



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

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2016 and 2015

With Independent Auditor's Report



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

September 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 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 20, 2017

**HOSPITAL ADMINISTRATIVE DISTRICT #4
d/b/a MAYO REGIONAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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, 2016 and 2015. 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. 2016, 2015, etc., and is defined as either a fiscal year ending in that year or for the fiscal year ending (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 that explain in more detail some of the information in the financial statements.

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

Balance Sheets: Includes all of the Hospital's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The balance sheets provide the basis for an evaluation of the Hospital's capital structure and an assessment of existing liquidity and financial flexibility. Over time, increases in net position reported in the balance sheet are indicative of improvement in overall financial position and decreases indicate deterioration.

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

Statements of Cash Flows: Includes all sources of cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. Cash flows, although related to net income, are not equivalent to net income and changes in the balance sheets also impact cash flow. In addition to cash balances, the cash flow statement provides information about where cash came from, how cash was used, and what the change in the cash balance was during the reporting period.

Overview of Hospital Utilization

The Hospital segments the overall gross patient service revenues and utilization activity for reporting purposes among inpatient, outpatient and physician office sources. In 2016, the overall activity, as measured by gross revenue, was 5.4% higher than in 2015 but 3.0% lower than budget. In 2015, the overall activity, as measured by gross revenue, was 1.4% lower than 2014. The overall utilization summary is as follows:

Summary Of Utilization										
	<u>2016</u>	<u>Budget 2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs Budget</u>	<u>2016 vs 2015</u>	<u>2015 vs 2014</u>	<u>2016 vs Budget</u>	<u>2016 vs 2015</u>	<u>2015 vs 2014</u>
Hospital Admissions										
Acute	1,146	1,082	1,072	1,085	64	74	(13)	5.9%	6.9%	-1.2%
Swing-Bed	134	104	99	75	30	35	24	28.9%	35.4%	32.0%
Patient Days										
Acute	3,472	3,399	3,374	3,372	73	98	2	2.1%	2.9%	0.1%
Swing-Bed	1,189	696	656	542	493	533	114	70.8%	81.3%	21.0%
Average Daily Census	12.7	11.2	11.0	10.7	1.5	1.7	0.3	13.4%	15.5%	2.8%
Births	137	107	90	124	30	47	(34)	28.0%	52.2%	-27.4%
Surgical Procedures	1,287	1,468	1,311	1,655	(181)	(24)	(344)	-12.3%	-1.8%	-20.8%
Radiology Exams	20,619	19,885	20,448	21,223	734	171	(775)	3.7%	0.8%	-3.7%
Laboratory Tests	124,794	138,116	132,100	138,612	(13,322)	(7,306)	(6,512)	-9.6%	-5.5%	-4.7%
Emergency Room Visits	11,523	11,425	11,456	11,217	98	67	239	0.9%	0.6%	2.1%
Physician Office Visits	49,441	50,554	45,192	45,686	(1,113)	4,249	(494)	-2.2%	9.4%	-1.1%
Ambulance Runs	3,825	4,152	4,090	3,829	(327)	(265)	261	-7.9%	-6.5%	6.8%

- Acute care admissions were 6.9%, or 74, higher in 2016 than 2015 and 5.9% higher than the budget. Acute-care admissions in 2015 were 13 lower than 2014. Admissions to the Hospital's swing beds were 134 in 2016 compared to 99 in 2015 and 75 in 2014. On the acute side, increases in inpatient surgeries and deliveries were the causes of the change from 2015. Swing bed activity continued to grow due to the Hospital's efforts to accept patients for skilled care that were discharged from other acute care facilities but still required some level of skilled care.
- The average daily census for 2016, which does not include observation patients, was 12.7 compared to 11.0 for 2015 and 11.2 for the 2016 budget. The average daily census in 2014 was 10.7.
- Newborn admissions (births) in 2016 were 137 compared to 90 in 2015, or an increase of 52.2% from 2015, and a positive variance of 28% compared to the 2016 budget. Newborn admissions (births) in 2014 were 124. The recovery of volume in 2016 was due to the successful recruitment of a full-time obstetrics/gynecology provider for the Mayo Women's Health program and continuing obstetrical services provided by a number of the Hospital's family practitioners. Growth in obstetrics and gynecology services was a strongpoint for the Hospital in 2016.
- Surgical procedures in 2016 were 24 lower than in 2015 and 12.3% lower than budget. The Hospital surgical program saw growth in gynecological surgeries and the restoration of the ophthalmological surgery program but saw declines in orthopedic cases. Hospital Administration has successfully recruited two new full-time orthopedic surgeons, who are expected to start practicing on January 1, 2017 and in the spring of 2017.

- In 2016, our Rural Health Clinic practices showed 9.5% growth compared to 2015, although visit totals were 1.3% under budget. Specialty clinic visits also grew by 8.8% compared to 2015. Some of the RHC growth was related to the addition of a family practitioner to the Corinth practice in October 2015 who was local to our area and came with a full panel of patients. Other growth was related to entering 2016 fully staffed at all the RHC's. Specialty clinic volume grew because of the addition of the podiatry practice in October of 2015 and recovery of volume in the Mayo Women's Health practice. In total, physician office visits in 2016 were 4,249, or 9.4%, higher than in 2015. Total visits in 2016 were 2.2% below budget. In 2015, physician office visits were 494 lower than in 2014.
- Diagnostic radiology services, physical therapy and occupational therapy showed slight growth from 2015 to 2016. Cardiopulmonary and laboratory services declined from 2015 to 2016. The decline in laboratory services is related to price competition with other hospitals and non-hospital labs. Employers, in order to help manage healthcare costs for their employees, are often able to secure advantageous pricing elsewhere to incentivize their employees to seek care at those lower cost alternatives. Laboratory is particularly susceptible to this competitive pressure as the patient: is a) usually mobile; b) is usually non-emergent and c) may not even need to be present at the location the test is performed. In addition, overhead in a non-hospital laboratory setting is much lower and the hospital cannot compete on price to the extent necessary to retain market share. Because of competitive challenges, laboratory services have recently become an area of focus for pricing changes and other strategic initiatives.
- Ambulance runs declined by 6.5% from 2015 to 2016 and runs were under budget by 7.9% for 2016. Runs in 2015 were high due to the busy flu season, during which the vaccines were less effective and more people became ill.

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, 2016, 2015 and 2014, are below:

Condensed Balance Sheets							
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>	<u>2015 vs 2014</u>	<u>2015 vs 2014</u>
Current Assets	\$10,939,928	\$13,857,983	\$12,792,158	(\$2,918,055)	-21.1%	\$1,065,825	8.3%
Limited Use Assets	13,384,209	12,055,833	12,877,868	1,328,376	11.0%	(822,035)	-6.4%
Beneficial Interests	574,619	552,861	583,915	21,758	3.9%	(31,054)	-5.3%
Other	149,599	120,535	138,458	29,064	24.1%	(17,923)	-12.9%
Capital Assets, net	11,537,608	11,811,610	12,184,452	(274,002)	-2.3%	(372,842)	-3.1%
Total Assets	\$36,585,963	\$38,398,822	\$38,576,851	(\$1,812,859)	-4.7%	(\$178,029)	-0.5%
Current Liabilities	\$5,640,118	\$6,590,462	\$6,066,276	(\$950,344)	-14.4%	\$524,186	8.6%
Long-Term Liabilities	2,551,155	2,996,739	3,440,832	(445,584)	-14.9%	(444,093)	-12.9%
Total Liabilities	\$8,191,273	\$9,587,201	\$9,507,108	(\$1,395,928)	-14.6%	\$80,093	0.8%
Total Net Position	28,394,690	28,811,621	29,069,743	(416,931)	-1.4%	(258,122)	-0.9%
Total Liabilities and Net Position	\$36,585,963	\$38,398,822	\$38,576,851	(\$1,812,859)	-4.7%	(\$178,029)	-0.5%

During 2016, the Hospital's total assets decreased by \$1,812,859, or 4.7%, from 2015.

Current assets declined by \$2,918,055. Within that category, short term investments declined by \$2,553,800, primarily caused by the payment of prior year settlement liabilities for Medicare and Medicaid cost reports, which also reduced third-party settlements payable included in current liabilities. Toward the end of 2016, short term investments were also used to provide temporary financing for two capital projects while longer term financing was in progress. In addition, approximately \$400,000 of short-term investments was used during 2016 to assist in paying operating expenses. A reduction in net accounts receivable of \$434,386 also contributed to the decrease in current assets. Assets limited as to use were positively impacted by investment market performance and a donation of \$250,000 for the oncology/inpatient unit renovation project in 2016, increasing in value by \$1,328,376.

The Hospital's working capital (current assets minus current liabilities) decreased by \$1,967,711 compared to an increase of \$541,639 in 2015. The decrease in working capital in 2016 includes the use of cash for 2015 and 2016 Medicare and Medicaid cost report settlements and interim payments totaling approximately \$1.5 million; to cover shortfalls in cash from operations of approximately \$600,000 and to fund early costs for ongoing construction projects that were financed in October 2016. These decreases were partially offset by other balance sheet changes, including an increase in accounts payable and other accruals of \$486,323. The cost reports for Medicare have been settled through 2011 and MaineCare cost reports have been settled through 2004.

There was a decrease of \$274,002 in net capital assets from 2015 to 2016, compared to a decrease from 2014 to 2015 of \$372,842. Capital additions in 2016 were \$1,453,969, including \$778,358 in construction in progress, most of which is related to an oncology and inpatient unit renovation and an upgrade to electrical, heating, and air conditioning systems. Investments in capital assets in 2015 were \$1,482,141.

There was a \$950,344, or 14.4%, decrease in the level of current liabilities in 2016 compared to an increase of \$524,186 in the prior year. The total amount of debt outstanding (current and long-term portion, combined) was reduced by \$444,093 in the current year, reflecting current principal payments. Financing for the two large capital projects noted above (a \$6,000,000 revolving line of credit) was completed subsequent to September 30, 2016.

The overall net position decreased by \$416,931 compared to a prior year decrease of \$258,122. In 2016, the Hospital recorded negative operating results; however, investment performance offset part of the loss. In 2015, the Hospital had improved operating results over 2014; however, the improved result was offset by weaker investment market performance, resulting in the decrease in overall net position.

When comparing 2015 to 2014, the Hospital's total assets decreased by \$178,029 or 0.5%. Current liabilities increased by \$524,186. Changes in current assets and liabilities from 2014 to 2015 were primarily due to an increase in accounts receivable related to a billing system conversion, a decrease in accounts payable at year end, and increased estimated liabilities for 2015 cost report settlements.

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, 2016, 2015 and 2014:

Condensed Statement of Revenues, Expenses and Changes in Net Assets							
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>	<u>2015 vs 2014</u>	<u>2015 vs 2014</u>
Net Patient Service Revenue	\$45,906,378	\$44,703,497	\$44,764,699	\$1,202,881	2.7%	(\$61,202)	-0.1%
Other Operating Revenue	3,149,295	3,318,910	1,935,318	(169,615)	-5.1%	1,383,592	71.5%
Total Operating Revenue	\$49,055,673	\$48,022,407	\$46,700,017	\$1,033,266	2.2%	\$1,322,390	2.8%
Total Personnel and Benefit Expenses	\$31,513,876	\$30,468,498	\$31,162,810	\$1,045,378	3.4%	(\$694,312)	-2.2%
Non-Personnel Expenses	19,001,613	17,400,807	16,249,086	1,600,806	9.2%	1,151,721	7.1%
Total Operating Expenses	\$50,515,489	\$47,869,305	\$47,411,896	\$2,646,184	5.5%	\$457,409	1.0%
Operating (Loss)/Income	(\$1,459,816)	\$153,102	(\$711,879)	(\$1,612,918)	-1053.5%	\$864,981	-121.5%
Non-Operating Expenses	145,751	164,235	164,776	(18,484)	-11.3%	(\$541)	-0.3%
Loss Before Non-operating Revenues (Losses) and Other Gains (Losses)	(\$1,605,567)	(\$11,133)	(\$876,655)	(\$1,594,434)	-14321.7%	\$865,522	-98.7%
Non-Operating Revenues (Losses)	906,308	(226,347)	1,296,688	1,132,655	500.4%	(1,523,035)	-117.5%
(Loss) Income Before Other Gains (Losses)	(\$699,259)	(\$237,480)	\$420,033	(\$461,779)	-194.4%	(\$657,513)	-156.5%
Other Gains (Losses)	282,328	(20,642)	33,452	302,970	1467.7%	(54,094)	-161.7%
(Decrease)/Increase in Net Position	(\$416,931)	(\$258,122)	\$453,485	(\$158,809)	-61.5%	(\$711,607)	-156.9%

From an operations perspective, the Hospital finished 2016 behind expected financial results. While there was some variance from budget on revenues, operating expense variances related to staffing and provider coverage costs also contributed to the \$1,459,816 operating loss. In addition, in 2016 the Hospital recorded approximately \$357,000 in negative impacts related to prior year Medicare and Medicaid settlements. Non-operating revenues included gains on investments and other gains included a donation of \$250,000 for the oncology unit renovation, which offset losses to bring the overall decrease in net position for 2016 to \$416,931. The operating margin for 2015 was a gain of \$153,102 and non-operating expense (interest) was \$164,235. However, in 2015, 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 2014.

Net patient service revenue for 2016 was \$1,202,881, or 2.7%, higher than 2015 but \$201,358 or .4%, lower than the 2016 budget. Within this change, gross patient service revenue was \$4,318,797, or 5.4%, higher than last year but \$2,638,954, or 3.2%, below budget. Deductions from revenue related to the Medicare and Medicaid programs were positively impacted by the fact that increased costs are partly covered through the cost report settlement process. Bad debt and charity care were both less than budgeted but these two deductions from revenue totaled \$5,947,442 for 2016 and \$5,812,311 in 2015. Total deductions from revenue represented 45.7% of gross revenue in the current year compared to 44.2% in the prior year and a budgeted rate of 47.1%.

Within the overall gross revenue change, Hospital inpatient gross revenue (charges) increased by 7.6% and Hospital outpatient gross revenue increased by 5.0% compared to 2015. As noted in the utilization section, a significant increase in deliveries, swing bed care, and inpatient surgery cases generated some of the increase from prior year. In outpatient services, increases resulted from improved charge capture, increases in volume in the physician practices, radiology and rehab services. Even with the increases noted, many volume measures were under budgeted levels during 2016. Other operating revenue decreased by

\$169,615 from 2015 primarily due to lower electronic health record incentive payments. In spite of the decrease, other operating revenue exceeded budget by \$442,528, primarily associated with the Hospital's participation in the 340B drug program during 2016.

Personnel and employee benefit expenses increased by 3.4%, or \$1,045,378, over the prior year with salary and wage expense increasing by 2.8%, or \$683,898. While the Hospital was able to maintain staffing levels consistent with 2015's reduced levels, wage adjustments were made to key positions, including registered nurses and paramedics, in order to maintain a competitive hiring position. Fringe benefit related costs increased by 6.3%, or \$361,480. The Hospital's health plan is an indemnity plan and year to year pricing is impacted by loss ratios in the plan. Due to a number of high dollar claims during both 2015 and 2016, premium costs were higher in 2016 and will increase further in 2017. In 2016, additional costs were borne by the Hospital, however, in 2017 increased costs will be shared by employees and the Hospital. Personnel related expenses represented about 62.4% of the Hospital's total expenses in the current year compared to 63.6% in the prior year and a budgeted level of 62.6%. The Hospital operated with an average workforce of 396 full-time equivalent (FTE) staff compared to an average of 400 FTE's in the prior year and a budgeted level of 404 FTE's. FTE's in 2014 were 419.

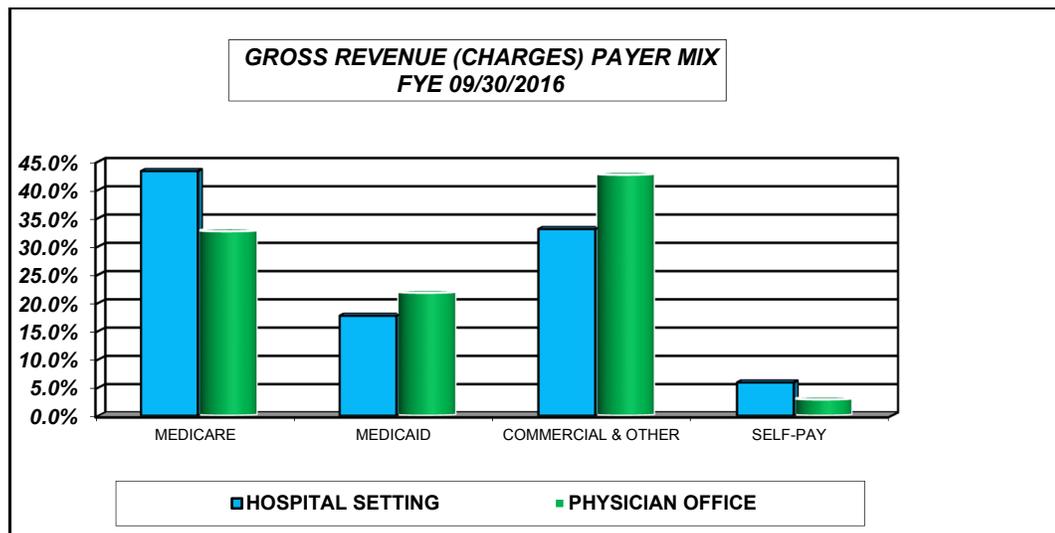
Non-personnel operating expenses, such as medical supplies, drugs, utilities, repairs and maintenance and depreciation, increased by 9.2% or \$1,600,806 over the prior year and were 3.8% or \$704,058 more than budgeted. Physician fees for coverage in the Emergency Department and the Hospitalist program contributed significantly to the variance. Purchased services were \$671,306, or 13.7%, higher than 2015, due to the need for temporary staffing in nursing, laboratory, and rehabilitative services.

Net non-operating revenue in 2016 compared to the net non-operating loss in 2015 was the result of improved investment market performance in 2016.

In 2015, the Hospital's operating performance was close to breakeven. In 2014, the Hospital recorded an operating loss of (\$711,879). Included in the 2014 result was a favorable settlement accrual of \$1,000,000 from the MaineCare program for RHC payment corrections.

To summarize, the volume trends from 2014 to 2016 include a busier inpatient unit, lower surgery volumes, a stabilizing obstetrical service, fewer outpatient lab tests, growth in rehabilitative services, and increased visits in our owned physician practices. Expense trends include higher costs of physician coverage, higher wages in critical clinical care positions, increasing health insurance costs, and improved efficiency in staffing.

The Hospital's 2016 gross patient service revenue mix was as follows:



Cash Flows

Cash and cash equivalents decreased by \$1,912,977 during 2016. The following is a condensed statement of cash flows for each of the years ended September 30, 2016, 2015 and 2014:

Condensed Statement of Cash Flows

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>	<u>2015 vs 2014</u>	<u>2015 vs 2014</u>
Net Cash (Used) Provided by Operating Activities	(\$620,827)	\$2,014,772	(\$1,142,494)	(\$2,635,599)	-130.8%	\$3,157,266	-276.4%
Net Cash Provided by Non-capital Financing Activities	17,479	40,419	66,205	(22,940)	-56.8%	(25,786)	-39.0%
Net Cash Used by Capital Financing Activities	(1,563,271)	(2,070,805)	(946,291)	507,534	-24.5%	(1,124,514)	118.8%
Net Cash Provided by Investing Activities	253,642	585,106	653,289	(331,464)	-56.7%	(68,183)	-10.4%
(Decrease)/Increase in cash and equivalents	(1,912,977)	\$569,492	(1,369,291)	(2,482,469)	-435.9%	1,938,783	-141.6%
Cash and Cash Equivalents at beginning of year	6,574,717	6,005,225	7,374,516	569,492	9.5%	(1,369,291)	-18.6%
Cash and Cash Equivalents at the end of the year	\$4,661,740	\$6,574,717	\$6,005,225	(\$1,912,977)	-29.1%	\$569,492	9.5%

The net cash (used)/provided by operating activities was (\$620,827) for the current year compared to \$2,014,772 for the prior year. The decrease was related to weaker operating results and the payment of prior year settlements to third-party payors.

The net cash used for capital and related financing activities in 2016 amounted to (\$1,563,271) compared to (\$2,070,805) in 2015 and (\$946,291) in 2014. 2016's uses of cash for capital activities was less than 2015 as capital spending was reduced due to increased operating expenses, which impacted cash flow. 2016's capital additions included new ambulances, upgrades to information technology network components, completion of two clinical technology projects, a digital output EKG system and a fetal monitoring system. Planning, design work and construction for the inpatient and oncology unit renovation and infrastructure upgrade projects also occurred in 2016.

The net cash provided by investing activities in 2016 was \$253,642 compared to the prior year cash provided by investing activities of \$585,106.

In 2015, cash and cash equivalents increased by \$569,492. The shifts in cash flow from year to year are linked to operating performance, third-party settlement amounts and capital spending.

Capital Assets and Debt Administration

Capital investment trends are close to annual depreciation expense. At September 30, 2016, Construction in Progress includes the costs associated with two major capital projects that will be completed in 2017 (the renovation of our inpatient and oncology units and infrastructure upgrades).

Capital Assets and Debt Administration							
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 vs 2015</u>	<u>2016 vs 2015</u>	<u>2015 vs 2014</u>	<u>2015 vs 2014</u>
Land and Land Improvements	\$795,290	\$795,290	\$795,290	\$0	0.0%	\$0	0.0%
Buildings and Improvements	10,103,359	10,103,359	9,927,666	0	0.0%	175,693	1.8%
Fixed Equipment	12,858,790	12,858,790	12,634,550	0	0.0%	224,240	1.8%
Major Moveable Equipment	16,734,450	15,747,489	14,988,698	986,961	6.3%	758,791	5.1%
Minor Moveable Equipment	84,050	84,050	84,050	0	0.0%	0	0.0%
Construction in Progress	721,419	364,563	91,299	356,856	97.9%	273,264	299.3%
Total	41,297,358	39,953,541	38,521,553	1,343,817	3.4%	1,431,988	3.7%
Accumulated Depreciation	29,759,750	28,141,931	26,337,101	1,617,819	5.7%	1,804,830	6.9%
Net Capital Assets	<u>\$11,537,608</u>	<u>\$11,811,610</u>	<u>\$12,184,452</u>	<u>(\$274,002)</u>	<u>-2.3%</u>	<u>(\$372,842)</u>	<u>-3.1%</u>

Capital related additions for new assets amounted to \$1,453,969 in 2016 compared to \$1,482,141 in 2015. In 2016, there was also \$531,654 in asset transfers and reductions, netting to an overall net increase during the year of \$1,343,817 in capital assets at cost. Change in accumulated depreciation amounted to an increase of \$1,617,819 and; when combined with the capital asset change at cost, resulted in a total decrease in capital assets of \$274,002 in 2016.

Overall age of plant in 2016 was 17.2 years compared to 15.2 years and 13.4 years in 2015 and 2014, respectively. Age of plant is a mathematical calculation that can be used to make assessments about long term capital investment levels. In 2016, management began construction on two major projects and made continued investment in information technology. Approximately 90% of the financing for the two major projects will come from a \$6,000,000 revolving line of credit entered into in October 2016. Other capital investments in 2016 were financed with internal resources.

As of September 30, 2016, the Hospital had \$2,925,000 of total bond principal outstanding which represents a decrease of 12.2%, 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 \$71,739 was outstanding as of 2016. Total long-term debt outstanding as of September 30, 2016, was \$2,996,739. The current year's total debt service (interest and principal payments) related to these issues was \$598,167.

Next Year's Budget and Other Economic Factors

Note: Comparisons between 2016 and 2017 noted below use final 2016 results, which will vary from projected 2016 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 2017 that reflects an operating loss before interest and non-operating revenue of (\$1,014,200). When budgeted interest expense and non-operating income is included, the change in net position is a decrease of (\$903,850). Management and the Board recognize budgeting at this level of operating loss is not sustainable; however, the budget reflects what is anticipated to be a year of volume and revenue that is recovering from past declines in surgical services and cost structures that are higher because of wage pressures. A number of strategic initiatives, including rebuilding orthopedic surgery, evaluation of service line performance for improved cost management and reimbursement enhancements are underway but are not expected to fully materialize in 2017.

Acute care admissions are budgeted to remain relatively flat with 2016. Acute admissions are budgeted at 1,140 compared to a final total for 2016 of 1,146. The average daily census, including swing bed utilization, is budgeted at 13.0 patients compared to 12.7 in 2016. In 2017, deliveries are also expected to be consistent with 2016 at 140 as 2016 deliveries were 137.

Operating room cases have been budgeted to increase by 1.3% compared to 2016. Inpatient cases are budgeted to decrease by 5.1% and outpatient cases to increase by 2.2%. The projected increase is expected due to a full year of the restoration of ophthalmology cases and continued strength in gynecological services. The Hospital has anticipated the arrival of new orthopedic surgeons during 2017; however, when the Hospital was preparing the budget, uncertainty about when the surgeons would be available resulted in a conservative "no increase" budget for orthopedic cases.

The overall budgeted increase in gross patient service revenue is 4.1%, or \$3,496,869, over 2016. The budgeted growth in revenues is derived from two sources: an overall rate increase of 3.0% and new revenue from patient services volume changes.

Total operating expenses are anticipated to increase by 2.1%, or \$1,052,002, over 2016. Salaries and benefits will represent 62.2% of the overall expense budget, consistent with 2016, but lower than 2015 and 2014.

Spending for capital related items will approximate \$1.4 million (not including the two larger projects which will total approximately \$6 million). Approximately 19% is allocated to building and infrastructure improvements, 68% to equipment, and 13% to information technology.

Total days cash on hand are budgeted to average 113 days, and gross days in accounts receivable are estimated to average 57 days.

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 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 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. With the election results, changes at the national level are expected but the nature of those changes is not known at this time.

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

The Hospital's strategic planning has also focused in the past year on the opportunities presented by collaborative relationships with other healthcare providers. The Hospital continues to work with Eastern Maine Health Systems to identify areas where collaboration can improve access to services for its patients while reducing the cost of care. In 2017, the Hospital will continue to explore further collaboration and affiliation.

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

Balance Sheets

September 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 828,227	\$ 900,207
Short-term investments	2,001,830	4,555,630
Accounts receivable, less allowances for doubtful accounts of \$6,127,478 in 2016 and \$5,726,087 in 2015	5,494,438	5,928,824
Supplies	722,215	767,823
Prepaid expenses and other current assets	<u>1,893,218</u>	<u>1,705,499</u>
Total current assets	<u>10,939,928</u>	<u>13,857,983</u>
Assets limited as to use		
Board designated	12,660,431	11,585,367
Donor-restricted	<u>723,778</u>	<u>470,466</u>
Total assets limited as to use	<u>13,384,209</u>	12,055,833
Beneficial interest in perpetual trust	140,873	137,623
Beneficial interest in funds held by others	433,746	415,238
Other	149,599	120,535
Capital assets, net	<u>11,537,608</u>	<u>11,811,610</u>
Total assets	<u>\$ 36,585,963</u>	<u>\$ 38,398,822</u>

LIABILITIES AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 2,069,305	\$ 1,582,982
Accrued payroll, other related expenses and amounts withheld	2,496,575	2,341,391
Estimated third-party payor settlements	572,053	2,157,072
Accrued interest payable	56,601	64,924
Current portion of long-term debt	<u>445,584</u>	<u>444,093</u>
Total current liabilities	5,640,118	6,590,462
Long-term debt, less current portion	<u>2,551,155</u>	<u>2,996,739</u>
Total liabilities	<u>8,191,273</u>	<u>9,587,201</u>
Net position		
Invested in capital assets, net of related debt	8,540,869	8,370,778
Restricted		
Expendable for capital projects and other	811,101	540,872
Nonexpendable permanent endowments and perpetual trust	428,312	424,683
Unrestricted	<u>18,614,408</u>	<u>19,475,288</u>
Total net position	<u>28,394,690</u>	<u>28,811,621</u>
Total liabilities and net position	<u>\$ 36,585,963</u>	<u>\$ 38,398,822</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Net patient service revenue	\$ 45,906,378	\$ 44,703,497
Other operating revenues	2,861,535	2,851,772
Meaningful use revenue	<u>287,760</u>	<u>467,138</u>
Total operating revenues	<u>49,055,673</u>	<u>48,022,407</u>
Operating expenses		
Personnel services	25,407,688	24,723,790
Employee benefits	6,106,188	5,744,708
Purchased services	5,566,998	4,895,692
Supplies and other direct expenses	11,709,144	10,655,179
Depreciation and amortization	<u>1,725,471</u>	<u>1,849,936</u>
Total operating expenses	<u>50,515,489</u>	<u>47,869,305</u>
Operating (loss) income	(1,459,816)	153,102
Nonoperating expenses		
Interest expense	<u>145,751</u>	<u>164,235</u>
Loss before nonoperating revenues (losses), capital contributions and other gains (losses)	<u>(1,605,567)</u>	<u>(11,133)</u>
Nonoperating revenues (losses)		
Investment income	301,214	215,144
Net increase (decrease) in fair value of investments	587,994	(482,106)
Noncapital contributions	<u>17,100</u>	<u>40,615</u>
Net nonoperating revenues (losses)	<u>906,308</u>	<u>(226,347)</u>
Loss before capital contributions and other gains (losses)	(699,259)	(237,480)
Capital contributions	<u>251,120</u>	<u>-</u>
Loss before other gains (losses)	<u>(448,139)</u>	<u>(237,480)</u>
Other gains (losses)		
Gains (losses) on permanent endowments	3,629	(11,773)
Gains (losses) on funds held by others	<u>27,579</u>	<u>(8,869)</u>
Total other gains (losses)	<u>31,208</u>	<u>(20,642)</u>
Decrease in net position	(416,931)	(258,122)
Net position, beginning of year	<u>28,811,621</u>	<u>29,069,743</u>
Net position, end of year	<u>\$ 28,394,690</u>	<u>\$ 28,811,621</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 44,755,745	\$ 45,518,619
Payments to suppliers	(16,386,722)	(15,895,821)
Payments to employees	(31,358,692)	(30,309,193)
Other operating revenues	1,726,082	2,492,917
Meaningful use revenue	<u>642,760</u>	<u>208,250</u>
Net cash (used) provided by operating activities	<u>(620,827)</u>	<u>2,014,772</u>
Cash flows from noncapital financing activities		
Noncapital contributions	17,100	40,615
Contributions (reductions) to permanent endowment	<u>379</u>	<u>(196)</u>
Net cash provided by noncapital financing activities	<u>17,479</u>	<u>40,419</u>
Cash flows from capital and related financing activities		
Capital contributions	251,120	-
Interest paid on long-term debt	(154,074)	(158,158)
Principal paid on long-term debt	(444,093)	(442,666)
Purchases of capital assets	(1,216,224)	(1,477,094)
Proceeds from sale of capital assets	<u>-</u>	<u>7,113</u>
Net cash used by capital and related financing activities	<u>(1,563,271)</u>	<u>(2,070,805)</u>
Cash flows from investing activities		
Purchases of investments	(2,229,098)	(3,088,228)
Proceeds from maturities and principal reductions of investments	2,201,519	3,429,659
Investment income	301,214	215,144
Other	<u>(19,993)</u>	<u>28,531</u>
Net cash provided by investing activities	<u>253,642</u>	<u>585,106</u>
Net (decrease) increase in cash and cash equivalents	(1,912,977)	569,492
Cash and cash equivalents, beginning of year	<u>6,574,717</u>	<u>6,005,225</u>
Cash and cash equivalents, end of year	<u>\$ 4,661,740</u>	<u>\$ 6,574,717</u>
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 828,227	\$ 900,207
Cash and cash equivalents in short-term investments	2,001,830	4,555,630
Cash and cash equivalents in assets limited as to use	<u>1,831,683</u>	<u>1,118,880</u>
Total cash and cash equivalents	<u>\$ 4,661,740</u>	<u>\$ 6,574,717</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating (loss) income to net cash (used) provided by operating activities		
Operating (loss) income	\$ (1,459,816)	\$ 153,102
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities		
Depreciation and amortization	1,725,471	1,849,936
Provision for doubtful accounts	2,980,153	2,844,420
Gain on disposal of capital assets	(7,844)	(7,113)
Changes in		
Accounts receivable	(2,545,767)	(2,828,567)
Supplies	45,608	(23,054)
Prepaid expenses and other current assets	(187,719)	(490,634)
Accounts payable and accrued expenses	258,922	(441,892)
Accrued payroll, other related expenses and amounts withheld	155,184	159,305
Estimated third-party payor settlements	<u>(1,585,019)</u>	<u>799,269</u>
Net cash (used) provided by operating activities	<u>\$ (620,827)</u>	<u>\$ 2,014,772</u>

Supplemental disclosure of noncash and financing activities:

During 2016 and 2015, the net increase (decrease) in the fair value of investments was \$763,673 and \$(724,032), respectively.

During 2016 and 2015, the net increase (decrease) in the Hospital's interest in a perpetual trust was \$3,250 and \$(11,577), respectively.

During 2016 and 2015, the net increase and (decrease) in the Hospital's interest in funds held by others was \$27,579 and \$(8,869), respectively.

At September 30, 2016, construction costs of \$227,401 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, 2016 and 2015

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 (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, 2016 and 2015

Cash and Cash Equivalents

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

Supplies

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

Assets Limited as to Use and Short-Term Investments

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

Assets limited as to use primarily include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and which it may, at its discretion, subsequently use for other purposes. Also included in assets limited as to use are 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>2016</u>	<u>2015</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, 2016 and 2015

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 (losses).

Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity.

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, 2016 and 2015

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>2016</u>	<u>2015</u>
Charges foregone, based on established rates	\$ <u>2,967,289</u>	\$ <u>2,967,891</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>1,778,000</u>	\$ <u>1,778,000</u>
Equivalent percentage of charity care charges to all Hospital patient charges	<u>3.51%</u>	<u>3.70%</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.

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 \$301,828 and \$266,158 in 2016 and 2015, respectively.

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

Notes to Financial Statements

September 30, 2016 and 2015

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.

Recently Issued Accounting Pronouncement

On October 1, 2015, the Hospital adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. The adoption of this statement had no impact on the Hospital's balance sheets, statements of revenues, expenses and changes in net position or cash flows for the years ended September 30, 2016 and 2015.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through January 20, 2017, 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, 2011.

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

Notes to Financial Statements

September 30, 2016 and 2015

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, 2004.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 18% in 2016, and 45% and 17% in 2015, 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 2016 net patient service revenue decreased approximately \$471,000 and the 2015 net patient service revenue increased approximately \$1,655,000, 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>2016</u>	<u>2015</u>
Gross patient service revenue	\$ 84,504,336	\$ 80,185,539
Contractual adjustments	(32,507,666)	(29,566,866)
Charity care	(2,967,289)	(2,967,891)
Discounts and other allowances	(142,850)	(102,865)
Provision for bad debts	<u>(2,980,153)</u>	<u>(2,844,420)</u>
	<u>\$ 45,906,378</u>	<u>\$ 44,703,497</u>

3. Cash and Cash Equivalents

At September 30, 2016, the carrying amounts of deposits with banks were \$828,227 and the bank balances were \$1,596,750. At September 30, 2015, the carrying amounts of deposits with banks were \$900,207 and the bank balances were \$1,879,840. 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, 2016 and 2015. At September 30, 2016 and 2015, \$1,111,210 and \$1,397,390, 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, 2016 and 2015

4. Accounts Receivable

Components of accounts receivable at September 30 are as follows:

	<u>2016</u>	<u>2015</u>
Total accounts receivable	\$15,384,785	\$16,681,160
Less:		
Allowances for uncollectible amounts	6,127,478	5,726,087
Allowances for contractual adjustments	3,106,196	3,707,366
Periodic interim payments	<u>656,673</u>	<u>1,318,883</u>
Accounts receivable, net	<u>\$ 5,494,438</u>	<u>\$ 5,928,824</u>

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

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

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

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>

Short-term investments consist of cash and cash equivalents at September 30, 2016 and 2015.

Fair Value Measurements

GASB Statement No. 72 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 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.

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

	<u>Fair Value Measurements at September 30, 2015</u>			
	<u>Total</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs Using the Market Approach (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 5,674,510	\$ 5,674,510	\$ -	\$ -
U.S. Treasury obligations and government sponsored enterprises	520,835	520,835	-	-
Corporate bonds	3,550,685	-	3,550,685	-
Marketable equity securities	<u>6,865,433</u>	<u>6,865,433</u>	-	-
Total	<u>\$ 16,611,463</u>	<u>\$ 13,060,778</u>	<u>\$ 3,550,685</u>	<u>\$ -</u>

The fair value of Level 2 assets is primarily based on quoted market prices of comparable securities.

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September 30, 2016 and 2015

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>2015</u>		
			<u>1-5</u>	<u>6-10</u>	<u>10+</u>
Obligations of U.S. government	\$ 520,835	\$ -	\$ 401,436	\$ 102,446	\$ 16,953
Corporate and taxable bonds	<u>3,550,685</u>	<u>299,952</u>	<u>3,250,733</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,071,520</u>	<u>\$ 299,952</u>	<u>\$ 3,652,169</u>	<u>\$ 102,446</u>	<u>\$ 16,953</u>

The risk categories for the debt securities held by the Hospital at September 30, 2016 and 2015 are as follows:

<u>Investment Rating*</u>	<u>2016</u>	<u>2015</u>
AA+	\$ -	\$ 501,149
A+	300,480	501,151
A	101,835	101,554
A-	351,103	554,470
BBB+	1,017,534	500,202
BBB	808,933	1,314,824
BBB-	889,123	378,584
BB+	-	199,900
Not rated	<u>215,397</u>	<u>19,686</u>
Total debt securities	<u>\$ 3,684,405</u>	<u>\$ 4,071,520</u>

Certain debt securities are UnitedHealth Group, Inc. bonds, Federal National Mortgage Association bonds, Federal Home Loan Mortgage Corporation collateralized mortgage obligations (CMO) and Government National Mortgage Association CMO, which are not rated.

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

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Notes to Financial Statements

September 30, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>
Interest and dividends, net of bond amortization and investment fees of \$(5,830) and \$(80,278) in 2016 and 2015, respectively	\$ 301,214	\$ 215,144
Realized (losses) gains on sales of securities	(175,679)	241,926
Unrealized gains (losses) on investments	<u>763,673</u>	<u>(724,032)</u>
	<u>\$ 889,208</u>	<u>\$ (266,962)</u>

The Hospital places no limit on the amount it may invest in any one issuer. At September 30, 2016 and 2015, 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:

	2016		<u>Total Fair Value</u>
	1	2	
Obligations of U.S. government	\$ -	\$ 15,187	\$ 15,187
Corporate and taxable bonds	-	3,669,218	3,669,218
Cash and cash equivalents	3,833,513	-	3,833,513
Marketable equity securities	<u>-</u>	<u>7,868,121</u>	<u>7,868,121</u>
	<u>\$ 3,833,513</u>	<u>\$11,552,526</u>	<u>\$15,386,039</u>

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Investment type	2015		Total Fair Value
	Category		
	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>6,865,433</u>	<u>6,865,433</u>
	<u>\$ 5,674,510</u>	<u>\$10,936,953</u>	<u>\$16,611,463</u>

There were no category 3 investments in 2016 or 2015.

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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September 30, 2016 and 2015

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, 2014	\$ 582,907	\$ 436,456	\$ 1,019,363
Investment loss			
Investment income	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	540,872	424,683	965,555
Investment return			
Investment income	1,205	379	1,584
Net appreciation (realized and unrealized)	<u>26,374</u>	<u>3,250</u>	<u>29,624</u>
Total investment return	27,579	3,629	31,208
Contributions	252,176	-	252,176
Appropriation of endowment assets for expenditure	<u>(9,526)</u>	<u>-</u>	<u>(9,526)</u>
Balances, September 30, 2016	<u>\$ 811,101</u>	<u>\$ 428,312</u>	<u>\$ 1,239,413</u>

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

September 30, 2016 and 2015

6. Capital Assets

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

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

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>

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September 30, 2016 and 2015

During 2016, the Hospital Board of Directors approved approximately \$4.5 million in capital expenditures for a hospital renovation and infrastructure improvement project. At September 30, 2016, approximately \$534,714 of costs are included in construction in progress related to this project. The project is expected to be completed by August 2017 and is being financed through a \$6 million revolving line of credit agreement as noted in Note 14.

7. Line of Credit

The Hospital had available an unsecured line of credit with a bank in the amount of \$3,000,000 at September 30, 2016 and 2015. Interest on the line is .375% below the prime rate with a floor of 3.25% (3.25% at September 30, 2016 and 2015). There were no borrowings outstanding under these lines at September 30, 2016 or 2015. The current line of credit expires June 30, 2017.

8. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended September 30, 2016 and 2015:

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

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Notes to Financial Statements

September 30, 2016 and 2015

	2015			
	Beginning Balances	Reductions	Ending Balances	Current Portion of Long-Term Liabilities
Variable rate (5.125% hereafter) tax-exempt revenue bond to Maine Municipal Bond Bank in annual installments of \$300,000, plus interest, through November 2022.	\$ 2,700,000	\$ (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 (3.00% - 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>

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>
2017	\$ 445,584	\$ 132,927	\$ 578,511
2018	436,155	112,129	548,284
2019	405,000	93,089	498,089
2020	405,000	72,125	477,125
2021	405,000	52,770	457,770
2022-2026	<u>900,000</u>	<u>41,682</u>	<u>941,682</u>
	<u>\$ 2,996,739</u>	<u>\$ 504,722</u>	<u>\$ 3,501,461</u>

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Notes to Financial Statements

September 30, 2016 and 2015

9. Restricted Net Position

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

	<u>2016</u>	<u>2015</u>
Oncology clinic	\$ 407,351	\$ 155,269
Heartwise	96,413	97,220
Buswell Trust	19,505	19,455
Scholarships	9,679	9,952
Appreciation on funds held by others	230,857	222,301
Other	47,296	36,675
Beneficial interest in trust	140,873	137,623
Endowments	<u>287,439</u>	<u>287,060</u>
	<u>\$ 1,239,413</u>	<u>\$ 965,555</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 \$11,662 and \$9,540 for the years ended September 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Medicare	19 %	25 %
MaineCare	11	17
Blue Cross	6	4
Other third-party payors	25	22
Patients	<u>39</u>	<u>32</u>
	<u>100 %</u>	<u>100 %</u>

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Notes to Financial Statements

September 30, 2016 and 2015

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, 2016 and 2015. 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.

14. Subsequent Event

Effective October 13, 2016, the Hospital entered into an agreement with a bank for a \$6 million Revolving Line of Credit (Line) to fund an ongoing Hospital renovation and infrastructure improvement project. The Line has a three-year term and is collateralized by a security interest in all business assets of the Hospital. Advances under the Line are at a fixed interest rate of 2.78% and monthly interest only payments are required until the line matures, at which time any outstanding principal will be due in full.

SUPPLEMENTARY INFORMATION

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

Year Ended September 30, 2016

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Inpatient routine service centers			
Adult and pediatrics	\$ 2,613,036	\$ 653,274	\$ 3,266,310
Intensive care unit	1,960,185	209,817	2,170,002
Nursery	<u>102,876</u>	<u>-</u>	<u>102,876</u>
Total inpatient routine service centers	<u>4,676,097</u>	<u>863,091</u>	<u>5,539,188</u>
Ancillary service centers			
Operating and recovery room	1,018,950	4,593,014	5,611,964
Delivery and labor room	146,139	35,491	181,630
Anesthesiology	635,749	1,996,725	2,632,474
Radiology - diagnostic	1,009,585	13,552,300	14,561,885
Laboratory	1,067,787	10,118,652	11,186,439
Respiratory therapy	1,152,279	1,615,240	2,767,519
Physical therapy	896,651	2,101,521	2,998,172
Speech pathology	17,441	25,214	42,655
Medical supplies charged to patients	1,246,937	2,161,939	3,408,876
Drugs charged to patients	<u>1,460,101</u>	<u>7,714,289</u>	<u>9,174,390</u>
Total ancillary service centers	<u>8,651,619</u>	<u>43,914,385</u>	<u>52,566,004</u>
Physician, clinic and ambulatory service centers			
Clinics	892	2,865,777	2,866,669
Physician services	345	10,886,211	10,886,556
Emergency department	273,113	8,354,482	8,627,595
Ambulance	<u>110,205</u>	<u>3,908,119</u>	<u>4,018,324</u>
Total outpatient service centers	<u>384,555</u>	<u>26,014,589</u>	<u>26,399,144</u>
Gross patient service revenue	<u>\$ 13,712,271</u>	<u>\$ 70,792,065</u>	84,504,336
Contractual and other adjustments			32,650,516
Charity care			2,967,289
Provision for bad debts			<u>2,980,153</u>
Net patient service revenue			<u>\$ 45,906,378</u>

**HOSPITAL ADMINISTRATIVE DISTRICT NO. 4,
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Operating Expenses

Year Ended September 30, 2016

	<u>Personnel</u>	<u>Other</u>	<u>Total</u>
General service cost centers			
Employee benefits	\$ -	\$ 6,106,188	\$ 6,106,188
Administrative and general	3,420,867	5,688,692	9,109,559
Operation of plant	457,546	1,254,086	1,711,632
Laundry and linen	74,105	56,914	131,019
Housekeeping	352,912	131,706	484,618
Dietary	314,377	169,028	483,405
Nursing administration	640,037	14,207	654,244
Medical records	221,383	107,388	328,771
Social services	<u>142,639</u>	<u>9,878</u>	<u>152,517</u>
Total general service cost centers	<u>5,623,866</u>	<u>13,538,087</u>	<u>19,161,953</u>
Inpatient routine service cost centers			
Adults and pediatrics	2,030,488	601,476	2,631,964
Intensive care unit	295,315	10,851	306,166
Nursery	<u>48,854</u>	<u>-</u>	<u>48,854</u>
Total inpatient routine service cost centers	<u>2,374,657</u>	<u>612,327</u>	<u>2,986,984</u>
Ancillary service cost centers			
Operating and recovery room	771,705	311,742	1,083,447
Delivery and labor room	20,595	-	20,595
Anesthesiology	762,677	22,029	784,706
Radiology - diagnostic	964,585	1,132,380	2,096,965
Laboratory	774,242	1,325,483	2,099,725
Respiratory therapy	328,836	135,296	464,132
Physical therapy	702,385	124,267	826,652
Speech therapy	-	11,538	11,538
Medical supplies charged to patients	139,033	900,720	1,039,753
Drugs charged to patients	<u>230,760</u>	<u>2,814,518</u>	<u>3,045,278</u>
Total ancillary service cost centers	<u>4,694,818</u>	<u>6,777,973</u>	<u>11,472,791</u>
Outpatient service cost centers			
Clinics	1,554,041	418,057	1,972,098
Physician practices	6,676,675	1,160,303	7,836,978
Emergency department	2,156,401	245,357	2,401,758
Ambulance	1,517,531	253,273	1,770,804
Hospice	<u>115,609</u>	<u>1,340</u>	<u>116,949</u>
Total outpatient service cost centers	<u>12,020,257</u>	<u>2,078,330</u>	<u>14,098,587</u>
Other cost centers			
Lifeline	-	819	819
Physician recruitment	-	143,246	143,246
Dexter family	362,434	34,577	397,011
Other	<u>331,656</u>	<u>196,971</u>	<u>528,627</u>
Total other cost centers	<u>694,090</u>	<u>375,613</u>	<u>1,069,703</u>
Depreciation and amortization	<u>-</u>	<u>1,725,471</u>	<u>1,725,471</u>
Operating expenses	<u>\$ 25,407,688</u>	<u>\$ 25,107,801</u>	<u>\$ 50,515,489</u>