



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

**FINANCIAL STATEMENTS**

**and**

**SUPPLEMENTARY INFORMATION**

**September 30, 2017 and 2016**

**With Independent Auditor's Report**

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

September 30, 2017 and 2016

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements	
Balance Sheets	13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15 - 16
Notes to Financial Statements	17 - 33
Supplementary Information	
Schedule 1 - Net Patient Service Revenue	34
Schedule 2 - Operating Expenses	35



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital, which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Mayo Regional Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mayo Regional Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the 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, 2017 and 2016, and the results of its operations, changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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

***Other Matters***

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis (MD&A) on Pages 3-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the MD&A in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the accompanying supplementary Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The supplementary Schedules 1 and 2 have been subjected to the auditing procedures applied in the audits of the basic 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 supplementary Schedules 1 and 2 are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
January 18, 2018

**HOSPITAL ADMINISTRATIVE DISTRICT #4  
d/b/a MAYO REGIONAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**Introduction**

This section of the Hospital Administrative District #4, d/b/a Mayo Regional Hospital's (Hospital), financial statements provides a discussion and analysis of the Hospital's financial performance during the fiscal years ended September 30, 2017 and 2016. 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 examine and consider the information presented here in conjunction with the Hospital's financial statements and notes, which follow this section.

Throughout this analysis, reference is made to the Hospital's fiscal year which covers the period from October 1 to September 30 of a given year. Hereinafter reference will be made to the actual year, i.e. 2017, 2016, etc., which is defined as the fiscal year on September 30 of that year, unless specifically noted otherwise.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements include the balance sheets; statements of revenues, expenses, and changes in net position; and statements of cash flows. The financial statements also include notes 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 reported in the financial statements. The financial statements and information presented include:

**Balance Sheets:** 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 sheets provide the basis for an evaluation of the Hospital's capital structure and an assessment of existing liquidity and financial flexibility. Over time, increases in net position reported in the balance sheet are indicative of improvement in overall financial position and decreases indicate deterioration.

**Statements of Revenues, Expenses, and Changes in Net Position:** Includes all revenues 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 the services delivered. Other revenues not directly related to the daily operations, such as contributions and gifts, are reflected on this statement as well because they increase the net position of the Hospital.

**Statements 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 and changes in the balance sheets also impact cash flow. In addition to cash balances, the cash flow statement provides information about where cash came from, how cash was used, and what the change in the cash balance was during the reporting period.

## Overview of Hospital Utilization

The Hospital segments the overall gross patient service revenues and utilization activity among inpatient, outpatient and physician office sources for reporting purposes. In 2017, the overall activity, as measured by gross revenue, was 2.5% higher than in 2016 but 1.6% lower than budget. In 2016, the overall activity, as measured by gross revenue, was 5.4% higher than 2015. The overall utilization summary is as follows:

<b>Summary Of Utilization</b>										
	<u>2017</u>	<u>Budget</u> <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs</u> <u>Budget</u>	<u>2017 vs</u> <u>2016</u>	<u>2016 vs</u> <u>2015</u>	<u>2017 vs</u> <u>Budget</u>	<u>2017 vs</u> <u>2016</u>	<u>2016 vs</u> <u>2015</u>
Hospital Admissions										
Acute	1,045	1,140	1,146	1,072	(95)	(101)	74	-8.3%	-8.8%	6.9%
Swing-Bed	111	142	134	99	(31)	(23)	35	-21.8%	-17.2%	35.4%
Patient Days										
Acute	3,618	3,505	3,472	3,374	113	146	98	3.2%	4.2%	2.9%
Swing-Bed	927	1,264	1,189	656	(337)	(262)	533	-26.7%	-22.0%	81.3%
Average Daily Census	12.5	13.1	12.7	11.0	(0.6)	(0.3)	1.7	-4.6%	-1.6%	15.5%
Births	100	140	137	90	(40)	(37)	47	-28.6%	-27.0%	52.2%
Surgical Procedures	1,250	1,304	1,287	1,311	(54)	(37)	(24)	-4.1%	-2.9%	-1.8%
Radiology Exams	20,305	20,468	20,619	20,448	(163)	(314)	171	-0.8%	-1.5%	0.8%
Laboratory Tests	125,649	126,862	124,794	132,100	(1,213)	855	(7,306)	-1.0%	0.7%	-5.5%
Emergency Room										
Visits	10,704	11,491	11,523	11,456	(787)	(819)	67	-6.8%	-7.1%	0.6%
Physician Office Visits	50,488	51,563	49,441	45,192	(1,075)	1,047	4,249	-2.1%	2.1%	9.4%
Ambulance Runs	4,034	3,806	3,825	4,090	228	209	(265)	6.0%	5.5%	-6.5%

- The first quarter of 2017 was characterized by extremely low volume compared to both budget and 2016. Beginning in early spring of calendar year 2017, the Hospital began to see increases in volumes for inpatient services, surgical cases, and many diagnostic and therapeutic areas. During the last four months of 2017, inpatient activity, surgical cases, and some outpatient services increased significantly, however; due to the weak start noted above, year-end totals were still under budget and below 2016 amounts in most areas.
- Acute care admissions were 8.8%, or 101, lower in 2017 than 2016 and 8.3% lower than the budget. Acute-care admissions in 2016 were 74 higher than 2015. Admissions to the Hospital's swing beds were 111 in 2017 compared to 134 in 2016 and 99 in 2015. The decline in admissions from 2016 to 2017 was caused by a decrease in deliveries and challenges with throughput and capacity related to the major renovation of the inpatient floor during 2017.
- The average daily census for 2017, which does not include observation patients, was 12.5 compared to 12.7 for 2016 and 13.1 for the 2017 budget. The average daily census in 2015 was 11.0.
- Newborn admissions (births) in 2017 were 100 compared to 137 in 2016, or a decrease of 27.0% from 2016, and a negative variance of 28.6% compared to the 2017 budget. Newborn admissions (births) in 2015 were 90. The drop in volume in 2017 appears to indicate the increased volume in 2016 was more likely a natural variation rather than the result of new provider recruitment. Births in 2017, however, are 11.1% higher than 2015, which indicates a modestly higher baseline volume level is occurring. In 2017, the Hospital successfully recruited a new Family Practitioner with OB and Caesarian Section training to help manage coverage issues for the obstetrics service line going forward.

- Surgical procedures in 2017 were 37 lower than in 2016 and 4.1% lower than budget. Increases in orthopedic, urology, and ophthalmology cases were offset with declines in podiatry (due to the departure of a surgical podiatrist in June 2017), ENT, and in certain types of general surgery. A new full-time orthopedic surgeon started on January 1, 2017 and the Hospital added pain management services in August 2017, most of the services for which are done in the operating room. The Hospital looks to expand gynecological surgery in 2018 and has made contractual arrangements to allow an outside surgical podiatrist to operate at the Hospital beginning in early 2018.
- In 2017, our Rural Health Clinic practices showed 1.5% growth compared to 2016, although visit totals were 2.7% under budget. Specialty clinic visits also grew; by 4.5% compared to 2016. Specialty clinic volume grew in spite of the departure of the surgical podiatrist during the year because of growth in orthopedics. In total, physician office visits in 2017 were 1,047, or 2.1%, higher than in 2016. Total visits in 2017 were 2.1% below budget. In 2016, physician office visits were 4,249 higher than in 2015.
- Inpatient laboratory and radiology procedures increased from 2016 to 2017 and outpatient occupational therapy volume increased by 49% or 2,261 procedures.
- Ambulance runs increased by 5.5% from 2016 to 2017 and runs were over budget by 6.0% for 2017. The increase in ambulance runs is partly due to the Hospital's ambulance service picking up runs from nearby communities that have changed or dropped ambulance services.

### **Analysis of Year-End Financial Position**

The balance sheets reflects the net position of the Hospital as of the current and prior fiscal year end. The Hospital's net position (the difference between assets and liabilities) is a way to measure financial health. The change in the Hospital's net position from year to year is primarily due to changes in the financial operating results and investment gains and losses for each fiscal year.

The Hospital's Condensed Balance Sheets, as of September 30, 2017, 2016 and 2015, are below:

<b>Condensed Balance Sheet</b>							
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs 2016</u>	<u>2017 vs 2016</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>
Current Assets	\$9,920,972	\$10,939,928	\$13,857,983	(\$1,018,956)	-9.3%	(\$2,918,055)	-21.1%
Limited Use Assets	14,411,357	13,384,209	12,055,833	1,027,148	7.7%	1,328,376	11.0%
Beneficial Interest	632,191	574,619	552,861	57,572	10.0%	21,758	3.9%
Other	190,224	149,599	120,535	40,625	27.2%	29,064	24.1%
Capital Assets	15,675,544	11,537,608	11,811,610	4,137,936	35.9%	(274,002)	-2.3%
<b>Total Assets</b>	<b>\$40,830,288</b>	<b>\$36,585,963</b>	<b>\$38,398,822</b>	<b>\$4,244,325</b>	<b>11.6%</b>	<b>(\$1,812,859)</b>	<b>-4.7%</b>
Current Liabilities	\$5,760,068	\$5,640,118	\$6,590,462	\$119,950	2.1%	(\$950,344)	-14.4%
Long-Term Liabilities	6,790,295	2,551,155	2,996,739	4,239,140	166.2%	(445,584)	-14.9%
<b>Total Liabilities</b>	<b>\$12,550,363</b>	<b>\$8,191,273</b>	<b>\$9,587,201</b>	<b>\$4,359,090</b>	<b>53.2%</b>	<b>(\$1,395,928)</b>	<b>-14.6%</b>
<b>Total Net Position</b>	<b>28,279,925</b>	<b>28,394,690</b>	<b>28,811,621</b>	<b>(114,765)</b>	<b>-0.4%</b>	<b>(416,931)</b>	<b>-1.4%</b>
<b>Total Net Position and Liabilities</b>	<b>\$40,830,288</b>	<b>\$36,585,963</b>	<b>\$38,398,822</b>	<b>\$4,244,325</b>	<b>11.6%</b>	<b>(\$1,812,859)</b>	<b>-4.7%</b>

During 2017, the Hospital's total assets increased by \$4,244,325, or 11.6%, from 2016.

Current assets declined by \$1,018,956. Within that category, cash increased by \$516,299 and short term investments declined by \$738,181. The improvement in operating cash was the result of improved collections on accounts receivable, evidenced by the decrease in net accounts receivable of \$437,739, and the receipt of meaningful use funds. The decline in short term investments was related to the payments of prior year settlement liabilities for Medicaid, Medicare, and Anthem as well as withdrawals to cover shortfalls in cash flow early in 2017. Cash flow in general was positively impacted by the use of external financing for capital purchases during the year. Assets limited as to use were significantly impacted by investment market performance. The net increase in market value due to realized and unrealized gains on investments increased the value of the portfolio by \$1,236,487.

The Hospital's working capital (current assets minus current liabilities) decreased by \$1,138,906 compared to a decrease of \$1,967,711 in 2016. The decrease in working capital in 2017 includes the use of cash for Medicare, Medicaid and Anthem settlements and the use of the operating line of credit and new financing to manage cash flow issues early in the year. Prior to the end of 2017, the Hospital received numerous prior year Medicaid and Medicare settlement notifications. The Hospital received cash or paid cash during 2017 for two Medicare cost reports, one MaineCare cost report and one Anthem settlement. The Hospital received notification and adjusted settlement estimates for seven Medicaid cost reports after fiscal year end 2017; thus, they remain in net estimated third-party receivables at year-end. The recording of this settlement activity created shifting in multiple areas of the balance sheets contained in these financial statements.

There was an increase of \$4,137,936 in net capital assets from 2016 to 2017, compared to a decrease from 2015 to 2016 of \$274,002. Capital additions in 2017 were \$5,985,835, including the completion of the oncology and inpatient unit renovations and an upgrade to electrical, heating, and air conditioning systems. Other capital additions included a server upgrade for the information technology infrastructure and a whole-house replacement of IV pumps. Investments in capital assets in 2016 were \$1,453,969.

Current liabilities increased by \$119,950, or 2.1%, in 2017 compared to a decrease of \$950,344 in 2016. Principal payments on outstanding long-term debt were \$458,233 in 2017 and were \$444,093 in 2016. Financing was obtained for the large capital projects noted above (a \$6,000,000 revolving line of credit with a local bank) in October 2016 and a \$2,000,000 equipment line of credit was also established in 2017 to finance selected equipment replacement projects. In total, the Hospital accessed \$4,739,150 of new financing capacity during 2017.

The overall net position decreased by \$114,765 compared to a prior year decrease of \$416,931. In 2017, the Hospital continued to record negative operating results; however, investment performance offset a significant part of the loss. In 2016, the Hospital had weaker operating results compared to 2015; however, operating losses, much like in 2017, were offset by strong investment market performance.

When comparing 2016 to 2015, the Hospital's total assets decreased by \$1,812,859 or 4.7%. Current liabilities also declined by \$950,344, or 14.4%. The changes in current assets and liabilities from 2015 to 2016 were due to a decrease in accounts receivable related to improved revenue cycle performance, the use of short-term investments to cover operating expenses, and the reduction of the amounts due to third-party payers due to favorable changes in settlement estimates and payment of settlement liabilities.

## **Analysis of Operating and Financial Results**

The following table is a summary of the Hospital's revenues and expenses for each of the years ended September 30, 2017, 2016 and 2015:

<b>Condensed Statement of Revenues, Expenses and Changes in Net Position</b>							
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs</u> <u>2016</u>	<u>2017</u> <u>vs</u> <u>2016</u>	<u>2016 vs</u> <u>2015</u>	<u>2016 vs</u> <u>2015</u>
Net Patient Service Revenue	\$46,440,411	\$45,906,378	\$44,703,497	\$534,033	1.2%	\$1,202,881	2.7%
Other Operating Revenue	3,188,608	3,149,295	3,318,910	39,313	1.2%	(169,615)	-5.1%
Total Operating Revenue	\$49,629,019	\$49,055,673	\$48,022,407	\$573,346	1.2%	\$1,033,266	2.2%
Total Personnel and Benefit Expenses	\$32,351,634	\$31,513,876	\$30,446,849	\$837,758	2.7%	\$1,045,378	3.4%
Non-Personnel Expenses	18,910,033	19,001,613	17,400,807	(91,580)	-0.5%	1,600,806	9.2%
Total Operating Expenses	\$51,261,667	\$50,515,489	\$47,869,305	\$746,178	1.5%	\$2,646,184	5.5%
Operating (Loss)/Income	(\$1,632,648)	(\$1,459,816)	\$153,102	(\$172,832)	-11.8%	(\$1,612,918)	-1053.5%
Non-Operating Expenses	154,325	145,751	164,235	8,574	5.9%	(18,484)	-11.3%
Loss Before Non-operating Revenues (Losses) and Other Gains (Losses)	(\$1,786,973)	(\$1,605,567)	(\$11,133)	(\$181,406)	-11.3%	(\$1,594,434)	14321.7%
Non-Operating Revenues (Losses)	1,558,528	906,308	(226,347)	652,220	72.0%	1,132,655	500.4%
Loss Before Other Gains (Losses)	(\$228,445)	(\$699,259)	(\$237,480)	\$470,814	67.3%	(\$461,779)	-194.4%
Other Gains (Losses)	113,680	282,328	(20,642)	(168,648)	-59.7%	302,970	1467.7%
Decrease in Net Position	(\$114,765)	(\$416,931)	(\$258,122)	\$302,166	72.5%	(\$158,809)	-61.5%

### **Summary**

From an operations perspective, the Hospital finished 2017 slightly behind 2016's financial results and behind budget. Loss before non-operating revenues was \$1,786,973 compared to 2016's loss of \$1,605,567 and 2015's loss of \$11,133. The budgeted loss before non-operating revenues for 2017 was \$1,207,998.

Gross revenue was under budget by \$1,378,894. Contractual adjustments were higher than expected due to a shift in payer mix from Medicaid to Medicare of approximately two percentage points, although bad debt and charity care levels were below budget and prior year. Operating expenses were under budget by \$112,026 in 2017, although market adjustments to wages, high provider coverage costs in the Emergency Room, and temporary staffing in clinical areas contributed to higher than expected expenses in those areas.

Non-operating revenues included gains on investments and other gains in donor-restricted assets, which offset losses to bring the overall decrease in net position for 2017 to \$114,765. The operating loss for 2016 was \$1,459,816 and non-operating expense (interest) was \$145,751. In 2016, investment gains partly offset the operating loss, yielding a final net decrease in financial position of \$416,931 compared to a decrease of \$258,122 in 2015.

### **Supporting Detail**

Net patient service revenue for 2017 was \$534,033, or 1.2%, higher than 2016 but \$1,455,112, or 3.0%, lower than the 2017 budget. Within these differences, gross patient service revenue was \$2,117,975, or 2.5%, higher than last year but \$1,378,895, or 1.6%, below budget. Shifts in payer mix and cost structures resulted in higher than expected contractual adjustments in 2017. Bad debt and charity care for 2017

totaled 5.4% of gross revenue compared to a prior year percentage of 7.0% and a 2017 budget of 7.1%. Total deductions from revenue represented 46.4% of gross revenue in the current year compared to 45.7% in the prior year and a budgeted rate of 45.6%.

Within the overall gross revenue change, Hospital inpatient gross revenue increased by 11.6% and Hospital outpatient gross revenue increased by 0.7% compared to 2016. An overall 3% rate increase in 2017 accounts for some increase in revenue in all areas, although volume declines were an offsetting factor. On the inpatient side, while deliveries decreased significantly from 2016, inpatient surgical cases, particularly in orthopedics, and higher volumes in lab and radiology generated revenue growth. In outpatient services, decreases in Emergency Room volume, outpatient surgical cases and in most ancillary areas offset the rate increase. Almost all departments, because of the weak first quarter, ended the year under budget. The physician practices experienced 7.2% revenue growth because of increased activity in orthopedics and urology and ended the year 0.6% over budget.

Other operating revenue increased by \$39,313 from 2016. However, other operating revenue exceeded budget by \$724,638, primarily associated with the Hospital's participation in the 340B drug program, grant income, and the sale of physicians' services to other providers.

Personnel and employee benefit expenses increased by 2.7%, or \$837,758, over the prior year with salary and wage expense increasing by 2.4%, or \$608,978. Salary and wage expense was 0.9% above budget. Hospital employees received a 2% merit increase during 2017, accounting for some of the growth. The Hospital also implemented unbudgeted market adjustments in a few wage categories in order to be competitive for recruitment and retention. Full Time Equivalents (FTEs) increased by 1.3% from 2016 but were 1.5% under budget. Fringe benefit related costs increased by 3.7%, or \$228,780; from 2016, and were 1.0%, or \$59,962 over budget related to higher than expected increases in health care costs.

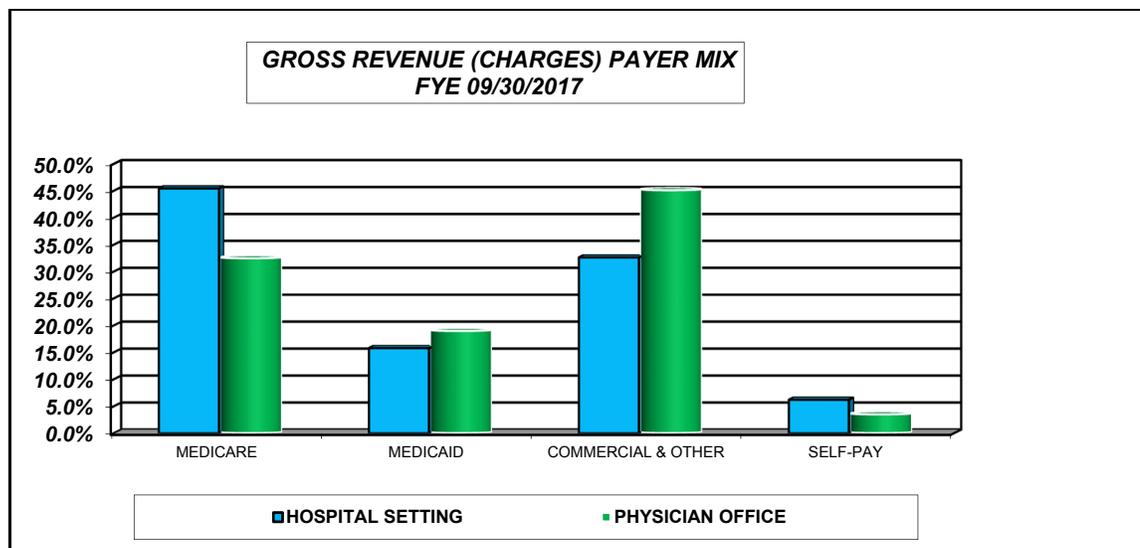
The Hospital's health plan is an indemnity plan and year to year pricing is impacted by loss ratios in the plan. For the past few years, the Hospital has experienced a number of high dollar claims, which is driving up the annual cost of the plan. In 2017, additional costs were shared by employees and the Hospital as adjustments to the benefit structure were implemented.

Personnel related expenses represented about 63.1% of the Hospital's total expenses in the current year compared to 62.4% in the prior year and a budgeted level of 62.4%. The Hospital operated with an average workforce of 401 FTEs compared to an average of 396 FTEs in the prior year and a budgeted level of 407 FTEs. Average FTEs in 2015 were 400.

In 2017, the negative impact of volume declines was mitigated by a number of strategies to reduce costs. Non-personnel operating expenses, such as medical supplies, drugs, utilities, repairs and maintenance and depreciation, decreased by 0.5%, or \$91,580, from the prior year and were 2.1%, or \$412,874, less than budgeted. More conservative spending on two major software projects and on minor equipment contributed to the favorable budget variance in 2017.

Net non-operating revenue in 2017 was \$1,558,528 compared to the net non-operating revenue in 2016 of \$906,308. Both years benefited from favorable investment market performance. In 2015, net non-operating loss was \$226,347 primarily due to unfavorable market conditions.

The Hospital's 2017 gross patient service revenue mix was as follows:



## **Cash Flows**

Cash and cash equivalents decreased by \$527,447 during 2017. The following is a condensed statement of cash flows for each of the years ended September 30, 2017, 2016 and 2015:

### **Condensed Statement of Cash Flows**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs 2016</u>	<u>2017 vs 2016</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>
Net Cash Provided (Used) by Operating Activities	\$560,731	(\$620,827)	\$2,014,772	\$1,181,558	190.3%	(\$2,635,599)	-130.8%
Net Cash Provided by Non-capital Financing Activities	368,114	17,479	40,419	350,635	2006.0%	(22,940)	-56.8%
Net Cash Used by Capital Financing Activities	(1,634,210)	(1,563,271)	(2,070,805)	(70,939)	-4.5%	507,534	-24.5%
Net Cash Provided by Investing Activities	177,918	253,642	585,106	(75,724)	-29.9%	(331,464)	-56.7%
(Decrease)/Increase in cash and equivalents	(527,447)	(1,912,977)	569,492	1,385,530	72.4%	(2,482,469)	-435.9%
Cash and Cash Equivalents at beginning of year	4,661,740	6,574,717	6,005,225	(1,912,977)	-29.1%	569,492	9.5%
Cash and Cash Equivalents at the end of the year	<u>\$4,134,293</u>	<u>\$4,661,740</u>	<u>\$6,574,717</u>	<u>(\$527,447)</u>	<u>-11.3%</u>	<u>(\$1,912,977)</u>	<u>-29.1%</u>

The net cash provided/(used) by operating activities was \$560,731 for the current year compared to (\$620,827) for the prior year. The increase was most significantly related to improved collections on patient accounts and increased cash from the 340B drug program revenue.

Net cash provided by non-capital financing activities increased from \$17,479 in 2016 to \$368,114 in 2017 as the Hospital accessed its operating line of credit during 2017 in times of weak cash flow. Weekly payments are being made to retire the balance on the line of credit by late spring of 2018.

The net cash used for capital and related financing activities in 2017 amounted to (\$1,634,210) compared to (\$1,563,271) in 2016 and (\$2,070,805) in 2015. The net change from 2016 to 2017 was not significant. However, 2017's activity included proceeds from new long-term debt of \$4,739,150 and (\$5,799,518) in purchases of capital assets. Most of the purchase of capital assets related to the oncology unit/inpatient floor renovations and infrastructure upgrade projects.

The net cash provided by investing activities in 2017 was \$177,918 compared to the prior year cash provided by investing activities of \$253,642. Within investing activities, 2017 purchases of investments and proceeds from maturities of investments were at higher levels than in 2016 as amounts were used to fund operations during 2017; however, the net cash provided by investing activities did not vary significantly from 2016.

In 2016, cash and cash equivalents decreased by (\$1,912,977). The shifts in cash flow from year to year are linked to operating performance, improved collections on accounts receivable, third-party settlement payments and receipts, new debt, and capital spending.

### **Capital Assets and Debt Administration**

Capital investment trends shown in the table below show the major investment in 2017 for the renovation of the inpatient floor and oncology units and investments in information technology and clinical equipment.

<b>Capital Assets and Debt Administration</b>							
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 vs 2016</u>	<u>2017 vs 2016</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>
Land and Land Improvements	\$1,039,539	\$795,290	\$795,290	\$244,249	30.7%	\$0	0.0%
Buildings and Improvements	10,552,690	10,103,359	10,103,359	449,331	4.4%	0	0.0%
Fixed Equipment	17,478,443	12,858,790	12,858,790	4,619,653	35.9%	0	0.0%
Major Moveable Equipment	17,593,183	16,734,450	15,747,489	858,733	5.1%	986,961	6.3%
Minor Moveable Equipment	84,050	84,050	84,050	0	0.0%	0	0.0%
Construction in Progress	230,860	721,419	364,563	(490,559)	-68.0%	356,856	97.9%
Total	46,978,765	41,297,358	39,953,541	5,681,407	13.8%	1,343,817	3.4%
Accumulated Depreciation	31,303,221	29,759,750	28,141,931	1,543,471	5.2%	1,617,819	5.7%
Net Capital Assets	\$15,675,544	\$11,537,608	\$11,811,610	\$4,137,936	35.9%	(\$274,002)	-2.3%

Capital related additions for new assets amounted to \$5,985,835 in 2017 compared to \$1,453,969 in 2016. In 2017, there was also \$304,428 in asset retirements netting to an overall net increase during the year of \$5,681,407 in capital assets at cost. Change in accumulated depreciation amounted to an increase of \$1,543,471. When combined with the capital asset change at cost, capital assets increased by \$4,137,936 in 2017 compared to a decrease in capital assets in 2016 of \$274,002.

Overall age of plant in 2017 was 16.9 years compared to 17.2 years and 15.2 years in 2016 and 2015, respectively. Age of plant is a mathematical calculation that can be used to make assessments about long term capital investment levels. In 2017, construction was completed on the renovation of the oncology and inpatient units and management continued to invest in information technology and clinical equipment. Funding for major projects was accomplished through a new \$6,000,000 construction line of credit and a new \$2,000,000 equipment line of credit. Smaller investments in plant and equipment continued to be funded with internal resources.

As of September 30, 2017, the Hospital had \$2,520,000 of total bond principal outstanding which represents a decrease of 13.8%, or \$405,000, from last year. The Hospital also has \$4,465,850 outstanding for the major projects completed in 2017 and \$260,651 for equipment financing also incurred in 2017 with a local bank. In 2014, the Hospital entered into a loan agreement for the purchase of an ambulance, for which a balance of \$31,155 was outstanding as of 2017. Total long-term debt outstanding as of September 30, 2017, was \$7,277,656 compared to \$2,996,739 at the end of 2016. The current year's total debt service (interest and principal payments) related to these issues was \$620,436.

### **Next Year's Budget and Other Economic Factors**

*Note: Comparisons between 2017 and 2018 noted below use final 2017 results, which will vary from projected 2017 results used during the budget process.*

The Hospital's management recommended to the Board of Directors (Board), and the Board approved, an operating budget for 2018 that reflects an operating loss before interest and non-operating revenue of (\$199,599). When budgeted interest expense and non-operating income is included, the change in net position is a decrease of (\$244,267). The operating loss budget represents a significant improvement over 2017. The basis for the improvement is not increased volume; in fact, volume assumptions were conservative and in most cases reflect a decline from 2017's year-end volume amounts. A 3% rate increase, improvements in denials management, changes in employee benefits, staffing levels, and other cost reductions are factors in the change from 2017 actual results to 2018 budgeted amounts.

Acute care admissions are budgeted to remain relatively flat with 2017. Acute admissions are budgeted at 1,055 compared to a final total for 2017 of 1,045. The average daily census, including swing bed utilization, is budgeted at 11.7 patients compared to 12.5 in 2017. In 2018, deliveries are budgeted to be 97 compared to a 2017 actual number of 100.

Operating room cases have been budgeted to increase by 2.7% compared to 2017. Inpatient cases are budgeted to decrease by 19.2% and outpatient cases to increase by 5.9%. The budgeted increase in outpatient surgery is due to the addition of pain management cases and stability in orthopedics and ophthalmology.

The overall budgeted increase in gross patient service revenue is 1.0%, or \$845,797, over 2017. The budgeted growth in revenues is the net of three contributing factors: an overall rate increase of 3.0%, the addition of hospitalist revenue (billing for hospitalist services was brought back in-house in July 2017), and lower revenue because of patient services volume changes.

Total operating expenses are anticipated to decrease by 1.3%, or \$656,666, over 2017. Salaries and benefits will represent 63.1% of the overall expense budget compared to 62.9% in 2017. The management team made a decision to implement a one-year freeze on employer contributions to the 403b plan due to a 20% increase in the cost of health insurance. Management continues to evaluate alternatives to the Hospital's health plan but is limited as to options because of a number of recurring high cost claims. The Hospital expects to be able to make changes in 2019 to reduce the cost of health insurance.

The approved budget includes spending for capital related items at approximately \$1.1 million. The two largest projects are a 3D mammography unit and a new hematology analyzer. Approximately 8% is

allocated to building and infrastructure improvements, 67% to equipment, 14% to information technology, and 11% to contingency. Because of a number of unknown factors at the time the budget was prepared, the Hospital did not include the anticipated one-time up-front costs, and ongoing costs, of a new information system that was under consideration. Since that time, the Board has approved a replacement of the Hospital's existing systems, which include three separate electronic health record modules and two separate billing systems, with a fully integrated electronic health record and new revenue cycle and financial systems. The system will be a cloud-based arrangement. In 2018, unbudgeted costs for this project are expected to be approximately \$1,000,000.

The approved budget includes an expected total days cash on hand of 142 days by year-end and gross days in accounts receivable were estimated to average 58 days. As a result of recent improvements in accounts receivable management, the Hospital expects to perform better than budget in days in AR and with the expected investment in the new information system, the Hospital expects days cash on hand to be lower than budgeted. Long-term debt to capitalization ratio, which was 8.24% at the end of 2016, ended the year at approximately 19% and is expected to decline slightly in 2018.

As noted in prior years, there are significant financial benefits (cost reimbursement) associated with the Critical Access Hospital status that have flowed from the Medicare program and the State of Maine MaineCare (Medicaid) program. Both programs are at risk because of possible changes at the federal level. Additionally, the budget for MaineCare expenditures to hospitals is a significant line item in the State of Maine operating budget. Even with the recent referendum vote to expand the Medicaid program in Maine, risk is inherent in these two programs. 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.

In addition, the Hospital has participated in an Accountable Care Organization (ACO), one of the primary goals of which is to create a more efficient and less wasteful environment in which to deliver healthcare services. ACOs are designed to reward overall improvements in quality and reductions in the costs of care; thus, ACOs are expected to create downward trends in utilization (volume) of services. The future of the Affordable Care Act, however, is uncertain. Overall, the Hospital has worked to strengthen its ability to manage the payment risks in its environment by reducing cost, stabilizing its primary care base, and working to always improve quality and patient safety.

To mitigate the risk inherent in payment uncertainty and expected changes in the healthcare delivery system, the Hospital's management team continues to focus on patient safety and quality, understanding and meeting community needs, provider satisfaction and retention, staffing satisfaction and efficiency, information technology, revenue cycle improvements, and other financial improvements.

The Hospital's strategic planning has also focused in the past year on the opportunities presented by collaborative relationships with other healthcare providers. The Hospital continues to work with Eastern Maine Healthcare Systems to identify areas where collaboration can improve access to services for its patients while reducing the cost of care. In 2018, the Hospital will continue to explore further collaboration and affiliation.

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

**Balance Sheets**

**September 30, 2017 and 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,344,526	\$ 828,227
Short-term investments	1,263,649	2,001,830
Accounts receivable, less allowances for doubtful accounts of \$4,349,816 in 2017 and \$6,127,478 in 2016	5,056,699	5,494,438
Supplies	721,503	722,215
Prepaid expenses and other current assets	1,515,269	1,893,218
Estimated third-party payor settlements	<u>19,326</u>	<u>-</u>
Total current assets	<u>9,920,972</u>	<u>10,939,928</u>
Assets limited as to use		
Board designated	13,936,755	12,660,431
Donor-restricted	<u>474,602</u>	<u>723,778</u>
Total assets limited as to use	14,411,357	13,384,209
Beneficial interest in perpetual trust	156,923	140,873
Beneficial interest in funds held by others	475,268	433,746
Other	190,224	149,599
Capital assets, net	<u>15,675,544</u>	<u>11,537,608</u>
Total assets	<u>\$ 40,830,288</u>	<u>\$ 36,585,963</u>

## LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current liabilities		
Line of credit	\$ 351,328	\$ -
Accounts payable and accrued expenses	2,212,223	2,069,305
Accrued payroll, other related expenses and amounts withheld	2,660,433	2,496,575
Estimated third-party payor settlements	-	572,053
Accrued interest payable	48,723	56,601
Current portion of long-term debt	<u>487,361</u>	<u>445,584</u>
Total current liabilities	5,760,068	5,640,118
Long-term debt, less current portion	<u>6,790,295</u>	<u>2,551,155</u>
Total liabilities	<u>12,550,363</u>	<u>8,191,273</u>
Net position		
Invested in capital assets, net of related debt	8,397,888	8,540,869
Restricted		
Expendable for capital projects and other	601,404	811,101
Nonexpendable permanent endowments and perpetual trust	445,276	428,312
Unrestricted	<u>18,835,357</u>	<u>18,614,408</u>
Total net position	<u>28,279,925</u>	<u>28,394,690</u>
Total liabilities and net position	<u>\$ 40,830,288</u>	<u>\$ 36,585,963</u>

---

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

**Statements of Revenues, Expenses and Changes in Net Position**

**Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues		
Net patient service revenue	\$ 46,440,411	\$ 45,906,378
Other operating revenues	3,074,823	2,861,535
Meaningful use revenue	<u>113,785</u>	<u>287,760</u>
Total operating revenues	<u>49,629,019</u>	<u>49,055,673</u>
Operating expenses		
Personnel services	26,016,666	25,407,688
Employee benefits	6,334,968	6,106,188
Purchased services	5,020,195	5,566,998
Supplies and other direct expenses	12,041,939	11,709,144
Depreciation and amortization	<u>1,847,899</u>	<u>1,725,471</u>
Total operating expenses	<u>51,261,667</u>	<u>50,515,489</u>
Operating loss	(1,632,648)	(1,459,816)
Nonoperating expenses		
Interest expense	<u>154,325</u>	<u>145,751</u>
Loss before nonoperating revenues, capital contributions and other gains	<u>(1,786,973)</u>	<u>(1,605,567)</u>
Nonoperating revenues		
Investment income	306,169	301,214
Net increase in fair value of investments	1,236,487	587,994
Noncapital contributions	<u>15,872</u>	<u>17,100</u>
Net nonoperating revenues	<u>1,558,528</u>	<u>906,308</u>
Loss before capital contributions and other gains	(228,445)	(699,259)
Capital contributions	<u>46,594</u>	<u>251,120</u>
Loss before other gains	<u>(181,851)</u>	<u>(448,139)</u>
Other gains		
Gains on permanent endowments	16,964	3,629
Gains on funds held by others	<u>50,122</u>	<u>27,579</u>
Total other gains	<u>67,086</u>	<u>31,208</u>
Decrease in net position	(114,765)	(416,931)
Net position, beginning of year	<u>28,394,690</u>	<u>28,811,621</u>
Net position, end of year	<u>\$ 28,279,925</u>	<u>\$ 28,394,690</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 46,286,771	\$ 44,755,745
Payments to suppliers	(15,947,963)	(16,386,722)
Payments to employees	(32,187,776)	(31,358,692)
Other operating revenues	2,295,914	1,726,082
Meaningful use revenue	<u>113,785</u>	<u>642,760</u>
Net cash provided (used) by operating activities	<u>560,731</u>	<u>(620,827)</u>
Cash flows from noncapital financing activities		
Noncapital contributions	15,872	17,100
Draw on line of credit	351,328	-
Contributions to permanent endowment	<u>914</u>	<u>379</u>
Net cash provided by noncapital financing activities	<u>368,114</u>	<u>17,479</u>
Cash flows from capital and related financing activities		
Capital contributions	46,594	251,120
Interest paid on long-term debt	(162,203)	(154,074)
Principal paid on long-term debt	(458,233)	(444,093)
Proceeds from issuance of long-term debt	4,739,150	-
Purchases of capital assets	<u>(5,799,518)</u>	<u>(1,216,224)</u>
Net cash used by capital and related financing activities	<u>(1,634,210)</u>	<u>(1,563,271)</u>
Cash flows from investing activities		
Purchases of investments	(2,969,528)	(2,229,098)
Proceeds from maturities and principal reductions of investments	2,873,302	2,201,519
Investment income	306,169	301,214
Other	<u>(32,025)</u>	<u>(19,993)</u>
Net cash provided by investing activities	<u>177,918</u>	<u>253,642</u>
Net decrease in cash and cash equivalents	(527,447)	(1,912,977)
Cash and cash equivalents, beginning of year	<u>4,661,740</u>	<u>6,574,717</u>
Cash and cash equivalents, end of year	<u>\$ 4,134,293</u>	<u>\$ 4,661,740</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 1,344,526	\$ 828,227
Cash and cash equivalents in short-term investments	1,263,649	2,001,830
Cash and cash equivalents in assets limited as to use	<u>1,526,118</u>	<u>1,831,683</u>
Total cash and cash equivalents	<u>\$ 4,134,293</u>	<u>\$ 4,661,740</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	<b>\$ (1,632,648)</b>	\$ (1,459,816)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	<b>1,847,899</b>	1,725,471
Provision for doubtful accounts	<b>2,421,525</b>	2,980,153
Gain on disposal of capital assets	<b>(6,300)</b>	(7,844)
Changes in		
Accounts receivable	<b>(1,983,786)</b>	(2,545,767)
Supplies	<b>712</b>	45,608
Prepaid expenses and other current assets	<b>377,949</b>	(187,719)
Accounts payable and accrued expenses	<b>(37,099)</b>	258,922
Accrued payroll, other related expenses and amounts withheld	<b>163,858</b>	155,184
Estimated third-party payor settlements	<b><u>(591,379)</u></b>	<b><u>(1,585,019)</u></b>
Net cash provided (used) by operating activities	<b><u>\$ 560,731</u></b>	<b><u>\$ (620,827)</u></b>

Supplemental disclosure of noncash and financing activities:

During 2017 and 2016, the net unrealized increase in the fair value of investments was \$559,570 and \$763,673, respectively.

During 2017 and 2016, the net increase in the Hospital's interest in a perpetual trust was \$16,050 and \$3,250, respectively.

During 2017 and 2016, the net increase in the Hospital's interest in funds held by others was \$50,122 and \$27,579, respectively.

At September 30, 2017 and 2016, construction costs of \$407,418 and \$227,401, respectively, were included in accounts payable and accrued expenses.

---

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, 2017 and 2016**

**1. Summary of Significant Accounting Policies**

Hospital Administrative District No. 4, d/b/a Mayo Regional Hospital (Hospital), is a quasi-governmental entity, located in Dover-Foxcroft, Maine, established by the State of Maine legislature to provide healthcare to the towns in the district service area through a regional general hospital system.

**Reporting Entity**

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Hospital's financial statements as a reporting agency.

**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.

**Measurement Focus and Basis of Accounting**

The financial statement presentation follows the requirements of the Governmental Accounting Standards Board (GASB) in its Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Hospital uses the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when obligation for payment is incurred. The accompanying financial statements conform to GAAP as applicable to governmental entities. An Enterprise Fund is used to account for the Hospital's ongoing activities, because the activities are financed and operated in a manner similar to a private business enterprise. As such, the Hospital is intended to be financed primarily through proceeds from its operations.

**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, 2017 and 2016**

**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 Short-Term Investments**

Assets limited as to use and short-term 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 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 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 at September 30:

<u>Investment Type</u>	<u>Portfolio Mix</u>	
	<u>2017</u>	<u>2016</u>
Equities	<b>25% - 75%</b>	25% - 75%
Fixed income securities	<b>20% - 75%</b>	20% - 75%
Cash and cash equivalents	<b>2% - 15%</b>	2% - 15%

**Vacation Pay**

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

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

Notes to Financial Statements

September 30, 2017 and 2016

**Capital Assets**

Purchased 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.

**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.

**Restricted Resources**

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

**Net Position**

Net position of the Hospital is classified in four components. Net position invested in capital assets, net of related debt, consists 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 position is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Restricted nonexpendable net position represents the principal portion of permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets, net of related debt, or restricted.

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

Notes to Financial Statements

September 30, 2017 and 2016

**Operating Revenues and Expenses**

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare 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 healthcare 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.

**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 revenue. The Hospital maintains records to identify the amount of charges foregone for services and supplies furnished under its charity care policy, as well as the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of charity care provided during the year ended September 30:

	<u>2017</u>	<u>2016</u>
Charges foregone, based on established rates	\$ <u>2,223,381</u>	\$ <u>2,967,289</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>1,320,000</u>	\$ <u>1,779,000</u>
Equivalent percentage of charity care charges to all Hospital patient charges	<u>2.57%</u>	<u>3.51%</u>

Cost of providing charity care services has been estimated based on an overall financial statement ratio of costs to charges applied to charity charges foregone.

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**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 \$315,920 and \$301,828 in 2017 and 2016, 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. Coverage for medical malpractice claims is discussed in Note 12.

**Income Taxes**

The Hospital is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

**Subsequent Events**

For purposes of the preparation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through January 18, 2018, which was the date the financial statements were available to be issued.

**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 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, 2013.

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**MaineCare**

The Hospital is also reimbursed based on allowable costs for its inpatient and outpatient services rendered to MaineCare patients. 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 and settled by the fiscal intermediary through September 30, 2011.

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 16% in 2017, and 43% and 18% in 2016, of the Hospital's gross patient service revenue, respectively. 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 2017 net patient service revenue increased approximately \$56,000 and the 2016 net patient service revenue decreased approximately \$471,000, due to adjustments to 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 discounted from established charges.

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

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 86,622,311	\$ 84,504,336
Contractual adjustments	(35,338,509)	(32,507,666)
Charity care	(2,223,381)	(2,967,289)
Discounts and other allowances	(198,485)	(142,850)
Provision for bad debts	<u>(2,421,525)</u>	<u>(2,980,153)</u>
	<u>\$ 46,440,411</u>	<u>\$ 45,906,378</u>

**3. Cash and Cash Equivalents**

At September 30, 2017, the carrying amounts of deposits with banks were \$1,344,526 and the bank balances were \$1,481,554. At September 30, 2016, the carrying amounts of deposits with banks were \$828,227 and the bank balances were \$1,596,750. The differences are primarily due to outstanding checks and deposits in transit. Of these amounts, \$250,000 was insured by the Federal Deposit Insurance Corporation at September 30, 2017 and 2016. At September 30, 2017 and 2016, \$992,002 and \$1,111,210, respectively, were collateralized by securities held by the financial institution's trust department in the Hospital's name, and the remaining balances were uninsured and uncollateralized.

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**4. Accounts Receivable**

Components of accounts receivable at September 30 are as follows:

	<u>2017</u>	<u>2016</u>
Total accounts receivable	<b>\$12,773,989</b>	\$15,384,785
Less:		
Allowances for uncollectible amounts	<b>4,349,816</b>	6,127,478
Allowances for contractual adjustments	<b>3,313,110</b>	3,106,196
Periodic interim payments	<u><b>54,364</b></u>	<u>656,673</u>
Accounts receivable, net	<u><b>\$ 5,056,699</b></u>	<u>\$ 5,494,438</u>

**5. Assets Limited as to Use and Short-Term Investments**

Assets limited as to use at September 30, 2017 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	<b>\$ 1,526,118</b>	<b>\$ 1,526,118</b>
Obligations of U.S. government	<b>11,285</b>	<b>12,306</b>
Marketable equity securities	<b>6,830,512</b>	<b>9,071,751</b>
Corporate and taxable bonds	<u><b>3,774,082</b></u>	<u><b>3,801,182</b></u>
	<u><b>\$12,141,997</b></u>	<u><b>\$14,411,357</b></u>

Assets limited as to use at September 30, 2016 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,831,683	\$ 1,831,683
Obligations of U.S. government	13,679	15,187
Marketable equity securities	6,204,726	7,868,121
Corporate and taxable bonds	<u><b>3,624,872</b></u>	<u><b>3,669,218</b></u>
	<u><b>\$11,674,960</b></u>	<u><b>\$13,384,209</b></u>

Short-term investments consist of cash and cash equivalents at September 30, 2017 and 2016.

**Fair Value Measurements**

GASB Statement No. 72, *Fair Value Measurement and Application*, 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. GASB Statement No. 72 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

the use of unobservable inputs when measuring fair value. The statement 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.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

<u><b>Fair Value Measurements at September 30, 2017</b></u>			
	<u><b>Total</b></u>	<u><b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b></u>	<u><b>Significant Other Observable Inputs Using the Market Approach (Level 2)</b></u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,789,767	\$ 2,789,767	\$ -
U.S. Treasury obligations and government sponsored enterprises	12,306	12,306	-
Corporate bonds	3,801,182	-	3,801,182
Marketable equity securities	<u>9,071,751</u>	<u>9,071,751</u>	<u>-</u>
Total assets	<u>\$ 15,675,006</u>	<u>\$ 11,873,824</u>	<u>\$ 3,801,182</u>

<u><b>Fair Value Measurements at September 30, 2016</b></u>			
	<u><b>Total</b></u>	<u><b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b></u>	<u><b>Significant Other Observable Inputs Using the Market Approach (Level 2)</b></u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 3,833,513	\$ 3,833,513	\$ -
U.S. Treasury obligations and government sponsored enterprises	15,187	15,187	-
Corporate bonds	3,669,218	-	3,669,218
Marketable equity securities	<u>7,868,121</u>	<u>7,868,121</u>	<u>-</u>
Total	<u>\$ 15,386,039</u>	<u>\$ 11,716,821</u>	<u>\$ 3,669,218</u>

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

The fair value of Level 2 assets is primarily based on quoted market prices of comparable securities. There were no Level 3 assets or liabilities in 2017 or 2016.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>2017</u>		
			<u>1-5</u>	<u>6-10</u>	<u>10+</u>
Obligations of U.S. government	\$ 12,306	\$ -	\$ 29	\$ 4,123	\$ 8,154
Corporate and taxable bonds	<u>3,801,182</u>	<u>1,150,603</u>	<u>2,650,579</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,813,488</u>	<u>\$ 1,150,603</u>	<u>\$ 2,650,608</u>	<u>\$ 4,123</u>	<u>\$ 8,154</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>2016</u>		
			<u>1-5</u>	<u>6-10</u>	<u>10+</u>
Obligations of U.S. government	\$ 15,187	\$ 14	\$ 78	\$ 4,865	\$ 10,230
Corporate and taxable bonds	<u>3,669,218</u>	<u>779,037</u>	<u>2,684,771</u>	<u>205,410</u>	<u>-</u>
	<u>\$ 3,684,405</u>	<u>\$ 779,051</u>	<u>\$ 2,684,849</u>	<u>\$ 210,275</u>	<u>\$ 10,230</u>

The risk categories for the debt securities held by the Hospital at September 30, 2017 and 2016 are as follows:

<u>Investment Rating*</u>	<u>2017</u>	<u>2016</u>
A+	\$ -	\$ 300,480
A	<b>400,724</b>	101,835
A-	<b>418,400</b>	351,103
BBB+	<b>1,522,501</b>	1,017,534
BBB	<b>602,814</b>	808,933
BBB-	<b>756,889</b>	889,123
BB	<b>99,854</b>	-
Not rated	<u><b>12,306</b></u>	<u>215,397</u>
Total debt securities	<u><b>\$ 3,813,488</b></u>	<u>\$ 3,684,405</u>

Certain debt securities are UnitedHealth Group, Inc. bonds, Federal National Mortgage Association bonds, Federal Home Loan Mortgage Corporation collateralized mortgage obligations (CMO) and Government National Mortgage Association 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.

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

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

	<u>2017</u>	<u>2016</u>
Interest and dividends, net of bond amortization and investment fees of \$(49,009) and \$(45,323) in 2017 and 2016, respectively	\$ <b>306,169</b>	\$ 301,214
Realized gains (losses) on sales of securities	676,917	(175,679)
Unrealized gains on investments	<u>559,570</u>	<u>763,673</u>
	<u>\$ <b>1,542,656</b></u>	<u>\$ 889,208</u>

The Hospital places no limit on the amount it may invest in any one issuer. More than 5% of the Hospital's investments are invested in the following securities at September 30:

	<u>2017</u>	<u>2016</u>
Vanguard Developed Markets	8.48 %	NA
Vanguard Emerging Markets	5.21 %	NA

NA - Investment percentage was less than 5%

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 or unregistered for which the securities are held by the bank's trust department or agent in the Hospital's name.
3. Uninsured or unregistered for which the securities are held by the bank's trust department or agent, but not in the Hospital's name.

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

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

Investment type	2017		Total Fair Value
	Category		
	1	2	
Obligations of U.S. government	\$ -	\$ 12,306	\$ 12,306
Corporate and taxable bonds	-	3,801,182	3,801,182
Cash and cash equivalents	2,789,767	-	2,789,767
Marketable equity securities	-	9,071,751	9,071,751
	<b>\$ 2,789,767</b>	<b>\$12,885,239</b>	<b>\$15,675,006</b>
	2016		
Investment type	Category		Total Fair Value
	1	2	
Obligations of U.S. government	\$ -	\$ 15,187	\$ 15,187
Corporate and taxable bonds	-	3,669,218	3,669,218
Cash and cash equivalents	3,833,513	-	3,833,513
Marketable equity securities	-	7,868,121	7,868,121
	<b>\$ 3,833,513</b>	<b>\$11,552,526</b>	<b>\$15,386,039</b>

There were no category 3 investments in 2017 or 2016.

**Endowments**

The Hospital's endowment consists of several funds established for a variety of purposes as donor-restricted endowment funds. Net position associated with endowments is classified and reported based on the existence or absence of donor-imposed restrictions.

**Relevant Law**

The Board of Directors has interpreted the Maine Uniform Prudent Management of Institutional Funds Act as requiring preservation of the original value of the gifts, as of the gift date, to donor-restricted endowment funds, absent any explicit donor restrictions to the contrary in the gift instrument. As a result of this interpretation for accounting and financial statement purposes, the Hospital classifies the original value of assets donated to the permanent endowment as nonexpendable restricted net position, along with any investment earnings that are directed by the donor to be reinvested in perpetuity (i.e., historic book value).

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

The remaining portion of the donor-restricted endowment fund that is not classified as nonexpendable restricted net position is classified as expendable restricted net position until those assets are appropriated for expenditure.

The Hospital is in the process of developing a formal spending policy for its endowments.

Endowment net position composition as of September 30 is as follows:

	<u>Expendable Restricted</u>	<u>Nonexpendable Restricted</u>	<u>Total</u>
Balances, October 1, 2015	\$ 540,872	\$ 424,683	\$ 965,555
Investment return			
Investment income	1,205	379	1,584
Net appreciation (realized and unrealized)	<u>26,374</u>	<u>3,250</u>	<u>29,624</u>
Total investment return	27,579	3,629	31,208
Contributions	1,056	-	1,056
Appropriation of endowment assets for expenditure	<u>(9,526)</u>	<u>-</u>	<u>(9,526)</u>
Balances, September 30, 2016	<b>559,981</b>	<b>428,312</b>	<b>988,293</b>
Investment return			
Investment income	<b>6,543</b>	<b>914</b>	<b>7,457</b>
Net appreciation (realized and unrealized)	<u><b>42,553</b></u>	<u><b>16,050</b></u>	<u><b>58,603</b></u>
Total investment return	<b>49,096</b>	<b>16,964</b>	<b>66,060</b>
Contributions	<b>5,649</b>	-	<b>5,649</b>
Appropriation of endowment assets for expenditure	<u><b>(13,322)</b></u>	<u>-</u>	<u><b>(13,322)</b></u>
Balances, September 30, 2017	<b><u>\$ 601,404</u></b>	<b><u>\$ 445,276</u></b>	<b><u>\$ 1,046,680</u></b>

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**6. Capital Assets**

A summary of capital assets for the year ended September 30, 2017 is as follows:

	Balance at October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2017</u>
<b>Cost</b>				
Land improvements	\$ 795,290	\$ 244,249	\$ -	\$ 1,039,539
Buildings and improvements	10,103,359	449,331	-	10,552,690
Fixed equipment	12,858,790	4,619,653	-	17,478,443
Major movable equipment	16,734,450	1,163,161	(304,428)	17,593,183
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>721,419</u>	<u>5,218,776</u>	<u>(5,709,335)</u>	<u>230,860</u>
Capital assets, at cost	<u>41,297,358</u>	<u>11,695,170</u>	<u>(6,013,763)</u>	<u>46,978,765</u>
<b>Accumulated depreciation</b>				
Land improvements	601,189	37,834	-	639,023
Buildings and improvements	9,403,011	673,610	-	10,076,621
Fixed equipment	5,987,813	234,439	-	6,222,252
Major movable equipment	13,683,687	902,016	(304,428)	14,281,275
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>29,759,750</u>	<u>1,847,899</u>	<u>(304,428)</u>	<u>31,303,221</u>
Capital assets, net	<u>\$ 11,537,608</u>	<u>\$ 9,847,271</u>	<u>\$ (5,709,335)</u>	<u>\$ 15,675,544</u>

A summary of capital assets for the year ended September 30, 2016 is as follows:

	Balance at October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2016</u>
<b>Cost</b>				
Land improvements	\$ 795,290	\$ -	\$ -	\$ 795,290
Buildings and improvements	10,103,359	-	-	10,103,359
Fixed equipment	12,858,790	-	-	12,858,790
Major movable equipment	15,747,489	1,097,113	(110,152)	16,734,450
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>364,563</u>	<u>778,358</u>	<u>(421,502)</u>	<u>721,419</u>
Capital assets, at cost	<u>39,953,541</u>	<u>1,875,471</u>	<u>(531,654)</u>	<u>41,297,358</u>
<b>Accumulated depreciation</b>				
Land improvements	566,458	34,731	-	601,189
Buildings and improvements	8,747,421	655,590	-	9,403,011
Fixed equipment	5,848,344	139,469	-	5,987,813
Major movable equipment	12,895,658	895,681	(107,652)	13,683,687
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>28,141,931</u>	<u>1,725,471</u>	<u>(107,652)</u>	<u>29,759,750</u>
Capital assets, net	<u>\$ 11,811,610</u>	<u>\$ 150,000</u>	<u>\$ (424,002)</u>	<u>\$ 11,537,608</u>

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**7. Lines of Credit**

The Hospital has available an unsecured operating line of credit with a bank in the amount of \$3,000,000 at September 30, 2017 and 2016. Interest on the line is .375% below the prime rate with a floor of 3.25% (3.25% at September 30, 2017 and 2016). The current line of credit expires June 30, 2018.

The Hospital has available a capital equipment line of credit with a bank in the amount of \$2,000,000 at September 30, 2017. Advances on the line of credit are limited to 90% of the cost of new equipment and 80% of the cost for used equipment. Monthly payments of principal and interest are required for each advance not to exceed 60-months, or the estimated useful life of the equipment purchased, whichever is shorter. Interest on advances are equal to the "30-day LIBOR" rate plus 1.95% (3.18% at September 30, 2017). Advances on the line are collateralized by the associated equipment and are included in long-term debt. The line of credit expires June 30, 2018.

**8. Long-Term Debt**

The following is a summary of changes in long-term debt for the years ended September 30, 2017 and 2016:

	<b>2017</b>				
	Beginning Balances	Additions	Reductions	Ending Balances	Current Portion of Long-Term Liabilities
Fixed rate (5.125%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$300,000, plus interest, through November 2022.	<b>\$ 2,100,000</b>	<b>\$ -</b>	<b>\$ (300,000)</b>	<b>\$ 1,800,000</b>	<b>\$ 300,000</b>
Variable rate (4.131% - 5.031%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$75,000, plus interest, through November 2022.	<b>525,000</b>	<b>-</b>	<b>(75,000)</b>	<b>450,000</b>	<b>75,000</b>
Variable rate (3.00% - 5.00%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$30,000, plus interest, through November 2025.	<b>300,000</b>	<b>-</b>	<b>(30,000)</b>	<b>270,000</b>	<b>30,000</b>
3.71% note payable, monthly principal and interest payments of \$5,001 through June 2022; collateralized by related equipment.	<b>-</b>	<b>273,300</b>	<b>(12,649)</b>	<b>260,651</b>	<b>51,206</b>
Fixed rate (2.78%) \$6 million construction line of credit, monthly interest only payments through October 2019 at which time any outstanding principal will be due in full; collateralized by a security interest in all business assets of the Hospital.	<b>-</b>	<b>4,465,850</b>	<b>-</b>	<b>4,465,850</b>	<b>-</b>
3.70% note payable, monthly principal and interest payments of \$3,550 through June 2018; collateralized by related equipment.	<b>71,739</b>	<b>-</b>	<b>(40,584)</b>	<b>31,155</b>	<b>31,155</b>
	<b><u>\$ 2,996,739</u></b>	<b><u>\$ 4,739,150</u></b>	<b><u>\$ (458,233)</u></b>	<b><u>\$ 7,277,656</u></b>	<b><u>\$ 487,361</u></b>

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

	2016			
	Beginning Balances	Reductions	Ending Balances	Current Portion of Long-Term Liabilities
Variable rate (5.125% hereafter) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$300,000, plus interest, through November 2022.	\$ 2,400,000	\$ (300,000)	\$ 2,100,000	\$ 300,000
Variable rate (4.031% - 5.031%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$75,000, plus interest, through November 2022.	600,000	(75,000)	525,000	75,000
Variable rate (3.00% - 5.00%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$30,000, plus interest, through November 2025.	330,000	(30,000)	300,000	30,000
3.70% note payable, monthly principal and interest payments of \$3,550 through June 2018; collateralized by related equipment.	<u>110,832</u>	<u>(39,093)</u>	<u>71,739</u>	<u>40,584</u>
	<u>\$ 3,440,832</u>	<u>\$ (444,093)</u>	<u>\$ 2,996,739</u>	<u>\$ 445,584</u>

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

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>
2018	\$ 487,361	\$ 245,174	\$ 732,535
2019	458,139	221,966	680,105
2020	4,925,993	76,993	5,002,986
2021	462,225	52,072	514,297
2022	448,938	30,253	479,191
2023-2026	<u>495,000</u>	<u>12,106</u>	<u>507,106</u>
	<u>\$ 7,277,656</u>	<u>\$ 638,564</u>	<u>\$ 7,916,220</u>

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**9. Restricted Net Position**

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

	<u>2017</u>	<u>2016</u>
Oncology clinic	\$ 160,897	\$ 407,351
Heartwise	96,758	96,413
Buswell Trust	19,626	19,505
Scholarships	11,647	9,679
Appreciation on funds held by others	266,590	230,857
Other	45,886	47,296
Beneficial interest in trust	156,923	140,873
Endowments	<u>288,353</u>	<u>287,439</u>
	<u>\$ 1,046,680</u>	<u>\$ 1,239,413</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 \$2,663 and \$11,662 for the years ended September 30, 2017 and 2016, respectively.

**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>2017</u>	<u>2016</u>
Medicare	22 %	19 %
MaineCare	15	11
Blue Cross	4	6
Other third-party payors	26	25
Patients	<u>33</u>	<u>39</u>
	<u>100 %</u>	<u>100 %</u>

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

**Notes to Financial Statements**

**September 30, 2017 and 2016**

**12. Professional Liability Insurance**

The Hospital maintains medical malpractice insurance coverage on a claims-made basis. The Hospital is subject to complaints, claims, and litigations due to potential claims which arise in the normal course of business. The Hospital has evaluated its exposure to losses arising from potential claims and has properly accounted for them for the years ended September 30, 2017 and 2016. The Hospital intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

**13. 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 will be staged in three steps with the final stage beginning in fiscal year 2018. The meaningful use attestation is subject to audit by Centers for Medicare & Medicaid Services 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 will provide incentive payments to hospitals and eligible professionals as they adopt, and implement, upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program. The Hospital continues to make investments in its EHR to enhance the electronic availability of patient records.

## **SUPPLEMENTARY INFORMATION**

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

**Net Patient Service Revenue**

**Year Ended September 30, 2017**

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Inpatient routine service centers			
Adult and pediatrics	\$ 3,426,136	\$ 442,078	\$ 3,868,214
Intensive care unit	1,428,800	55,825	1,484,625
Nursery	<u>81,585</u>	<u>-</u>	<u>81,585</u>
Total inpatient routine service centers	<u>4,936,521</u>	<u>497,903</u>	<u>5,434,424</u>
Ancillary service centers			
Operating and recovery room	1,128,384	4,830,125	5,958,509
Delivery and labor room	124,439	28,026	152,465
Anesthesiology	619,025	2,039,631	2,658,656
Radiology - diagnostic	1,247,397	13,638,304	14,885,701
Laboratory	1,875,674	9,893,012	11,768,686
Respiratory therapy	932,397	1,420,006	2,352,403
Physical therapy	834,812	1,978,937	2,813,749
Speech pathology	15,636	29,466	45,102
Medical supplies charged to patients	1,467,125	2,366,136	3,833,261
Drugs charged to patients	<u>1,689,818</u>	<u>8,338,210</u>	<u>10,028,028</u>
Total ancillary service centers	<u>9,934,707</u>	<u>44,561,853</u>	<u>54,496,560</u>
Physician, clinic and ambulatory service centers			
Clinics	-	2,775,473	2,775,473
Physician services	108,158	11,686,782	11,794,940
Emergency department	212,211	7,654,329	7,866,540
Ambulance	<u>108,277</u>	<u>4,146,097</u>	<u>4,254,374</u>
Total outpatient service centers	<u>428,646</u>	<u>26,262,681</u>	<u>26,691,327</u>
Gross patient service revenue	<u>\$ 15,299,874</u>	<u>\$ 71,322,437</u>	86,622,311
Contractual and other adjustments			35,536,994
Charity care			2,223,381
Provision for bad debts			<u>2,421,525</u>
Net patient service revenue			<u>\$ 46,440,411</u>

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

**Operating Expenses**

**Year Ended September 30, 2017**

	<u>Personnel</u>	<u>Other</u>	<u>Total</u>
General service cost centers			
Employee benefits	\$ -	\$ 6,334,968	\$ 6,334,968
Administrative and general	3,496,515	4,894,180	8,390,695
Operation of plant	534,343	1,315,982	1,850,325
Laundry and linen	74,560	42,267	116,827
Housekeeping	358,159	141,342	499,501
Dietary	319,576	169,702	489,278
Nursing administration	667,443	7,905	675,348
Medical records	220,864	82,384	303,248
Social services	<u>146,415</u>	<u>3,365</u>	<u>149,780</u>
Total general service cost centers	<u>5,817,875</u>	<u>12,992,095</u>	<u>18,809,970</u>
Inpatient routine service cost centers			
Adults and pediatrics	2,208,174	304,155	2,512,329
Intensive care unit	187,167	6,145	193,312
Nursery	<u>41,375</u>	<u>74</u>	<u>41,449</u>
Total inpatient routine service cost centers	<u>2,436,716</u>	<u>310,374</u>	<u>2,747,090</u>
Ancillary service cost centers			
Operating and recovery room	888,676	324,093	1,212,769
Delivery and labor room	15,295	-	15,295
Anesthesiology	775,291	17,137	792,428
Radiology - diagnostic	946,689	1,084,785	2,031,474
Laboratory	764,929	1,402,314	2,167,243
Respiratory therapy	263,958	157,277	421,235
Physical therapy	715,872	75,002	790,874
Speech therapy	-	520	520
Medical supplies charged to patients	143,203	961,618	1,104,821
Drugs charged to patients	<u>219,620</u>	<u>3,132,906</u>	<u>3,352,526</u>
Total ancillary service cost centers	<u>4,733,533</u>	<u>7,155,652</u>	<u>11,889,185</u>
Outpatient service cost centers			
Clinics	1,734,868	403,721	2,138,589
Physician practices	7,148,552	1,252,796	8,401,348
Emergency department	1,870,286	757,345	2,627,631
Ambulance	1,598,810	210,619	1,809,429
Hospice	<u>127,216</u>	<u>72</u>	<u>127,288</u>
Total outpatient service cost centers	<u>12,479,732</u>	<u>2,624,553</u>	<u>15,104,285</u>
Other cost centers			
Lifeline	-	(366)	(366)
Physician recruitment	-	101,776	101,776
Dexter family	370,200	12,774	382,974
Other	<u>178,610</u>	<u>200,244</u>	<u>378,854</u>
Total other cost centers	<u>548,810</u>	<u>314,428</u>	<u>863,238</u>
Depreciation and amortization	<u>-</u>	<u>1,847,899</u>	<u>1,847,899</u>
Operating expenses	<u>\$ 26,016,666</u>	<u>\$ 25,245,001</u>	<u>\$ 51,261,667</u>