



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

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2018 and 2017

With Independent Auditor's Report



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

September 30, 2018 and 2017

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 - 34
Supplementary Information	
Schedule 1 - Net Patient Service Revenue	35
Schedule 2 - Operating Expenses	36



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, 2018 and 2017, 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, 2018 and 2017, 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 17, 2019

**This HOSPITAL ADMINISTRATIVE DISTRICT #4
d/b/a MAYO REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

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, 2018 and 2017. 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. 2018, 2017, etc., which is defined as the fiscal year ended 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 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 2018, the overall activity, as measured by gross revenue, was 1.9% higher than in 2017 and 0.9% higher than budget. In 2017, the overall activity, as measured by gross revenue, was 2.5% higher than 2016. The overall utilization summary is as follows:

Summary of Utilization										
	<u>2018</u>	<u>Budget 2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs Budget</u>	<u>2018 vs 2017</u>	<u>2017 vs 2016</u>	<u>2018 vs Budget</u>	<u>2018 vs 2017</u>	<u>2017 vs 2016</u>
Hospital Admissions										
Acute	1,118	1,055	1,045	1,146	63	73	(101)	6.0%	7.0%	-8.8%
Swing-Bed	105	100	111	134	5	(6)	(23)	5.0%	-5.4%	-17.2%
Patient Days										
Acute	3,521	3,426	3,618	3,472	95	(97)	146	2.8%	-2.7%	4.2%
Swing-Bed	829	847	927	1,189	(18)	(98)	(262)	-2.1%	-10.6%	-22.0%
Average Daily Census	11.9	11.7	12.5	12.8	0.2	(0.6)	(0.3)	1.7%	-4.8%	-2.3%
Births	121	97	100	137	24	21	(37)	24.7%	21.0%	-27.0%
Surgical Procedures	1,363	1,284	1,250	1,287	79	113	(37)	6.2%	9.0%	-2.9%
Radiology Exams	20,924	19,821	20,305	20,619	1,103	619	(314)	5.6%	3.0%	-1.5%
Laboratory Tests	124,890	120,925	125,649	124,794	3,965	(759)	855	3.3%	-0.6%	0.7%
Emergency Room Visits	11,030	10,404	10,704	11,523	626	326	(819)	6.0%	3.0%	-7.1%
Physician Office Visits	48,037	49,530	50,488	49,441	(1,493)	(2,451)	1,047	-3.0%	-4.9%	2.1%
Ambulance Runs	3,829	4,041	4,034	3,825	(212)	(205)	209	-5.2%	-5.1%	5.5%

The first several months of 2018 were characterized by relatively high volume, which also occurred during the last few months of 2017. Volume began to moderate in the spring of 2018. However, because of the strong start to the year, most year-end volume measures exceeded budget. Acute care admissions were 7.0%, or 73, higher in 2018 than 2017 and 6.0% percent higher than the budget. Acute-care admissions in 2017 were 101 lower than 2016. Admissions to the Hospital's swing beds were 105 in 2018 compared to 111 in 2017 and 134 in 2016. The increase in admissions from 2017 to 2018 was caused by an increase in deliveries and a 3.0% increase in Emergency Room visits.

- The average daily census for 2018, which does not include observation patients, was 11.9 compared to 12.5 for 2017 and 11.7 for the 2018 budget. The average daily census in 2016 was 12.8.
- Newborn admissions (births) in 2018 were 121 compared to 100 in 2017, an increase of 21.0% and a positive variance of 24.7% compared to the 2018 budget. Births in 2016 were 137. Births often fluctuate year to year but in 2018, some of the increase in volume was related to adding deliveries we were not able to do at the Hospital in the past.
- Surgical procedures in 2018 were 113 higher than in 2017 and 6.2% higher than budget. A new pain management program, increased urology cases, and new podiatry cases through a cooperative relationship with Northern Light CA Dean Hospital (CA Dean) accounted for the increase in volume. The Hospital has also developed a relationship with CA Dean whereby its primary Obstetrics/Gynecology provider is now seeing patients at CA Dean clinics.
- In 2018, our Rural Health Clinic (RHC) practices showed a 3.2% decline compared to 2017 and visit totals were 2.8% under budget. Several RHC providers relocated to other geographic areas or careers during the year, the primary reason for the decline. Staffing is now back to normal in most of the RHC's

with the Guilford practice the exception. Specialty clinic visits declined by 11.5% compared to 2017. Part of the decline was related to podiatry clinic visits in the first half of 2017, which no longer occurred after the departure of a full-time podiatric surgeon. Total physician office visits in 2018 were 3.0% below budget and 2,451 visits, or 4.9%, less than 2017. In 2017, physician office visits were 1,047 higher than in 2016.

- Inpatient laboratory procedures decreased from 2017 to 2018 but met or exceeded the 2018 budget. Outpatient rehabilitative and behavioral health services volumes were generally below budget and lower than 2017.
- Ambulance runs decreased by 5.1% from 2017 to 2018 and runs were below budget by 5.2% for 2018. Runs in 2017 were higher than 2016 levels by 5.5%.

Analysis of Year-End Financial Position

The balance sheets reflect 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, 2018, 2017 and 2016, are below:

Condensed Balance Sheets							
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs 2017</u>	<u>2018 vs 2017</u>	<u>2017 vs 2016</u>	<u>2017 vs 2016</u>
Current Assets	\$11,335,354	\$9,920,972	\$10,939,928	\$1,414,382	10.4%	(\$1,018,956)	-9.3%
Limited Use Assets	15,815,811	14,411,357	13,384,209	1,404,454	9.7%	1,027,148	7.7%
Beneficial Interest	649,465	632,191	574,619	17,274	2.7%	57,572	10.0%
Deferred Capital Assets	2,135,684	-	-	2,147,280	100.0%	-	100.0%
Other	182,329	190,224	149,599	(7,895)	-4.2%	40,625	27.2%
Capital Assets	14,960,186	15,675,544	11,537,608	(715,358)	-4.6%	4,137,936	35.9%
Total Assets	\$45,078,829	\$40,830,288	\$36,585,963	\$4,248,541	10.4%	\$4,244,325	11.6%
Current Liabilities	\$7,896,397	\$5,760,068	\$5,640,118	\$2,136,329	37.1%	\$119,950	2.1%
Long-Term Liabilities	8,512,210	6,790,295	2,551,155	1,721,915	25.4%	4,239,140	166.2%
Total Liabilities	\$16,408,607	\$12,550,363	\$8,191,273	\$3,858,244	30.7%	\$4,359,090	53.2%
Total Net Position	28,670,222	28,279,925	28,394,690	390,297	1.4%	(114,765)	-0.4%
Total Net Position and Liabilities	\$45,078,829	\$40,830,288	\$36,585,963	\$4,248,541	10.4%	\$4,244,325	11.6%

During 2018, the Hospital's total assets increased by \$4,248,541, or 10.4%, from 2017.

Current assets increased by \$1,414,382. Within that category, cash increased by \$64,673 and short-term investments increased by \$252,895. Net accounts receivable increased by \$664,190 in 2018, a result of staffing turnover in Patient Financial Services near the end of the year. Prepaid expenses increased by \$347,591. Limited Use Assets were significantly impacted by investment market performance in 2018, increasing by \$1,404,454. Strong market performance also resulted in an increase in Limited Use Assets of \$1,027,148 in 2017.

The Hospital's working capital (current assets minus current liabilities) decreased by \$721,947 compared to a decrease of \$1,138,906 in 2017. The decrease in working capital in 2018 was a result of changes in amounts due to Medicare and Medicaid and the recording of the current portion of new long-term debt related to equipment financing and the implementation of a new Electronic Medical Record (EMR), called Cerner Community Works. Capital costs of implementation have been recorded in the balance sheet and will be expensed over the life of the project after the system is put into use in January of 2019.

Cerner implementation costs are also apparent in the assets section of the balance sheet as "System Development Costs," which attributes to the increase in total assets from 2017 to 2018 of \$4,337,673.

There was a decrease of \$715,358 in net capital assets from 2017 to 2018, compared to an increase from 2016 to 2017 of \$4,137,936. Capital additions in 2018 were \$1,288,687, including the purchase of a 3d Mammography machine, a new hematology analyzer, endoscopy upgrades, and numerous other plant and equipment investments. Investments in capital assets in 2017 included the renovation of the inpatient and oncology units and infrastructure upgrades.

Current liabilities increased by \$2,136,329, or 37.1%, in 2018 compared to an increase of \$119,950 in 2017. As noted, the most significant increases were in third-party settlements and current portion of long-term debt, but accounts payable and accrued expenses also increased by \$751,549 from 2017 to 2018.

Financing was obtained for several equipment purchases using \$690,865 of the \$2,000,000 equipment line of credit that was established in 2017. The contractual commitment to Cerner for the EHR implementation in progress during 2018 has been established as new debt amounting to \$2,135,684. Principal on the \$6,000,000 construction line of credit increased by \$329,437 in 2018 and stands at \$4,795,287 at year end. Principal payments on outstanding long-term debt were \$1,003,810 in 2018 and \$458,233 in 2017. The current portion of these debts totals \$917,622.

The overall net position of the Hospital increased by \$390,297 compared to a decrease of \$114,765 in 2017. For the third year in a row, operating losses were significant; however, investment performance offset a significant part of the losses in 2016 and 2017 and all the loss in 2018.

When comparing 2017 to 2016, the Hospital's total assets increased by \$4,244,325, or 11.6%. The increase was the result of investment in capital assets for renovation and infrastructure upgrade. Total liabilities also increased, by \$4,359,090, or 53.2%, related to financing for the capital assets.

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, 2018, 2017 and 2016:

Condensed Statement of Revenues, Expenses and Changes in Net Assets							
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs</u> <u>2017</u>	<u>2018 vs</u> <u>2017</u>	<u>2017 vs</u> <u>2016</u>	<u>2017 vs</u> <u>2016</u>
Net Patient Service Revenue	\$46,990,763	\$46,440,411	\$45,906,378	\$550,352	1.2%	\$534,033	1.2%
Other Operating Revenue	3,883,017	3,188,608	3,149,295	694,409	21.8%	39,313	1.2%
Total Operating Revenue	\$50,873,780	\$49,629,019	\$49,055,673	\$1,244,761	2.5%	\$573,346	1.2%
Total Personnel and Benefit Expenses	\$32,890,107	\$32,351,634	\$31,513,876	\$538,473	1.7%	\$837,758	2.7%
Non-Personnel Expenses	19,218,682	18,910,033	19,001,613	308,649	1.6%	(91,580)	-0.5%
Total Operating Expenses	\$52,108,789	\$51,261,667	\$50,515,489	\$847,122	1.7%	\$746,178	1.5%
Operating Loss	(\$1,235,009)	(\$1,632,648)	(\$1,459,816)	\$397,639	24.4%	(\$172,832)	11.8%

Non-Operating Expenses	270,810	154,325	145,751	116,485	75.5%	\$8,574	5.9%
Loss Before Nonoperating Revenues	(\$1,505,819)	(\$1,786,973)	(\$1,605,567)	\$281,154	15.7%	(\$181,406)	-11.3%
Non-Operating Revenues	1,848,684	1,558,528	906,308	290,156	18.6%	652,220	-72.0%
Income (Loss) Before Other Revenues	\$342,865	(\$228,445)	(\$699,259)	\$571,310	250.1%	\$470,814	67.3%
Other Revenues	47,432	113,680	282,328	(66,248)	-58.3%	(168,648)	59.7%
Increase/(Decrease) in Net Position	\$390,297	(\$114,765)	(\$416,931)	\$505,062	440.1%	\$302,166	72.5%

Summary

From an operations perspective, the Hospital finished 2018 slightly ahead of 2017's financial results but behind budget. Loss before non-operating revenues was \$1,505,819 compared to 2017's loss of \$1,786,973 and 2016's loss of \$1,605,567. The budgeted loss before non-operating revenues for 2018 was \$544,363.

Gross revenue was over budget by \$826,132. Contractual adjustments were higher than expected due to a shift in services from inpatient to outpatient, where lower cost structures result in lower Medicare and Medicaid reimbursement. Bad debt and charity care levels were close to budget but higher than in 2017. Operating expenses were over budget by \$1,475,397 in 2018. The largest component of the increase was in purchased services related to the Cerner project, which was unbudgeted.

Non-operating revenues included gains on investments and other gains in donor-restricted assets, which offset losses to bring an overall increase in net position for 2018 to \$390,297. The operating loss for 2017 before interest was \$1,632,648 and non-operating expense (interest) was \$154,325. In 2017, investment and other nonoperating gains of \$1,558,528 partly offset the operating loss, yielding a final net decrease in financial position of \$114,765 compared to a decrease of \$416,931 in 2016.

Supporting Detail

Net patient service revenue for 2018 was \$550,352, or 1.2%, higher than 2017 but \$718,823, or 1.5%, lower than the 2018 budget. Within these differences, gross patient service revenue was \$1,671,931, or 1.9%, higher than last year and \$826,132, or 0.9%, above budget. Shifts in service mix and payer mix resulted in higher than expected contractual adjustments in 2018. Bad debt and charity care for 2018 totaled 5.7% of gross revenue compared to a prior year percentage of 5.4% and a 2018 budget of 5.9%. Total deductions from revenue represented 46.8% of gross revenue in the current year compared to 46.4% in the prior year and a budgeted rate of 45.5%.

Within the overall gross revenue change, Hospital inpatient gross revenue decreased by 5.4% and Hospital outpatient gross revenue increased by 3.0% compared to 2017. Physician services revenue in 2018 included a full year of the restored hospitalist in-house billing, which accounts for an increase of 4.4% over 2017. On the inpatient side, deliveries increased significantly from 2017, but inpatient surgical cases, particularly in orthopedics, declined. Length of stay was shorter, so patient days were fewer by 4.3%. Laboratory and radiology maintained strong volumes in inpatient services, but rehabilitative and cardiopulmonary services volumes dropped in 2018. In outpatient services, Emergency Room visits increased by 3.0% and outpatient surgical cases increased by 13.9% with the addition of pain management cases. Radiology, cardiopulmonary, and oncology services showed growth. Rehabilitative services and behavioral health services declined in volume from 2017 to 2018. Variances to budget in 2018 were mixed, with outpatient surgery and diagnostic services performing ahead of budget and most other areas ending the year below budget. The outpatient physician practices experienced a 4.9% decline in visits and were 3.0% below budget.

Other operating revenue increased by \$694,409 from 2017 and exceeded budget. The growth from prior year is explained by increased activity in the Hospital's 340b contract pharmacy program.

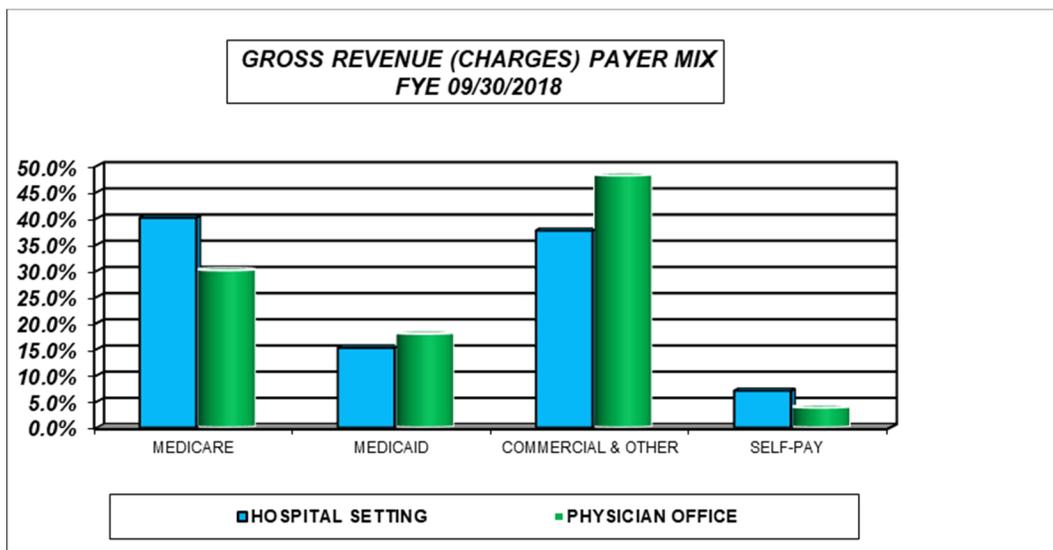
Personnel and employee benefit expenses increased by 1.7%, or \$538,473, over the prior year. Salary and wage expense grew by 1.0% and benefit costs, most significantly health insurance costs, grew by 4.3%. Pension costs were reduced to zero in 2018, as the employer match for 403(b) contributions was frozen. Hospital employees received a 2% merit increase during 2018, but throughout the year, Full Time Equivalents (FTEs) were close to budget and below prior year levels, which helped to offset the wage increase. Total wages and benefits were over budget by 2.1%. The Hospital also experienced some shifting of personnel costs between salaries, purchased services and professional fees compared to both budget and prior year, which complicates variance analysis. In 2017, total personnel costs increased by 2.7% from 2016.

Personnel related expenses represented about 63.1% of the Hospital's total expenses in 2018, consistent with 2017. The budgeted percentage of total expenses for 2018 was 63.6%. The Hospital operated with an average workforce of 388 FTEs compared to an average of 401 FTEs in 2017 and a budgeted level of 387 FTEs. Average FTEs in 2016 were 396.

Non-personnel operating expenses, such as medical supplies, drugs, utilities, repairs and maintenance and depreciation, increased by 1.6%, or \$308,649, from the prior year and were 4.5%, or \$819,246, more than budgeted. In 2018, the Hospital entered into a contract to implement a single EMR, Cerner Community Works. At the time the 2018 budget was prepared, Management did not have cost information with which to budget the project. Thus, all costs associated with the Cerner project in 2018 have been over and above budgeted expenses. The total amount of 2018 operating expenses related to the Cerner project is approximately \$825,000. Other variances in non-salary operating expenses include 340b drug program fees and drugs, costs of provider coverage, and costs associated with the potential Northern Light Health merger.

Net non-operating revenue in 2018 was \$1,848,684 compared to \$1,558,528 in 2017. In 2016, net non-operating income was \$906,308. All three years benefited from favorable investment market performance.

The Hospital's 2018 gross patient service revenue mix was as follows:



The Medicare percentage of total revenue declined in 2018 compared to 2017 because of a shift from traditional Medicare to managed care, which reports under the commercial category.

Cash Flows

Cash and cash equivalents increased by \$118,292 during 2018. The following is a condensed statement of cash flows for each of the years ended September 30, 2018, 2017 and 2016:

Condensed Statement of Cash Flows							
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs</u> <u>2017</u>	<u>2018 vs</u> <u>2017</u>	<u>2017 vs</u> <u>2016</u>	<u>2017 vs</u> <u>2016</u>
Net Cash Provided (Used) by Operating Activities	\$1,694,990	\$560,731	(\$620,827)	\$1,017,147	181.4%	\$1,181,558	(190.3)%
Net Cash (Used) Provided by Non-Capital Financing Activities	(334,493)	368,114	17,479	(702,607)	(190.9)%	350,635	2006.0%
Net Cash Used by Capital Financing Activities	(1,488,054)	(1,634,210)	(1,563,271)	352,400	(21.6)%	(70,939)	4.5%
Net Cash Provided by Investing Activities	245,849	177,918	253,642	67,931	38.2%	(75,724)	(29.9)%
Increase/(Decrease) in cash and equivalents	\$118,292	(\$527,447)	(\$1,912,977)	\$734,871	(139.3)%	\$1,385,530	(72.4)%
Cash and Cash Equivalents at beginning of year	\$4,134,293	\$4,661,740	\$6,574,717	(\$527,447)	(11.3)%	(\$1,912,977)	(29.1)%
Cash and Cash Equivalents at the end of the year	<u>\$4,252,585</u>	<u>\$4,134,293</u>	<u>\$4,661,740</u>	<u>\$207,424</u>	<u>5.0%</u>	<u>(\$527,447)</u>	<u>(11.3)%</u>

The net cash provided/(used) by operating activities was \$1,694,990 for the current year compared to \$560,731 for the prior year. As was the case in 2017, the increase in 2018 was most significantly related to improved collections on patient accounts and increased cash from the 340b drug program revenue.

Net cash from non-capital financing activities decreased from \$368,114 in 2017 to (\$334,493) in 2018 because the Hospital repaid 2017's outstanding year-end balance on the operating line of credit.

The net cash used for capital and related financing activities in 2018 amounted to (\$1,488,054) compared to (\$1,634,210) in 2017 and (\$1,563,271) in 2016. 2017 cash for capital and financing activities in 2017 was heavily influenced by borrowings and investment in two large projects. In 2018, new debt and capital investing balanced out and payments on principal of long-term debt became the most significant impact.

The net cash provided by investing activities was \$245,849 in 2018 and \$177,918 in 2017. Within investing activities, 2018 purchases of investments and proceeds from maturities of investments were at higher levels than in 2017. However, the net cash provided by investing activities did not vary significantly from either 2017 or 2016.

In 2017, cash and cash equivalents decreased by (\$527,447). 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. In 2018, investment in capital assets returned to historical levels.

Capital Assets and Debt Administration							
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 vs</u> <u>2017</u>	<u>2018 vs</u> <u>2017</u>	<u>2017 vs</u> <u>2016</u>	<u>2017 vs</u> <u>2016</u>
Land and Land Improvements	\$1,080,519	\$1,039,539	\$795,290	\$40,980	3.9%	\$244,249	30.7%
Buildings and Improvements	10,559,690	10,552,690	10,103,359	7,000	0.1%	449,331	4.4%
Fixed Equipment	18,043,396	17,478,443	12,858,790	564,953	3.2%	4,619,653	35.9%
Major Moveable Equipment	17,981,641	17,593,183	16,734,450	388,458	2.2%	858,733	5.1%
Minor Moveable Equipment	84,050	84,050	84,050	0	0.0%	0	0.0%
Construction in Progress	495,656	230,860	721,419	264,796	114.7%	(490,559)	(68.0)%
Total	\$48,244,952	\$46,978,765	\$41,297,358	\$1,266,187	2.7%	\$5,681,407	13.8%
Accumulated Depreciation	33,284,766	31,303,221	29,759,750	1,981,545	6.3%	1,543,471	5.2%
Net Capital Assets	\$14,960,186	\$15,675,544	\$11,537,608	(\$715,358)	(4.6)%	\$4,137,936	35.9%

Capital related additions for new assets amounted to \$1,288,687 in 2018 compared to \$5,985,835 in 2017, which included infrastructure upgrades and building renovations. The change in accumulated depreciation amounted to an increase of \$1,981,545. When combined with the capital asset change at cost, capital assets decreased by \$715,358 in 2018 compared to an increase of \$4,137,936 in 2017.

Overall age of plant in 2018 was 16.6 years compared to 16.9 years in 2017 and 17.2 years in 2016. Age of plant is a mathematical calculation that can be used to make assessments about long term capital investment levels. In 2018, capital investments were modest. The purchase of a 3d Tomo Mammography unit, endoscopy upgrades, and a hematology analyzer were the major investments in equipment. Funding for capital investments in 2018 was accomplished through internal financing and the use of the Hospital's \$2,000,000 equipment line of credit.

As of September 30, 2018, the Hospital had \$2,115,000 of total bond principal outstanding, which represents a decrease of 16.1%, or \$405,000, from last year. The Hospital also has \$4,795,287 outstanding for the major projects completed in 2017 and 2018 and \$801,721 for equipment financing incurred in 2017 and 2018. New debt in 2018 includes a balance of \$1,717,824 for the quarterly payments we are contracted to make to Cerner to pay for initial implementation costs. Total long-term debt outstanding as of September 30, 2018, was \$9,429,832 compared to \$7,277,656 at the end of 2017. The current year's total debt service (interest and principal payments) related to these issues was \$1,281,732.

Next Year's Budget and Other Economic Factors

Note: Comparisons between 2018 and 2019 noted below use final 2018 results, which will vary from projected 2018 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 2019 that reflects an operating loss before interest and non-operating revenue of (\$138,968). When budgeted interest expense and non-operating income are included, the change in net position is an increase of \$70,424. The operating loss budget represents a significant improvement over 2018. Volume assumptions were conservative and, in most cases, reflect a slight decline from 2018's year-end volume amounts. A 3% rate increase on non-professional services and further improvements in denials management are included in budget assumptions.

Acute care admissions are budgeted to decline slightly from 2018. Acute admissions are budgeted at 1,095 compared to a final total for 2018 of 1,118. Swing bed admissions were budgeted to increase slightly from 105 to 106. The average daily census, including swing bed utilization, is budgeted at 11.3 patients compared to 11.9 in 2018. In 2019, deliveries are budgeted to be 115 compared to a 2018 actual number of 121.

Operating room cases have been budgeted to increase by 3.5% compared to 2018. The budgeted increase is mostly in outpatient surgery, and is due to an expected increase in podiatry cases and continued consistent volume in pain management cases.

The overall budgeted increase in gross patient service revenue is 2.8%, or \$2,428,917, over 2018. The budgeted growth in revenues is based on the applied rate increase. Volume shifts in individual service areas net to almost no net gross revenue change.

Total operating expenses are anticipated to increase by 3.3%, or \$1,702,786, over 2018. Salaries and benefits will represent 62.7% of the overall expense budget compared to 63.1% in 2018. The 2019 budget includes a 1% merit increase for employees, market and minimum wage law adjustments, an increase in paid time off accrual rates to enhance recruitment, a 1% 403b employer match contribution, and an increase in health insurance expenses of about 5.5%.

The approved budget includes spending for capital related items at approximately \$1.9 million. The largest project is an investment in repairs to the main hospital building's brick envelope. Approximately 52% of the budget is allocated to building and infrastructure improvements and 42% is allocated to equipment replacement, with an additional 6% allowed for contingency.

The approved budget includes a modest decrease in operating cash on hand and the use of funded depreciation reserves to pay for principal on debt retirement. Days in Accounts Receivable (AR) are budgeted at 56, although the Hospital expects fluctuation from budget during the Cerner "go-live" period. Variances from budget for both cash receipts and Days in AR are expected to resolve by the end of 2019. The long-term debt to capitalization ratio, which was 19.4% at the end of 2017, increased to 22.7% in 2018 because of the addition of the Cerner project capital costs contracted payments to long term debt.

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 always at some 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. MaineCare expansion is expected to be implemented with the change in the Governor's office, but expansion has not been included in the budget because of uncertainty of timing and ultimate financial impact.

Any significant payment changes 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. An example is the 340b program, which provides lower pricing on certain drugs to Critical Access Hospitals (CAHs), Federally Qualified Health Centers, and other specific types of Medicare providers. Thus far, CAHs have not been significantly impacted by changes to the program but it is under continual review and at risk for future change.

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, remains 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. Each year, it becomes more challenging to meet these goals, however.

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. All these efforts are included in the Hospital's strategic plan. In 2019, heavy focus will be placed on successful implementation of the new EHR and related financial systems and meeting the primary objective of the project, which is to positively impact patient safety through improved access and management of medical information.

The Hospital's strategic planning has remained focused in the past year on the opportunities presented by collaborative relationships with other healthcare providers. Examples of collaborative changes in the past year include increased Cancer Care of Maine support for the Hospital's oncology service and shared providers for podiatry and obstetrics/gynecology. The Hospital continues to work with Northern Light Health, formerly known as Eastern Maine Healthcare Systems on a possible merger and will be sharing more information about the merger with the communities it serves during 2019.

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

Balance Sheets

September 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 1,409,199	\$ 1,344,526
Short-term investments	1,516,544	1,263,649
Accounts receivable, less allowances for doubtful accounts of \$3,947,916 in 2018 and \$4,349,816 in 2017	5,720,889	5,056,699
Supplies	825,862	721,503
Prepaid expenses and other current assets	1,862,860	1,515,269
Estimated third-party payor settlements	<u>-</u>	<u>19,326</u>
Total current assets	<u>11,335,354</u>	<u>9,920,972</u>
Assets limited as to use		
Board designated	15,324,939	13,936,755
Donor-restricted	<u>490,872</u>	<u>474,602</u>
Total assets limited as to use	15,815,811	14,411,357
Beneficial interest in perpetual trust	154,473	156,923
Beneficial interest in funds held by others	494,992	475,268
Deferred system development costs	2,135,684	-
Other	182,329	190,224
Capital assets, net	<u>14,960,186</u>	<u>15,675,544</u>
Total assets	<u>\$ 45,078,829</u>	<u>\$ 40,830,288</u>

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
Current liabilities		
Line of credit	\$ -	\$ 351,328
Accounts payable and accrued expenses	2,963,772	2,212,223
Accrued payroll, other related expenses and amounts withheld	2,765,096	2,660,433
Estimated third-party payor settlements	1,208,296	-
Accrued interest payable	41,611	48,723
Current portion of long-term debt	<u>917,622</u>	<u>487,361</u>
Total current liabilities	7,896,397	5,760,068
Long-term debt, less current portion	<u>8,512,210</u>	<u>6,790,295</u>
Total liabilities	<u>16,408,607</u>	<u>12,550,363</u>
Net position		
Invested in capital assets, net of related debt	7,666,038	8,397,888
Restricted		
Expendable for capital projects and other	629,720	601,404
Nonexpendable permanent endowments and perpetual trust	444,071	445,276
Unrestricted	<u>19,930,393</u>	<u>18,835,357</u>
Total net position	<u>28,670,222</u>	<u>28,279,925</u>
Total liabilities and net position	<u>\$ 45,078,829</u>	<u>\$ 40,830,288</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 46,990,763	\$ 46,440,411
Other operating revenues	3,843,630	3,074,823
Meaningful use revenue	<u>39,387</u>	<u>113,785</u>
Total operating revenues	<u>50,873,780</u>	<u>49,629,019</u>
Operating expenses		
Personnel services	26,281,677	26,016,666
Employee benefits	6,608,430	6,334,968
Purchased services	5,407,493	5,020,195
Supplies and other direct expenses	11,809,228	12,041,939
Depreciation and amortization	<u>2,001,961</u>	<u>1,847,899</u>
Total operating expenses	<u>52,108,789</u>	<u>51,261,667</u>
Operating loss	(1,235,009)	(1,632,648)
Nonoperating expenses		
Interest expense	<u>270,810</u>	<u>154,325</u>
Loss before nonoperating revenues, capital contributions and other gains	<u>(1,505,819)</u>	<u>(1,786,973)</u>
Nonoperating revenues		
Investment income	335,385	306,169
Net increase in fair value of investments	1,497,709	1,236,487
Noncapital contributions	<u>15,590</u>	<u>15,872</u>
Net nonoperating revenues	<u>1,848,684</u>	<u>1,558,528</u>
Income (loss) before capital contributions and other gains	342,865	(228,445)
Capital contributions	<u>20,323</u>	<u>46,594</u>
Income (loss) before other gains	<u>363,188</u>	<u>(181,851)</u>
Other (losses) gains		
(Losses) gains on permanent endowments	(1,205)	16,964
Gains on funds held by others	<u>28,314</u>	<u>50,122</u>
Other gains, net	<u>27,109</u>	<u>67,086</u>
Increase (decrease) in net position	390,297	(114,765)
Net position, beginning of year	<u>28,279,925</u>	<u>28,394,690</u>
Net position, end of year	<u>\$ 28,670,222</u>	<u>\$ 28,279,925</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 47,554,195	\$ 46,286,771
Payments to suppliers	(16,622,560)	(15,947,963)
Payments to employees	(32,785,444)	(32,187,776)
Other operating revenues	3,509,412	2,295,914
Meaningful use revenue	<u>39,387</u>	<u>113,785</u>
Net cash provided by operating activities	<u>1,694,990</u>	<u>560,731</u>
Cash flows from noncapital financing activities		
Noncapital contributions	15,590	15,872
(Repayment) draw on line of credit	(351,328)	351,328
Contributions to permanent endowment	<u>1,245</u>	<u>914</u>
Net cash (used) provided by noncapital financing activities	<u>(334,493)</u>	<u>368,114</u>
Cash flows from capital and related financing activities		
Capital contributions	20,323	46,594
Interest paid on long-term debt	(277,922)	(162,203)
Principal paid on long-term debt	(1,003,810)	(458,233)
Proceeds from issuance of long-term debt	1,020,302	4,739,150
Purchases of capital assets	<u>(1,246,947)</u>	<u>(5,799,518)</u>
Net cash used by capital and related financing activities	<u>(1,488,054)</u>	<u>(1,634,210)</u>
Cash flows from investing activities		
Purchases of investments	(5,386,679)	(2,969,528)
Proceeds from maturities and principal reductions of investments	5,280,658	2,873,302
Investment income	335,385	306,169
Other	<u>16,485</u>	<u>(32,025)</u>
Net cash provided by investing activities	<u>245,849</u>	<u>177,918</u>
Net increase (decrease) in cash and cash equivalents	118,292	(527,447)
Cash and cash equivalents, beginning of year	<u>4,134,293</u>	<u>4,661,740</u>
Cash and cash equivalents, end of year	<u>\$ 4,252,585</u>	<u>\$ 4,134,293</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 1,409,199	\$ 1,344,526
Cash and cash equivalents in short-term investments	1,516,544	1,263,649
Cash and cash equivalents in assets limited as to use	<u>1,326,842</u>	<u>1,526,118</u>
Total cash and cash equivalents	<u>\$ 4,252,585</u>	<u>\$ 4,134,293</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (1,235,009)	\$ (1,632,648)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	2,001,961	1,847,899
Provision for doubtful accounts	2,602,838	2,421,525
Loss (gain) on disposal of capital assets	2,084	(6,300)
Changes in		
Accounts receivable	(3,267,028)	(1,983,786)
Supplies	(104,359)	712
Prepaid expenses and other current assets	(347,591)	377,949
Accounts payable and accrued expenses	709,809	(37,099)
Accrued payroll, other related expenses and amounts withheld	104,663	163,858
Estimated third-party payor settlements	<u>1,227,622</u>	<u>(591,379)</u>
Net cash provided by operating activities	<u>\$ 1,694,990</u>	<u>\$ 560,731</u>

Supplemental disclosure of noncash and financing activities:

During 2018 and 2017, the net unrealized increase in the fair value of investments was \$949,715 and \$559,570, respectively.

During 2018 and 2017, the net (decrease) increase in the Hospital's interest in a perpetual trust was \$(2,450) and \$16,050, respectively.

During 2018 and 2017, the net increase in the Hospital's interest in funds held by others was \$28,314 and \$50,122, respectively.

During 2018, increase of deferred system development costs and an offsetting long-term note payable in the amount of \$2,135,684 were treated as non-cash items.

At September 30, 2018 and 2017, construction costs of \$449,158 and \$407,418, 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, 2018 and 2017

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, 2018 and 2017

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, which approximates fair value. 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>2018</u>	<u>2017</u>
Equities	25% - 75%	25% - 75%
Fixed income securities	20% - 75%	20% - 75%
Cash and cash equivalents	2% - 15%	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, 2018 and 2017

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, 2018 and 2017

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 years ended September 30:

	<u>2018</u>	<u>2017</u>
Charges foregone, based on established rates	\$ <u>2,407,494</u>	\$ <u>2,223,381</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>1,428,000</u>	\$ <u>1,320,000</u>
Equivalent percentage of charity care charges to all Hospital patient charges	<u>2.73%</u>	<u>2.57%</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, 2018 and 2017

Pension Plan

The Hospital sponsors a defined contribution pension plan for employees who have completed one year of service. The Hospital, at its discretion, may match employee contributions based on a uniform percentage of plan compensation or a uniform dollar amount. Pension expense under this plan was \$- and \$315,920 in 2018 and 2017, 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 17, 2019, 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, 2014.

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

Notes to Financial Statements

September 30, 2018 and 2017

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 40% and 16% in 2018, and 46% and 16% in 2017, 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 2018 net patient service revenue decreased approximately \$136,000 and the 2017 net patient service revenue increased approximately \$56,000, 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>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 88,294,242	\$ 86,622,311
Contractual adjustments	(36,122,984)	(35,338,509)
Charity care	(2,407,494)	(2,223,381)
Discounts and other allowances	(170,163)	(198,485)
Provision for bad debts	<u>(2,602,838)</u>	<u>(2,421,525)</u>
	<u>\$ 46,990,763</u>	<u>\$ 46,440,411</u>

3. Cash and Cash Equivalents

At September 30, 2018, the carrying amounts of deposits with banks were \$1,409,199 and the bank balances were \$1,705,165. At September 30, 2017, the carrying amounts of deposits with banks were \$1,344,526 and the bank balances were \$1,481,554. 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, 2018 and 2017. At September 30, 2018 and 2017, \$1,217,693 and \$992,002, 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, 2018 and 2017

4. Accounts Receivable

Components of accounts receivable at September 30 are as follows:

	<u>2018</u>	<u>2017</u>
Total accounts receivable	\$13,997,906	\$12,773,989
Less:		
Allowances for doubtful accounts	3,947,916	4,349,816
Allowances for contractual adjustments	4,329,101	3,313,110
Periodic interim payments	<u> -</u>	<u> 54,364</u>
Accounts receivable, net	<u>\$ 5,720,889</u>	<u>\$ 5,056,699</u>

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

Assets limited as to use at September 30, 2018 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,326,842	\$ 1,326,842
Obligations of U.S. government	7,550	7,992
Marketable equity securities	8,140,539	11,402,267
Corporate and taxable bonds	<u>3,122,344</u>	<u>3,078,710</u>
	<u>\$12,597,275</u>	<u>\$15,815,811</u>

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

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

Short-term investments consist of cash and cash equivalents at September 30, 2018 and 2017.

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, 2018 and 2017

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>Fair Value Measurements at September 30, 2018</u>		
	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Using the Market Approach (Level 2)
Assets:			
Cash and cash equivalents	\$ 2,843,386	\$ 2,843,386	\$ -
U.S. Treasury obligations and government sponsored enterprises	7,992	7,992	-
Corporate and taxable bonds	3,078,710	-	3,078,710
Marketable equity securities	<u>11,402,267</u>	<u>11,402,267</u>	<u>-</u>
Total assets	<u>\$ 17,332,355</u>	<u>\$ 14,253,645</u>	<u>\$ 3,078,710</u>
	<u>Fair Value Measurements at September 30, 2017</u>		
	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Using the Market Approach (Level 2)
Assets:			
Cash and cash equivalents	\$ 2,789,767	\$ 2,789,767	\$ -
U.S. Treasury obligations and government sponsored enterprises	12,306	12,306	-
Corporate and taxable bonds	3,801,182	-	3,801,182
Marketable equity securities	<u>9,071,751</u>	<u>9,071,751</u>	<u>-</u>
Total	<u>\$ 15,675,006</u>	<u>\$ 11,873,824</u>	<u>\$ 3,801,182</u>

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

Notes to Financial Statements

September 30, 2018 and 2017

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 2018 or 2017.

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

<u>Investment Type</u>	Fair Value	Less Than 1	<u>2018</u>		
			1-5	6-10	10+
Obligations of U.S. government	\$ 7,992	\$ -	\$ 841	\$ 6,172	\$ 979
Corporate and taxable bonds	<u>3,078,710</u>	<u>298,171</u>	<u>2,780,539</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,086,702</u>	<u>\$ 298,171</u>	<u>\$ 2,781,380</u>	<u>\$ 6,172</u>	<u>\$ 979</u>

<u>Investment Type</u>	Fair Value	Less Than 1	<u>2017</u>		
			1-5	6-10	10+
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>

The risk categories for the debt securities held by the Hospital at September 30, 2018 and 2017 are as follows:

<u>Investment Rating*</u>	<u>2018</u>	<u>2017</u>
AA+	\$ 99,501	\$ -
A+	-	-
A	-	400,724
A-	494,063	418,400
BBB+	800,121	1,522,501
BBB	1,190,179	602,814
BBB-	494,846	756,889
BB	-	99,854
Not rated	<u>7,992</u>	<u>12,306</u>
Total debt securities	<u>\$ 3,086,702</u>	<u>\$ 3,813,488</u>

Certain debt securities are 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, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Interest and dividends, net of bond amortization and investment fees of \$(40,785) and \$(49,009) in 2018 and 2017, respectively	\$ 335,385	\$ 306,169
Realized gains on sales of securities	547,994	676,917
Unrealized gains on investments	<u>949,715</u>	<u>559,570</u>
	<u>\$ 1,833,094</u>	<u>\$ 1,542,656</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>2018</u>	<u>2017</u>
Oakmark International Fund Class Institutional	6.48 %	NA
Ishares Russell Mid-Cap Growth	6.01 %	NA
Vanguard Developed Markets	NA	8.48 %
Vanguard Emerging Markets	NA	5.21 %

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, 2018 and 2017

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

Investment type	2018		Total Fair Value
	Category		
	1	2	
Obligations of U.S. government	\$ -	\$ 7,992	\$ 7,992
Corporate and taxable bonds	-	3,078,710	3,078,710
Cash and cash equivalents	2,843,386	-	2,843,386
Marketable equity securities	-	11,402,267	11,402,267
	\$ 2,843,386	\$ 14,488,969	\$ 17,332,355
	2017		
Investment type	Category		Total Fair Value
	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
	\$ 2,789,767	\$ 12,885,239	\$ 15,675,006

There were no category 3 investments in 2018 or 2017.

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, 2018 and 2017

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, 2016	\$ 559,981	\$ 428,312	\$ 988,293
Investment return			
Investment income	6,543	914	7,457
Net appreciation (realized and unrealized)	<u>42,553</u>	<u>16,050</u>	<u>58,603</u>
Total investment return	49,096	16,964	66,060
Contributions	5,649	-	5,649
Appropriation of endowment assets for expenditure	<u>(13,322)</u>	<u>-</u>	<u>(13,322)</u>
Balances, September 30, 2017	601,404	445,276	1,046,680
Investment return			
Investment income	5,562	1,245	6,807
Net appreciation (depreciation) (realized and unrealized)	<u>32,047</u>	<u>(2,450)</u>	<u>29,597</u>
Total investment return (loss)	37,609	(1,205)	36,404
Contributions	22,774	-	22,774
Appropriation of endowment assets for expenditure	<u>(32,067)</u>	<u>-</u>	<u>(32,067)</u>
Balances, September 30, 2018	<u>\$ 629,720</u>	<u>\$ 444,071</u>	<u>\$ 1,073,791</u>

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

Notes to Financial Statements

September 30, 2018 and 2017

6. Capital Assets

A summary of capital assets for the year ended September 30, 2018 is as follows:

	Balance at October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2018</u>
Cost				
Land improvements	\$ 1,039,539	\$ 40,980	\$ -	\$ 1,080,519
Buildings and improvements	10,552,690	7,000	-	10,559,690
Fixed equipment	17,478,443	564,953	-	18,043,396
Major movable equipment	17,593,183	410,958	(22,500)	17,981,641
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>230,860</u>	<u>355,333</u>	<u>(90,537)</u>	<u>495,656</u>
Capital assets, at cost	<u>46,978,765</u>	<u>1,379,224</u>	<u>(113,037)</u>	<u>48,244,952</u>
Accumulated depreciation				
Land improvements	639,023	46,428	-	685,451
Buildings and improvements	10,076,621	665,345	-	10,741,966
Fixed equipment	6,222,252	411,421	-	6,633,673
Major movable equipment	14,281,275	878,767	(20,416)	15,139,626
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>31,303,221</u>	<u>2,001,961</u>	<u>(20,416)</u>	<u>33,284,766</u>
Capital assets, net	<u>\$ 15,675,544</u>	<u>\$ (622,737)</u>	<u>\$ (92,621)</u>	<u>\$ 14,960,186</u>

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>
Cost				
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>
Accumulated depreciation				
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>

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

Notes to Financial Statements

September 30, 2018 and 2017

7. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended September 30, 2018 and 2017:

	2018				Current Portion of Long-Term Liabilities
	Beginning Balances	Additions	Reductions	Ending Balances	
Fixed rate (5.125%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$300,000, plus interest, through November 2022.	\$ 1,800,000	\$ -	\$ (300,000)	\$ 1,500,000	\$ 300,000
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.	450,000	-	(75,000)	375,000	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.	270,000	-	(30,000)	240,000	30,000
Variable rate note payable, monthly principal and interest payments of \$18,227 through January 2023; collateralized by related equipment.	260,651	690,865	(149,795)	801,721	190,530
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.	4,465,850	329,437	-	4,795,287	-
Unsecured note payable, due in quarterly installments of \$107,364 through October 2022, including interest calculated at 5.00%.	-	2,135,684	(417,860)	1,717,824	322,092
3.70% note payable, monthly principal and interest payments of \$3,550 through June 2018; collateralized by related equipment.	31,155	-	(31,155)	-	-
	<u>\$ 7,277,656</u>	<u>\$ 3,155,986</u>	<u>\$ (1,003,810)</u>	<u>\$ 9,429,832</u>	<u>\$ 917,622</u>

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

Notes to Financial Statements

September 30, 2018 and 2017

	2017				
	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.	\$ 2,100,000	\$ -	\$ (300,000)	\$ 1,800,000	\$ 300,000
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.	525,000	-	(75,000)	450,000	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.	300,000	-	(30,000)	270,000	30,000
Variable note payable, monthly principal and interest payments of \$5,001 through June 2022; collateralized by related equipment.	-	273,300	(12,649)	260,651	51,206
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.	-	4,465,850	-	4,465,850	-
3.70% note payable, monthly principal and interest payments of \$3,550 through June 2018; collateralized by related equipment.	<u>71,739</u>	<u>-</u>	<u>(40,584)</u>	<u>31,155</u>	<u>31,155</u>
	<u>\$ 2,996,739</u>	<u>\$ 4,739,150</u>	<u>\$ (458,233)</u>	<u>\$ 7,277,656</u>	<u>\$ 487,361</u>

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

Notes to Financial Statements

September 30, 2018 and 2017

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>
2019	\$ 917,622	\$ 252,290	\$ 1,169,912
2020	5,821,341	92,225	5,913,566
2021	1,034,077	61,422	1,095,499
2022	1,021,348	33,488	1,054,836
2023	<u>635,444</u>	<u>9,126</u>	<u>644,570</u>
	<u>\$ 9,429,832</u>	<u>\$ 448,551</u>	<u>\$ 9,878,383</u>

8. 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, 2018 and 2017. Interest on the line is at .375% below the prime rate with a floor of 3.25% (4.88% at September 30, 2018). The current line of credit expires June 30, 2019.

The Hospital has available a capital equipment line of credit with a bank in the amount of \$2,000,000 at September 30, 2018 and 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% (4.00% at September 30, 2018). Advances on the line are collateralized by the associated equipment and are included in long-term debt. The line of credit expires June 30, 2019.

9. Restricted Net Position

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

	<u>2018</u>	<u>2017</u>
Oncology clinic	\$ 162,689	\$ 160,897
Heartwise	97,328	96,758
Buswell Trust	19,792	19,626
Scholarships	12,110	11,647
Appreciation on funds held by others	284,661	266,590
Other	53,140	45,886
Beneficial interest in trust	154,473	156,923
Endowments	<u>289,598</u>	<u>288,353</u>
	<u>\$ 1,073,791</u>	<u>\$ 1,046,680</u>

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

Notes to Financial Statements

September 30, 2018 and 2017

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 \$17,927 and \$2,663 for the years ended September 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Medicare	18 %	22 %
MaineCare	13	15
Blue Cross	10	4
Other third-party payors	30	26
Patients	<u>29</u>	<u>33</u>
	<u>100 %</u>	<u>100 %</u>

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, 2018 and 2017. 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.

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

Notes to Financial Statements

September 30, 2018 and 2017

14. Deferred System Development Costs

During 2018, the Hospital entered into an agreement with Cerner Corporation (Cerner) to implement a hospital-wide EHR system. The Cerner agreement has an initial term of seven years with successive 12-month terms. The costs incurred by the Hospital related to the implementation of the EHR system through September 30, 2018 have been deferred and will be amortized over the remaining term of the Cerner agreement once the system is placed in use, which is expected during 2019. Deferred system development costs as of September 30, 2018 were \$2,135,684.

The following schedule reflects the Hospital's minimum payments to Cerner under the agreement for future subscription, transaction, and maintenance services as of September 30, 2018:

2019	\$	488,902
2020		587,000
2021		587,000
2022		587,000
2023		587,000
Thereafter		<u>731,050</u>
	\$	<u><u>3,567,952</u></u>

SUPPLEMENTARY INFORMATION

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

Net Patient Service Revenue

Year Ended September 30, 2018

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Inpatient routine service centers			
Adult and pediatrics	\$ 4,900,641	\$ 502,731	\$ 5,403,372
Nursery	<u>90,405</u>	<u>-</u>	<u>90,405</u>
			x
Total inpatient routine service centers	<u>4,991,046</u>	<u>502,731</u>	<u>5,493,777</u>
Ancillary service centers			
Operating and recovery room	795,530	5,017,379	5,812,909
Delivery and labor room	151,989	43,294	195,283
Anesthesiology	563,137	2,136,220	2,699,357
Radiology - diagnostic	1,250,633	13,308,408	14,559,041
Laboratory	1,594,623	9,859,273	11,453,896
Respiratory therapy	503,631	1,491,345	1,994,976
Physical therapy	795,320	1,862,970	2,658,290
Speech pathology	12,282	3,524	15,806
Medical supplies charged to patients	1,168,760	2,286,916	3,455,676
Drugs charged to patients	<u>1,247,207</u>	<u>9,889,037</u>	<u>11,136,244</u>
Total ancillary service centers	<u>8,083,112</u>	<u>45,898,366</u>	<u>53,981,478</u>
Physician, clinic and ambulatory service centers			
Clinics	-	4,079,451	4,079,451
Physician services	1,124,728	11,296,079	12,420,807
Emergency department	189,956	8,181,524	8,371,480
Ambulance	<u>77,236</u>	<u>3,870,013</u>	<u>3,947,249</u>
Total outpatient service centers	<u>1,391,920</u>	<u>27,427,067</u>	<u>28,818,987</u>
Gross patient service revenue	<u>\$ 14,466,078</u>	<u>\$ 73,828,164</u>	88,294,242
Contractual and other adjustments			36,293,147
Charity care			2,407,494
Provision for bad debts			<u>2,602,838</u>
Net patient service revenue			<u>\$ 46,990,763</u>

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

Operating Expenses

Year Ended September 30, 2018

	<u>Personnel</u>	<u>Other</u>	<u>Total</u>
General service cost centers			
Employee benefits	\$ -	\$ 6,608,430	\$ 6,608,430
Administrative and general	3,454,439	4,453,010	7,907,449
Operation of plant	541,852	2,233,915	2,775,767
Laundry and linen	83,617	45,518	129,135
Housekeeping	376,137	156,323	532,460
Dietary	341,829	167,477	509,306
Nursing administration	640,237	9,537	649,774
Medical records	236,711	57,333	294,044
Social services	<u>150,177</u>	<u>6,081</u>	<u>156,258</u>
Total general service cost centers	<u>5,824,999</u>	<u>13,737,624</u>	<u>19,562,623</u>
Inpatient routine service cost centers			
Adults and pediatrics	2,494,246	257,137	2,751,383
Nursery	<u>45,962</u>	<u>-</u>	<u>45,962</u>
Total inpatient routine service cost centers	<u>2,540,208</u>	<u>257,137</u>	<u>2,797,345</u>
Ancillary service cost centers			
Operating and recovery room	814,015	316,963	1,130,978
Delivery and labor room	19,846	-	19,846
Anesthesiology	803,288	13,625	816,913
Radiology - diagnostic	966,578	1,074,911	2,041,489
Laboratory	738,963	1,452,060	2,191,023
Respiratory therapy	221,462	230,106	451,568
Physical therapy	679,378	42,505	721,883
Speech therapy	-	18,249	18,249
Medical supplies charged to patients	153,283	783,524	936,807
Drugs charged to patients	<u>236,206</u>	<u>3,277,878</u>	<u>3,514,084</u>
Total ancillary service cost centers	<u>4,633,019</u>	<u>7,209,821</u>	<u>11,842,840</u>
Outpatient service cost centers			
Clinics	2,010,472	433,705	2,444,177
Physician practices	7,084,464	1,065,080	8,149,544
Emergency department	1,952,430	475,991	2,428,421
Ambulance	1,669,229	319,667	1,988,896
Hospice	<u>134,785</u>	<u>-</u>	<u>134,785</u>
Total outpatient service cost centers	<u>12,851,380</u>	<u>2,294,443</u>	<u>15,145,823</u>
Other cost centers			
Lifeline	-	4,450	4,450
Physician recruitment	-	125,869	125,869
Dexter family	262,969	6,137	269,106
Other	<u>169,102</u>	<u>189,670</u>	<u>358,772</u>
Total other cost centers	<u>432,071</u>	<u>326,126</u>	<u>758,197</u>
Depreciation and amortization	<u>-</u>	<u>2,001,961</u>	<u>2,001,961</u>
Operating expenses	<u>\$ 26,281,677</u>	<u>\$ 25,827,112</u>	<u>\$ 52,108,789</u>