



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

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2015 and 2014

With Independent Auditor's Report

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

September 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 3-11 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 financial statements as a whole. The information in the accompanying the 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 25, 2016

**HOSPITAL ADMINISTRATIVE DISTRICT #4
d/b/a MAYO REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2015**

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 (FYE) September 30, 2015 and 2014. 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. 2015, 2014, etc., and is defined as either a fiscal year ending in that year or for the FYE on September 30 of that year, depending on its use, 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 to the financial statements that explain in more detail some of the information in the financial statements.

The Hospital's financial statements are prepared on a proprietary basis as a business-like entity. The accrual basis of accounting is utilized and the measurement focus is on economic resources. All revenues earned and expenses incurred during the fiscal year are recorded, regardless of when cash is received or paid. All assets and liabilities of the Hospital, both short-term and long-term, are also 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 the existing liquidity and financial flexibility. Over time, increases or decreases in net position are one indicator of whether the overall financial position is improving or deteriorating.

Statements of Revenues, Expenses, and Changes in Net Position: Includes all of the 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 also reflected on this statement 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. The cash flow statement provides additional information, such as where cash came from, how cash was used, and what the change in the cash balance was during the reporting period. Actual cash used for or provided by equipment, interest and payment of principal on debt, and investment purchases and sales is useful information clearly reflected on this statement.

Overview of Hospital Utilization

The Hospital segments the overall gross patient service revenues and utilization activity for reporting purposes among inpatient, outpatient and physician office sources. In 2015, the overall activity, as measured by gross revenue, was 1.4% lower than 2014 and 5.6% lower than budget. In 2014, the overall activity, as measured by gross revenue, was 4.1% greater than 2013. The overall utilization summary is as follows:

Summary Of Utilization										
	Actual 2015	Budget 2015	Actual 2014	Actual 2013	2015 vs Budget	2015 vs 2014	2014 vs 2013	2015 vs Budget	2015 vs 2014	2014 vs 2013
Hospital Admissions										
Acute	1,072	1,150	1,085	1,120	(78)	(13)	(35)	(6.8)%	(1.2)%	(3.1)%
Swing-Bed	99	58	75	87	41	24	(12)	70.7%	32.0%	(13.8)%
Patient Days										
Acute	3,374	3,590	3,372	3,919	(216)	2	(547)	(6.0)%	0.1%	(14.0)%
Swing-Bed	656	420	542	875	236	114	(333)	56.2%	21.0%	(38.1)%
Average Daily Census	11.0	11.0	10.7	13.1	0.0	0.3	(2.4)	0.0%	2.8%	(18.3)%
Births	90	120	124	110	(30)	(34)	14	(25.0)%	(27.4)%	12.7%
Surgical Procedures	1,311	1,648	1,655	1,641	(337)	(344)	14	(20.5)%	(20.8)%	0.9%
Radiology Exams	20,448	23,135	21,223	22,548	(2,687)	(775)	(1,325)	(11.6)%	(3.7)%	(5.9)%
Laboratory Tests	132,100	142,061	138,612	137,504	(9,961)	(6,512)	1,108	(7.0)%	(4.7)%	0.8%
Emergency Room Visits	11,456	11,375	11,217	12,086	81	239	(869)	0.7%	2.1%	(7.2)%
Physician Office Visits	45,192	47,032	45,686	44,149	(1,840)	(494)	1,537	(3.9)%	(1.1)%	3.5%
Ambulance Runs	4,090	3,715	3,829	3,808	375	261	21	10.1%	6.8%	0.6%

- Acute care admissions were 1.2% or 13 lower in 2015 than 2014 and 6.8% lower than the budget. Acute-care admissions in 2014 were 35 lower than 2013. Admissions to the Hospital's swing beds were 99 in 2015 compared to 75 in 2014 and 87 in 2013. On the acute side, a decline in inpatient surgical cases and deliveries in 2015 was offset by admissions from a very busy flu season in February through April. Swing bed activity is purposefully on the increase, as the Hospital is reaching out to accept patients discharged from other acute care hospitals but still needing skilled care.
- The average daily census for 2015, which does not include observation patients, was 11.0 compared to 10.7 for 2014 and 11.0 for the 2015 budget. The average daily census in 2013 was 13.1.
- Newborn admissions (births) in 2015 were 90 compared to 124 in 2014, or a decrease of 27.4% from 2014, and a negative variance from the 2015 budget of 25%. The decline was due to turnover in the full-time Obstetrics/Gynecology provider role in Mayo Women's Health. At the beginning of 2016, a new full-time provider is on staff. Newborn admissions (births) in 2013 were 110.
- Surgical procedures in 2015 were 344 lower than 2014 and 20.5% lower than budget. The decline in case volume was the result of retirements and departure of specialty surgeons, for which Hospital Senior Leadership are both recruiting and instituting interim solutions.
- 2015 saw the successful recruitment of several primary care providers who began practicing near the end of 2015, primarily in Guilford, Milo and Corinth. These providers will add to the current growth in the Rural Health Centers (RHCs), located in five communities. In total, physician office visits in 2015 were 494, or 1.1%, lower than in 2014; however, the RHC practices showed growth. 2014 physician office visits were 1,537 higher than 2013.

- Other diagnostic and therapeutic services such as lab and radiology saw declines in total volumes during 2015. Rehabilitative services, including wound care, physical therapy and occupational therapy, showed growth in 2015, a pattern consistent with 2014 and 2013.
- The ambulance service experienced a 6.8% increase in its call volume in 2015 compared to 2014. The increase was related to more calls during the busy flu season and for transfers. 2015 runs also exceeded budget by 10.1%. 2014, when compared to 2013, recorded a slight .6% increase in calls.

Analysis of Year-End Financial Position

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

During 2015, the Hospital's total assets decreased by \$178,029 or .5% from 2014. An increase in cash and short term investments of \$567,990 and an increase in prepaid expenses and other current assets of \$490,634 were offset by a decline in assets limited as to use of \$822,035. Assets limited as to use were negatively impacted by weak investment market performance near the end of 2015. The Hospital's working capital (current assets minus current liabilities) increased by \$541,639 compared to an increase of \$775,289 in 2014. The increase in working capital in 2015 reflects, in addition to changes in cash and short term investments, a decline in accounts payable and accrued expenses of \$441,892, and an increase in third party payor settlements of \$799,269. The Hospital's net days in accounts receivable for 2015 and 2014 remained consistent at 48 days.

Estimated third-party settlements, which for 2015 and 2014 are reported under current liabilities, increased by \$799,269. The receipt of a \$1,000,000 settlement from the State of Maine for underpayments to the Hospital's RHCs was offset by 2014 cost report filings completed in 2015, cost report settlements, and adjustments to estimates for unsettled cost reports. The cost reports for Medicare have been settled through 2009 and MaineCare cost reports have been settled through 2004.

There was a decrease of \$372,842 in net capital assets for 2015 from the prior year, compared to a decrease from 2013 to 2014 of \$1,438,578. While capital related additions in 2015 did not completely keep pace with depreciation, capital related additions in 2015 were \$1,482,141, an increase of \$961,602 over 2014.

There was a \$524,186, or 8.6%, increase in the level of current liabilities in 2015 compared to a decrease of \$1,988,271 in the prior year. The total amount of debt outstanding (current and long-term portion, combined) was reduced by \$442,666 in the current year, reflecting current principal payments.

The overall net position decreased by \$258,122 compared to a prior year increase of \$453,485. In 2015 the Hospital had improved operating results offset by weaker investment market performance, resulting in the decrease in overall net position.

When comparing 2014 to 2013, the Hospital's total assets decreased by \$1,828,954 or 4.5%. Current liabilities decreased by \$1,988,271. Changes in current assets and liabilities from 2013 to 2014 were primarily due to payments made in settlement of prior year cost reports and changes to estimates for unsettled years.

A summary of the Hospital's balance sheets, as of September 30, 2015, 2014 and 2013, is presented below:

Condensed Balance Sheet							
	2015	2014	2013	2015 vs 2014	2015 vs 2014	2014 vs 2013	2014 vs 2013
Current Assets	\$13,857,983	\$12,792,158	\$14,005,140	\$1,065,825	8.3%	(\$1,212,982)	(8.7)%
Limited Use Assets	12,055,833	12,877,868	12,181,319	(822,035)	(6.4)%	696,549	5.7%
Beneficial Interest	552,861	583,915	550,655	(31,054)	(5.3)%	33,260	6.0%
Other	120,535	138,458	45,661	(17,923)	(13.0)%	92,797	203.2%
Capital Assets	11,811,610	12,184,452	13,623,030	(372,842)	(3.1)%	(1,438,578)	(10.6)%
Total Assets	\$38,398,822	\$38,576,851	\$40,405,805	(\$178,029)	(0.5)%	(\$1,828,954)	(4.5)%
Current Liabilities	\$6,590,462	\$6,066,276	\$8,054,547	\$524,186	8.6%	(\$1,988,271)	(24.7)%
Long-Term Liabilities	2,996,739	3,440,832	3,735,000	(444,093)	(12.9)%	(294,168)	(7.9)%
Total Liabilities	9,587,201	9,507,108	11,789,547	80,093	0.8%	(2,282,439)	(19.4)%
Total Net Position	28,811,621	29,069,743	28,616,258	(258,122)	(0.9)%	453,485	1.6%
Total Net Position and Liabilities	\$38,398,822	\$38,576,851	\$40,405,805	(\$178,029)	(0.5)%	(\$1,828,954)	(4.5)%

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, 2015, 2014 and 2013:

Condensed Statement of Revenues, Expenses and Changes in Net Assets							
	2015	2014	2013	2015 vs 2014	2015 vs 2014	2014 vs 2013	2014 vs 2013
Net Patient Service Revenue	\$44,703,497	\$44,764,699	\$42,305,038	(\$61,202)	(0.1)%	\$2,459,661	5.8%
Other Operating Revenue	3,318,910	1,935,318	1,554,447	1,383,592	71.5%	380,871	24.5%
Total Operating Revenue	48,022,407	46,700,017	43,859,485	1,322,390	2.8%	2,840,532	6.5%
Total Personnel and Benefit Expenses	30,468,498	31,162,810	30,044,718	(694,312)	(2.2)%	1,118,092	3.7%
Non-Personnel Expenses	17,400,807	16,249,086	15,551,297	1,151,721	7.1%	697,789	4.5%
Total Operating Expenses	47,869,305	47,411,896	45,596,015	457,409	1.0%	1,815,881	4.0%
Operating Income/(loss)	153,102	(711,879)	(1,736,530)	864,981	(121.5)%	1,024,651	(59.0)%
Non-Operating Expenses	164,235	164,776	180,047	(541)	(0.3)%	(15,271)	(8.5)%
Loss Before Non-operating Revenues (Losses)	(11,133)	(876,655)	(1,916,577)	865,522	(98.7)%	1,039,922	(54.3)%
Non-Operating (Losses) Revenues	(226,347)	1,296,688	1,087,049	(1,523,035)	(117.5)%	209,639	19.3%
(Loss) Income Before Other (Losses) Gains	(\$237,480)	420,033	(829,528)	(657,513)	(156.5)%	1,249,561	(150.6)%
Other (Losses) Gains	(20,642)	33,452	44,908	(54,094)	(161.7)%	(11,456)	(25.5)%
(Decrease)/Increase in Net Position	(\$258,122)	\$453,485	(\$784,620)	(\$711,607)	(156.9)%	\$1,238,105	(157.8)%

From an operations perspective, the Hospital finished 2015 ahead of expected financial results. The operating margin for 2015 was a gain of \$153,102 and non-operating expense (interest) was \$164,235. However, investment losses offset the operating gain yielding a final net decrease in financial position of \$258,122, compared to an increase of \$453,485 in net financial position in 2014.

Net patient service revenue for 2015 was \$61,202, or .1%, lower than 2014 and \$518,162, or 1.1%, lower than the 2015 budget. Within this change, gross patient service revenue was \$1,172,289, or 1.4%, lower than last year and \$4,792,363, or 5.6%, below budget. Deductions from revenue were positively impacted by changes between estimated and actual prior year cost report settlements and reimbursement enhancements in the current year cost report estimate. Deductions from revenue represented 44.2% of gross revenue in the current year compared to 45.0% in the prior year and a budgeted rate of 46.8%. Bad debt and charity care were 7.2% in the current year compared to 8.0% in the prior year.

Within the overall gross revenue change, Hospital inpatient gross revenue (charges) decreased by 7.2%, and Hospital outpatient gross revenue decreased by .3%. In comparison to budget, gross revenue was 5.6% less than budgeted in total. As noted in the utilization section, fewer deliveries, inpatient and outpatient surgery cases, and lower volumes in specialty clinics and outpatient diagnostic testing were major causes of the gross revenue variances. Other operating revenue increased by \$1,125,514 from 2014 primarily due to revenue associated with the Hospital's participation in the 340(B) drug program during 2015 of \$871,444.

Personnel and employee benefit expenses decreased by 2.2%, or \$694,312, over the prior year with salary and wage expense decreasing by 2.4% or \$608,221 and fringe benefit related costs decreasing by 1.5% or \$86,091. Reductions in wage and benefit costs resulted from management's attention to adjusting staffing to activity levels. The combination of attrition, shift to shift staffing adjustments, and an early exit incentive offering resulted in reduced costs. Personnel related expenses represented about 63.6% of the Hospital's total expenses in the current year compared to 65.7% in the prior year and a budgeted level of 65.8%. The Hospital operated with an average workforce of 400 full-time equivalent (FTE) staff compared to an average of 419 FTE's in the prior year and a budgeted level of 429 FTE's.

Non-personnel operating expenses, such as medical supplies, drugs, utilities, repairs and maintenance and depreciation, increased by 7.1% or \$1,151,721 over the prior year and were 6.2% or \$1,022,522 more than budgeted. Physician fees for coverage in the Emergency Department, the RHCs, Obstetrics, and in the Hospitalist program were \$1,334,244 above prior year and \$607,725 over budget. Purchased services were also higher because of increased resources to address revenue cycle initiatives, preparation for the conversion to ICD-10 coding, and facility master planning.

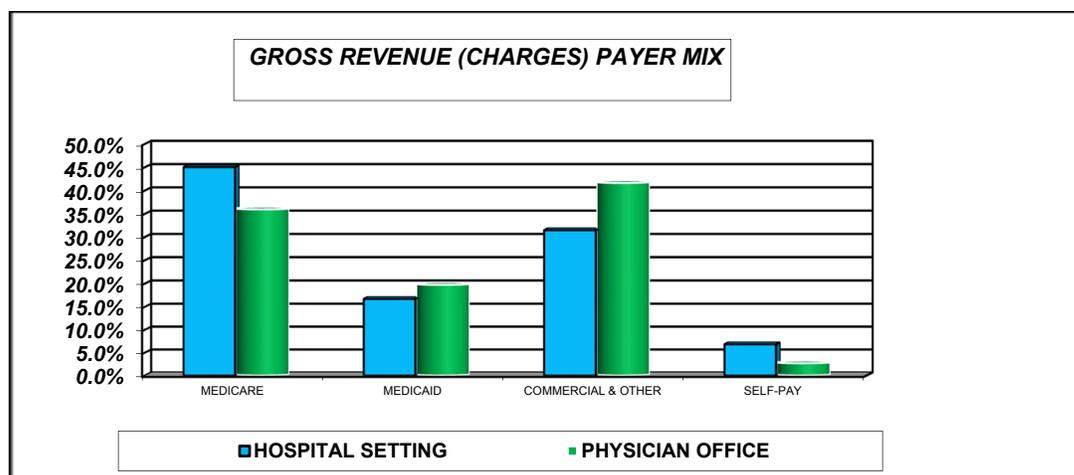
The net non-operating losses in 2015 compared to the net non-operating revenues in 2014 was the result of weak investment market performance near the end of 2015 as noted earlier in this discussion.

In both 2014 and 2013, the Hospital recorded operating losses and compared negatively to budgeted amounts. In 2014, the Hospital recorded an operating loss of (\$711,879). Included in this result was a favorable settlement accrual of \$1,000,000 from the MaineCare program for RHC payment corrections which was offset by increases in personnel, physician fees, and purchased services expenses.

In 2013, the operating loss was (\$1,736,530). Negative variances from budgeted amounts were evident in gross revenue due to volume variances, deductions from revenue, and operating expenses.

Overall, changes from 2013 to 2014 to 2015 are connected to reduced volumes, particularly in surgery, reductions in staffing costs to match lower volumes, and improved reimbursement through prior year settlements and better matching of costs and charges.

The Hospital's 2015 gross patient service revenue mix was as follows:



Cash Flows

Cash and cash equivalents increased by \$569,492 during 2015. The following is a condensed statement of cash flows for each of the years ended September 30, 2015, 2014 and 2013:

Condensed Statement of Cash Flows

	2015	2014	2013	2015 vs 2014	2015 vs 2014	2014 vs 2013	2014 vs 2013
Net Cash Provided (Used) by Operating Activities	\$2,014,772	(\$1,142,494)	\$5,128,622	\$3,157,266	(276.4)%	(\$6,271,116)	(122.3)%
Net Cash Provided by Non-capital Financing Activities	40,419	66,205	36,951	(25,786)	(39.0)%	29,254	79.2%
Net Cash Used by Capital Financing Activities	(2,070,805)	(946,291)	(3,060,532)	(1,124,514)	118.8%	2,114,241	(69.1)%
Net Cash Provided by Investing Activities	585,106	653,289	917,255	(68,183)	(10.4)%	(263,966)	(28.8)%
Increase/(Decrease) in cash and equivalents	569,492	(1,369,291)	3,022,296	1,938,783	(141.6)%	(4,391,587)	(145.3)%
Cash and Cash Equivalents at beginning of year	6,005,225	7,374,516	4,352,220	(1,369,291)	(18.6)%	3,022,296	69.4%
Cash and Cash Equivalents at the end of the year	\$6,574,717	\$6,005,225	\$7,374,516	\$569,492	9.5%	(\$1,369,291)	(18.6)%

The net cash provided by operating activities was \$2,014,772 for the current year compared to (\$1,142,494) used for the prior year. The increase was related to improvements in operating results, which in turn resulted from improved payments on patient accounts, settlements, and reduced staffing costs.

The net cash used for capital and related financing activities in 2015 amounted to \$2,070,805 compared to 2014 of \$946,291. 2015's uses of cash for capital activities were higher because of renewed investment in information technology, replacement equipment, and some facility improvements, including siding and elevator upgrades. 2014's use of cash for capital activities was reduced because of heavier than anticipated spending in 2013 and weak operating results. 2013's cash used for capital activities paid for a physician practice in Corinth, Maine, radiology equipment, nursing call system, and urology medical equipment.

The net cash provided by investing activities in 2015 was \$585,106 compared to the prior year cash provided by investing activities of \$653,289.

When comparing 2014 to 2013, cash and cash equivalents decreased by \$1,369,291. This decrease was primarily due to Medicare and MaineCare settlements, partially offset by decreases in capital spending.

Capital Assets and Debt Administration

Capital related additions for new assets amounted to \$1,842,953 in 2015 compared to \$817,910 in 2014. There was also \$410,965 in asset reductions, netting to an overall net increase in 2015 of \$1,431,988 in capital assets at cost. Change in accumulated depreciation amounted to an increase of \$1,804,830 and when combined with the capital asset change at cost, resulted in a total decrease in capital assets of \$372,842 in 2015.

Overall age of plant in 2015 was 15.2 years compared to 13.4 years and 11.1 years in 2014 and 2013, respectively. Age of plant is a mathematical calculation that can be used to make assessments about long term capital investment levels. In 2015, management began the development of a limited Facilities Master Plan, including required investments in the next year to three years for infrastructure replacements and upgrades. Management also initiated an Information Technology Needs Assessment and Strategic Planning process that, when complete, will provide budget requirements for technology investments in the coming years as well. The current long-term debt load can be leveraged to access capital for future investments in facilities and technology.

Capital Assets and Debt Administration							
	2015	2014	2013	2015 vs 2014	2015 vs 2014	2014 vs 2013	2014 vs 2013
Land and Land Improvements	\$795,290	\$795,290	\$795,290	\$0	0.0%	\$0	0.0%
Buildings and Improvements	10,103,359	9,927,666	9,908,451	175,693	1.8%	19,215	0.2%
Fixed Equipment	12,858,790	12,634,550	12,319,570	224,240	1.8%	314,980	2.6%
Major Moveable Equipment	15,747,489	14,988,698	14,617,535	758,791	5.1%	371,163	2.5%
Minor Moveable Equipment	84,050	84,050	84,050	0	0.0%	0	0.0%
Construction in Progress	364,563	91,299	297,371	273,264	299.3%	(206,072)	(69.3)%
Total	39,953,541	38,521,553	38,022,267	1,431,988	3.7%	499,286	1.3%
Accumulated Depreciation	28,141,931	26,337,101	24,399,237	1,804,830	6.9%	1,937,864	7.9%
Net Capital Assets	<u>\$11,811,610</u>	<u>\$12,184,452</u>	<u>\$13,623,030</u>	<u>(\$372,842)</u>	<u>(3.1)%</u>	<u>(\$1,438,578)</u>	<u>(10.6)%</u>

As of September 30, 2015, the Hospital had \$3,330,000 of bond principal outstanding which represents a decrease of 10.8%, or \$405,000, from last year. In 2014, the Hospital entered into a loan agreement for the purchase of an ambulance, for which a balance of \$110,832 was outstanding as of 2015. Total long-term debt outstanding as of September 30, 2015, was \$3,440,832. The current year's total debt service (interest and principal payments) related to these issues was \$600,824.

Next Year's Budget and Other Economic Factors

Note: Comparisons between 2015 and 2016 noted below use final 2015 results, which will vary from projected 2015 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 2016 that reflects an operating loss before interest and non-operating revenue of (\$56,572). When budgeted interest expense and non-operating income is included, the change in net position is an increase of \$95,950.

Acute care admissions are budgeted to increase slightly compared to 2015. Acute admissions are budgeted at 1,082 compared to a final total for 2015 of 1,072. The average daily census including swing bed utilization is budgeted at 11.2 patients compared to 11.0 in 2015. Budgeted admissions, however, are projected to shift somewhat away from flu season medical admissions to new deliveries and surgical cases.

Operating room cases have been budgeted to increase 12% compared to 2015. Inpatient cases are budgeted to increase by 7.2% and outpatient cases to increase by 12.5%. The projected increase is expected due to the addition of a surgical podiatrist, restoration of ophthalmology cases no later than the spring of 2016, and the addition of a new full-time obstetrical/gynecological provider.

The overall budgeted increase in gross patient service revenue is 8.7%, or \$6,957,751, over 2015. The budgeted growth in revenues is derived from three sources: an overall rate increase of 3.0%; new revenue from improved charge capture; and patient volume changes.

Total operating expenses are anticipated to increase by 2.1%, or \$1,001,770, in 2016. Salaries and benefits will represent 62.6% of the overall expense budget, lower than 2015 and 2014.

Spending for capital related items will approximate \$1.5 million, not including larger special projects that may arise from facilities planning. Approximately 31% is allocated to building and infrastructure improvements, 39% to equipment, and 30% to information technology.

Total days cash on hand are budgeted to average 138 days, and gross days in accounts receivable are estimated to average 59 days.

There are significant financial benefits (cost reimbursement) associated with the Critical Access Hospital status that have been assumed to flow from the Medicare program and the State of Maine MaineCare program. Additionally, the budget for MaineCare expenditures to hospitals is a significant line item in the State of Maine operating budget. Any significant payment change or change in regulations by the Federal Government or the State of Maine regarding Critical Access Hospitals in the future could dramatically affect the operations and the operating results of the Hospital. In addition, the Hospital joined an Accountable Care Organization (ACO) for MaineCare primary care in 2015, 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.

In 2015, to mitigate the risk inherent in payment uncertainty and changes in the healthcare delivery system, the Hospital's management team focused on efforts to match staffing levels to activity and has invested in information systems and consulting to make significant changes in revenue cycle. Other reimbursement improvements were accomplished through more accurate matching of costs and charges in the Medicare Cost Report and continuing efforts to capture charges for services rendered. These, among other new initiatives aimed at improving financial performance, will continue in 2016, along with initiatives in improving access to core services, clinical quality, patient satisfaction and safety, enhancing community involvement, and recruiting and retaining providers.

Strategic planning has also focused in the past year on the possibility of future affiliation with other healthcare providers, in addition to involvement in ACOs. The Hospital already participates in joint purchasing of supplies and services and in clinical support arrangements from and with other health systems. In order to ensure long term viability, the Hospital will be evaluating affiliation strategies and partners in 2016.

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

Balance Sheets

September 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 900,207	\$ 1,425,216
Short-term investments	4,555,630	3,462,631
Accounts receivable, less allowances for doubtful accounts of \$5,726,087 in 2015 and \$4,578,592 in 2014	5,928,824	5,944,677
Supplies	767,823	744,769
Prepaid expenses and other current assets	<u>1,705,499</u>	<u>1,214,865</u>
Total current assets	<u>13,857,983</u>	<u>12,792,158</u>
Assets limited as to use		
Board designated	11,585,367	12,383,075
Donor-restricted	<u>470,466</u>	<u>494,793</u>
Total assets limited as to use	<u>12,055,833</u>	12,877,868
Beneficial interest in perpetual trust	137,623	149,200
Beneficial interest in funds held by others	415,238	434,715
Other	120,535	138,458
Capital assets, net	<u>11,811,610</u>	<u>12,184,452</u>
Total assets	<u>\$ 38,398,822</u>	<u>\$ 38,576,851</u>

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

LIABILITIES AND NET POSITION

	<u>2015</u>	<u>2014</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 1,582,982	\$ 2,024,874
Accrued payroll, other related expenses and amounts withheld	2,341,391	2,182,086
Estimated third-party payor settlements	2,157,072	1,357,803
Accrued interest payable	64,924	58,847
Current portion of long-term debt	<u>444,093</u>	<u>442,666</u>
Total current liabilities	6,590,462	6,066,276
Long-term debt, less current portion	<u>2,996,739</u>	<u>3,440,832</u>
Total liabilities	<u>9,587,201</u>	<u>9,507,108</u>
Net position		
Invested in capital assets, net of related debt	8,370,778	8,300,954
Restricted		
Expendable for capital projects and other	540,872	582,907
Nonexpendable permanent endowments and perpetual trust	424,683	436,456
Unrestricted	<u>19,475,288</u>	<u>19,749,426</u>
Total net position	<u>28,811,621</u>	<u>29,069,743</u>
Total liabilities and net position	<u>\$ 38,398,822</u>	<u>\$ 38,576,851</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Net patient service revenue	\$ 44,703,497	\$ 44,764,699
Other operating revenues	2,851,772	1,726,258
Meaningful use revenue	<u>467,138</u>	<u>209,060</u>
Total operating revenues	<u>48,022,407</u>	<u>46,700,017</u>
Operating expenses		
Personnel services	24,723,790	25,332,011
Employee benefits	5,744,708	5,830,799
Purchased services	4,895,692	4,472,421
Supplies and other direct expenses	10,655,179	9,817,548
Depreciation and amortization	<u>1,849,936</u>	<u>1,959,117</u>
Total operating expenses	<u>47,869,305</u>	<u>47,411,896</u>
Operating income (loss)	153,102	(711,879)
Nonoperating expenses		
Interest expense	<u>164,235</u>	<u>164,776</u>
Loss before nonoperating (losses) revenues	<u>(11,133)</u>	<u>(876,655)</u>
Nonoperating (losses) revenues		
Investment income	215,144	284,116
Net (decrease) increase in fair value of investments	(482,106)	946,559
Noncapital contributions	<u>40,615</u>	<u>66,013</u>
Net nonoperating (losses) revenues	<u>(226,347)</u>	<u>1,296,688</u>
(Loss) income before other (losses) gains	<u>(237,480)</u>	<u>420,033</u>
Other (losses) gains		
(Losses) gains on permanent endowments	(11,773)	8,283
(Losses) gains on funds held by others	<u>(8,869)</u>	<u>25,169</u>
Total other (losses) gains	<u>(20,642)</u>	<u>33,452</u>
(Decrease) increase in net position	(258,122)	453,485
Net position, beginning of year	<u>29,069,743</u>	<u>28,616,258</u>
Net position, end of year	<u>\$ 28,811,621</u>	<u>\$ 29,069,743</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 45,518,619	\$ 42,286,317
Payments to suppliers	(15,895,821)	(14,156,381)
Payments to employees	(30,309,193)	(30,974,081)
Other operating revenues	2,492,917	1,492,591
Meaningful use revenue	<u>208,250</u>	<u>209,060</u>
Net cash provided (used) by operating activities	<u>2,014,772</u>	<u>(1,142,494)</u>
Cash flows from noncapital financing activities		
Noncapital contributions	40,615	66,013
(Reduction of) contributions to permanent endowment	<u>(196)</u>	<u>192</u>
Net cash provided by noncapital financing activities	<u>40,419</u>	<u>66,205</u>
Cash flows from capital and related financing activities		
Interest paid on long-term debt	(158,158)	(170,050)
Principal paid on long-term debt	(442,666)	(414,252)
Proceeds from issuance of long-term debt	-	157,750
Purchases of capital assets	(1,477,094)	(520,539)
Proceeds from sale of capital assets	<u>7,113</u>	<u>800</u>
Net cash used by capital and related financing activities	<u>(2,070,805)</u>	<u>(946,291)</u>
Cash flows from investing activities		
Purchases of investments	(3,088,228)	(4,561,868)
Proceeds from maturities and principal reductions of investments	3,429,659	5,023,838
Investment income	215,144	284,116
Other	<u>28,531</u>	<u>(92,797)</u>
Net cash provided by investing activities	<u>585,106</u>	<u>653,289</u>
Net increase (decrease) in cash and cash equivalents	569,492	(1,369,291)
Cash and cash equivalents, beginning of year	<u>6,005,225</u>	<u>7,374,516</u>
Cash and cash equivalents, end of year	<u>\$ 6,574,717</u>	<u>\$ 6,005,225</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 900,207	\$ 1,425,216
Cash and cash equivalents in short-term investments	4,555,630	3,462,631
Cash and cash equivalents in assets limited as to use	<u>1,118,880</u>	<u>1,117,378</u>
Total cash and cash equivalents	<u>\$ 6,574,717</u>	<u>\$ 6,005,225</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 153,102	\$ (711,879)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	1,849,936	1,959,117
Provision for doubtful accounts	2,844,420	2,914,181
Gain on disposal of capital assets	(7,113)	(800)
Changes in		
Accounts receivable	(2,828,567)	(3,287,861)
Supplies	(23,054)	215,363
Prepaid expenses and other current assets	(490,634)	(209,952)
Accounts payable and accrued expenses	(441,892)	(104,690)
Accrued payroll, other related expenses and amounts withheld	159,305	188,729
Estimated third-party payor settlements	<u>799,269</u>	<u>(2,104,702)</u>
Net cash provided (used) by operating activities	<u>\$ 2,014,772</u>	<u>\$ (1,142,494)</u>

Supplemental disclosure of noncash and financing activities:

During 2015 and 2014, the net (decrease) increase in the fair value of investments was \$(482,106) and \$946,559, respectively.

During 2015 and 2014, the net (decrease) increase in the Hospital's interest in a perpetual trust was \$(11,965) and \$8,091, respectively.

During 2015 and 2014, the net (decrease) increase in the Hospital's interest in funds held by others was \$(8,869) and \$25,169, respectively.

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

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

Notes to Financial Statements

September 30, 2015 and 2014

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 health care 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 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, 2015 and 2014

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 (expenses) 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>2015</u>	<u>2014</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, 2015 and 2014

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 (expenses) 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 noncapital 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, 2015 and 2014

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 health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

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

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>2015</u>	<u>2014</u>
Charges foregone, based on established rates	\$ <u>2,967,891</u>	\$ <u>3,585,410</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>1,772,000</u>	\$ <u>2,089,000</u>
Equivalent percentage of charity care charges to all Hospital patient charges	<u>3.70%</u>	<u>4.41%</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, 2015 and 2014

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 \$266,158 and \$272,953 in 2015 and 2014, 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.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through January 25, 2016, 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, 2009.

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

Notes to Financial Statements

September 30, 2015 and 2014

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, 2014.

Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 17%, and 46% and 17% of the Hospital's gross patient service revenue for the years ended September 30, 2015 and 2014, 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 2015 net patient service revenue increased approximately \$1,655,000 and the 2014 net patient service revenue increased approximately \$1,775,000, 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. During 2014, the State of Maine agreed to pay a higher reimbursement rate for the Rural Health Centers under the MaineCare program for the years 2003-2014; this settlement accounted for \$1,000,000 of the total \$1,775,000 increase in net patient service revenue for 2014. Payment of this settlement was received in 2015.

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>2015</u>	<u>2014</u>
Gross patient service revenue	\$ 80,185,539	\$ 81,357,828
Contractual adjustments	(29,566,866)	(29,884,340)
Charity care	(2,967,891)	(3,585,410)
Discounts and other allowances	(102,865)	(209,198)
Provision for bad debts	<u>(2,844,420)</u>	<u>(2,914,181)</u>
	<u>\$ 44,703,497</u>	<u>\$ 44,764,699</u>

3. Cash and Cash Equivalents

At September 30, 2015, the carrying amounts of deposits with banks were \$900,207 and the bank balances were \$1,879,840. At September 30, 2014, the carrying amounts of deposits with banks was \$1,425,216 and the bank balances were \$1,375,652. The differences are primarily due to outstanding checks and deposits in transit. Of these amounts, \$250,000 was insured by the

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

Notes to Financial Statements

September 30, 2015 and 2014

Federal Deposit Insurance Corporation at September 30, 2015 and 2014. At September 30, 2015 and 2014, \$1,397,390 and \$851,784, 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.

4. Accounts Receivable

Components of accounts receivable at September 30 are as follows:

	<u>2015</u>	<u>2014</u>
Total accounts receivable	\$16,681,160	\$13,797,966
Less:		
Allowances for uncollectible amounts	5,726,087	4,578,592
Allowances for contractual adjustments	3,707,366	2,821,569
Periodic interim payments	<u>1,318,883</u>	<u>453,128</u>
Accounts receivable, net	<u>\$ 5,928,824</u>	<u>\$ 5,944,677</u>

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

Assets limited as to use at September 30, 2015 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,118,880	\$ 1,118,880
Obligations of U.S. government	517,876	520,835
Marketable equity securities	5,929,237	6,865,433
Corporate and taxable bonds	<u>3,548,160</u>	<u>3,550,685</u>
	<u>\$11,114,153</u>	<u>\$12,055,833</u>

Assets limited as to use at September 30, 2014 are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,117,378	\$ 1,117,378
Obligations of U.S. government	154,423	154,341
Marketable equity securities	5,687,322	7,389,210
Corporate and taxable bonds and fixed income funds	<u>4,249,136</u>	<u>4,216,939</u>
	<u>\$11,208,259</u>	<u>\$12,877,868</u>

Short-term investments consist of cash and cash equivalents at September 30, 2015 and 2014.

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

Notes to Financial Statements

September 30, 2015 and 2014

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

Investment Type	Fair Value	Less Than 1	2015		
			1-5	6-10	10+
Obligations of U.S. government	\$ 520,835	\$ -	\$ 401,436	\$ 102,446	\$ 16,953
Corporate and taxable bonds	3,550,685	299,952	3,250,733	-	-
Cash and cash equivalents	5,674,510	5,674,510	-	-	-
Marketable equity securities	6,865,433	-	-	-	-
	<u>\$ 16,611,463</u>	<u>\$ 5,974,462</u>	<u>\$ 3,652,169</u>	<u>\$ 102,446</u>	<u>\$ 16,953</u>

Investment Type	Fair Value	Less Than 1	2014		
			1-5	6-10	10+
Obligations of U.S. government	\$ 154,341	\$ -	\$ 126,624	\$ 3,202	\$ 24,515
Corporate and taxable bonds	4,090,561	1,311,509	2,779,052	-	-
Cash and cash equivalents	4,580,009	4,580,009	-	-	-
Fixed income funds	126,378	-	-	-	-
Marketable equity securities	7,389,210	-	-	-	-
	<u>\$ 16,340,499</u>	<u>\$ 5,891,518</u>	<u>\$ 2,905,676</u>	<u>\$ 3,202</u>	<u>\$ 24,515</u>

The risk categories for the debt securities held by the Hospital at September 30, 2015 and 2014 are as follows:

	2015	2014
<u>Investment Rating*</u>		
AA+	\$ 501,149	\$ 327,841
AA	-	101,471
A+	501,151	-
A	101,554	584,655
A-	554,470	904,378
BBB+	500,202	481,373
BBB	1,314,824	1,134,877
BBB-	378,584	482,655
BB+	199,900	199,250
Not rated	19,686	28,402
Total debt securities	<u>\$ 4,071,520</u>	<u>\$ 4,244,902</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,
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Notes to Financial Statements

September 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Interest and dividends, net of bond amortization and investment fees of \$(80,278) and \$(1,299) in 2015 and 2014, respectively	\$ 215,144	\$ 284,116
Realized gains on sales of securities	241,926	385,557
Unrealized (losses) gains on investments	<u>(724,032)</u>	<u>561,002</u>
	<u>\$ (266,962)</u>	<u>\$ 1,230,675</u>

The Hospital places no limit on the amount it may invest in any one issuer. At September 30, 2015 and 2014, 5% or more of the Hospital's investments were not invested in any one issuer.

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

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

1. Insured or registered for which the securities are held by the Hospital or its agent in the Hospital's name.
2. Uninsured 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.

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

	2015		<u>Total Fair Value</u>
	1	2	
Obligations of U.S. government	\$ -	\$ 520,835	\$ 520,835
Corporate and taxable bonds	-	3,550,685	3,550,685
Cash and cash equivalents	5,674,510	-	5,674,510
Marketable equity securities	<u>-</u>	<u>6,865,433</u>	<u>6,865,433</u>
	<u>\$ 5,674,510</u>	<u>\$10,936,953</u>	<u>\$16,611,463</u>

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Notes to Financial Statements

September 30, 2015 and 2014

Investment type	2014		Total Fair Value
	Category		
	1	2	
Obligations of U.S. government	\$ -	\$ 154,341	\$ 154,341
Corporate and taxable bonds and fixed income funds	-	4,216,939	4,216,939
Cash and cash equivalents	4,580,009	-	4,580,009
Marketable equity securities	-	<u>7,389,210</u>	<u>7,389,210</u>
	<u>\$ 4,580,009</u>	<u>\$11,760,490</u>	<u>\$16,340,499</u>

There were no category 3 investments in 2015 or 2014.

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).

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.

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Notes to Financial Statements

September 30, 2015 and 2014

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

	Expendable <u>Restricted</u>	Nonexpendable <u>Restricted</u>	<u>Total</u>
Balances, October 1, 2013	\$ 555,227	\$ 428,173	\$ 983,400
Investment return			
Investment income	229	192	421
Net appreciation (realized and unrealized)	<u>24,536</u>	<u>8,091</u>	<u>32,627</u>
Total investment return	24,765	8,283	33,048
Contributions	14,863	-	14,863
Appropriation of endowment assets for expenditure	<u>(11,948)</u>	<u>-</u>	<u>(11,948)</u>
Balances, September 30, 2014	582,907	436,456	1,019,363
Investment return (loss)			
Investment income (loss)	294	(196)	98
Net depreciation (realized and unrealized)	<u>(9,163)</u>	<u>(11,577)</u>	<u>(20,740)</u>
Total investment loss	(8,869)	(11,773)	(20,642)
Contributions	26,716	-	26,716
Appropriation of endowment assets for expenditure	<u>(59,882)</u>	<u>-</u>	<u>(59,882)</u>
Balances, September 30, 2015	<u>\$ 540,872</u>	<u>\$ 424,683</u>	<u>\$ 965,555</u>

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

September 30, 2015 and 2014

6. Capital Assets

A summary of capital assets for the year ended September 30, 2015 is as follows:

	Balance at October 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2015</u>
Cost				
Land improvements	\$ 795,290	\$ -	\$ -	\$ 795,290
Buildings and improvements	9,927,666	175,693	-	10,103,359
Fixed equipment	12,634,550	224,240	-	12,858,790
Major movable equipment	14,988,698	808,944	(50,153)	15,747,489
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>91,299</u>	<u>634,076</u>	<u>(360,812)</u>	<u>364,563</u>
Capital assets, at cost	<u>38,521,553</u>	<u>1,842,953</u>	<u>(410,965)</u>	<u>39,953,541</u>
Accumulated depreciation				
Land improvements	529,392	37,066	-	566,458
Buildings and improvements	8,100,675	646,746	-	8,747,421
Fixed equipment	5,682,508	165,836	-	5,848,344
Major movable equipment	11,940,476	1,000,288	(45,106)	12,895,658
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>26,337,101</u>	<u>1,849,936</u>	<u>(45,106)</u>	<u>28,141,931</u>
Capital assets, net	<u>\$ 12,184,452</u>	<u>\$ (6,983)</u>	<u>\$ (365,859)</u>	<u>\$ 11,811,610</u>

A summary of capital assets for the year ended September 30, 2014 is as follows:

	Balance at October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance at September 30, <u>2014</u>
Cost				
Land improvements	\$ 795,290	\$ -	\$ -	\$ 795,290
Buildings and improvements	9,908,451	19,215	-	9,927,666
Fixed equipment	12,319,570	314,980	-	12,634,550
Major movable equipment	14,617,535	392,416	(21,253)	14,988,698
Minor movable equipment	84,050	-	-	84,050
Construction in progress	<u>297,371</u>	<u>91,299</u>	<u>(297,371)</u>	<u>91,299</u>
Capital assets, at cost	<u>38,022,267</u>	<u>817,910</u>	<u>(318,624)</u>	<u>38,521,553</u>
Accumulated depreciation				
Land improvements	489,476	39,916	-	529,392
Buildings and improvements	7,450,026	650,649	-	8,100,675
Fixed equipment	5,517,300	165,208	-	5,682,508
Major movable equipment	10,858,385	1,103,344	(21,253)	11,940,476
Minor movable equipment	<u>84,050</u>	<u>-</u>	<u>-</u>	<u>84,050</u>
Total accumulated depreciation	<u>24,399,237</u>	<u>1,959,117</u>	<u>(21,253)</u>	<u>26,337,101</u>
Capital assets, net	<u>\$ 13,623,030</u>	<u>\$ (1,141,207)</u>	<u>\$ (297,371)</u>	<u>\$ 12,184,452</u>

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

September 30, 2015 and 2014

7. Line of Credit

The Hospital had a \$1,500,000 unsecured line of credit with a bank at September 30, 2014. The amount available under this line of credit was increased to \$3,000,000 during 2015. Interest on the line is .375% below the prime rate with a floor of 3.25% (3.25% at September 30, 2015 and 2014). There were no borrowings outstanding under these lines at September 30, 2015 or 2014. The current line of credit expires June 30, 2016.

8. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended September 30, 2015 and 2014:

	<u>2015</u>			
	<u>Beginning Balances</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Current Portion of Long-Term Liabilities</u>
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.	\$ 2,700,000	\$ (300,000)	\$ 2,400,000	\$ 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.	675,000	(75,000)	600,000	75,000
Variable rate (3.050% - 5.00%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$30,000, plus interest, through November 2025.	360,000	(30,000)	330,000	30,000
3.70% note payable, monthly principal and interest payments of \$3,550 through June 2018; collateralized by related equipment.	<u>148,498</u>	<u>(37,666)</u>	<u>110,832</u>	<u>39,093</u>
	<u>\$ 3,883,498</u>	<u>\$ (442,666)</u>	<u>\$ 3,440,832</u>	<u>\$ 444,093</u>

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Notes to Financial Statements

September 30, 2015 and 2014

	2014				
	Beginning Balances	Additions	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.	\$ 3,000,000	\$ -	\$ (300,000)	\$ 2,700,000	\$ 300,000
Variable rate (3.831% - 5.031%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$75,000, plus interest, through November 2022.	750,000	-	(75,000)	675,000	75,000
Variable rate (3.050% - 5.00%) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$30,000, plus interest, through November 2025.	390,000	-	(30,000)	360,000	30,000
3.70% note payable, monthly principal and interest payments of \$3,550 through June 2018; collateralized by related equipment.	-	<u>157,750</u>	<u>(9,252)</u>	<u>148,498</u>	<u>37,666</u>
	<u>\$ 4,140,000</u>	<u>\$ 157,750</u>	<u>\$ (414,252)</u>	<u>\$ 3,883,498</u>	<u>\$ 442,666</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>
2016	\$ 444,093	\$ 154,074	\$ 598,167
2017	445,595	132,927	578,522
2018	436,144	112,129	548,273
2019	405,000	93,089	498,089
2020	405,000	72,125	477,125
2021-2025	1,275,000	90,967	1,365,967
2026	<u>30,000</u>	<u>-</u>	<u>30,000</u>
	<u>\$ 3,440,832</u>	<u>\$ 655,311</u>	<u>\$ 4,096,143</u>

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

September 30, 2015 and 2014

9. Restricted Net Position

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

	<u>2015</u>	<u>2014</u>
Oncology clinic	\$ 155,269	\$ 155,074
Heartwise	97,220	101,209
Buswell Trust	19,455	19,435
Scholarships	9,952	8,056
Appreciation on funds held by others	222,301	231,464
Other	36,675	67,669
Beneficial interest in trust	137,623	149,200
Endowments	<u>287,060</u>	<u>287,256</u>
	<u>\$ 965,555</u>	<u>\$ 1,019,363</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 \$9,540 and \$6,622 for the years ended September 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Medicare	25 %	27 %
MaineCare	17	9
Blue Cross	4	3
Other third-party payors	22	26
Patients	<u>32</u>	<u>35</u>
	<u>100 %</u>	<u>100 %</u>

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Notes to Financial Statements

September 30, 2015 and 2014

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, 2015 and 2014. 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 and 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.

During 2015, the Hospital recorded meaningful use revenue of \$467,138 from the Medicare and Medicaid programs for the hospital EHR program and for its eligible professionals. The Hospital continues to make investments in its electronic medical record to enhance the electronic availability of patient records.

SUPPLEMENTARY INFORMATION

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4,
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Net Patient Service Revenue

Year Ended September 30, 2015

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Inpatient routine service centers			
Adult and pediatrics	\$ 2,155,396	\$ 884,964	\$ 3,040,360
Intensive care unit	2,188,602	332,420	2,521,022
Nursery	<u>74,340</u>	<u>-</u>	<u>74,340</u>
Total inpatient routine service centers	<u>4,418,338</u>	<u>1,217,384</u>	<u>5,635,722</u>
Ancillary service centers			
Operating and recovery room	837,443	4,008,800	4,846,243
Delivery and labor room	80,561	35,592	116,153
Anesthesiology	437,441	1,704,162	2,141,603
Radiology - diagnostic	1,207,995	13,727,013	14,935,008
Laboratory	974,022	9,522,472	10,496,494
Respiratory therapy	847,666	1,385,977	2,233,643
Physical therapy	612,947	2,027,126	2,640,073
Speech pathology	5,700	2,823	8,523
Medical supplies charged to patients	1,215,394	1,772,211	2,987,605
Drugs charged to patients	<u>1,634,992</u>	<u>7,939,002</u>	<u>9,573,994</u>
Total ancillary service centers	<u>7,854,161</u>	<u>42,125,178</u>	<u>49,979,339</u>
Physician, clinic and ambulatory service centers			
Clinics	566	2,527,531	2,528,097
Physician services	77,526	10,170,539	10,248,065
Emergency department	223,600	7,310,799	7,534,399
Ambulance	<u>171,789</u>	<u>4,088,128</u>	<u>4,259,917</u>
Total outpatient service centers	<u>473,481</u>	<u>24,096,997</u>	<u>24,570,478</u>
Gross patient service revenue	<u>\$ 12,745,980</u>	<u>\$ 67,439,559</u>	80,185,539
Contractual and other adjustments			29,669,731
Charity care			2,967,891
Provision for bad debts			<u>2,844,420</u>
Net patient service revenue			<u>\$ 44,703,497</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4,
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Operating Expenses

Year Ended September 30, 2015

	<u>Personnel</u>	<u>Other</u>	<u>Total</u>
General service cost centers			
Employee benefits	\$ -	\$ 5,744,708	\$ 5,744,708
Administrative and general	3,818,569	4,955,485	8,774,054
Operation of plant	469,599	1,324,049	1,793,648
Laundry and linen	67,203	37,245	104,448
Housekeeping	335,692	88,605	424,297
Dietary	374,297	159,611	533,908
Nursing administration	628,364	14,579	642,943
Medical records	202,009	67,390	269,399
Social services	<u>140,191</u>	<u>6,069</u>	<u>146,260</u>
Total general service cost centers	<u>6,035,924</u>	<u>12,397,741</u>	<u>18,433,665</u>
Inpatient routine service cost centers			
Adults and pediatrics	1,804,489	473,613	2,278,102
Intensive care unit	500,976	48,740	549,716
Nursery	<u>34,342</u>	<u>-</u>	<u>34,342</u>
Total inpatient routine service cost centers	<u>2,339,807</u>	<u>522,353</u>	<u>2,862,160</u>
Ancillary service cost centers			
Operating and recovery room	754,336	240,924	995,260
Delivery and labor room	12,262	-	12,262
Anesthesiology	725,824	17,605	743,429
Radiology - diagnostic	970,678	1,082,851	2,053,529
Laboratory	788,999	1,092,533	1,881,532
Respiratory therapy	336,071	130,001	466,072
Physical therapy	571,380	88,567	659,947
Speech therapy	-	9,842	9,842
Medical supplies charged to patients	163,877	766,463	930,340
Drugs charged to patients	<u>227,778</u>	<u>2,511,539</u>	<u>2,739,317</u>
Total ancillary service cost centers	<u>4,551,205</u>	<u>5,940,325</u>	<u>10,491,530</u>
Outpatient service cost centers			
Clinics	1,795,301	417,556	2,212,857
Physician practices	5,835,786	982,749	6,818,535
Emergency department	1,855,762	307,375	2,163,137
Ambulance	1,425,396	200,172	1,625,568
Hospice	<u>112,249</u>	<u>870</u>	<u>113,119</u>
Total outpatient service cost centers	<u>11,024,494</u>	<u>1,908,722</u>	<u>12,933,216</u>
Other cost centers			
Lifeline	-	260	260
Physician recruitment	-	247,897	247,897
Dexter family	360,922	30,261	391,183
Other	<u>411,438</u>	<u>248,020</u>	<u>659,458</u>
Total other cost centers	<u>772,360</u>	<u>526,438</u>	<u>1,298,798</u>
Depreciation and amortization	<u>-</u>	<u>1,849,936</u>	<u>1,849,936</u>
Operating expenses	<u>\$ 24,723,790</u>	<u>\$ 23,145,515</u>	<u>\$ 47,869,305</u>