

THE EDWARD W. McCREADY MEMORIAL HOSPITAL

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Administrator and Board of Directors
The Edward W. McCready Memorial Hospital
Crisfield, Maryland

We have audited the accompanying statements of financial position of The Edward W. McCready Memorial Hospital (a non-profit organization) as of June 30, 2011 and 2010, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with accounting principles generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Edward W. McCready Memorial Hospital as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Edward W. McCready Memorial Hospital is a component unit of McCready Foundation, Inc. The Hospital shares a common Board of Directors with the Alice Byrd Tawes Nursing Home, Chesapeake Cove Assisted Living and the McCready Foundation, Inc. Endowment Fund. We have also audited the financial statements of these commonly controlled entities. These financial statements reflect only the transactions of the Edward W. McCready Memorial Hospital.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of revenues and expenses on pages 22 – 26 are presented for purposes of additional analysis and are not a required part of the

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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Scott Tawes & Associates, CPA, P.A.
Princess Anne, Maryland
September 16, 2011

The Edward W. McCready Memorial Hospital
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,210,408	\$ 1,792,313
Accounts Receivable (less allowances for uncollectible accounts of \$681,428 in 2011 and \$779,841 in 2010)	1,858,167	2,590,684
Inventories	347,843	349,652
Prepaid Expenses	<u>52,047</u>	<u>152,001</u>
Total Current Assets	<u>3,468,465</u>	<u>4,884,650</u>
PROPERTY AND EQUIPMENT, at cost		
Land Improvements	50,775	47,300
Building - New Hospital	7,356,112	7,315,216
- Old Hospital	762,956	748,723
- Hospital Portion of Nursing Home	1,034,288	-
Fixed Equipment	1,302,401	918,037
Major Movable Equipment	3,964,222	3,113,821
Princess Anne	<u>445,983</u>	<u>445,983</u>
Total	14,916,737	12,589,080
Less: Accumulated Depreciation	<u>(7,457,289)</u>	<u>(6,535,852)</u>
Net Property and Equipment	<u>7,459,448</u>	<u>6,053,228</u>
OTHER ASSETS		
Due From Alice Byrd Tawes Nursing Home	1,834,112	2,320,607
Due From Assisted Living	<u>144,647</u>	<u>29,655</u>
Total Other Assets	<u>1,978,759</u>	<u>2,350,262</u>
Total Assets	<u>\$ 12,906,672</u>	<u>\$ 13,288,140</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements.

The Edward W. McCready Memorial Hospital
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts Payable	\$ 964,102	\$ 596,851
Accrued Salaries, Annual Leave and Related Taxes	569,944	788,974
Current Portion of Long-Term Debt	688,521	633,070
Accrued Interest	9,629	11,042
PIP	15,923	382,178
Blue Cross - Advance	164,600	131,100
MA-Advance	36,265	36,265
Total Current Liabilities	2,448,984	2,579,480
LONG - TERM DEBT		
Mortgage Payable - USDA	1,153,822	1,281,194
- City of Crisfield	-	149,123
Capital Equipment Leases	1,478,674	1,011,029
Total Long - Term Debt	2,632,496	2,441,346
Less: Current Portion Above	(688,521)	(633,070)
Total Long - Term Debt	1,943,975	1,808,276
OTHER LIABILITIES		
Due to Endowment Fund	323,633	294,270
Total Other Liabilities	323,633	294,270
TOTAL LIABILITIES	4,716,592	4,682,026
NET ASSETS		
Unrestricted	8,190,080	8,606,114
Total Net Assets	8,190,080	8,606,114
Total Liabilities and Net Assets	\$ 12,906,672	\$ 13,288,140

The Accompanying Notes Are An Integral Part Of These Financial Statements.

The Edward W. McCready Memorial Hospital
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES, GAINS AND OTHER SUPPORT		
Net Patient Service Revenue	\$ 16,610,242	\$ 17,548,649
Other Operating Revenue	<u>170,979</u>	<u>36,642</u>
Total Revenues, Gains and Other Support	<u>16,781,221</u>	<u>17,585,291</u>
EXPENSES		
Professional Care Of Patients	8,603,434	8,578,009
Dietary Services	84,125	67,238
General Services	2,042,250	2,061,360
Administrative Services	1,723,773	1,572,444
Employee Health & Welfare	1,822,453	1,618,953
Medical Malpractice Costs	176,682	170,441
Depreciation	876,986	531,128
Interest	221,610	164,816
Provision for Bad Debts	<u>1,762,196</u>	<u>1,480,837</u>
Total Expenses	<u>17,313,509</u>	<u>16,245,226</u>
Operating Income (Loss)	<u>(532,288)</u>	<u>1,340,065</u>
NON-OPERATING REVENUES AND OTHER CHANGES		
Interest Income	10,163	5,959
Contributions and Donations	2,000	18,160
Miscellaneous Income	7,883	7,112
Gain (Loss) on Sale of Assets	1,438	12,750
Grant Revenues	<u>94,770</u>	<u>132,934</u>
Total Non-Operating Revenue and Other Changes	<u>116,254</u>	<u>176,915</u>
Increase (Decrease) In Unrestricted Net Assets	<u>\$ (416,034)</u>	<u>\$ 1,516,980</u>

The Accompanying Notes Are An Integral Part of These Financial Statements.

The Edward W. McCready Memorial Hospital
STATEMENTS OF CHANGES IN NET ASSETS
For The Years Ended June 30, 2011 and 2010

	2011	2010
UNRESTRICTED NET ASSETS		
Operating Income (Loss)	\$ (532,288)	\$ 1,340,065
Contributions and Donations	2,000	18,160
Interest Income	10,163	5,959
Miscellaneous Income	7,883	7,112
Gain (Loss) on Sale of Assets	1,438	12,750
Grant Income	94,770	132,934
Increase (Decrease) In Unrestricted Net Assets	(416,034)	1,516,980
Increase (Decrease) In Net Assets	(416,034)	1,516,980
NET ASSETS, BEGINNING OF YEAR	8,606,114	7,089,134
NET ASSETS, END OF YEAR	\$ 8,190,080	\$ 8,606,114

The Accompanying Notes Are An Integral Part of These Financial Statements.

The Edward W. McCready Memorial Hospital
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ (416,034)	\$ 1,516,980
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	876,986	531,128
(Increase) Decrease in Operating Assets:		
Accounts Receivable	732,517	(484,941)
Inventories	1,809	(12,776)
Prepaid Expenses	99,954	13,175
Due From Alice Byrd Tawes Nursing Home	486,495	(1,157,181)
Due From Assisted Living	(114,992)	(29,655)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	367,251	13,183
Accrued Salaries, Annual Leave, and Related Taxes	(218,945)	(10,862)
Accrued Interest	(1,488)	1,623
Due to Endowment Fund	29,363	91,469
Blue Cross - Advance	33,500	6,700
PIP	(366,255)	293,307
MA - Advance	-	(3,693)
Net Cash Provided (Used) by Operating Activities	<u>1,510,161</u>	<u>768,457</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment - Net of Disposals and Transfers	<u>(2,283,216)</u>	<u>(1,571,159)</u>
Net Cash Provided (Used) by Investing Activities	(2,283,216)	(1,571,159)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds - New Loans	928,505	477,897
Principal Payments on Loans	<u>(737,355)</u>	<u>(356,914)</u>
Net Cash Provided (Used) by Financing Activities	<u>191,150</u>	<u>120,983</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(581,905)</u>	<u>(681,719)</u>
Cash And Cash Equivalents at the Beginning of the Year	<u>1,792,313</u>	<u>2,474,032</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 1,210,408</u>	<u>\$ 1,792,313</u>

The Hospital paid interest of \$223,023 in 2011 and \$163,278 in 2010, and no income tax.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies

Nature and Organization

The Edward W. McCready Memorial Hospital is a 20 bed rural hospital located in Crisfield, MD. The Hospital is associated with and physically connected to The Alice Byrd Tawes Nursing Home. Both institutions are controlled by a common Board of Directors which operates under the name of McCready Foundation, Inc.

Accounting Standards Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literatures. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to content through the Topic, Subtopic, Section and Paragraph structure.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Basis of Presentation

Financial statement presentation follows the standards established by ASC Topic 958 Not-for-profit Entities (formerly Financial Accounting Standard Board Statement 117, "*Financial Statements of Not-For-Profit Organizations*").

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. The Hospital follows the policy of capitalizing any individual items with a cost greater than \$1,000. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used.

Presentation of Net Assets by Restriction

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions.

Operating Income (Loss)

The statement of operations includes "operating income (loss)". Changes in unrestricted net assets, which are excluded from "operating income (loss)," consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue under third-party agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (continued)

Medicare and Medicaid

Services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per visit. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report and audits thereof by the Medicare fiscal intermediary.

Commercial Carriers

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital is based on charges for services provided to the patients.

Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501 C (3) of the Internal Revenue Code.

Donated Services and Materials

No amounts have been reported in the financial statements for donated services or materials inasmuch as no objective basis is available to measure the value of such services or materials.

Accounts Receivable

A reserve for uncollectible receivables has been established based on private pay, insurances and sliding scale fees. The reserve is estimated for the year ended June 30, 2011 at \$681,428 and \$779,841 for the year ended June 30, 2010. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

Inventories

Inventories consist of medical supplies and general operating supplies recorded at FIFO cost.

The Edward W. McCready Memorial Hospital
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011 AND 2010

2. Change in Presentation and Accounting Method

Financial Statement Presentation

As addressed in Note 1, "Summary of Significant Accounting Policies", The Hospital adopted (effective July 1, 2009) the financial statement presentation requirements of ASC Topic 958 Not-for-profit Entities (formerly Financial Accounting Standards Board Statement (SFAS) No. 117, "*Financial Statements of Not-For-Profit Organizations*"). The presentation has eliminated the traditional fund classifications used previously in financial statements prepared in accordance with the American Institute of Certified Public Accountant's industry audit guide, Audits of Providers of Health Care Services.

Contributions

The Hospital has also elected to adopt ASC Topic 958 Not-for-profit Entities (formerly SFAS No. 116, "*Accounting for Contributions Received and Contributions Made*") to account for contributions received and made. In accordance with ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

3. Cash, Cash Equivalents and Certificates of Deposit

Cash and cash equivalent funds are deposited in PNC Bank, the Bank of Delmarva and Hebron Savings Bank. The various cash balances **in bank** at June 30, 2011 and 2010 are summarized below. All non-interest bearing balances are fully insured by the FDIC. Only the interest bearing balances up to \$250,000 (PNC Bank), \$250,000 (Bank of Delmarva) and \$250,000 per CDARS Certificate of Deposit are fully insured by the FDIC. Thus, the remaining balances of \$16,275 are uninsured.

	<u>2011</u>	<u>2010</u>
Unrestricted Cash:		
Operating Account (PNC)	\$ 337,219	\$ 300,535
Payroll Account (PNC)	9,235	38,584
General Reserved Account (PNC)	33,062	539,079
Peyton Center Sunshine (PNC)	-	42,465
Special Account (PNC)	262	222,138
License Account (PNC)	230	262
Money Market (PNC)	-	3,800
Health Plan (PNC)	192	7,832
Money Market (PNC)	111,379	60,574
Donations & Fundraising (PNC)	21,506	-
Construction Account (Bank of Delmarva)	30,909	-
CDARS (Bank of Delmarva)	761,424	755,630
Wire Transfer Account (PNC)	800	800
Certificate of Deposit (HSB)	-	251,468
Total Cash & Cash Equivalents: In Bank	<u>\$ 1,306,218</u>	<u>\$ 2,223,167</u>

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

3. Cash, Cash Equivalents and Certificates of Deposit (continued)

Since the Hospital, Nursing Home, Chesapeake Cove and the Endowment Fund operate under the same Federal Identification Number, the FDIC coverage with PNC Bank is exhausted with the Hospital, Nursing Home, Chesapeake Cove and part of the Endowment Fund cash accounts. The remaining cash accounts are uninsured as follows:

	<u>Balance</u> <u>Per Bank</u>	<u>FDIC</u> <u>Insured</u>	<u>Uninsured</u>
McCready Hospital			
PNC Bank	\$ 513,885	\$ 513,885	-
Bank of Delmarva - CDARS	761,424	761,424	-
Bank of Delmarva - Construction	30,909	30,909	-
Alice Byrd Tawes Nursing Home			
PNC Bank (Savings & MM accts)	55,021	55,021	-
Bank of Delmarva (Savings)	47	47	-
Chesapeake Cove Assisted Living			
PNC Bank (Operating acct)	1,465	1,465	-
Endowment Fund			
PNC Bank (MM acct)	6,631	6,631	-
PNC Bank (CD)	50,947	34,672	16,275
Bank of Delmarva (CD)	145,289	145,289	-
	<u>\$ 1,565,618</u>	<u>\$ 1,549,343</u>	<u>\$ 16,275</u>

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

4. Property and Equipment

At June 30, 2011 and 2010, the cost and related depreciation of property and equipment were as follows:

	<u>Life</u>	<u>2011</u>	<u>2010</u>
Land Improvements	10-50 Years	\$ 50,775	\$ 47,300
Building - New Hospital	10-40 Years	7,356,112	7,315,216
Building - Old Hospital	10-50 Years	762,956	748,723
Building - Hospital Portion of Nursing Home	10-40 Years	1,034,288	-
Fixed Equipment	5 Years	1,302,401	918,037
Major Moveable Equipment	10-20 Years	3,964,222	3,113,821
Princess Anne	30 Years	445,983	445,983
		<u> </u>	<u> </u>
Total Assets		\$ 14,916,737	\$ 12,589,080
Less: Accumulated Depreciation		<u>(7,457,289)</u>	<u>(6,535,852)</u>
Net Property and Equipment		<u>\$ 7,459,448</u>	<u>\$ 6,053,228</u>

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$876,986 and \$531,128, respectively.

During fiscal year 2011, some of the Nursing Home's property and equipment was transferred into the Hospital. A reconciliation of the Hospital's property and equipment and related depreciation is as follows:

	<u>Balance</u> <u>6/30/2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance</u> <u>6/30/2011</u>
Property, Plant and Equipment	\$ 12,589,080	\$ 1,227,628	\$ (8,409)	\$ 1,108,438	\$ 14,916,737
Accumulated Depreciation	<u>6,535,852</u>	<u>855,445</u>	<u>(4,457)</u>	<u>70,449</u>	<u>7,457,289</u>
Net	<u>\$ 6,053,228</u>	<u>\$ 372,183</u>	<u>\$ (3,952)</u>	<u>\$ 1,037,989</u>	<u>\$ 7,459,448</u>

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

5. Long-Term Debt

The following summarizes long-term debt at June 30, 2011 and 2010.

	<u>Balance at June 30</u>	
	<u>2011</u>	<u>2010</u>
<u>USDA Mortgage Loan</u>		
Mortgage loan Payable to USDA, made on February 5, 1979 in the amount of \$3,200,000 matures January, 2021, payable in monthly installments of \$15,712 including interest at 5%, collateralized by a first mortgage on the Hospital's land, building, personal property, and pledge of real income. A debt service account requirement (USDA loan agreement paragraph 4.5.1) has been waived by having the McCready Foundation, Inc. pledge a savings account held at PNC Bank (balance at June 30, 2010 - \$50,896). The USDA subordinated its position on this mortgage, but only to the extent of parity with the mortgages from the Bank of Delmarva in the amount of \$4,000,000 and the USDA in the amount of \$6,000,000 as mentioned in Note 8.	\$ 1,153,822	\$ 1,281,194
<u>City of Crisfield Loan</u>		
A PNC loan of \$1.3 million to the City of Crisfield that was reloaned to the Hospital to pay delinquent payroll tax; amortized over 15 years; payable in monthly installments of \$9,047 at an interest rate of 4% beginning February, 2003 and due in full on or before April 14, 2013, collateralized by a second lien to the 1979 USDA mortgage listed above. The City of Crisfield subordinated its position on this loan to the aforementioned USDA mortgage in the amount of \$3,200,000 and the mortgages with the Bank of Delmarva in the amount of \$4,000,000 and the USDA in the amount of \$6,000,000 as mentioned in Note 8.	-	149,123
<u>Capital Equipment Leases</u>		
IBM Computer Equipment and Fuji Scanners, financed by G.E. Commercial Finance for 60 months at \$3,438 (8.82% interest rate).	13,500	51,641
Fluoroscopy system financed by First American for 72 months at \$4,545 (8% interest rate)	104,348	148,599
Versamed Vent financed by Carlton Financial for 60 months at \$474 (9.64% interest rate)	9,123	13,687

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

5. Long Term Debt (continued)

	<u>Balance at June 30</u>	
	<u>2011</u>	<u>2010</u>
Olympus Endoscopy Suite - \$86,097 - financed by First American for \$1,902 for 60 months (11.69% interest rate)	49,888	69,400
Lab System/ Healthland N.H. - \$45,255 financed by First American for \$1,402 for 36 months (7.2% interest rate)	10,916	26,340
Clinical System Lease 1 - \$108,514 financed by First American for \$3,410 for 36 months (8.1855% interest rate)	36,016	72,354
Avaya Telephone System - \$166,430 financed by Summit Funding Group, Inc. for 36 months at \$4,986 (3.1825% interest rate)	101,703	161,886
Healthland Clinical System Lease 2 - \$188,224 financed by First American for 36 months at \$5,867 (7.6388% interest rate)	94,247	154,912
Healthland Clinical System Lease 3 - \$89,432 financed by First American for 36 months at \$2,798 (7.9027% interest rate)	47,355	75,955
Scopes & PFT Machine - \$129,766 financed by First American for 60 months at \$2,583 (7.2144% interest rate)	95,608	120,644
Blade Server - \$52,909 financed by First American for 36 months at \$1,650 (7.6680% interest rate)	29,431	47,611
Immunoassay Analyzer - \$85,000 financed by Siemens for 60 months at \$1,417 (0% interest rate)	55,247	68,000
GE Proteus XR/A System - \$79,203 financed by GE for 60 months at \$1,549 (6.46775% interest rate)	71,223	-
Hologic Digital Mammo System - \$246,400 financed by Provident Leasing for 60 months at \$4,751 (5.8899% interest rate)	217,576	-

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

5. Long Term Debt (continued)

	Balance at June 30	
	2011	2010
GE Portable X-Ray - \$38,000 financed by First American for 36 months at \$1,146 (5.4034% interest rate)	33,083	-
Alban Generator - \$246,900 financed by Provident Leasing for 60 months at \$4,916 (7.2321% interest rate)	222,465	-
Healthland Clinical System Lease IV - \$283,362 financed by First American for 36 months at \$8,832 (7.6388% interest rate)	254,977	-
Telemetry System - \$34,641 financed by First American for 36 months at \$1,046 (5.5260% interest rate)	31,968	-
Total Long-Term Debt	\$ 2,632,496	\$ 2,441,346

Scheduled payments of principal due on long term debt for subsequent years ending June 30 are as follows:

2012	\$	688,521
2013		593,975
2014		412,845
2015		301,504
2016		223,365
Thereafter		412,286
Total	\$	2,632,496

6. 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. The Hospital does not pursue collection of amounts determined to qualify as charity care. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$987,906 and \$919,829 in the years ended June 30, 2011 and 2010, respectively.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

7. 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, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue under third-party agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

The following estimated adjustments were made to gross patient revenues for the years ended June 30, 2011 and 2010:

	2011	2010
Gross Patient Service Revenue	\$ 20,450,108	\$ 21,338,175
Less Charity Care and Contractual Adjustments	(3,839,866)	(3,789,526)
Net Patient Service Revenue	\$ 16,610,242	\$ 17,548,649

8. Contingencies

The Hospital's charges are subject to review and approval by the Maryland Health Services Cost Review Commission. Until such review has been completed and approved, there exists a contingent liability to repay amounts in excess of allowable charges.

The Hospital is contingently liable for the following two loans used to finance construction of the new Nursing Home:

USDA – Second mortgage – \$6,000,000 dated June 4, 2009 bearing interest at 4.25%. It is amortized over 40 years with the final installment due 6/4/2049. The purpose of the loan is to construct the new nursing home. The collateral is to include all assets of the Hospital, Nursing Home and the Foundation. Payments are scheduled to be interest only through 6/4/2011, with monthly principal and interest payments of \$26,580 starting 7/4/2011. The balance of this loan as of June 30, 2011 and 2010 was \$5,534,509 and \$4,850,467, respectively. The Nursing Home is to make all scheduled payments.

The Bank of Delmarva – Third mortgage – \$4,000,000 dated June 4, 2009 bearing interest at 6.5% on the total sums disbursed, starting July 4, 2009 to June 4, 2011. Principal and interest payments of \$25,287.01 shall commence on July 4, 2011 monthly until June 4, 2016. From and after the 4th of June, 2016, principal and interest at the rate

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

8. Contingencies (continued)

of prime minus one-half percent (-.50%), as of June 4, 2016, on the unpaid principal, shall be due and payable in Three Hundred (300) consecutive monthly installments (based on a thirty (30) year amortization) commencing on the 4th of July, 2016, and continuing on the like day of each month thereafter, to and including the 4th of June, 2041, when the final payment of all principal and interest shall be due and payable in full. The term "prime rate of interest" as used herein is defined as the prevailing corporate prime rate as published daily in the Wall Street Journal, or its successor publication. Any increase or decrease in said rate of interest shall be adjusted every 60 months beginning June, 2016, and shall be due on the 4th day of each month following such change in said interest rate. Notwithstanding the above, it is understood and agreed, by and between the parties hereto, that the interest rate set forth herein shall, in no event, be less than 6.50%, nor greater than 9.75%, for the life of the loan. This loan is guaranteed by USDA. The balance of this loan as of June 30, 2011 and 2010 was \$3,689,673 and \$3,233,644, respectively. The collateral is to include all assets of the Hospital, Nursing Home, and the Foundation. The Nursing Home is to make all scheduled payments.

9. Employee Pension Plan

The Hospital and Nursing Home discontinued their match to the 403 (B) tax deferred annuity plan from January 1, 2004 to February 15, 2006. The 2% employer contribution was reinstated with the February 16, 2006 payroll with a salary cap of \$100,000 per year. The 2% employer contribution is not a match but an across the board contribution to all full time employees who have been employed for 1 year or more. Both full time and part time employees are allowed to participate in the Hartford plan through payroll deductions. Employer contributions to the plan for the Hospital employees for the years ended June 30, 2011 and 2010 amounted to \$144,802 and \$100,467, respectively.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

10. Related Party Transactions

The Hospital is affiliated with The Alice Byrd Tawes Nursing Home, Chesapeake Cove Assisted Living and The McCready Foundation Endowment Fund through a common Board. Shared and common expenses are consistently allocated among the three operating entities and include the following:

Related Party Transactions/ Shared Costs

	Hospital	Nursing Home	Assisted Living
Plant Operations	\$ 727,777	\$ 313,535	\$ 35
Security	82,460	28,991	-
Administration	290,289	156,461	106,687
Fiscal Services	656,212	142,275	-
Employee Health and Welfare	1,822,453	830,234	25,749
Dietary Costs	84,125	663,875	295
Communications	93,940	25,988	-
Insurance	46,984	47,215	-
Laundry	55,260	103,095	-
Human Resources	81,278	46,116	198
Purchasing	57,565	8,156	-
Pharmacy	272,243	155,544	-
Grounds	11,356	3,237	-
Housekeeping	164,987	187,131	-

Amounts due to or from the Hospital with respect to these related entities are separately stated on the Statement of Financial Position.

The Nursing Home had its builder's risk insurance policy through an agent named Jay Tawes who was on the Board of Directors and was the Chairman of the Fundraising Committee. Premiums paid on this policy for the years ended June 30, 2011 and 2010 were \$0 and \$1,426 (term of February through June 2010), respectively. The policy was not extended past June 30, 2010.

11. Concentration of Credit Risk

At June 30, 2011, the Hospital received a substantial amount of its support from Medicaid (\$2,900,458), Medicare (\$9,431,105), and HMO's (\$1,869,399). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the organization's activities.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

11. Concentration of Credit Risk (continued)

The Hospital elected to be self-insured for employee health insurance up to a cap of about \$1.5 million. The Hospital's actual cost for the year ended June 30, 2011 and 2010 were \$1,052,734 and \$905,690, respectively. For the fiscal year ended June 30, 2011, the Hospital and Nursing Home are self-insured up to a cap of about \$1,295,000.

12. Commitments and Contingencies

DEED

The Hospital has elected the reimbursement method of Maryland unemployment coverage whereby the organization reimburses the DEED for unemployment claims charged against its account. These amounts are recorded as expense when a bill is received from DEED. No accrual for estimated unassessed reimbursements has been made since the amount charged to an employer's account is subject to complex rules of DEED and management believes any reimbursement to be assessed will not be material. Unemployment claims for fiscal years 2011 and 2010 were \$42,951 and \$20,149, respectively.

13. Employment Contracts

The Hospital has employment contracts which extend through June 2012. The aggregate commitments under these agreements for subsequent years ending June 30 are as follows:

2012	<u>817,997</u>
Total	<u><u>\$ 817,997</u></u>

14. Compensated Absences

Employees of the Hospital are entitled to paid vacation, depending on length of service and job classification. At June 30, 2011 and 2010, there were \$350,154 and \$376,699, respectively of vacation benefits due employees. Rights to receive sick leave do not vest.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

15. Operating Leases

As of June 30, 2011, the Hospital had entered into various non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2012 to 2014. Minimum rentals, on an annual basis, are as follows:

Fiscal Year ending June 30, 2012	\$ 177,928
2013	165,573
2014	<u>53,206</u>
	<u>\$ 396,707</u>

Rent expense for fiscal year 2011 was \$328,136 and \$377,825 for 2010.

16. Long-Lived Assets

The carrying value of long-lived assets and certain identifiable intangibles is reviewed by the Hospital for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed by ASC Topic 360 Property, Plant and Equipment (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*).

17. Post Employment Benefits

There are no post employment benefits.

18. Risk Management

The Hospital is exposed to various risk of losses related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital has obtained coverage from commercial insurance companies for these risks. There were no significant reductions in insurance coverage from the prior year. No settlements exceeded insurance coverage in the past three fiscal years.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

19. Fair Value Measurement

During the year ended June 30, 2010, the Hospital adopted ASC Topic 820 Fair Value (formerly SFAS No. 157, *Fair Value Measurements*). ASC 820 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. ASC 820 applies to all assets and liabilities that are being measured and reported on a fair value basis. ASC 820 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- a. Level 1: Quoted market prices in active markets for identical assets or liabilities
- b. Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
- c. Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Hospital performs a detailed analysis of the assets and liabilities that are subject to ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Upon review, the Hospital does not have any assets or liabilities that are subject to ASC 820 as of June 30, 2011.

20. Advertising

The Hospital's policy is to expense advertising costs as the costs are incurred. Total marketing and advertising costs for the years ended June 30, 2011 and 2010 amounted to \$152,781 and \$107,709, respectively.

21. Date of Management's Review

In preparing the financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through September 16, 2011, the date the financial statements were available to be issued.

SUPPLEMENTARY SCHEDULES

The Edward W. McCready Memorial Hospital
NET PATIENT SERVICE REVENUES
For The Years Ended June 30, 2011 and 2010

	Year Ended June 30,	
	2011	2010
INPATIENT:		
Admission Charge	\$ 158,823	\$ 131,272
Anesthesiology/CRNA	205,225	262,296
Blood	37,507	43,991
CAT Scan	184,976	195,806
Electrocardiology	72,551	65,482
Emergency and Clinic Treatment	287,723	451,367
Inhalation Therapy	516,122	441,856
Intravenous	14,674	16,192
Laboratory	656,090	660,240
Medical / Surgical Acute	3,027,944	3,174,845
Medical and Surgical Supplies	169,731	176,311
MRI	48,060	29,027
Nuclear Medicine	477	4,710
Observation	37,165	-
OCC Therapy	51,459	16,240
Operating Room	209,672	249,197
Pharmacy	601,920	684,345
Physical Therapy	130,112	89,215
Professional Fees - Radiology	285,452	348,442
Radiology	184,426	274,292
Same Day Surgery	3,496	3,343
Speech Therapy	22,619	12,746
Swing Bed	19,909	47,179
OUTPATIENT:		
Anesthesiology/CRNA	105,359	104,487
Blood	32,933	24,463
Cardiac Rehab	8,178	7,224
CAT Scan	615,539	659,201
Outpatient Health Centers	1,216,891	1,457,123
Electrocardiology	195,503	143,260
Emergency and Clinic Treatment	3,691,981	4,700,834
Inhalation Therapy	269,035	149,255
Intravenous	15,820	15,453
Laboratory	2,202,925	2,127,860
Medical and Surgical Supplies	554,907	459,674
MRI	424,791	341,361
Observation	111,655	-
Operating Room	720,550	775,286
OCC Therapy	105,641	51,407
Personal Care	67,938	64,428
Pharmacy	605,231	459,907
Physical Therapy	1,000,921	753,081
Radiology	1,325,929	1,254,735
Same Day Surgery	223,808	378,954
Speech Therapy	28,440	31,788
PATIENT SERVICE REVENUE	<u>20,450,108</u>	<u>21,338,175</u>
Less: Contractual Adjustments	(2,851,960)	(2,869,697)
Charity	(987,906)	(919,829)
NET PATIENT SERVICE REVENUE	<u><u>\$ 16,610,242</u></u>	<u><u>\$ 17,548,649</u></u>

The Edward W. McCready Memorial Hospital
OTHER OPERATING REVENUES
For The Years Ended June 30, 2011 and 2010

	Year Ended June 30, 2011	2010
Ambulance	\$ 15,389	\$ 27,163
Illness Prevention Program	-	295
Miscellaneous	146,956	460
Vendor Rebates	2,103	657
Telephone	453	1,688
Rental Income - Phys. Office	3,498	5,339
Community Benefits	680	1,040
Move Program	1,900	-
	\$ 170,979	\$ 36,642
TOTAL OTHER OPERATING REVENUES	\$ 170,979	\$ 36,642

The Edward W. McCready Memorial Hospital
OPERATING EXPENSES
For The Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>
PROFESSIONAL CARE OF PATIENTS:				
Anesthesiology	\$ 241,209	\$ 30,899	\$ 238,815	\$ 38,630
Cardiac Rehab	14,013	3,878	9,112	2,229
Ambulance	-	4,249	-	6,226
Clinic Providers	928,472	-	-	-
Crisfield Health Center	249,010	232,058	1,055,903	162,354
Community Services	1,403	6,944	-	11,954
CSR/CC	68,520	10,543	68,318	8,398
CT Scan	101,930	301,697	101,154	317,499
Diabetes	(493)	-	41,225	1,654
EEG/EKG	78,310	27,422	71,887	31,867
Emergency Services	645,381	840,439	668,819	825,272
Laboratory	478,521	539,089	458,361	597,102
Medical and Surgical	717,088	419,983	893,435	333,702
MRI	-	193,894	-	227,980
Nutrition Management	-	3,004	-	3,983
Occupational Therapy	50,662	22,299	38,823	6,208
Operating Room	129,438	159,777	137,733	157,806
Personal Care	62,599	2,197	60,504	2,267
Pharmacy	183,760	88,483	183,268	83,186
Physical Therapy	193,019	91,137	178,602	24,174
Princess Anne Health Center	-	13,584	-	22,827
PACU/ Recovery	113,666	11,498	131,700	8,959
Radiology	564,755	242,034	553,121	308,106
Respiratory Therapy	199,910	45,845	177,871	40,524
Speech Therapy	16,886	1,027	29,138	1,198
Ultrasound	76,846	113,645	74,008	103,592
Patient Care Coord.	74,558	8,346	70,960	7,555
	<u>\$ 5,189,463</u>	<u>\$ 3,413,971</u>	<u>\$ 5,242,757</u>	<u>\$ 3,335,252</u>
SUBTOTALS				
	<u>\$ 8,603,434</u>		<u>\$ 8,578,009</u>	
TOTALS				

The Edward W. McCready Memorial Hospital
OPERATING EXPENSES
For The Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>
GENERAL SERVICES				
Courier	\$ 41,033	\$ 10,474	\$ 35,308	\$ 5,007
Groundskeeping	-	11,356	-	21,280
Housekeeping	139,086	25,901	144,427	30,413
Human Resources	65,043	16,235	61,071	19,348
Illness Prevention Program	7,736	20	11,777	11
Information Technology	128,534	201,880	123,140	132,737
Laundry & Linen	-	55,260	-	68,413
Material Management	52,905	4,660	55,683	6,699
Medical Records	180,714	99,201	171,810	101,332
Medical Staff	6,803	6,189	24,807	3,901
Operation of Plant	176,908	550,869	133,024	576,583
Patient Services	125,317	6,016	54,068	167,385
Security	81,698	762	60,350	737
Staff Development	42,101	5,549	45,836	6,213
	<u>\$ 1,047,878</u>	<u>\$ 994,372</u>	<u>\$ 921,301</u>	<u>\$ 1,140,059</u>
SUBTOTALS	<u>\$ 1,047,878</u>	<u>\$ 994,372</u>	<u>\$ 921,301</u>	<u>\$ 1,140,059</u>
TOTALS	<u>\$ 2,042,250</u>		<u>\$ 2,061,360</u>	

The Edward W. McCready Memorial Hospital
OPERATING EXPENSES
For The Years Ended June 30, 2011 and 2010

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>
ADMINISTRATIVE SERVICES				
Administrative Offices	\$ 290,289	\$ -	\$ 170,414	\$ -
Auditing Fees	-	14,500	-	14,000
Clinic Clerical	99,064	546	156,143	2,460
Collection Expenses	53,830	59,550	47,879	131,634
Communications	37,824	56,116	42,594	49,273
Dues & Subscriptions	-	37,410	-	36,258
Fiscal Support Services	441,154	215,058	477,347	152,197
Insurance	-	46,984	-	43,414
Marketing-Advertising	31,991	120,790	39,658	68,051
Office Supplies & Expenses	-	58,358	-	58,493
Other Direct Expenses	-	13,155	-	15,395
Legal	-	23,998	-	3,683
Repair & Maintenance	-	1,727	-	1,431
Travel	-	88	-	259
Board of Directors - Food	-	8,127	-	7,330
Professional Fees and Consulting	-	37,228	-	24,000
Professional Fee Billing	51,455	734	-	-
Development	15,488	8,309	20,177	10,354
	<u>\$ 1,021,095</u>	<u>\$ 702,678</u>	<u>\$ 954,212</u>	<u>\$ 618,232</u>
Subtotal				
	<u>\$ 1,723,773</u>		<u>\$ 1,572,444</u>	
Total				
EMPLOYEE HEALTH AND WELFARE				
Employer's Share of FICA	-	482,514	-	481,363
Group Life & Disability	-	33,463	-	29,415
MD Unemployment Insurance	-	42,951	-	20,149
Medical Insurance	-	1,052,734	-	905,690
Pension Expense	-	144,802	-	100,467
Workmen's Compenstation	-	65,989	-	81,869
	<u>\$ -</u>	<u>\$ 1,822,453</u>	<u>\$ -</u>	<u>\$ 1,618,953</u>
Total				