe benefit related costs increasing by 5.9%, or \$254,651. Personnel related expenses represented about 64.9% of the Hospital's total expenses in the current year compared to 62.4% during the last fiscal year and a budgeted level of 64.2%. The Hospital operated with an average workforce of 383 full-time equivalent workers compared to an average of 361 in the prior year and a budgeted level of 375 full-time equivalent workers. The increase in full-time equivalent workers (FTE's) included 7 FTE's in the hospital's nursing areas, 4 FTE's in ambulance, 2 FTE's in the operating room, and several other small changes in various areas.

Non-personnel operating expenses such as medical supplies, drugs, utilities, repairs and maintenance and depreciation increased by 0.4%, or \$56,393, over last year and were 0.4%, or \$53,037, less than budgeted. Purchased services were more than budget primarily due to the addition of two new services in the current fiscal year. MRI and behavioral health counseling services were added to address the community's need for those services locally. Both services rely on purchased service arrangements in order to provide the services to the community, which had not originally been a part of the hospital's operating expense budget.

Non-operating revenues increased by \$439,122 from last year primarily due to the \$315,699 favorable unrealized gains in the Hospital's investments. Approximately 16.0% of the total change in net assets was related to non-operating and other revenues where it had no impact last year.

Cash and cash equivalents increased by \$253,595 during the fiscal year. The following is a condensed statement of cash flows for the fiscal year:

Condensed Statement of Cash Flows				
	FYE 9/30/2009	FYE 9/30/2008	Total Net Change	Total % Change
Net Cash Provided by Operating Activities	\$ 7,498,424	\$ 2,857,748	\$ 4,640,676	162.39%
Net Cash Provided by Non-capital Financing Activities	52,668	46,827	5,841	12.47%
Net Cash Used by Capital Financing Activities	(2,596,585)	(3,597,891)	1,001,306	(27.83)%
Net Cash Provided (Used) by Investing Activities	<u>(4,700,912)</u>	<u>455,040</u>	<u>(5,155,952)</u>	<u>1133.08%</u>
Increase/(decrease) in cash and equivalents	253,595	(238,276)	491,871	(206.43)%
Cash and Cash Equivalents at beginning of year	<u>2,544,332</u>	<u>2,782,608</u>	<u>(238,276)</u>	<u>(8.56)%</u>
Cash and Cash Equivalents at end of the year	<u>\$ 2,797,927</u>	<u>\$ 2,544,332</u>	<u>\$ 253,595</u>	<u>9.97%</u>

The net cash provided by operating activities was \$4,640,676, or 162.39%, more than last year. Within this change, receipts from and on behalf of patients were 22.17% higher than last year primarily due to higher revenues and collection of third-party settlements, payments to employees were 16.92% higher than last year primarily due to the growth of full-time equivalent workers and wage adjustments, and payments to suppliers were 0.53% lower. There was an overall increase in net accounts receivable (patient accounts receivable and third-party payor receivables) amounting to \$594,945 compared to a \$293,912 decrease last year.

The net cash used for capital and related financing activities amounted to \$2,596,585 compared to \$3,597,891 last year. Capital assets added included a new patient monitoring system, the counseling services building, new patient beds, a new ambulance, a property in Dover-Foxcroft adjacent to the hospital, enhancements to the hospital's electronic systems and various pieces of patient care equipment. The net cash used for debt financing activities amounted to \$876,649 compared to \$826,549 last year. The activity included principal payments of \$575,000, and interest on debt of \$301,649.

The net cash used by investing activities was \$4,700,912 compared to \$455,040 provided by investing activities last year. The investment purchase activity of \$8,547,868 was 104.2% greater than the \$4,187,011 amount for last year, while the proceeds from maturities were \$3,555,793, or 16.0%, less than last year. Investment income was \$86,380, or 19.6%, less than last year.

Capital Assets and Debt Administration

There was a change of \$1,719,936, or 5.26%, in the gross capital assets activity for the fiscal year. Capital spending amounted to \$2,219,862 compared to \$2,779,342 for last year, and there were no assets retired from service in 2009 compared to \$225,297 last year. There was \$499,926 in construction in progress capitalized in 2009. The Hospital's 2009 capital budget included an estimated spending amount of \$2,269,773.

This level of spending brought the overall average age of plant to 11.2 years compared to 11.4 years last year. This value is higher than the New England CAH median value of 10.9 years and lower than the 11.6 year Maine CAH median value based on Medicare cost reports prepared through 2007.

Capital Assets and Debt Administration

	FYE 9/30/2009	FYE 9/30/2008	Total Net Change	Total % Change
Land and Land Improvements	\$ 783,334	\$ 759,203	\$ 24,131	3.18%
Buildings and Improvements	8,920,724	8,502,424	418,300	4.92%
Fixed Equipment	10,790,981	10,689,614	101,367	0.95%
Major Moveable Equipment	13,468,044	12,098,521	1,369,523	11.32%
Minor Moveable Equipment	84,050	84,050	-	0.00%
Construction in Progress	343,469	536,854	(193,385)	-36.02%
Total	34,390,602	32,670,666	1,719,936	5.26%
Accumulated Depreciation	20,141,694	18,345,181	1,796,513	9.79%
Net Capital Assets	\$ 14,248,908	\$ 14,325,485	\$ (76,577)	(0.53)%

As of September 30, 2009, the Hospital had \$5,945,000 of bond principal outstanding which represents a decrease of 8.8% or \$575,000 from last year. This outstanding amount is from four separate issuances through the Maine Municipal Bond Bank. The current year's total debt service (interest and principal payments) related to these issues was \$876,649.

Next Year's Budget and Other Economic Factors

The Hospital's management recommended to the Board, and the Board approved, an operating budget for 2010 that reflects an income before non-operating revenues of 2.40% or \$1,044,203.

Acute care admissions are expected to increase slightly in total. Admissions are budgeted at 1,315 compared to 1,312 for fiscal year 2009. Additionally, there have been 40 admissions (560 patient days) budgeted for the hospital's sub-acute care, or swing bed service, compared to 40 in the current year.

The average daily census, without swing-beds, is estimated to be 12.6 patients per day compared to an average of 13.4 in the current year. The average daily census with the swing bed utilization will be approximately 14.1 patients compared to the 15.1 average in the current year. The overall census will equate to an average occupancy level of 56.53% compared to 60.37% in the current year and 56.30% in 2008, based on the hospital's licensed 25-bed capacity.

Operating room cases have been budgeted to increase by 2.5%, or 58 cases. There will be increases in both the inpatient and outpatient areas, with inpatient cases anticipated to increase by 4.4%, and outpatient cases anticipated to increase by 2.2%.

The overall budgeted increase in gross patient service revenue (charges) is 8.28%, or \$5,281,962, over the current fiscal year. The budgeted growth in revenues is being driven by a general overall rate increase of 3%, strong growth expected in physician office visits and the full year impact of the new MRI and behavioral health counseling services.

Total operating expenses are anticipated to increase by 3.84%, or \$1,563,985, in the upcoming fiscal year. Approximately 54%, or \$837,221, of the budgeted overall expense increase is related to the change in salaries/wages and fringe benefits. Salaries and benefits will represent 64.5% of the overall expense budget compared to 64.9% in 2009.

The budget assumes the MaineCare program will reimburse the Hospital at the rate of 109% of outpatient and inpatient costs attributed to the MaineCare program.

Spending for capital related items will approximate \$943K and three-year projections of capital related items have been estimated to be approximately \$3.3M. Total days cash on hand has been budgeted to average 133 days, and gross days in accounts receivable has been estimated to average 65 days. The budget also has favorable ratios in the area of long-term debt to capitalization and cash flow to total debt.

To maintain and improve future operating margins, the Hospital will need to periodically review the demographics of the service region, evaluate the appropriate mix of cost effective services to provide, assess the ability to recruit and retain adequate medical staff and other professionals to deliver these services, continue to control the costs of providing services, and monitor the uncertain status of the State's budget. In a small hospital environment, even a small change to the medical staff can dramatically and quickly affect the Hospital's overall operating results. This budget assumes there will not be any prolonged vacancies in any of the specialties.

There are significant financial benefits (cost reimbursement) associated with the Critical Access Hospital status that have been assumed to flow from the Medicare program and the State of Maine MaineCare program. Additionally, the budget for MaineCare expenditures to hospitals is a significant line item in the State of Maine operating budget. Any significant payment change or change in regulations by the Federal Government or the State of Maine regarding Critical Access Hospitals in the future could dramatically affect the operations and the operating results of the Hospital.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Balance Sheets

September 30, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 1,200,480	\$ 1,244,817
Investments	6,387,656	3,360,771
Accounts receivable, less allowances for doubtful accounts of \$2,565,897 in 2009 and \$2,136,596 in 2008	3,374,785	2,779,840
Supplies	628,196	767,445
Prepaid expenses and other current assets	774,633	752,733
Estimated third-party payor settlements	-	995,585
Assets limited as to use	<u>194,481</u>	<u>197,616</u>
Total current assets	12,560,231	10,098,807
Assets limited as to use		
Board designated	8,432,159	6,134,026
Required by debt agreement	227,104	226,450
Donor-restricted	<u>504,855</u>	<u>484,174</u>
Less amount required to meet current obligations	<u>9,164,118</u> <u>(194,481)</u>	6,844,650 <u>(197,616)</u>
Assets limited as to use, less current portion	8,969,637	6,647,034
Beneficial interest in perpetual trust	126,910	130,766
Estimated third-party payor settlements	2,150,258	3,711,817
Other	311,320	253,889
Capital assets, net	<u>14,248,908</u>	<u>14,325,485</u>
Total assets	<u>\$ 38,367,264</u>	<u>\$ 35,167,798</u>

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

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Accounts payable	\$ 1,492,859	\$ 1,258,693
Accrued payroll, other expenses and amounts withheld	1,882,592	2,541,691
Estimated third-party payor settlements	1,343,193	-
Accrued interest payable	114,064	132,387
Current portion of long-term debt	<u>590,000</u>	<u>575,000</u>
Total current liabilities	5,422,708	4,507,771
Long-term debt, less current portion	<u>5,355,000</u>	<u>5,945,000</u>
Total liabilities	10,777,708	10,452,771
Contingencies (Note 12)		
Net assets		
Invested in capital assets, net of related debt	8,303,908	7,805,485
Restricted		
Expendable for capital projects and other	363,722	343,698
Expendable for debt service	227,104	226,450
Nonexpendable permanent endowments and perpetual trust	269,317	272,741
Unrestricted	<u>18,425,505</u>	<u>16,066,653</u>
Total net assets	<u>27,589,556</u>	<u>24,715,027</u>
Total liabilities and net assets	<u>\$ 38,367,264</u>	<u>\$ 35,167,798</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Net patient service revenue	\$ 41,848,926	\$ 38,628,929
Other operating revenues	<u>1,537,291</u>	<u>1,220,565</u>
Total operating revenues	43,386,217	39,849,494
Operating expenses		
Personnel services	22,019,652	19,491,043
Employee benefits	4,555,366	4,300,715
Purchased services	3,671,383	3,618,967
Supplies and other direct expenses	8,639,200	8,818,457
Depreciation and amortization	<u>1,801,721</u>	<u>1,618,487</u>
Total operating expenses	<u>40,687,322</u>	<u>37,847,669</u>
Operating income	2,698,895	2,001,825
Nonoperating expenses		
Interest expense	<u>283,326</u>	<u>309,881</u>
Income before nonoperating revenues	2,415,569	1,691,944
Nonoperating revenues (losses)		
Investment income	353,802	440,182
Net increase (decrease) in fair value of investments	56,346	(462,436)
Noncapital contributions	<u>52,236</u>	<u>45,516</u>
Net nonoperating revenues	<u>462,384</u>	<u>23,262</u>
Income before other losses	2,877,953	1,715,206
Other losses		
Losses on permanent endowments, net of contributions	<u>(3,424)</u>	<u>(33,131)</u>
Total other losses	<u>(3,424)</u>	<u>(33,131)</u>
Increase in net assets	2,874,529	1,682,075
Net assets, beginning of year	<u>24,715,027</u>	<u>23,032,952</u>
Net assets, end of year	<u>\$ 27,589,556</u>	<u>\$ 24,715,027</u>

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

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Statements of Cash Flows

Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 45,154,318	\$ 36,961,234
Payments to suppliers	(11,969,226)	(12,033,048)
Payments to employees	(27,234,118)	(23,293,858)
Other operating revenues	<u>1,547,450</u>	<u>1,223,420</u>
Net cash provided by operating activities	<u>7,498,424</u>	<u>2,857,748</u>
Cash flows from noncapital financing activities		
Noncapital contributions	52,236	45,516
Contributions to permanent endowment	<u>432</u>	<u>1,311</u>
Net cash provided by noncapital financing activities	<u>52,668</u>	<u>46,827</u>
Cash flows from capital and related financing activities		
Interest paid on long-term debt	(301,649)	(266,549)
Principal paid on long-term debt	(575,000)	(560,000)
Purchases of capital assets	(1,719,936)	(2,779,342)
Proceeds from sale of capital assets	<u>-</u>	<u>8,000</u>
Net cash used by capital and related financing activities	<u>(2,596,585)</u>	<u>(3,597,891)</u>
Cash flows from investing activities		
Purchases of investments	(8,547,868)	(4,187,011)
Proceeds from maturities and principal reductions of investments	3,555,793	4,231,971
Investment income	353,802	440,182
Other	<u>(62,639)</u>	<u>(30,102)</u>
Net cash (used) provided by investing activities	<u>(4,700,912)</u>	<u>455,040</u>
Net increase (decrease) in cash and cash equivalents	253,595	(238,276)
Cash and cash equivalents, beginning of year	<u>2,544,332</u>	<u>2,782,608</u>
Cash and cash equivalents, end of year	\$ <u>2,797,927</u>	\$ <u>2,544,332</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 1,200,480	\$ 1,244,817
Cash and cash equivalents in assets limited as to use	<u>1,597,447</u>	<u>1,299,515</u>
Total cash and cash equivalents	\$ <u>2,797,927</u>	\$ <u>2,544,332</u>

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

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Statements of Cash Flows (Concluded)

Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,698,895	\$ 2,001,825
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,801,721	1,618,487
Provision for doubtful accounts	1,537,418	1,288,173
Loss on disposal of capital assets	-	7,210
Changes in		
Accounts receivable	(2,132,363)	(994,261)
Supplies	139,249	(17,535)
Prepaid expenses and other current assets	(21,900)	18,291
Accounts payable	234,166	399,265
Accrued payroll, other expenses and amounts withheld	(659,099)	497,900
Estimated third-party payor settlements	<u>3,900,337</u>	<u>(1,961,607)</u>
Net cash provided by operating activities	<u>\$ 7,498,424</u>	<u>\$ 2,857,748</u>

Supplemental disclosure of noncash and financing activities:

During 2009 and 2008, the net increase (decrease) in the fair value of investments was \$56,346 and \$(462,436), respectively.

During 2009 and 2008, the Hospital recorded decreases in its interest in a perpetual trust of \$3,856 and \$34,442, respectively.

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

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital (the Hospital), is a quasi-governmental entity, located in Dover-Foxcroft, Maine, established by the State of Maine legislature to provide health care to the towns in the district service area through a regional general hospital system. The system includes, but is not limited to, acute care facilities, intermediate care facilities, freestanding satellite facilities and facilities designed for physician offices.

Use of Estimates

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 the current status of individual accounts. 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.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid deposits and investments with original maturities of three months or less.

Supplies

Supplies and pharmaceuticals are carried at the lower of cost (determined by the first-in, first-out method) or market. Medical and surgical supplies are carried at average cost.

Assets Limited as to Use and Investments

Assets limited as to use and investments are primarily cash and investments in debt and equity securities. Investments in debt and equity securities are carried at fair value, except for short-term highly liquid investments that have a remaining maturity of one year or less when purchased. These investments are carried at cost. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues (losses) when earned (incurred).

Assets limited as to use primarily include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and which it may, at its discretion, subsequently use for other purposes. Also included in assets limited as to use are certain assets segregated to comply with amounts required by debt agreements and donor-restricted investments.

The Hospital's investment policy requires all funds not needed for immediate operating purposes be invested in a manner which considers safety of principal, rate of return and pertinent state and local statutes governing investment of funds.

To avoid an undesirable concentration of funds in any single investment type, the Hospital's policy requires diversification according to the following guidelines:

<u>Investment Type</u>	<u>Portfolio Mix</u>
Equities	5% - 15%
Fixed income securities	75% - 90%
Cash and cash equivalents	2% - 15%

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

Vacation Pay

Vacation pay can be accumulated by the Hospital's employees and is reported as a component of accrued payroll, other expenses and amounts withheld.

Capital Assets

Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of donation. The Hospital's policy is to capitalize expenditures for major improvements with costs in excess of \$3,000 with a useful life greater than two years and charge maintenance and repairs currently for expenditures which do not extend the life of the related assets. All capital assets other than land are depreciated using the straight-line method of depreciation as follows:

<u>Classification</u>	<u>Range/Life</u>
Buildings and improvements	5 - 40 years
Land improvements	5 - 20 years
Fixed equipment	3 - 40 years
Major movable equipment	3 - 20 years
Minor movable equipment	2 years

Contributions

From time-to-time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues (losses).

Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, appreciation of the investments of endowment funds is unrestricted.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance to a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 8. Restricted nonexpendable net assets represent the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee schedules and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$2,608,600 and \$1,521,600 in 2009 and 2008, respectively.

Pension Plan

The Hospital sponsors a defined contribution pension plan for employees who have completed one year of service. The Hospital is required to match 50% of employee contributions to a maximum of 2% of the employee's gross wages. Pension expense under this plan was \$344,985 and \$372,183 in 2009 and 2008, respectively.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income Taxes

The Hospital is exempt from federal and state income taxes.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

2. Net Patient Service Revenue

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

Medicare

The Hospital has been designated as a Critical Access Hospital (CAH) and is reimbursed 101% of its allowable costs for its inpatient and outpatient services rendered to Medicare beneficiaries. The rural health clinics are reimbursed allowable costs. The Hospital is reimbursed at tentative interim rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The Hospital's Medicare cost reports have been audited by the fiscal intermediary through September 30, 2004.

MaineCare

As a CAH, the Hospital was reimbursed at 117% of its allowable costs for inpatient and 110% of its allowable costs for outpatient services rendered to MaineCare recipients through July 1, 2009. Subsequent to July 1, 2009, the MaineCare reimbursement was reduced to 109% of allowable outpatient and inpatient costs. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary.

The Hospital's MaineCare cost reports have been audited by the fiscal intermediary through September 30, 2004.

Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 19% of the Hospital's gross patient service revenue, respectively, for the year ended September 30, 2009, and 48% and 18%, respectively, for the year ended September 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2009 and 2008 net patient service revenue increased approximately \$2,500,000 and \$1,600,000, respectively, due to removal of allowances previously estimated that were no longer necessary as a result of final settlements and years that were no longer subject to audits, reviews, and investigations.

The Hospital also has entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements is discounts from established charges.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

Net patient service revenue and contractual and other allowances consisted of the following for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 63,800,591	\$ 56,426,532
Contractual adjustments	(17,706,819)	(14,896,059)
Charity care	(2,608,580)	(1,521,580)
Discounts and other allowances	(98,848)	(91,791)
Provision for doubtful accounts	<u>(1,537,418)</u>	<u>(1,288,173)</u>
	<u>\$ 41,848,926</u>	<u>\$ 38,628,929</u>

3. Cash and Cash Equivalents

At September 30, 2009 and 2008, the carrying amounts of deposits with banks were \$1,200,480 and \$1,244,817, respectively, and the bank balances were \$1,175,344 and \$1,478,828, respectively. The differences were primarily due to outstanding checks and deposits in transit. Of these amounts, \$250,000 at September 30, 2009 was insured by the Federal Deposit Insurance Corporation, \$442,191 was collateralized by securities held by the financial institution's trust department in the Hospital's name and the balance was uninsured and uncollateralized. At September 30, 2008, \$100,000 was insured by the Federal Deposit Insurance Corporation, \$433,691 was collateralized by securities held by the financial institution's trust department in the Hospital's name and the balance was uninsured and uncollateralized.

4. Accounts Receivable

Components of accounts receivable at June 30 are as follows:

	<u>2009</u>	<u>2008</u>
Total accounts receivable	\$ 12,550,788	\$ 10,076,180
Less:		
Allowances for uncollectible amounts	2,565,897	2,136,596
Allowances for contractual adjustments	4,933,424	3,968,073
Periodic interim payments	<u>1,676,682</u>	<u>1,191,671</u>
Accounts receivable, net	<u>\$ 3,374,785</u>	<u>\$ 2,779,840</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

5. Assets Limited as to Use and Investments

Assets limited as to use at September 30, 2009 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,597,447	\$ 1,597,447
Certificates of deposit (CDs)	422,268	422,861
Obligations of U.S. government agencies and corporations	967,501	983,815
Marketable equity securities	1,026,219	1,012,760
Corporate and taxable bonds	5,098,763	5,117,198
Accrued interest receivable	<u>30,037</u>	<u>30,037</u>
	<u>\$ 9,142,235</u>	9,164,118
Less amount required to meet current obligations		<u>(194,481)</u>
		<u>\$ 8,969,637</u>

Assets limited as to use at September 30, 2008 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,299,515	\$ 1,299,515
CDs	430,095	426,965
Obligations of U.S. government agencies and corporations	673,655	660,541
Marketable equity securities	1,216,164	1,047,706
Corporate and taxable bonds	3,475,921	3,387,473
Accrued interest receivable	<u>22,450</u>	<u>22,450</u>
	<u>\$ 7,117,800</u>	6,844,650
Less amount required to meet current obligations		<u>(197,616)</u>
		<u>\$ 6,647,034</u>

Investments at September 30, 2009 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
CDs	\$ 185,000	\$ 190,379
Obligations of U.S. government agencies and corporations	239,772	247,186
Cash and cash equivalents	5,947,002	5,947,002
Accrued interest receivable	<u>3,089</u>	<u>3,089</u>
	<u>\$ 6,374,863</u>	<u>\$ 6,387,656</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

Investments at September 30, 2008 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
CDs	\$ 3,131,104	\$ 3,127,435
Obligations of U.S. government agencies and corporations	216,350	212,726
Accrued interest receivable	<u>20,610</u>	<u>20,610</u>
	<u>\$ 3,368,064</u>	<u>\$ 3,360,771</u>

The carrying amounts of CDs do not equal cost as CDs are purchased at a discount or premium for the purpose of trading.

Investments, including assets limited as to use, are categorized as follows to give an indication of the level of risk assumed by the Hospital at year-end:

1. insured or registered for which the securities are held by the Hospital or its agent in the Hospital's name
2. uninsured and unregistered for which the securities are held by the bank's trust department or agent in the Hospital's name
3. uninsured and unregistered for which the securities are held by the bank's trust department or agent, but not in the Hospital's name

Assets limited as to use and investments are considered to be in the following categories as defined above.

<u>2009</u>	Category			<u>Total Fair</u>
Investment type	1	2	3	<u>Value</u>
CDs	\$ 613,240	\$ -	\$ -	\$ 613,240
Obligations of U.S. government agencies and corporations	-	1,231,001	-	1,231,001
Corporate and taxable bonds	-	5,117,198	-	5,117,198
Cash and cash equivalents and accrued interest	477,104	7,100,471	-	7,577,575
Marketable equity securities	<u>-</u>	<u>1,012,760</u>	<u>-</u>	<u>1,012,760</u>
	<u>\$ 1,090,344</u>	<u>\$14,461,430</u>	<u>\$ -</u>	<u>\$ 15,551,774</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

<u>2008</u> Investment type	<u>Category</u>			Total Fair <u>Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
CDs	\$ 3,551,235	\$ 3,165	\$ -	\$ 3,554,400
Obligations of U.S. government agencies and corporations	-	873,267	-	873,267
Corporate and taxable bonds	-	3,387,473	-	3,387,473
Cash and cash equivalents and accrued interest	-	1,342,575	-	1,342,575
Marketable equity securities	<u>100,000</u>	<u>947,706</u>	<u>-</u>	<u>1,047,706</u>
	<u>\$ 3,651,235</u>	<u>\$ 6,554,186</u>	<u>\$ -</u>	<u>\$ 10,205,421</u>

Assets limited as to use and investments maturities (in years) are as follows at September 30, 2009:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
CDs	\$ 613,240	\$ 91,800	\$ 521,440	\$ -	\$ -
Obligations of U.S. government agencies and corporations	1,231,001	-	174,475	4,299	1,052,227
Corporate and taxable bonds	<u>5,117,198</u>	<u>-</u>	<u>-</u>	<u>35,534</u>	<u>5,081,664</u>
	6,961,439	<u>\$ 91,800</u>	<u>\$ 695,915</u>	<u>\$ 39,833</u>	<u>\$ 6,133,891</u>
Cash and cash equivalents and accrued interest	7,577,575				
Marketable equity securities	<u>1,012,760</u>				
	<u>\$ 15,551,774</u>				

Assets limited as to use and investments maturities (in years) are as follows at September 30, 2008:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than -1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
CDs	\$ 3,554,400	\$ 3,177,804	\$ 376,596	\$ -	\$ -
Obligations of U.S. government agencies and corporations	873,267	-	399	3,934	868,934
Corporate and taxable bonds	<u>3,387,473</u>	<u>-</u>	<u>-</u>	<u>10,304</u>	<u>3,377,169</u>
	7,815,140	<u>\$ 3,177,804</u>	<u>\$ 376,995</u>	<u>\$ 14,238</u>	<u>\$ 4,246,103</u>
Cash and cash equivalents and accrued interest	1,342,575				
Marketable equity securities	<u>1,047,706</u>				
	<u>\$ 10,205,421</u>				

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
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Notes to Financial Statements

September 30, 2009 and 2008

The risk categories for the debt securities held by the Hospital at September 30, 2009, are as follows:

Investment rating*

	<u>2009</u>	<u>2008</u>
AAA	\$ <u>155,182</u>	\$ <u>43,801</u>

The remaining amounts of debt securities are invested in Federal National Mortgage Association (FNMA) bonds, Federal Home Loan Mortgage Corporation (FHLMC) collateralized mortgage obligations (CMO) and Government National Mortgage Association (GNMA) CMO, which are not rated.

* These ratings are determined by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. All ratings represent the "opinions" of the research provider and are disclaimed as not representations or guarantees of performance.

The applicable risk rating is defined by Standard & Poor's as follows:

AAA – An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

Investment income (loss) on assets limited as to use and investments consisted of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividends, net of bond amortization and investment fees of \$9,155 and \$9,040 in 2009 and 2008, respectively	\$ 353,802	\$ 440,182
Realized loss on sales of securities	(259,353)	(1,645)
Unrealized gain (loss) on investments	<u>315,699</u>	<u>(460,791)</u>
	<u>\$ 410,148</u>	<u>\$ (22,254)</u>

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Notes to Financial Statements

September 30, 2009 and 2008

The Hospital places no limit on the amount it may invest in any one issuer. More than five percent of the Hospital's investments are invested in the following securities at September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
FNMA	- %	5.21 %
FHLMC CMO	22.84 %	18.62 %
GNMA CMO	7.64 %	12.72 %

6. Capital Assets

A summary of capital assets for the year ended September 30, 2009, is as follows:

	Balance at October 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2009</u>
Cost				
Land improvements	\$ 759,203	\$ 24,131	\$ -	\$ 783,334
Buildings and improvements	8,502,424	418,300	-	8,920,724
Fixed equipment	10,689,614	101,367	-	10,790,981
Major movable equipment	12,098,521	1,369,523	-	13,468,044
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>536,854</u>	<u>306,541</u>	<u>(499,926)</u>	<u>343,469</u>
Capital assets, at cost	<u>32,670,666</u>	<u>2,219,862</u>	<u>(499,926)</u>	<u>34,390,602</u>
Accumulated depreciation				
Land improvements	342,391	40,191	-	382,582
Buildings and improvements	4,661,837	524,156	-	5,185,993
Fixed equipment	4,770,465	182,393	-	4,952,858
Major movable equipment	8,486,438	1,049,773	-	9,536,211
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>18,345,181</u>	<u>1,796,513</u>	<u>-</u>	<u>20,141,694</u>
Capital assets, net	<u>\$ 14,325,485</u>	<u>\$ 423,349</u>	<u>\$(499,926)</u>	<u>\$ 14,248,908</u>

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Notes to Financial Statements

September 30, 2009 and 2008

A summary of capital assets for the year ended September 30, 2008, is as follows:

	Balance at October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2008</u>
Cost				
Land improvements	\$ 680,995	\$ 78,208	\$ -	\$ 759,203
Buildings and improvements	7,965,857	536,567	-	8,502,424
Fixed equipment	10,494,868	194,746	-	10,689,614
Major movable equipment	10,670,579	1,653,239	(225,297)	12,098,521
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>220,272</u>	<u>316,582</u>	<u>-</u>	<u>536,854</u>
Capital assets, at cost	<u>30,116,621</u>	<u>2,779,342</u>	<u>(225,297)</u>	<u>32,670,666</u>
Accumulated depreciation				
Land improvements	308,251	34,140	-	342,391
Buildings and improvements	4,165,722	496,115	-	4,661,837
Fixed equipment	4,584,329	186,136	-	4,770,465
Major movable equipment	7,799,637	896,888	(210,087)	8,486,438
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>16,941,989</u>	<u>1,613,279</u>	<u>(210,087)</u>	<u>18,345,181</u>
Capital assets, net	<u>\$ 13,174,632</u>	<u>\$ 1,166,063</u>	<u>\$ (15,210)</u>	<u>\$ 14,325,485</u>

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Notes to Financial Statements

September 30, 2009 and 2008

7. Line of Credit

The Hospital has available a \$750,000 unsecured line of credit with a bank. Interest on the line was .375% below the prime rate with a floor of 3.25% (3.25% at September 30, 2009). There were no borrowings outstanding under this line at September 30, 2009 or 2008.

8. Long-Term Debt

Long-term debt for the year ended September 30, 2009, consisted of the following:

	Balance at October 1, <u>2008</u>	<u>Reductions</u>	Balance at September 30, <u>2009</u>	Due Within <u>One Year</u>
Variable rate (3.75% -5.0 %) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$300,000, plus interest, through November 2022.	\$4,500,000	\$ (300,000)	\$ 4,200,000	\$ 300,000
10.25% taxable revenue bond to Maine Municipal Bond Bank in annual installments ranging from \$140,000 to \$185,000, plus interest, through November 2009.	355,000	(170,000)	185,000	185,000
Variable rate (3.75% - 5.0%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$75,000, plus interest, through November 2022.	1,125,000	(75,000)	1,050,000	75,000
Variable rate (2.40% - 5.00%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$30,000, plus interest, through November 2025.	<u>540,000</u>	<u>(30,000)</u>	<u>510,000</u>	<u>30,000</u>
	<u>\$6,520,000</u>	<u>\$ (575,000)</u>	<u>\$ 5,945,000</u>	<u>\$ 590,000</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
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Notes to Financial Statements

September 30, 2009 and 2008

Long-term debt for the year ended September 30, 2008, consisted of the following:

	Balance at October 1, <u>2007</u>	<u>Reductions</u>	Balance at September 30, <u>2008</u>	Due Within <u>One Year</u>
Variable rate (3.75% - 5.0%) tax-exempt note payable to Maine Municipal Bond Bank in annual installments of \$300,000, plus interest, through November 2022.	\$4,800,000	\$ (300,000)	\$ 4,500,000	\$ 300,000
10.25% taxable revenue bond to Maine Municipal Bond Bank in annual installments ranging from \$140,000 to \$185,000, plus interest, through November 2009.	510,000	(155,000)	355,000	170,000
Variable rate (3.75% - 5.0%) tax-exempt note payable to Maine Municipal Bond Bank in annual installments of \$75,000, plus interest, through November 2022.	1,200,000	(75,000)	1,125,000	75,000
Variable rate (2.40% - 5.00%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$30,000, plus interest, through November 2025.	<u>570,000</u>	<u>(30,000)</u>	<u>540,000</u>	<u>30,000</u>
	<u>\$7,080,000</u>	<u>\$ (560,000)</u>	<u>\$ 6,520,000</u>	<u>\$ 575,000</u>

The revenue bonds are collateralized by a pledge of the Hospital's gross receipts.

Under the terms of the 10.25% revenue bond, the Hospital is required to maintain a debt service fund equal to the maximum amount of principal and interest on the bonds due in the following year. At September 30, 2009 and 2008, the balance of the debt service fund was sufficient to meet the required amounts under the bond agreement.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
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Notes to Financial Statements

September 30, 2009 and 2008

Scheduled principal and interest repayments on long-term debt are as follows for fiscal years ending September 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 590,000	\$ 262,025	\$ 852,025
2011	405,000	236,624	641,624
2012	405,000	219,206	624,206
2013	405,000	208,561	613,561
2014	405,000	191,484	596,484
2015-2019	2,025,000	669,048	2,694,048
2020-2024	1,650,000	176,966	1,826,966
2025-2026	<u>60,000</u>	<u>2,985</u>	<u>62,985</u>
	<u>\$ 5,945,000</u>	<u>\$ 1,966,899</u>	<u>\$ 7,911,899</u>

9. Restricted Net Assets

Restricted net assets are available for the following purposes at September 30:

	<u>2009</u>	<u>2008</u>
Debt service	\$ 227,104	\$ 226,450
Oncology clinic	144,390	143,869
Heartwise	141,139	135,649
Buswell Trust	19,297	19,227
Scholarships	9,588	8,751
Other	49,308	36,202
Endowments	<u>269,317</u>	<u>272,741</u>
	<u>\$ 860,143</u>	<u>\$ 842,889</u>

10. Beneficial Interest in Perpetual Trust

The Hospital is the beneficiary of an irrevocable perpetual trust for which it is not the trustee. The Hospital has reflected as an asset in the balance sheets the fair value of its interest in the trust. Receipts of income are included as investment income when received. Receipts from the trust were \$7,236 and \$9,149 for the years ended September 30, 2009 and 2008, respectively.

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4
D/B/A MAYO REGIONAL HOSPITAL**

Notes to Financial Statements

September 30, 2009 and 2008

11. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	22.9 %	20.2 %
MaineCare	38.4	34.3
Blue Cross	6.0	7.4
Other third-party payors	10.7	13.7
Patients	<u>22.0</u>	<u>24.4</u>
	<u>100.0 %</u>	<u>100.0 %</u>

12. Professional Liability Insurance

The Hospital insures its medical malpractice risks under a claims-made policy. As of September 30, 2009, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage and there are no unasserted claims or incidents which require loss accrual. The Hospital intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

ADDITIONAL INFORMATION

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4,
D/B/A MAYO REGIONAL HOSPITAL**

Schedule of Net Patient Service Revenue

Year Ended September 30, 2009

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Inpatient routine service centers			
Adult and pediatrics	\$ 3,769,175	\$ 238,489	\$ 4,007,664
Intensive care unit	977,120	70,099	1,047,219
Nursery	<u>110,393</u>	<u>-</u>	<u>110,393</u>
Total inpatient routine service centers	4,856,688	308,588	5,165,276
Ancillary service centers			
Operating and recovery room	1,768,975	5,576,491	7,345,466
Delivery and labor room	149,685	36,945	186,630
Anesthesiology	445,607	827,381	1,272,988
Radiology - diagnostic	699,866	7,678,995	8,378,861
Laboratory	768,698	6,656,414	7,425,112
Respiratory therapy	372,513	1,020,192	1,392,705
Physical therapy	313,596	861,992	1,175,588
Speech pathology	2,839	379	3,218
Medical supplies charged to patients	4,319,179	1,383,801	5,702,980
Drugs charged to patients	<u>1,508,668</u>	<u>5,888,155</u>	<u>7,396,823</u>
Total ancillary service centers	10,349,626	29,930,745	40,280,371
Physician, clinic, and ambulatory service centers			
Clinics	1,718	1,224,266	1,225,984
Physician services	498,643	9,036,854	9,535,497
Emergency department	206,464	4,874,262	5,080,726
Ambulance	<u>143,595</u>	<u>2,369,142</u>	<u>2,512,737</u>
Total outpatient service centers	<u>850,420</u>	<u>17,504,524</u>	<u>18,354,944</u>
Gross patient service revenue	<u>\$16,056,734</u>	<u>\$47,743,857</u>	63,800,591
Contractual and other adjustments			17,805,667
Charity care			2,608,580
Provision for bad debts			<u>1,537,418</u>
Net patient service revenue			<u>\$41,848,926</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4,
D/B/A MAYO REGIONAL HOSPITAL**

Schedule of Operating Expenses

Year Ended September 30, 2009

	<u>Personnel</u>	<u>Other</u>	<u>Total</u>
General service cost centers			
Employee benefits	\$ -	\$ 4,555,366	\$ 4,555,366
Administrative and general	2,232,825	1,768,633	4,001,458
Operation of plant	460,207	1,283,541	1,743,748
Laundry and linen	67,266	35,905	103,171
Housekeeping	340,588	84,078	424,666
Dietary	400,551	182,861	583,412
Nursing administration	620,603	16,173	636,776
Medical records	181,629	190,623	372,252
Social services	<u>149,025</u>	<u>3,543</u>	<u>152,568</u>
Total general service cost centers	4,452,694	8,120,723	12,573,417
Inpatient routine service centers			
Adults and pediatrics	2,019,019	240,115	2,259,134
Intensive care unit	564,107	28,935	593,042
Nursery	<u>46,342</u>	<u>-</u>	<u>46,342</u>
Total inpatient routine service cost centers	2,629,468	269,050	2,898,518
Ancillary service cost centers			
Operating and recovery room	941,126	244,947	1,186,073
Delivery and labor room	23,756	-	23,756
Anesthesiology	874,324	59,720	934,044
Radiology - diagnostic	700,942	1,198,164	1,899,106
Laboratory	725,763	980,242	1,706,005
Hospice	71,172	-	71,172
Respiratory therapy	320,414	119,467	439,881
Physical therapy	341,843	38,909	380,752
Medical supplies charged to patients	145,934	1,626,816	1,772,750
Drugs charged to patients	<u>187,935</u>	<u>2,177,721</u>	<u>2,365,656</u>
Total ancillary service cost centers	4,333,209	6,445,986	10,779,195
Outpatient service cost centers			
Clinics	1,297,578	388,377	1,685,955
Physician practices	5,321,083	721,597	6,042,680
Emergency department	2,069,321	299,613	2,368,934
Ambulance	<u>1,207,344</u>	<u>151,941</u>	<u>1,359,285</u>
Total outpatient service cost centers	9,895,326	1,561,528	11,456,854
Other cost centers			
Lifeline	-	2,302	2,302
Physician recruitment	-	49,694	49,694
Dexter family	311,212	11,622	322,834
Workwise clinic	180,479	77,361	257,840
Other cost centers	<u>217,264</u>	<u>327,683</u>	<u>544,947</u>
Total other cost centers	708,955	468,662	1,177,617
Depreciation and amortization	<u>-</u>	<u>1,801,721</u>	<u>1,801,721</u>
Operating expenses	<u>\$ 22,019,652</u>	<u>\$ 18,667,670</u>	<u>\$ 40,687,322</u>