

THE McCEADY FOUNDATION, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

\* \* \* \* \*

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THE McCREADY FOUNDATION, INC.  
CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 – 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 21
Supplemental Schedules	23 – 26

**SCOTT TAWES & ASSOCIATES, CPA, P.A.**

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INDEPENDENT AUDITORS' REPORT

Administrator and Board of Directors  
The McCready Foundation, Inc.  
Crisfield, Maryland

We have audited the accompanying consolidated statements of financial position of The McCready Foundation, Inc. (a non-profit organization) as of June 30, 2012 and 2011, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the McCready Foundation, Inc. as of June 30, 2012 and 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedules of revenues and expenses on pages 23 – 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*Scott Tawes & Associates CPA, P.A.*

Scott Tawes & Associates, CPA, P.A.

Princess Anne, Maryland

September 21, 2012

**The McCready Foundation, Inc.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As of June 30, 2012 and 2011**

ASSETS	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 3,538,082	\$ 1,245,080
Certificates of Deposit	198,846	196,097
Accounts Receivable (less allowances for uncollectible accounts of \$1,186,141 in 2012 and \$981,415 in 2011)	2,324,533	2,780,564
Pledges Receivable	38,048	58,160
Inventories	390,778	386,453
Prepaid Expenses	<u>113,687</u>	<u>52,047</u>
Total Current Assets	<u>6,603,974</u>	<u>4,718,401</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Land Improvements	79,773	50,775
Building - New Hospital	7,371,740	7,356,112
- Old Hospital	830,693	762,956
Building - New Nursing Home with Assisted Living	13,507,674	13,374,086
Fixed Equipment	1,556,062	1,554,181
Major Movable Equipment	5,131,448	4,931,288
Kitchen Renovation	5,184	2,284
Princess Anne	<u>445,983</u>	<u>445,983</u>
Total	28,928,557	28,477,665
Less: Accumulated Depreciation	<u>(9,278,661)</u>	<u>(7,889,837)</u>
Net Property and Equipment	<u>19,649,896</u>	<u>20,587,828</u>
<b>OTHER ASSETS</b>		
Restricted Cash - Patient Funds	<u>24,978</u>	<u>28,542</u>
Total Other Assets	<u>24,978</u>	<u>28,542</u>
Total Assets	<u><u>\$ 26,278,848</u></u>	<u><u>\$ 25,334,771</u></u>

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

**The McCready Foundation, Inc.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As of June 30, 2012 and 2011**

**LIABILITIES AND NET ASSETS**

	<b>2012</b>	<b>2011</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,126,168	\$ 1,250,001
Assisted Living Deposits	-	1,500
Construction Payable	-	445,485
Accrued Salaries, Annual Leave and Related Taxes	628,798	731,459
Current Portion of Long-Term Debt	708,850	798,504
Accrued Interest	43,023	43,487
PIP	(83,651)	15,923
Blue Cross - Advance	197,400	164,600
MA-Advance	77,925	77,925
Total Current Liabilities	2,698,513	3,528,884
<b>LONG - TERM DEBT</b>		
Mortgage Payable - USDA (Hospital)	1,020,027	1,153,822
- USDA (Nursing Home)	5,747,964	5,534,509
- Bank of Delmarva (Nursing Home)	3,818,445	3,689,673
Capital Equipment Leases	913,676	1,478,674
Total Long - Term Debt	11,500,112	11,856,678
Less: Current Portion Above	(708,850)	(798,504)
Total Long - Term Debt	10,791,262	11,058,174
<b>OTHER LIABILITIES</b>		
Patient Funds	24,978	28,542
Total Other Liabilities	24,978	28,542
<b>TOTAL LIABILITIES</b>	<b>13,514,753</b>	<b>14,615,600</b>
<b>NET ASSETS</b>		
Unrestricted	12,764,095	10,580,910
Temporarily Restricted	-	138,261
Total Net Assets	12,764,095	10,719,171
Total Liabilities and Net Assets	<b>\$ 26,278,848</b>	<b>\$ 25,334,771</b>

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

**The McCready Foundation, Inc.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**For The Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Net Patient Service Revenue	\$ 21,664,403	\$ 22,456,143
Other Operating Revenue	<u>124,653</u>	<u>170,979</u>
Total Revenues, Gains and Other Support	<u>21,789,056</u>	<u>22,627,122</u>
<b>EXPENSES</b>		
Professional Care Of Patients	9,960,196	10,662,798
Dietary Services	811,023	748,295
General Services	3,342,586	3,391,452
Administrative Services	2,034,108	2,221,971
Employee Health & Welfare	2,325,077	2,678,436
Medical Malpractice Costs	235,323	228,072
Depreciation	1,388,824	1,268,504
Interest	654,042	565,694
Provision for Bad Debts	<u>885,339</u>	<u>1,868,223</u>
Total Expenses	<u>21,636,518</u>	<u>23,633,445</u>
Operating Income (Loss)	<u>152,538</u>	<u>(1,006,323)</u>
<b>NON-OPERATING REVENUES AND OTHER CHANGES</b>		
Interest Income	5,289	13,252
Investment Return	-	8,400
Contributions and Donations	7,435	9,274
Donation to Community Foundation	-	(113,400)
Miscellaneous Income	-	7,883
Gain (Loss) on Sale of Assets	-	1,438
Gain (Loss) on Demolition	-	(200,800)
Grant Revenues	<u>1,879,662</u>	<u>94,770</u>
Total Non-Operating Revenue and Other Changes	<u>1,892,386</u>	<u>(179,183)</u>
Increase (Decrease) In Unrestricted Net Assets	<u>\$ 2,044,924</u>	<u>\$ (1,185,506)</u>

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

**The McCready Foundation, Inc.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For The Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>UNRESTRICTED NET ASSETS</b>		
Operating Income (Loss)	\$ 152,538	\$ (1,006,323)
Contributions and Donations	7,435	2,000
Donation to Outside Endowment Fund	-	(113,400)
Interest Income	5,289	13,252
Investment Return	-	8,400
Miscellaneous Income	-	7,883
Gain (Loss) on Sale of Assets	-	1,438
Gain (Loss) on Demolition	-	(200,800)
Grant Income	<u>1,879,662</u>	<u>94,770</u>
Increase (Decrease) In Unrestricted Net Assets Before Transfer From Temporarily Restricted Net Assets	<u>2,044,924</u>	<u>(1,192,780)</u>
Transfer From Temporarily Restricted Net Assets	<u>-</u>	<u>402,322</u>
Increase (Decrease) In Unrestricted Net Assets	<u>2,044,924</u>	<u>(790,458)</u>
 <b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	<u>-</u>	<u>7,274</u>
Increase (Decrease) in Temporarily Restricted Net Assets Before Transfer From To Unrestricted Net Assets	<u>-</u>	<u>7,274</u>
Transfer To Unrestricted Net Assets	<u>-</u>	<u>(402,322)</u>
Increase (Decrease) In Temporarily Restricted Net Assets	<u>-</u>	<u>(395,048)</u>
Increase (Decrease) In Net Assets	<u>2,044,924</u>	<u>(1,185,506)</u>
NET ASSETS, BEGINNING OF YEAR	<u>10,719,171</u>	<u>11,904,677</u>
NET ASSETS, END OF YEAR	<u><u>\$ 12,764,095</u></u>	<u><u>\$ 10,719,171</u></u>

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

**The McCready Foundation, Inc.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For The Years Ended June 30, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (Decrease) in Net Assets	\$ 2,044,924	\$ (1,185,506)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	1,388,824	1,268,504
(Increase) Decrease in Operating Assets:		
Accounts Receivable	456,031	463,752
Inventories	(4,325)	(33,706)
Prepaid Expenses	(61,640)	99,954
Pledges Receivable	20,112	22,089
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(123,833)	521,219
Assisted Living Deposits	(1,500)	1,500
Construction Payable	(445,485)	445,485
Accrued Salaries, Annual Leave, and Related Taxes	(102,661)	(286,754)
Accrued Interest	(464)	3,621
Blue Cross - Advance	32,800	33,500
PIP	(99,574)	(366,255)
Net Cash Provided (Used) by Operating Activities	<u>3,103,209</u>	<u>987,403</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in Certificates of Deposit	(2,749)	(2,873)
Purchase of Property and Equipment - Net of Disposals	<u>(450,892)</u>	<u>(3,137,193)</u>
Net Cash Provided (Used) by Investing Activities	<u>(453,641)</u>	<u>(3,140,066)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds - New Loans	342,227	2,068,576
Principal Payments on Loans	<u>(698,793)</u>	<u>(737,355)</u>
Net Cash Provided (Used) by Financing Activities	<u>(356,566)</u>	<u>1,331,221</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>2,293,002</u>	<u>(821,442)</u>
<b>Cash And Cash Equivalents at the Beginning of the Year</b>	<u>1,245,080</u>	<u>2,066,522</u>
<b>Cash and Cash Equivalents at the End of the Year</b>	<u><u>\$ 3,538,082</u></u>	<u><u>\$ 1,245,080</u></u>

The Foundation paid interest expense of \$654,042 in 2012 and \$567,107 in 2011, and no income tax.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies

Nature and Organization

The McCready Foundation, Inc. is located in Crisfield, MD. The Foundation consists of the Edward W. McCready Memorial Hospital, the Alice Byrd Tawes Nursing Home, Chesapeake Cove Assisted Living and the McCready Foundation, Inc. Endowment Fund. The physical facility consists of a 20 bed rural hospital, a 76 bed nursing home and a 30 bed assisted living facility. All four component units are controlled by a common Board of Directors which operates under the name McCready Foundation, Inc. The consolidated financial statements consist of a combination of the individual financial statements of the Hospital, the Nursing Home, Chesapeake Cove and the Endowment Fund with eliminations of certain inter-entity balances and transactions.

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. It is at least reasonably possible that a change in these estimates will occur in the near term. Actual results may vary from 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.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (continued)

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*").

Investments

The Foundation's investment policies follow conservative guidelines desired to yield modest returns on low-risk investments. In the past, the Foundation has invested in various equity securities. However, due to a stock market crash and a lien placed on one of the departments in which all Foundation equity securities were attached, management has ceased investing in stocks. The investment policy now reflects a more modest objective with only investments in cash products, such as certificates of deposit, encouraged.

The only exception to this conservative approach is the funds that were placed in the custody of the Community Foundation of the Eastern Shore during fiscal year 2011. The corpus of this investment is invested in various debt and equity securities by the Community Foundation and cannot be controlled or removed by the McCready Foundation at any time. Only the earnings on the corpus are returned to the McCready Foundation.

All investments are carried at fair market value.

Property and Equipment

Property and equipment acquisitions are recorded at cost. The Foundation follows the policy of capitalizing any individual items with a cost greater than \$1,000 for the Hospital and \$500 for the Nursing Home and Chesapeake Cove. Depreciation is provided over the estimated useful lives of the assets using the straight-line method, based on cost (if purchased) or fair value (if contributed). 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 Foundation 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

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (continued)

contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions.

Operating Income (Loss)

The statement of activities 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 Foundation 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.

Medicare and Medicaid

Services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per visit. The Foundation 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 Foundation has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Foundation is based on charges for services provided to the patients.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Foundation 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, 2012 at \$1,186,141 and \$981,415 for the year ended June 30, 2011. 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.

2. Change in Presentation and Accounting Method

Financial Statement Presentation

As addressed in Note 1, "Summary of Significant Accounting Policies", the Foundation 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 Foundation 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.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

3. Cash, Cash Equivalents and Certificates of Deposit

Cash and cash equivalent funds are invested in PNC Bank, the Bank of Delmarva and Hebron Savings Bank in interest bearing accounts. The various cash balances **in bank** at June 30, 2012 and 2011 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 \$1,970,242 are uninsured.

	<u>2012</u>	<u>2011</u>
Unrestricted Cash:		
Operating Account - Hospital (PNC)	\$ 322,804	\$ 337,219
Operating Account - Nursing Home (PNC)	5,327	16,714
Activities Account - Nursing Home (PNC)	7,307	9,765
Payroll Account - Hospital (PNC)	6,285	9,235
General Reserve Account - Hospital (PNC)	1,922,359	33,062
Special Account - Hospital (PNC)	2,602	262
License Account - Hospital (PNC)	1,587	230
Money Market - Endowment (PNC)	6,636	6,631
Health Plan - Hospital (PNC)	1,985	192
Money Market - Hospital (PNC)	202,064	111,379
Construction - Nursing Home (Bank of Delamrva)	47	47
Donations & Fundraising - Hospital (PNC)	57,940	21,506
Construction - Hospital (Bank of Delmarva)	-	30,909
Construction - Hospital (HSB)	250,055	-
CDARS - Hospital(Bank of Delmarva)	762,253	761,424
Wire Transfer Account - Hospital (PNC)	74,272	800
Operating - Chesapeake Cove (PNC)	1,400	1,465
Total Unrestricted Cash	<u>\$ 3,624,923</u>	<u>\$ 1,340,840</u>
Restricted Cash:		
Patient Funds - Nursing Home (PNC)	\$ 24,978	\$ 28,542
Mortgage Escrow Account - Endowment (PNC)	50,990	50,947
CD - Endowment (Bank of Delmarva)	147,856	145,289
Total Restricted Cash	<u>\$ 223,824</u>	<u>\$ 224,778</u>
Total Cash, Cash Equivalents and CDs: In Bank	<u><u>\$ 3,848,747</u></u>	<u><u>\$ 1,565,618</u></u>

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

3. Cash and Cash Equivalents (continued)

	<u>Balance</u> <u>Per Bank</u>	<u>FDIC</u> <u>Insured</u>	<u>Uninsured</u>
McCready Hospital			
PNC Bank (Savings & MM accts)	\$ 2,591,900	\$ 621,713	1,970,187
Bank of Delmarva - CDARS	762,253	762,253	-
HSB - Construction	250,055	250,000	55
Alice Byrd Tawes Nursing Home			
PNC Bank (Savings & MM accts)	38,136	38,136	-
Bank of Delmarva (Savings)	47	47	-
Chesapeake Cove Assisted Living			
PNC Bank (Operating acct)	1,400	1,400	-
Endowment Fund			
PNC Bank (MM acct & CD)	57,628	57,628	-
Bank of Delmarva (CD)	147,856	147,856	-
	<u>\$ 3,849,275</u>	<u>\$ 1,879,033</u>	<u>\$ 1,970,242</u>

Restrictions on cash and CDs are as follows:

Alice Byrd Tawes Nursing Home – PNC Bank - \$24,978 of the balance in this account is restricted because it is being held on behalf of the residents of the nursing home.

PNC Bank CD – Endowment Fund – Escrowed on behalf of the Edward W. McCready Memorial Hospital as required by the Hospital’s USDA mortgage loan agreement.

Bank of Delmarva CD – Endowment Fund – Pledged as collateral to the Bank of Delmarva for an irrevocable standby letter of credit for \$126,731 for the benefit of the State of Maryland – DEED Unemployment fund.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

4. Property and Equipment

At June 30, 2012 and 2011, the cost and related depreciation of property and equipment were as follows:

	<u>Life</u>	<u>2012</u>	<u>2011</u>
Land Improvements	10-50 Years	\$ 79,773	\$ 50,775
Building - New Nursing Home	20-50 Years	13,507,674	13,374,086
Building - New Hospital	10-40 Years	7,371,740	7,356,112
Building - Old Hospital	10-50 Years	830,693	762,956
Fixed Equipment	5-20 Years	1,556,062	1,554,181
Major Movable Equipment	10-20 Years	5,131,448	4,931,288
Kitchen Renovation	10-20 Years	5,184	2,284
Princess Anne	30 Years	<u>445,983</u>	<u>445,983</u>
 Total Assets		 28,928,557	 28,477,665
Less: Accumulated Depreciation		<u>(9,278,661)</u>	<u>(7,889,837)</u>
Net Property and Equipment		<u>\$ 19,649,896</u>	<u>\$ 20,587,828</u>

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$1,388,824 and \$1,268,504, respectively.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

5. Long-Term Debt

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

	<u>Balance at June 30</u>	
	<u>2010</u>	<u>2011</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.	\$ 1,020,027	\$ 1,153,822
<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
Fluoroscopy system financed by First American for 72 months at \$4,545 (8% interest rate)	56,422	104,348
Versamed Vent financed by Carlton Financial for 60 months at \$474 (9.64% interest rate)	4,098	9,123
Olympus Endoscopy Suite - \$86,097 - financed by First American for \$1,902 for 60 months (11.69% interest rate)	29,282	49,888
Lab System/ Healthland N.H. - \$45,255 financed by First American for \$1,402 for 36 months (7.2% interest rate)	-	10,916
Clinical System Lease 1 - \$108,514 financed by First American for \$3,410 for 36 months (8.1855% interest rate)	-	36,016

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

5. Long Term Debt (continued)

	<u>Balance at June 30</u>	
	<u>2012</u>	<u>2011</u>
Avaya Telephone System - \$166,430 financed by Summit Funding Group, Inc. for 36 months at \$4,986 (3.1825% interest rate)	44,281	101,703
Healthland Clinical System Lease 2 - \$188,224 financed by First American for 36 months at \$5,867 (7.6388% interest rate)	28,783	94,247
Healthland Clinical System Lease 3 - \$89,432 financed by First American for 36 months at \$2,798 (7.9027% interest rate)	16,410	47,355
Scopes & PFT Machine - \$129,766 financed by First American for 60 months at \$2,583 (7.2144% interest rate)	70,701	95,608
Blade Server - \$52,909 financed by First American for 36 months at \$1,650 (7.6680% interest rate)	11,260	29,431
Immunoassay Analyzer - \$85,000 financed by Siemens for 60 months at \$1,417 (0% interest rate)	38,247	55,247
GE Proteus XR/A System - \$79,203 financed by GE for 60 months at \$1,549 (6.46775% interest rate)	56,823	71,223
Hologic Digital Mammo System - \$246,400 financed by Provident Leasing for 60 months at \$4,751(5.8899% interest rate)	172,166	217,576
GE Portable X-Ray - \$38,000 financed by First American for 36 months at \$1,146 (5.4034% interest rate)	20,820	33,083
Alban Generator - \$246,900 financed by First American for 60 months at \$4,916 (7.2321% interest rate)	178,112	222,465
Healthland Clinical System Lease IV - \$283,362 financed by First American for 36 months at \$8,832 (7.6388% int rate)	165,372	254,977

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

5. Long Term Debt (continued)

	<u>Balance at June 30</u>	
	<u>2012</u>	<u>2011</u>
Telemetry System - \$34,641 financed by First American for 36 months at \$1,046 (5.5260% interest rate)	20,900	31,968
Nursing Home Debt:		
USDA - Second mortgage, \$6,000,000 dated 6/4/09, 4.25% interest, for 40 years to construct the new Nursing Home. Collateral includes all assets of the McCready Foundation, Inc. Interest only through 6/4/11 with monthly principal and interest payments of \$26,580 commencing 7/4/11.	5,747,964	5,534,509
Bank of Delmarva - Third mortgage, \$4,000,000 dated 6/4/09, 6.5% interest, interest only through 6/4/11 with monthly principal and interest payments of \$25,287 commencing 7/4/2011 through 6/4/16. Thereafter, payments will be due at an interest rate of prime less 1/2% in 300 consecutive installments. The interest rate may never be less than 6.5% and never greater than 9.75%. Guaranteed by USDA.	3,818,445	3,689,673
Total Long-Term Debt	<u>\$ 11,500,113</u>	<u>\$ 11,856,678</u>

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

2013	\$	708,850
2014		531,865
2015		429,093
2016		350,219
2017		311,836
Thereafter		9,168,250
Total	\$	<u>11,500,113</u>

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

6. Charity Care

The Foundation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Foundation does not pursue collection of amounts determined to qualify as charity care. The amount of charges foregone for services and supplies furnished under the Foundation's charity care policy aggregated approximately \$806,194 and \$987,906 in the years ended June 30, 2012 and 2011, respectively.

7. Net Patient Service Revenue

The Foundation 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. As of June 30, 2011, a cost settlement of \$165,420 was due to be received from the State of Maryland and is included in the June 30, 2011 accounts receivable and revenues.

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

	<u>2012</u>	<u>2011</u>
Gross Patient Service Revenue	\$ 26,733,470	\$ 26,927,445
Less Charity Care and Contractual Adjustments	<u>(5,069,067)</u>	<u>(4,471,302)</u>
Net Patient Service Revenue	<u>\$ 21,664,403</u>	<u>\$ 22,456,143</u>

8. Donation to the Community Foundation

During the year ended June 30, 2011, the Endowment Fund established an Endowment Fund (the Fund) in the amount of \$113,400 with the Community Foundation of the Eastern Shore in order to develop a constant stream of income. The principle balance of the Fund can never be accessed by the Endowment Fund and the allocation of earnings is determined by the Community Foundation. Donors may contribute to the Fund if they do not want their contribution used for day-to-day operations because the Endowment Fund is only entitled to the earnings of the Fund.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

9. Contingencies

The Foundation is contingently liable for a standby letter of credit (\$126,731) secured by a Bank of Delmarva certificate of deposit (\$147,856) for the benefit of the State of Maryland – DEED Unemployment Fund.

The Foundation'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 Foundation 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 the fiscal years ended June 30, 2012 and 2011 were \$55,539 and \$80,007, respectively.

10. 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 and Nursing Home employees for the years ended June 30, 2012 and 2011 amounted to \$147,405 and \$210,525 respectively.

11. Related Party Transactions

There were no significant related party transactions for the years ended June 30, 2012 and 2011.

The McCready Foundation, Inc.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2012 AND 2011

12. Concentration of Credit Risk

At June 30, 2012 the Foundation received a substantial amount of its support from Medicaid (\$7,573,014), Medicare (\$10,479,663), and HMO's (\$1,736,378). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the organization's activities.

The Foundation elected to be self-insured for employee health insurance up to a cap of about \$1.5 million. The Foundation's actual costs for the year ended June 30, 2012 and 2011 were \$1,164,289 and \$1,523,628, respectively. For the fiscal year ended June 30, 2012, the Hospital and Nursing Home are self-insured up to a cap of about \$1,295,000.

The Foundation maintains cash balances in PNC Bank which are not insured by the FDIC. At June 30, 2012, the Foundation's uninsured cash and certificate of deposit balances totaled \$1,970,242.

13. Employment Contracts

The Foundation has employment contracts which extend through June 2013. The aggregate commitments under these agreements for subsequent years ending June 30 are as follows:

2013	1,254,482
Total	\$ 1,254,482

14. Compensated Absences

Employees of the Foundation are entitled to paid vacation, depending on length of service and job classification. At June 30, 2012 and 2011, there were \$427,201 and \$469,043, respectively of vacation benefits due employees. Rights to receive sick leave do not vest.

15. Operating Leases

As of June 30, 2011, the Foundation had entered into various non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2013 to 2015. Minimum rentals, on an annual basis, are as follows:

Fiscal Year ending June 30, 2013	\$ 175,893
2014	63,526
2015	10,320
	\$ 249,739

Rent expense for fiscal year 2012 was \$351,010 and \$328,136 for 2011.

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

16. Long-Lived Assets

The carrying value of long-lived assets and certain identifiable intangibles is reviewed by the Foundation 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*). During fiscal year 2009 approximately 20% of the Nursing Home building was demolished. The demolition created a write-off of \$194,581 related to the building and assets and a write-off of accumulated depreciation of \$133,442, thereby also creating a loss on demolition of \$61,139. During fiscal year 2011, the remaining 80% of the old Nursing Home building was demolished. This demolition created a write-off of \$973,042 related to the building and assets and a write-off of accumulated depreciation of \$772,242, thereby also creating a loss on demolition of \$200,800.

17. Post Employment Benefits

There are no post employment benefits.

18. Risk Management

The Foundation 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.

19. Fair Value Measurement

During the year ended June 30, 2010, the Foundation 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

The McCready Foundation, Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

19. Fair Value Measurement

In determining the appropriate levels, the Foundation 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 Foundation has determined that there were no assets or liabilities subject to ASC 820 at June 30, 2012 or 2011.

20. Advertising

The Foundation's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the years ended June 30, 2012 and 2011 amounted to \$149,727 and \$152,781, respectively.

21. Temporarily Restricted Net Assets

During the fiscal year ending June 30, 2007, the Foundation entered into a major Fund Drive to help finance the construction of a \$12.8 million, four-story, 70,300 square foot replacement facility including 76 beds and a 30 bed assisted living center. These funds are restricted to be spent on this facility. All restricted funds were spent prior to June 30, 2012, thereby eliminating the restriction.

22. Date of Management's Review

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 21, 2012, the date the financial statements were available to be issued.

**SUPPLEMENTARY SCHEDULES**

**The McCready Foundation, Inc.**  
**CONSOLIDATED NET PATIENT SERVICE REVENUES**  
**For The Years Ended June 30, 2011 and 2010**

	<b>Year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>INPATIENT:</b>		
Admission Charge	\$ 153,476	\$ 158,823
Anesthesiology/CRNA	154,588	205,225
Assisted Living Room & Board	95,653	-
Blood	40,548	37,507
CAT Scan	173,897	184,976
Electrocardiology	73,198	72,551
Emergency and Clinic Treatment	257,094	287,723
Inhalation Therapy	441,138	516,122
Intravenous	11,140	14,674
Laboratory	634,867	656,090
Medical / Surgical Acute	2,119,799	3,027,944
Medical and Surgical Supplies	83,756	169,731
MRI	31,806	48,060
Nursing Home	7,039,846	6,477,337
Observation	45,853	37,165
OCC Therapy	43,921	51,459
Operating Room	133,876	209,672
Pharmacy	645,633	601,920
Physical Therapy	80,099	130,112
Nuclear Medicine	1,136	477
Professional Fees - Radiology	224,576	285,452
Radiology	172,786	184,426
Same Day Surgery	(900)	3,496
Speech Therapy	18,966	22,619
Swing Bed	1,506	19,909
<b>OUTPATIENT:</b>		
Anesthesiology/CRNA	96,141	105,359
Blood	46,232	32,933
Cardiac Rehab	11,170	8,178
CAT Scan	681,198	615,539
Outpatient Health Centers	962,855	1,216,891
Electrocardiology	209,923	195,503
Emergency and Clinic Treatment	3,559,784	3,691,981
Inhalation Therapy	263,028	269,035
Intravenous	13,024	15,820
Laboratory	2,752,928	2,202,925
Medical and Surgical Supplies	323,798	554,907
MRI	554,689	424,791
Observation	199,718	111,655
Operating Room	785,635	720,550
OCC Therapy	150,819	105,641
Personal Care	62,556	67,938
Pharmacy	503,969	605,231
Physical Therapy	987,521	1,000,921
Radiology	1,646,815	1,325,929
Same Day Surgery	216,281	223,808
Speech Therapy	27,128	28,440
<b>PATIENT SERVICE REVENUE</b>	<b>26,733,470</b>	<b>26,927,445</b>
Less: Contractual Adjustments	(4,262,873)	(3,483,396)
Charity	(806,194)	(987,906)
<b>NET PATIENT SERVICE REVENUE</b>	<b>\$ 21,664,403</b>	<b>\$ 22,456,143</b>

**The McCready Foundation, Inc.**  
**CONSOLIDATED OTHER OPERATING REVENUES**  
**For The Years Ended June 30, 2012 and 2011**

	<u>Year Ended June 30,</u> <u>2012</u>	<u>2011</u>
Ambulance	\$ 83,120	\$ 15,389
Sale of Medical Records	6,087	-
Miscellaneous	29,242	146,956
Vendor Rebates	2,478	2,103
Telephone	-	453
Rental Income - Phys. Office	210	3,498
Move Program	713	1,900
Vending Machine Income	2,497	-
Community Benefits	306	680
	<u>          </u>	<u>          </u>
<b>TOTAL OTHER OPERATING REVENUES</b>	<u><u>\$ 124,653</u></u>	<u><u>\$ 170,979</u></u>

**The McCready Foundation, Inc.**  
**CONSOLIDATED OPERATING EXPENSES**  
**For The Years Ended June 30, 2012 and 2011**

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Personal Services</u>	<u>Supplies &amp; Other Exp.</u>	<u>Personal Services</u>	<u>Supplies &amp; Other Exp.</u>
PROFESSIONAL CARE OF PATIENTS	\$ 6,479,942	\$ 3,480,255	\$ 7,017,365	\$ 3,645,433
Total	<u>\$ 9,960,197</u>		<u>\$ 10,662,798</u>	
DIETARY SERVICES	\$ 340,429	\$ 470,615	\$ 343,080	\$ 405,215
Total	<u>\$ 811,044</u>		<u>\$ 748,295</u>	
GENERAL SERVICES				
Courier	\$ 45,091	\$ 12,340	\$ 41,033	\$ 10,474
Groundskeeping	-	17,432	-	14,593
Housekeeping	291,331	58,801	296,342	55,776
Human Resources	102,195	18,017	102,933	24,659
Illness Prevention Program	3,839	4	7,736	20
Information Technology	145,933	161,222	128,534	201,880
Inservice Training	5,908	2,185	24,208	911
Laundry & Linen	-	122,362	-	158,355
Material Management	61,491	5,270	60,964	4,757
Medical Records	210,589	69,984	180,714	99,201
Medical Staff	-	6,450	6,803	6,189
Occupational Therapy	117,024	79	66,571	-
Operation of Plant	253,980	842,605	245,841	795,506
Patient Services	225,251	19,187	212,686	2,655
Pharmacy	-	143,552	-	155,544
Physical Therapy	108,966	409	106,278	38,628
Security	116,054	1,106	110,689	762
Social Services	85,592	2,005	98,240	1,192
Speech Therapy	63,523	-	82,775	353
Staff Development	17,682	5,127	42,101	5,549
SUBTOTALS	<u>\$ 1,854,449</u>	<u>\$ 1,488,137</u>	<u>\$ 1,814,448</u>	<u>\$ 1,577,004</u>
TOTALS	<u>\$ 3,342,586</u>		<u>\$ 3,391,452</u>	

**The McCready Foundation, Inc.**  
**CONSOLIDATED OPERATING EXPENSES**  
**For The Years Ended June 30, 2012 and 2011**

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Personal Services</u>	<u>Supplies &amp; Other Exp.</u>	<u>Personal Services</u>	<u>Supplies &amp; Other Exp.</u>
<b>ADMINISTRATIVE SERVICES</b>				
Administrative Offices	\$ 385,667	\$ 22,113	\$ 518,249	\$ 31,225
Auditing Fees	-	14,500	-	14,500
Clinic Clerical	74,141	1,455	99,064	546
Collection Expenses	54,010	88,673	53,830	59,550
Communications	69,730	55,360	46,267	73,661
Dues & Subscriptions	-	32,053	-	46,605
Fiscal Support Services	516,321	227,453	540,239	258,248
Insurance	-	84,987	-	94,199
Marketing-Advertising	44,577	105,150	31,991	120,790
Office Supplies & Expenses	-	69,907	-	58,358
Other Direct Expenses	-	19,132	-	13,155
Legal	-	43,215	-	23,998
Repair & Maintenance	-	3,058	-	1,727
Travel & Training	-	1,787	-	14,428
Board of Directors - Food	-	1,683	-	8,127
Professional Fees and Consulting	-	29,722	-	37,228
Professional Fee Billing	54,740	-	51,455	734
Development	27,120	7,554	15,488	8,309
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	<u>\$ 1,226,306</u>	<u>\$ 807,802</u>	<u>\$ 1,356,583</u>	<u>\$ 865,388</u>
Total	<u>\$ 2,034,108</u>		<u>\$ 2,221,971</u>	
<b>EMPLOYEE HEALTH AND WELFARE</b>				
Employer's Share of FICA	-	701,987	-	720,223
Group Life & Disability	-	46,554	-	48,307
MD Unemployment Insurance	-	55,539	-	80,007
Medical Insurance	-	1,164,289	-	1,523,628
Pension Expense	-	147,405	-	210,525
Workmen's Compenstation	-	209,303	-	95,746
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ -</u>	<u>\$ 2,325,077</u>	<u>\$ -</u>	<u>\$ 2,678,436</u>