

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To the Management and Board of Directors
 The Edward W. McCready Memorial Hospital
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PKF INTERNATIONAL

We have audited the accompanying financial statements of The Edward W. McCready Memorial Hospital (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and cash flows for the year 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 accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the entity'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 the entity'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 The Edward W. McCready Memorial Hospital as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient service revenues on pages 17-18, the schedules of other operating revenues on page 19 and the schedules of operating expenses on pages 20-22 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and is 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 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 to the financial statements as a whole.

Other matter

The financial statements of The Edward W. McCready Memorial Hospital as of June 30, 2012 were audited by other auditors whose report dated September 21, 2012 expressed an unmodified opinion on those statements.

PKS & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
September 26, 2013

FINANCIAL STATEMENTS

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,877,827	\$ 3,516,915
Accounts receivable, net of allowances for uncollectible accounts of \$1,161,932 and \$755,094, respectively	1,894,514	1,495,058
Inventories	365,533	373,863
Medicare periodic interim payment program	25,802	83,651
Prepaid expenses	179,114	113,687
	<u>5,342,790</u>	<u>5,583,174</u>
PROPERTY AND EQUIPMENT		
Property and equipment	15,664,882	15,211,233
Less accumulated depreciation	<u>(9,298,368)</u>	<u>(8,399,433)</u>
	<u>6,366,514</u>	<u>6,811,800</u>
OTHER ASSETS		
Due from Alice Byrd Tawes Nursing Home	2,585,004	2,426,258
Due from Chesapeake Cove Assisted Living	<u>853,202</u>	<u>526,095</u>
	<u>3,438,206</u>	<u>2,952,353</u>
	<u>5,342,790</u>	<u>5,583,174</u>
	<u>6,366,514</u>	<u>6,811,800</u>
	<u>3,438,206</u>	<u>2,952,353</u>
Total assets	<u>\$ 15,147,510</u>	<u>\$ 15,347,327</u>

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

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 683,269	\$ 921,257
Accrued salaries, annual leave and related taxes	602,850	457,870
Current portion of long term debt	480,904	593,708
Accrued interest	5,447	6,696
Blue Cross advance	106,400	197,400
Medicaid advance	36,265	36,265
	<u>1,915,135</u>	<u>2,213,196</u>
LONG TERM DEBT		
Mortgage - USDA	731,349	879,289
Capital equipment leases	411,686	460,706
	<u>1,143,035</u>	<u>1,339,995</u>
OTHER LIABILITIES		
Due to McCready Foundation Inc. Endowment fund	209,116	343,757
	<u>209,116</u>	<u>343,757</u>
TOTAL LIABILITIES	<u>3,267,286</u>	<u>3,896,948</u>
NET ASSETS		
Unrestricted	<u>11,880,224</u>	<u>11,450,379</u>
	<u>11,880,224</u>	<u>11,450,379</u>
Total liabilities and net assets	<u><u>\$ 15,147,510</u></u>	<u><u>\$ 15,347,327</u></u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES, GAINS AND OTHER SUPPORT		
Net patient service revenue	\$ 15,703,349	\$ 16,069,161
Other operating revenue	99,602	124,653
	<u>15,802,951</u>	<u>16,193,814</u>
EXPENSES		
Professional care of patients	7,514,837	7,601,717
Dietary services	52,937	56,635
General services	2,160,081	2,003,175
Administrative services	1,965,665	1,572,174
Employee health and welfare	1,773,091	1,486,558
Medical malpractice costs	68,189	162,388
Depreciation	937,824	942,144
Bad debt expense	865,184	815,042
	<u>15,337,808</u>	<u>14,639,833</u>
Operating income	<u>465,143</u>	<u>1,553,981</u>
NON-OPERATING REVENUES AND EXPENSES		
Contributions and donations	512	20
Grant revenues	99,775	1,879,662
Interest income	3,461	1,003
Interest expense	(139,046)	(174,367)
	<u>(35,298)</u>	<u>1,706,318</u>
Increase in net assets	429,845	3,260,299
NET ASSETS, BEGINNING OF YEAR	<u>11,450,379</u>	<u>8,190,080</u>
NET ASSETS, END OF YEAR	<u>\$ 11,880,224</u>	<u>\$ 11,450,379</u>

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

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase in net assets	\$ 429,845	\$ 3,260,299
Add items not affecting cash:		
Depreciation	937,824	942,144
Net change in operating assets and liabilities:		
Accounts receivable	(399,456)	363,109
Inventories	8,330	(26,020)
Medicare periodic interim payment program	57,849	(99,574)
Prepaid expenses	(65,427)	(61,640)
Due from Alice Byrd Tawes Nursing Home	(158,746)	(592,146)
Due from Chesapeake Cove Assisted Living	(327,107)	(381,448)
Accounts payable	(237,988)	(42,845)
Accrued salaries, annual leave, and related taxes	144,980	(112,074)
Accrued interest	(1,249)	(2,933)
Blue Cross advance	(91,000)	32,800
Due to McCready Foundation Inc. Endowment fund	(134,641)	20,124
Net cash provided by operating activities	<u>163,214</u>	<u>3,299,796</u>
Cash flows from investing activities		
Purchase of fixed assets net of disposals and transfers	<u>(492,538)</u>	<u>(294,496)</u>
Net cash used by investing activities	<u>(492,538)</u>	<u>(294,496)</u>
Cash flows from financing activities		
Net proceeds from and principal payments on long term debt	<u>(309,764)</u>	<u>(698,793)</u>
Net cash used by financing activities	<u>(309,764)</u>	<u>(698,793)</u>
Net increase (decrease) in cash	(639,088)	2,306,507
Cash and cash equivalents at beginning of year	<u>3,516,915</u>	<u>1,210,408</u>
Cash and cash equivalents at end of year	<u>\$ 2,877,827</u>	<u>\$ 3,516,915</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 139,046</u>	<u>\$ 174,367</u>

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

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NATURE OF BUSINESS

The Edward W. McCready Memorial Hospital (Hospital) is a rural hospital located in Crisfield, MD. The Hospital is associated with The McCready Foundation, Inc. Endowment Fund and is associated with and physically connected to The Alice Byrd Tawes Nursing Home and Chesapeake Cove Assisted Living Center. These four organizations are controlled by a common Board of Directors that operates under the name of The McCready Foundation, Inc.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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.

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*").

Cash and Cash Equivalents

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

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.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 19,614,759	\$ 19,597,971
Less charity care and contractual adjustments	<u>(3,911,410)</u>	<u>(3,528,810)</u>
Net patient service revenue	<u>\$ 15,703,349</u>	<u>\$ 16,069,161</u>

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.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Contributions

The Hospital has 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 made and received. In accordance with ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. There has been no effect on the change in net assets upon adoption of this method of accounting.

Accounts Receivable

A reserve for uncollectible receivables has been established based on private pay, insurances and sliding scale fees. The reserve is estimated at \$1,161,932 and \$755,094 for the year ended June 30, 2013 and 2012, respectively. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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.

Reclassifications

Certain accounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Subsequent Events

Management has evaluated subsequent events through September 26, 2013, the date the financial statements were available and approved to be issued.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Hospital is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements.

Under the provisions of ASC Topic 740 Income Taxes, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the taxing authorities. As of June 30, 2013, the Hospital has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Federal returns for the Hospital for years after 2008 are subject to examination by the IRS, generally for three years after they are filed.

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, 2013 and 2012 amounted to \$137,287 and \$149,728, respectively.

CASH AND CASH EQUIVALENTS

All cash and cash equivalent funds are in local banks and are secured up to \$250,000, per bank, by the Federal Deposit Insurance Corporation (FDIC), an agency of the Federal government. The bank accounts of all four organizations controlled by The McCready Foundation, Inc. have been opened as accounts of The McCready Foundation, Inc. As a result these four organizations are subject to FDIC as one entity. As of June 30, 2013, The McCready Foundation, Inc. has cash balances in excess of the amount insured by the FDIC.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

CASH AND CASH EQUIVALENTS (Continued)

The various cash balances at June 30, 2013 and 2012 are summarized below.

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents		
Operating account (PNC)	\$ 847,303	\$ 240,815
Payroll account (PNC)	910	334
General reserved account (PNC)		1,922,359
Special account (PNC)	277	2,602
License account (PNC)	1,543	1,587
Health plan (PNC)	997	1,985
Money market (PNC)		202,064
Donations and fundraising (PNC)		57,940
Commercial money market (M&T Bank)	250,756	
Business savings (BB&T Bank)	250,166	
Business checking (M&T Bank)	50,000	
CDARS (Bank of Delmarva)	763,336	762,341
Wire transfer account (PNC)	60,710	74,272
Construction account (Hebron Savings)	250,778	250,055
Certificates of deposit (M&T brokerage)	399,962	
Cash on hand	1,089	561
	<u>\$ 2,877,827</u>	<u>\$ 3,516,915</u>
Total cash & cash equivalents		

PROPERTY AND EQUIPMENT

At June 30, 2013 and 2012, the cost and related depreciation of property and equipment were as follows:

	<u>Life</u>	<u>2013</u>	<u>2012</u>
Land improvements	10-50 years	\$ 78,312	\$ 61,746
Building - new hospital	10-40 years	7,381,277	7,371,740
Building - old hospital	10-50 years	1,016,842	830,693
Building - hospital portion of nursing home	10-40 years	1,034,288	1,034,288
Fixed equipment	5 years	1,387,293	1,302,401
Major moveable equipment	10-20 years	4,320,887	4,164,382
Princess Anne	30 years	445,983	445,983
Total assets		<u>\$ 15,664,882</u>	<u>\$ 15,211,233</u>
Less: accumulated depreciation		<u>(9,298,368)</u>	<u>(8,399,433)</u>
Net property and equipment		<u>\$ 6,366,514</u>	<u>\$ 6,811,800</u>

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$937,824 and \$942,144, respectively.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

LONG TERM DEBT

The following summarizes long-term debt at June 30, 2013 and 2012:

	Balance at June 30	
	2013	2012
<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. 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 \$600,0000	\$ 879,288	\$ 1,020,027
Fluoroscopy system financed by First American for 72 months at \$4,545 (8% interest rate)	4,515	56,422
Versamed Vent financed by Carlton Financial for 60 months at \$474 (9.64% interest rate)		4,098
Olympus Endoscopy Suite - \$86,097 - financed by First American for \$1,902 for 60 months (11.69% interest rate)	7,522	29,282
Avaya Telephone System - \$166,430 financed by Summit Funding Group, Inc. for 36 months at \$4,986 (3.1825% interest rate)		44,281
Healthland Clinical System Lease 2 - \$188,224 financed by First American for 36 months at \$5,867 (7.6388% interest rate)		28,783
Healthland Clinical System Lease 3 - \$89,432 financed by First American for 36 months at \$2,798 (7.9027% interest rate)		16,410

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

LONG TERM DEBT (Continued)

	Balance at June 30	
	2013	2012
Scopes & PFT Machine - \$129,766 financed by First American for 60 months at \$2,583 (7.2144% interest rate)	43,936	70,701
Blade Server - \$52,909 financed by First American for 36 months at \$1,650 (7.6680% interest rate)		11,260
Immunoassay Analyzer - \$85,000 financed by Siemens for 60 months at \$1,417 (0% interest rate)	21,249	38,247
GE Proteus XR/A System - \$79,203 financed by GE for 60 months at \$1,549 (6.46775% interest rate)	41,464	56,823
Hologic Digital Mammo System - \$246,400 financed by Provident Leasing for 60 months at \$4,751 (5.8899% interest rate)	124,008	172,165
GE Portable X-Ray - \$38,000 financed by First American for 36 months at \$1,146 (5.4034% interest rate)	7,878	20,820
Alban Generator - \$246,900 financed by Provident Leasing for 60 months at \$4,916 (7.2321% interest rate)	130,441	178,112
Healthland Clinical System Lease IV - \$283,362 financed by First American for 36 months at \$8,832 (7.6388% interest rate)	68,677	165,372
Telemetry System - \$34,641 financed by First American for 36 months at \$1,046 (5.5260% interest rate)	9,204	20,900
Various equipment	285,757	
Total long term debt	<u>\$ 1,623,939</u>	<u>\$ 1,933,703</u>

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

2014	\$ 480,904
2015	375,148
2016	292,237
2017	233,339
2018	180,618
Thereafter	<u>61,693</u>
Total	<u>\$ 1,623,939</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

RESTRICTED NET ASSETS

There were no restricted net assets as of June 30, 2013 and 2012.

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 \$664,919 and \$806,194 in the years ended June 30, 2013 and 2012, respectively.

EMPLOYEE PENSION PLAN

The Hospital provides a two percent employer pension contribution with a salary cap of \$100,000 per year. The two percent employer contribution is not a match but an across the board contribution to all full time employees who have been employed for one year or more. Both full time and part time employees are allowed to participate in the plan through payroll deductions. Employer contributions to the plan for the Hospital employees for the years ended June 30, 2013 and 2012 amounted to \$82,315 and \$98,762, respectively.

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

CONCENTRATION OF CREDIT RISK

At June 30, 2013, the Hospital received a substantial amount of its support from Medicaid (approximately \$3,230,000), and Medicare (approximately \$10,170,000). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the organization's activities.

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 estimated revenue will change by a material amount in the near term.

The Edward W. McCready Memorial Hospital, The Alice Byrd Tawes Nursing Home and Chesapeake Cove Assisted Living 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, 2013 and 2012 were \$1,034,812 and \$737,519, respectively.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

COMMITMENTS AND 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 June 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 were scheduled to be interest only through June 4, 2011, with monthly principal and interest payments of \$26,580 starting July 4, 2011. As of June 30, 2013 all funds had not yet been drawn down on the loan. The balance of this loan as of June 30, 2013 and 2012 was \$5,689,780 and \$5,747,964, 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 June 4, 2016, principal and interest at the rate 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. . As of June 30, 2013 all funds had not yet been drawn down on the loan. The balance of this loan as of June 30, 2013 and 2012 was \$3,897,779 and \$3,818,445, 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.

The Hospital has elected the reimbursement method of Maryland unemployment coverage whereby the organization reimburses the State of Maryland Unemployment Insurance Fund for unemployment claims charged against its account. These amounts are recorded as expense when a bill is received from the State of Maryland Department of Labor, Licensing, and Regulation Division of Unemployment Insurance. No accrual for estimated unassessed reimbursements has been made since the amount charged to an employer's account is subject to complex rules and management believes any reimbursement to be assessed will not be material. Unemployment claims for fiscal years 2013 and 2012 were \$40,843 and \$35,842, respectively.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid vacation, depending on length of service and job classification. At June 30, 2013 and 2012, there were \$336,186 and \$322,185, respectively of vacation benefits due employees. Rights to receive sick leave do not vest.

OPERATING LEASES

As of June 30, 2013, the Hospital had entered into various non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2014 to 2015. Minimum rentals, on an annual basis, are as follows:

Fiscal Year ending June 30,		<u>Equipment</u>
2014		\$ 63,526
2015		<u>10,320</u>
		<u>\$ 73,846</u>

Rent expense for fiscal years 2013 and 2012 were \$175,893 and \$328,549, respectively.

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.

POST EMPLOYMENT BENEFITS

There are no post employment benefits.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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.

SUPPLEMENTARY INFORMATION

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF NET PATIENT SERVICE REVENUES

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
INPATIENT		
Admission charge	\$ 130,954	\$ 153,476
Anesthesiology/CRNA	66,020	154,588
Blood	36,551	40,548
Cardiac rehab	7,885	
CAT scan	145,882	173,897
Electrocardiology	65,224	73,198
Emergency and clinic treatment	251,231	257,094
Inhalation therapy	381,310	441,138
Intravenous	8,109	11,140
Laboratory	376,128	634,867
Medical/surgical acute	1,763,040	2,119,799
Medical and surgical supplies	66,197	83,756
MRI	38,743	31,806
Nuclear medicine	846	1,136
Observation	111,900	45,853
OCC therapy	64,555	43,921
Operating room	16,819	133,876
Pharmacy	688,018	645,633
Physical therapy	82,385	80,099
Professional fees-radiology	272,285	224,576
Radiology	195,180	172,786
Same day surgery	724	(900)
Speech therapy	14,674	18,966
Swing bed	5,354	1,506
	<u> </u>	<u> </u>
Total inpatient revenue	\$ 4,790,014	\$ 5,542,759

See independent accountants' audit report.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF NET PATIENT SERVICE REVENUES

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OUTPATIENT		
Anesthesiology/CRNA	\$ 86,432	\$ 96,141
Blood	27,134	46,232
Cardiac rehab	3,085	11,170
CAT scan	831,836	681,198
Outpatient health centers	758,908	962,855
Electrocardiology	245,143	209,923
Emergency and clinic treatment	4,101,371	3,559,784
Inhalation therapy	268,769	263,028
Intravenous	11,874	13,024
Laboratory	2,296,380	2,752,928
Medical and surgical supplies	397,247	323,798
MRI	537,111	554,689
Observation	373,589	199,718
OCC therapy	189,608	150,819
Operating room	506,698	785,635
Personal Care	58,266	62,556
Pharmacy	692,291	503,969
Physical therapy	952,201	987,521
Radiology	2,241,616	1,646,815
Same day surgery	181,764	216,281
Speech therapy	63,422	27,128
	<u>\$ 14,824,745</u>	<u>\$ 14,055,212</u>
TOTAL PATIENT SERVICE REVENUE		
	\$ 19,614,759	\$ 19,597,971
Less contractual adjustments	(3,246,491)	(2,722,616)
Less charity care	(664,919)	(806,194)
	<u>\$ 15,703,349</u>	<u>\$ 16,069,161</u>

See independent accountants' audit report.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OTHER OPERATING REVENUES

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OTHER OPERATING REVENUE		
Ambulance	\$ 45,518	\$ 83,120
Miscellaneous	37,881	29,242
Vendor rebates	5,727	2,478
Move program	950	713
Rental income- phys. office	240	210
Community benefits	2,684	306
Sale of medical records	5,138	6,087
Vending machine revenue	1,464	2,497
	<u>1,464</u>	<u>2,497</u>
Total other operating revenue	<u>\$ 99,602</u>	<u>\$ 124,653</u>

See independent accountants' audit report.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	June 30, 2013		Total
	Personal Services	Supplies & Other Exp.	
PROFESSIONAL CARE OF PATIENTS			
Ambulance	\$	\$	\$
Anesthesiology	135	86,930	87,065
Cardiac rehab	21,184	2,609	23,793
Clinic providers	495,688	53,936	549,624
Crisfield health center	264,071	113,522	377,593
Community services	103	3,618	3,721
CSR/CC	40,995	(4,112)	36,883
CT scan	102,967	338,646	441,613
EEG/EKG	69,118	2,762	71,880
Emergency services	648,491	826,663	1,475,154
Laboratory	485,536	538,328	1,023,864
Medical and surgical	689,530	297,696	987,226
MRI		171,268	171,268
Occupational therapy	55,862	7,852	63,714
Operating room	38,224	302,209	340,433
Personal care	55,501	1,665	57,166
Pharmacy	191,924	126,816	318,740
Physical therapy	259,428	52,876	312,304
Pocomoke health center		123	123
Princess Anne health center		5,943	5,943
PACU/recovery	67,880	2,759	70,639
Radiology	260,122	310,057	570,179
Respiratory therapy	202,267	38,511	240,778
Speech therapy	13,857	2,205	16,062
Ultrasound	78,318	112,727	191,045
Patient care coor.	70,495	7,532	78,027
Total professional care of patients	<u>\$ 4,111,696</u>	<u>\$ 3,403,141</u>	<u>\$ 7,514,837</u>

See independent accountants' audit report.

June 30, 2012		
Personal Services	Supplies & Other Exp.	Total
\$	\$	\$
	752	752
233,334	23,851	257,185
26,149	2,897	29,046
538,743		538,743
190,899	87,299	278,198
288	15,349	15,637
57,421	7,472	64,893
99,606	369,412	469,018
71,031	29,704	100,735
679,796	708,359	1,388,155
477,974	524,360	1,002,334
643,341	373,558	1,016,899
	201,953	201,953
48,989	12,338	61,327
96,021	132,105	228,126
57,066	1,649	58,715
191,878	109,521	301,399
203,530	165,060	368,590
	1,020	1,020
	9,011	9,011
93,228	6,508	99,736
283,775	241,626	525,401
212,258	44,142	256,400
38,327	1,602	39,929
76,609	129,748	206,357
75,702	6,456	82,158
<u>\$ 4,395,965</u>	<u>\$ 3,205,752</u>	<u>\$ 7,601,717</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	June 30, 2013		
	Personal Services	Supplies & Other Exp.	Total
GENERAL SERVICES			
Courier	\$ 44,930	\$ 19,786	\$ 64,716
Groundskeeping		15,907	15,907
Housekeeping	155,473	36,984	192,457
Human resources	63,540	22,055	85,595
Information technology	154,555	241,489	396,044
Laundry and linen		42,343	42,343
Material management	46,720	7,403	54,123
Medical records	185,524	122,484	308,008
Medical staff		3,539	3,539
Operation of plant	173,899	536,663	710,562
Patient services	163,694	13,098	176,792
Security	84,386	1,024	85,410
Social services		500	500
Staff development	17,821	6,264	24,085
	<u>\$ 1,090,542</u>	<u>\$ 1,069,539</u>	<u>\$ 2,160,081</u>
Total general services	<u>\$ 1,090,542</u>	<u>\$ 1,069,539</u>	<u>\$ 2,160,081</u>

See independent accountants' audit report.

June 30, 2012		
Personal Services	Supplies & Other Exp.	Total
\$ 45,091	\$ 12,340	\$ 57,431
	13,677	13,677
137,378	34,084	171,462
68,359	12,713	81,072
3,839	4	3,843
145,933	161,222	307,155
	42,779	42,779
45,476	3,442	48,918
210,589	69,984	280,573
	6,450	6,450
187,130	540,749	727,879
141,371	10,648	152,019
86,583	1,222	87,805
17,345	4,767	22,112
<u>\$ 1,089,094</u>	<u>\$ 914,081</u>	<u>\$ 2,003,175</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	June 30, 2013		Total
	Personal Services	Supplies & Other Exp.	
ADMINISTRATIVE SERVICES			
Administrative	\$ 136,655	\$	\$ 136,655
Auditing fees			
Clinic clerical	64,747	(514)	64,233
Collection expenses	43,189	79,815	123,004
Communications	37,701	41,413	79,114
Dues and subscriptions		31,296	31,296
Fiscal support services	451,766	236,194	687,960
Insurance		144,473	144,473
Marketing-advertising	51,165	86,122	137,287
Office supplies and expenses		331,876	331,876
Other direct expenses		15,773	15,773
Legal		59,147	59,147
Repair and maintenance		15,497	15,497
Travel		7,383	7,383
Board of directors-food		2,114	2,114
Professional fees and consulting		26,102	26,102
Professional fee billing	51,739		51,739
Development	44,003	8,009	52,012
	<u>\$ 880,965</u>	<u>\$ 1,084,700</u>	<u>\$ 1,965,665</u>
Total administrative services			
EMPLOYEE HEALTH AND WELFARE			
Employer's share of FICA	\$ 433,801	\$	\$ 433,801
Group life and disability	30,267		30,267
Maryland unemployment insurance	40,843		40,843
Medical insurance	1,034,812		1,034,812
Pension expense	82,315		82,315
Workmen's compensation	151,053		151,053
	<u>\$ 1,773,091</u>	<u>\$</u>	<u>\$ 1,773,091</u>
Total employee health and welfare			

See independent accountants' audit report.

June 30, 2012		
Personal Services	Supplies & Other Exp.	Total
\$ 125,600	\$	\$ 125,600
	14,500	14,500
74,141	1,455	75,596
54,010	88,673	142,683
47,073	34,011	81,084
	32,053	32,053
458,373	190,668	649,041
	43,972	43,972
44,577	105,150	149,727
	69,907	69,907
	19,132	19,132
	43,215	43,215
	3,058	3,058
	1,787	1,787
	1,683	1,683
	29,722	29,722
54,740		54,740
27,120	7,554	34,674
<u>\$ 885,634</u>	<u>\$ 686,540</u>	<u>\$ 1,572,174</u>
\$ 445,286	\$	\$ 445,286
30,785		30,785
35,842		35,842
737,519		737,519
98,762		98,762
138,364		138,364
<u>\$ 1,486,558</u>	<u>\$</u>	<u>\$ 1,486,558</u>