

THE EDWARD W. McCREADY MEMORIAL HOSPITAL

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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SCOTT TAWES & ASSOCIATES, CPA, P.A.

10840 MARKET LANE
BUILDING A, SUITE 5
PRINCESS ANNE, MD 21853

ESTAWES@GMAIL.COM
INDEPENDENT AUDITOR'S REPORT

Administrator and Board of Directors
The Edward W. McCready Memorial Hospital
Crisfield, MD 21817

We have audited the accompanying statements of financial position of The Edward W. McCready Memorial Hospital (a non-profit organization) as of June 30, 2010 and 2009, 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 United States Generally Accepted Auditing Standards. 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.

The Edward W. McCready Memorial Hospital is affiliated with and physically connected to the Alice Byrd Tawes Nursing Home. The Hospital and Nursing Home are controlled by a common Board of Directors who operate under the name of McCready Foundation, Inc. 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.

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, 2010 and 2009, and the results of its activities and cash flows for the years then ended in conformity with United States Generally Accepted Accounting Principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other schedules listed on pages 20 through 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scott Turo & Associates, CPA, P.A.

Princess Anne, Maryland
September 7, 2010

The Edward W. McCready Memorial Hospital
 STATEMENTS OF FINANCIAL POSITION
 As of June 30, 2010 and 2009

ASSETS		
	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,792,313	\$ 2,474,032
Accounts Receivable (less allowances for uncollectible accounts of \$779,841 in 2010 and \$473,283 in 2009)	2,590,684	2,105,743
Inventories	349,652	336,876
Prepaid Expenses	152,001	165,176
Total Current Assets	4,884,650	5,081,827
PROPERTY AND EQUIPMENT, at cost		
Land Improvements	47,300	45,300
Building - New Hospital	7,315,216	6,995,632
- Old Hospital	748,723	719,982
Fixed Equipment	918,037	810,661
Major Movable Equipment	3,113,821	2,101,139
Princess Anne	445,983	379,207
Total	12,589,080	11,051,921
Less: Accumulated Depreciation	(6,535,852)	(6,038,447)
Net Property and Equipment	6,053,228	5,013,474
OTHER ASSETS		
Due From Alice Byrd Tawes Nursing Home	2,320,607	1,163,149
Due From Assisted Living	29,655	-
Total Other Assets	2,350,262	1,163,149
Total Assets	\$ 13,288,140	\$ 11,258,450

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, 2010 and 2009

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts Payable	\$ 596,851	\$ 583,668
Accrued Salaries, Annual Leave and Related Taxes	788,889	799,751
Current Portion of Long-Term Debt	633,070	370,308
Accrued Interest	11,042	9,504
PIP	382,178	88,871
Blue Cross - Advance	131,100	124,400
MA-Advance	36,265	39,958
Total Current Liabilities	2,579,395	2,016,460
LONG - TERM DEBT		
Mortgage Payable - USDA	1,281,194	1,402,366
- City of Crisfield	149,123	384,865
Capital Equipment Leases	1,011,029	533,132
Total Long - Term Debt	2,441,346	2,320,363
Less: Current Portion Above	(633,070)	(370,308)
Total Long - Term Debt	1,808,276	1,950,055
OTHER LIABILITIES		
Due to Endowment Fund	294,270	202,801
Total Other Liabilities	294,270	202,801
TOTAL LIABILITIES	4,681,941	4,169,316
NET ASSETS		
Unrestricted	8,606,199	7,089,134
Total Net Assets	8,606,199	7,089,134
Total Liabilities and Net Assets	\$ 13,288,140	\$ 11,258,450

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, 2010 and 2009

	2010	2009
REVENUES, GAINS AND OTHER SUPPORT		
Net Patient Service Revenue	\$ 17,548,649	\$ 16,077,028
Other Operating Revenue	36,642	58,299
Total Revenues, Gains and Other Support	17,585,291	16,135,327
EXPENSES		
Professional Care Of Patients	8,578,009	8,249,911
Dietary Services	67,238	70,409
General Services	2,061,360	1,751,436
Administrative Services	1,572,444	1,309,708
Employee Health & Welfare	1,618,953	1,458,322
Medical Malpractice Costs	170,441	159,410
Depreciation	531,128	486,199
Interest	164,816	165,619
Provision for Bad Debts	1,480,837	968,148
Total Expenses	16,245,226	14,619,162
Operating Income (Loss)	1,340,065	1,516,165
NON-OPERATING REVENUES AND OTHER CHANGES		
Interest Income	5,959	32,315
Contributions and Donations	18,160	8,370
Miscellaneous Income	7,112	7,820
Gain (Loss) on Sale of Assets	12,750	13,550
Grant Revenues	132,934	140,943
Total Non-Operating Revenue and Other Changes	176,915	202,998
Increase (Decrease) In Unrestricted Net Assets	\$ 1,516,980	\$ 1,719,163

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS		
Operating Income (Loss)	\$ 1,340,065	\$ 1,516,165
Contributions and Donations	18,160	8,370
Interest Income	5,959	32,315
Miscellaneous Income	7,112	7,820
Gain (Loss) on Sale of Assets	12,750	13,550
Grant Income	<u>132,934</u>	<u>140,943</u>
Increase (Decrease) In Unrestricted Net Assets	<u>1,516,980</u>	<u>1,719,163</u>
Increase (Decrease) In Net Assets	<u>1,516,980</u>	<u>1,719,163</u>
NET ASSETS, BEGINNING OF YEAR	<u>7,089,134</u>	<u>5,369,971</u>
NET ASSETS, END OF YEAR	<u><u>\$ 8,606,114</u></u>	<u><u>\$ 7,089,134</u></u>

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, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 1,516,980	\$ 1,719,163
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	531,128	486,199
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(484,941)	13,292
Inventories	(12,776)	106
Prepaid Expenses	13,175	(88,012)
Due From Alice Byrd Tawes Nursing Home	(1,157,181)	(156,782)
Due From Assisted Living	(29,655)	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	13,183	(141,340)
Accrued Salaries, Annual Leave, and Related Taxes	(10,862)	60,366
Accrued Interest	1,623	2,649
Due to Endowment Fund	91,469	(11,519)
Blue Cross - Advance	6,700	(32,800)
PIP	293,307	88,871
MA - Advance	(3,693)	-
Net Cash Provided (Used) by Operating Activities	<u>768,457</u>	<u>1,940,193</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment - Net of Disposals	<u>(1,571,159)</u>	<u>(1,814,515)</u>
Net Cash Provided (Used) by Investing Activities	(1,571,159)	(1,814,515)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds - New Loans	477,897	239,867
Principal Payments on Loans	<u>(356,914)</u>	<u>(372,159)</u>
Net Cash Provided (Used) by Financing Activities	120,983	(132,292)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(681,719)</u>	<u>(6,614)</u>
Cash And Cash Equivalents at the Beginning of the Year	<u>2,474,032</u>	<u>2,480,646</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 1,792,313</u></u>	<u><u>\$ 2,474,032</u></u>

The Hospital paid interest expense of \$164,816 in 2010 and \$165,619 in 2009, and no income tax.

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

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies

Nature and Organization

The Edward W. McCready Memorial Hospital is a 39 bed rural hospital located in Crisfield, MD. The facility consists of 20 acute care beds and 19 nursing home beds. 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 the 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, 2010 AND 2009

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.

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

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

HMO, Capitation

The Hospital is paid a set amount per individual based on the total number of participants in the HMO program. The Hospital then services these patients with minimal amounts of collection.

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, 2010 at \$779,841 and \$473,283 for the year ended June 30, 2009. 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 Hospital adopted (effective July 1, 2009) the financial statement presentation requirements of ASC Topic 958 Not-for-profit Entities (formerly Financial Accounting Standards Board

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 and Cash Equivalents

Cash and cash equivalent funds are invested in PNC Bank, the Bank of Delmarva and Hebron Savings Bank in interest bearing accounts. The various bank balances at June 30, 2010 and 2009 are summarized below. Only the balances up to \$250,000 (PNC Bank), \$250,000 per CDARS Certificate of Deposit (Bank of Delmarva) and \$250,000 (Hebron Savings Bank) are fully insured by the FDIC. Thus, the remaining balances of \$967,537 are uninsured.

	<u>2010</u>	<u>2009</u>
Unrestricted Cash:		
Operating Account (PNC)	\$ 300,535	\$ 128,998
Payroll Account (PNC)	38,584	499
General Reserved Account (PNC)	539,079	684,303
Peyton Center Activities (PNC)	42,465	88,334
Special Account (PNC)	222,138	225,349
License Account (PNC)	262	167
Money Market (PNC)	3,800	3,793
Health Plan (PNC)	7,832	123
Money Market (PNC)	60,574	346,950
Construction Account (Bank of Delamrva)	-	1,006,902
CDARS (Bank of Delmarva)	755,630	-
Wire Transfer Account (PNC)	800	500
Certificate of Deposit (HSB)	251,468	-
Total Cash & Cash Equivalents: In Bank	<u>\$ 2,223,167</u>	<u>\$ 2,485,918</u>

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

	<u>Balance Per Bank</u>	<u>FDIC Insured</u>	<u>Uninsured</u>
McCready Hospital			
PNC Bank (Savings & MM accts)	\$ 1,216,069	\$ 250,000	966,069
Bank of Delmarva - CDARS	755,630	755,630	-
Hebron Savings Bank	251,468	250,000	1,468
Alice Byrd Tawes Nursing Home			
PNC Bank (Savings & MM accts)	189,279	-	189,279
Endowment Fund			
PNC Bank (Savings & MM accts)	111,415	-	111,415
PNC Bank (CD)	50,896	-	50,896
Bank of Delmarva (CD)	142,328	142,328	-
	<u>\$ 2,717,085</u>	<u>\$1,397,958</u>	<u>\$ 1,319,127</u>

4. Property and Equipment

At June 30, 2010 and 2009, the cost and related depreciation of property and equipment were as follows:

	<u>Life</u>	<u>2010</u>	<u>2009</u>
Land Improvements	10-50 Years	\$ 47,300	\$ 45,300
Building - New Hospital	10-40 Years	7,315,216	6,995,632
Building - Old Hospital	10-50 Years	748,723	719,982
Fixed Equipment	5 Years	918,037	810,661
Major Movable Equipment	10-20 Years	3,113,821	2,101,139
Princess Anne	30 Years	445,983	379,207
Total Assets		12,589,080	11,051,921
Less: Accumulated Depreciation		(6,535,852)	(6,038,447)
Net Property and Equipment		<u>\$ 6,053,228</u>	<u>\$ 5,013,474</u>

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to \$531,128 and \$486,199, respectively.

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. Long-Term Debt

The following summarizes long-term debt at June 30, 2010 and 2009.

	<u>Balance at June 30</u>	
	<u>2010</u>	<u>2009</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.	\$ 1,281,194	\$ 1,402,366
<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	384,865
<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).	51,641	86,487
Dade Behring Auto Scan financed by G.E. Healthcare Financial for 120 months at \$2,267 (7.96% interest rate).	-	15,518
Fluoroscopy system financed by First American for 72 months at \$4,545 (8% interest rate)	148,599	189,456

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Long Term Debt (continued)

Versamed Vent financed by Carlton Financial for 60 months at \$474 (9.64% interest rate)	13,687	17,834
Olympus Endoscopy Suite - \$86,097 - financed by First American for \$1,902 for 60 months (11.69% interest rate)	69,400	77,298
Lab System/ Healthland N.H. - \$45,255 financed by First American for \$1,402 for 36 months (7.2% interest rate)	26,340	40,695
Clinical System Lease 1 - \$108,514 financed by First American for \$3,410 for 36 months (8.1855% interest rate)	72,354	105,844
Avaya Telephone System - \$166,430 financed by Summit Funding Group, Inc. for 36 months at \$4,986 (3.1825% interest rate)	161,886	-
Healthland Clinical System Lease 2 - \$188,224 financed by First American for 36 months at \$5,867 (7.6388% interest rate)	154,912	-
Healthland Clinical System Lease 3 - \$89,432 financed by First American for 36 months at \$2,798 (7.9027% interest rate)	75,955	-
Scopes & PFT Machine - \$\$129,766 financed by First American for 60 months at \$2,583 (7.2144% interest rate)	120,644	-
Blade Server - \$52,909 financed by First American for 36 months at \$1,650 (7.6680% interest rate)	47,611	-
Immunoassay Analyzer - \$85,000 financed by Siemens for 60 months at \$1,417 (0% interest rate)	68,000	-
Total Long-Term Debt	<u>\$ 2,441,346</u>	<u>\$ 2,320,363</u>

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

2011	\$ 633,070
2012	479,128
2013	368,133
2014	212,107
2015	173,158
Thereafter	<u>575,750</u>
Total	<u>\$ 2,441,346</u>

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 \$919,829 and \$968,730 in the years ended June 30, 2010 and 2009, respectively.

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 Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

The following estimated adjustments were made to gross patient revenues for the years ended June 30, 2010 and 2009:

	2010	2009
Gross Patient Service Revenue	\$ 21,338,175	\$ 19,514,527
Less Charity Care and Contractual Adjustments	(3,789,526)	(3,437,499)
Net Patient Service Revenue	\$ 17,548,649	\$ 16,077,028

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. There were no draw downs on this loan as of June 30, 2009. Draws on this loan as of June 30, 2010 amounted to \$4,850,467. 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 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

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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. There were no draw downs on this loan as of June 30, 2009. Draws on this loan as of June 30, 2010 amounted to \$3,233,644. 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, 2010 and 2009 amounted to \$100,467 and \$98,143, respectively.

10. Related Party Transactions

The Hospital is affiliated with The Alice Byrd Tawes Nursing Home and The McCready Foundation, Inc. through a common Board. Shared and common expenses are consistently allocated among the two operating entities and include the following:

Related Party Transactions/ Shared Costs		
	Hospital	Nursing Home
Plant Operations	\$ 709,607	\$ 288,359
Security	61,087	23,483
Administration	170,414	153,886
Fiscal Services	629,544	94,417
Employee Health and Welfare	1,618,953	679,035
Dietary Costs	67,238	638,536
Communications	91,867	24,980
Insurance	43,414	43,300
Laundry	68,413	75,728
Human Resources	80,419	39,690
Purchasing	62,382	9,340
Pharmacy	1,144,252	93,677
Grounds	21,280	3,429
Housekeeping	174,840	138,035

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

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

The Hospital had a Certificate of Deposit with Hebron Savings Bank in fiscal year 2010 the amount of \$250,000, who employs a past member of the Board of Directors – James Byrd.

The Nursing Home has its builder's risk insurance policy through an agent named Jay Tawes who is on the Associate Board of Directors and is the Chairman of the Fundraising Committee. Premiums paid on this policy for the years ended June 30, 2010 and 2009 were \$1,426 (term of February through June 2010) and \$16,228 (term of November 2008 through January 2010), respectively.

11. Concentration of Credit Risk

At June 30, 2010, the Hospital received a substantial amount of its support from Medicaid (\$3,044,976), Medicare (\$9,983,833), and HMO's (\$2,082,233). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the organization's activities.

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, 2010 and 2009 were \$905,690 and \$754,700, respectively. For the fiscal year ended June 30, 2010, 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 2010 and 2009 were \$20,149 and \$16,751, respectively.

13. Employment Contracts

The Hospital has employment contracts which extend through June 2011. The aggregate commitments under these agreements for subsequent years ending June 30 are as follows:

2011	1,417,507
2012	325,000
2013	94,791
Total	<u>\$ 1,742,507</u>

The Edward W. McCready Memorial Hospital
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

14. Compensated Absences

Employees of the Hospital are entitled to paid vacation, depending on length of service and job classification. At June 30, 2010 and 2009, there were \$376,699 and \$357,921, respectively of vacation benefits due employees. Rights to receive sick leave do not vest.

15. Letter of Credit

The Bank of Delmarva provided McCready Hospital and Alice Byrd Tawes Nursing Home with an unsecured letter of credit in the amount of \$135,083 for the benefit of the State of Maryland to cover the obligation for unemployment taxes.

16. Operating Leases

As of June 30, 2010, the Hospital had entered into various non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2010 to 2014. Minimum rentals, on an annual basis, are as follows:

Fiscal Year ending June 30,	2011	\$ 249,564
	2012	\$ 177,928
	2013	\$ 165,573
	2014	\$ 53,206
	Thereafter	\$ -

The rent expense for fiscal year 2010 was \$377,825 and \$240,507 for 2009.

17. 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*).

18. Events Subsequent to June 30, 2010

Subsequent to June 30, 2010, the pension plan is undergoing its first required audit. As of the date of this report, the audit is incomplete; however, there will be a balance due for the part time employees. The amount due is unknown at this time.

Subsequent events were evaluated through September 7, 2010.

19. Post Employment Benefits

There are no post employment benefits.

The Edward W. McCready Memorial Hospital
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009

20. 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.

21. 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.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	<u>\$ 1,007,098</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,007,098</u>

22. Advertising

The Hospital's policy is to expense advertising costs as the costs are incurred. Total advertising costs for the years ended June 30, 2010 and 2009 amounted to \$67,666 and \$40,873, respectively.

SUPPLEMENTARY SCHEDULES

AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

Administrator and Board of Directors
The Edward W. McCready Memorial Hospital
Crisfield, MD 21817

Our examination of the basic financial statements presented in the preceding section of this report was made primarily to form an opinion on such financial statements taken as a whole. Supplementary information contained in the following pages is not considered essential for the fair presentation of the financial position of the Edward W. McCready Memorial Hospital, or the results of its operations. However, the following data was subjected to the audit procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to such statements taken as a whole.

Scott Tawes & Associates CPA, P.A.

Princess Anne, Maryland
September 7, 2010

The Edward W. McCready Memorial Hospital
NET PATIENT SERVICE REVENUES
For The Years Ended June 30, 2010 and 2009

	Year Ended June 30,	
	2010	2009
INPATIENT:		
Admission Charge	\$ 131,272	\$ 74,007
Anesthesiology/CRNA	262,296	88,788
Blood	43,991	49,697
CAT Scan	195,806	122,644
Dialysis	-	1,913
Electrocardiology	65,482	66,164
Emergency and Clinic Treatment	451,367	356,885
Inhalation Therapy	441,856	349,593
Intravenous	16,192	18,795
Laboratory	660,240	702,783
Medical / Surgical Acute	3,174,845	2,873,699
Medical and Surgical Supplies	176,311	276,797
MRI	29,027	39,187
OCC Therapy	16,240	23,655
Operating Room	249,197	211,788
Pharmacy	684,345	761,620
Physical Therapy	89,215	96,726
Nuclear Medicine	4,710	-
Professional Fees - Radiology	348,442	404,808
Radiology	274,292	275,535
Same Day Surgery	3,343	3,615
Speech Therapy	12,746	13,519
Swing Bed	47,179	39,316
OUTPATIENT:		
Anesthesiology/CRNA	104,487	358,539
Blood	24,463	26,139
Cardiac Rehab	7,224	5,698
CAT Scan	659,201	422,484
Outpatient Health Centers	1,457,123	1,475,487
Electrocardiology	143,260	140,657
Emergency and Clinic Treatment	4,700,834	3,358,703
Inhalation Therapy	149,255	127,680
Intravenous	15,453	14,409
Laboratory	2,127,860	2,029,210
Medical and Surgical Supplies	459,674	735,072
MRI	341,361	392,057
Operating Room	775,286	666,030
OCC Therapy	51,407	52,970
Pain Management	-	(747)
Personal Care	64,428	61,857
Pharmacy	459,907	547,526
Physical Therapy	753,081	654,339
Radiology	1,254,735	1,414,038
Same Day Surgery	378,954	153,183
Speech Therapy	31,788	27,662
PATIENT SERVICE REVENUE	<u>21,338,175</u>	<u>19,514,527</u>
Less: Contractual Adjustments	(2,869,697)	(2,468,769)
Charity	(919,829)	(968,730)
NET PATIENT SERVICE REVENUE	<u><u>\$ 17,548,649</u></u>	<u><u>\$ 16,077,028</u></u>

The Edward W. McCready Memorial Hospital
OTHER OPERATING REVENUES
For The Years Ended June 30, 2010 and 2009

	<u>Year Ended June 30,</u> <u>2010</u>	<u>2009</u>
Ambulance	\$ 27,163	\$ 16,853
Illness Prevention Program	295	19,069
Miscellaneous	460	5,806
Vendor Rebates	657	3,961
Telephone	1,688	1,399
Rental Income - Phys. Office	5,339	9,600
Community Benefits	1,040	1,611
	<u>\$ 36,642</u>	<u>\$ 58,299</u>
TOTAL OTHER OPERATING REVENUES	\$ 36,642	\$ 58,299

The Edward W. McCready Memorial Hospital
OPERATING EXPENSES
For The Years Ended June 30, 2010 and 2009

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>
PROFESSIONAL CARE OF PATIENTS:				
Anesthesiology	\$ 238,815	\$ 38,630	\$ 242,482	\$ 34,537
Cardiac Rehab	9,112	2,229	8,215	1,462
Ambulance	-	6,226	-	4,058
Crisfield Health Center	1,055,903	162,354	943,379	141,436
Community Services	-	11,954	1,088	3,143
CSR/CC	68,318	8,398	63,926	8,503
CT Scan	101,154	317,499	121,211	306,292
Diabetes	41,225	1,654	39,272	4,296
Dialysis	-	-	-	1,214
EEG/EKG	71,887	31,867	70,187	34,844
Emergency Services	668,819	825,272	669,127	795,152
Laboratory	458,361	597,102	462,699	545,328
Medical and Surgical	893,435	333,702	937,215	301,207
MRI	-	227,980	53	196,590
Nutrition Management	-	3,983	-	4,000
Occupational Therapy	38,823	6,208	39,563	5,293
Operating Room	137,733	157,806	141,525	174,458
Personal Care	60,504	2,267	59,783	1,911
Pharmacy	183,268	83,186	179,782	70,510
Physical Therapy	178,602	24,174	158,509	50,980
Princess Anne Health Center	-	22,827	-	11,216
PACU/ Recovery	131,700	8,959	94,645	4,779
Radiology	553,121	308,106	523,802	308,019
Respiratory Therapy	177,871	40,524	151,012	29,474
Speech Therapy	29,138	1,198	31,219	4,136
Ultrasound	74,008	103,592	83,949	100,843
Patient Care Coord.	70,960	7,555	72,578	11,009
	<u>\$ 5,242,757</u>	<u>\$ 3,335,252</u>	<u>\$ 5,095,221</u>	<u>\$ 3,154,690</u>
SUBTOTALS	\$ 5,242,757	\$ 3,335,252	\$ 5,095,221	\$ 3,154,690
TOTALS	\$ 8,578,009	\$ 8,249,911	\$ 8,249,911	\$ 8,249,911

The Edward W. McCready Memorial Hospital
OPERATING EXPENSES
For The Years Ended June 30, 2010 and 2009

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>
GENERAL SERVICES				
Courier	\$ 35,308	\$ 5,007	\$ 34,141	\$ 4,860
Groundskeeping	-	21,280	-	15,576
Housekeeping	144,427	30,413	141,394	36,431
Human Resources	61,071	19,348	56,850	15,275
Illness Prevention Program	11,777	11	19,395	74
Information Technology	123,140	132,737	87,893	83,118
Laundry & Linen	-	68,413	-	86,024
Material Management	55,683	6,699	51,339	6,204
Medical Records	171,810	101,332	166,082	75,055
Medical Staff	24,807	3,901	17,014	2,133
Operation of Plant	133,024	576,583	135,260	531,909
Patient Services	54,068	167,385	81,697	5,797
Security	60,350	737	52,431	1,453
Staff Development	45,836	6,213	39,408	4,623
pg				
SUBTOTALS	<u>\$ 921,301</u>	<u>\$ 1,140,059</u>	<u>\$ 882,904</u>	<u>\$ 868,532</u>
TOTALS	<u>\$ 2,061,360</u>		<u>\$ 1,751,436</u>	

The Edward W. McCready Memorial Hospital
OPERATING EXPENSES
For The Years Ended June 30, 2010 and 2009

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>	<u>Personal Services</u>	<u>Supplies & Other Exp.</u>
ADMINISTRATIVE SERVICES				
Administrative Offices	\$ 170,414	\$ -	\$ 134,775	\$ -
Auditing Fees	-	14,000	-	13,000
Clinic Clerical	156,143	2,460	-	-
Collection Expenses	47,879	131,634	47,221	215,321
Communications	42,594	49,273	38,378	38,056
Dues & Subscriptions	-	36,258	-	15,082
Fiscal Support Services	477,347	152,197	419,319	147,991
Insurance	-	43,414	-	45,072
Marketing-Advertising	39,658	68,051	31,530	42,951
Office Supplies & Expenses	-	58,493	-	26,341
Other Direct Expenses	-	15,395	-	30,551
Legal	-	3,683	-	2,651
Repair & Maintenance	-	1,431	-	1,314
Travel	-	259	-	418
Board of Directors - Food	-	7,330	-	6,132
Quality Management	-	-	3,234	-
Professional Fees and Consulting	-	24,000	-	27,389
Development	20,177	10,354	17,342	5,640
	<u>\$ 954,212</u>	<u>\$ 618,232</u>	<u>\$ 691,799</u>	<u>\$ 617,909</u>
Subtotal	<u>\$ 954,212</u>	<u>\$ 618,232</u>	<u>\$ 691,799</u>	<u>\$ 617,909</u>
Total	<u>\$ 1,572,444</u>	<u>\$ 1,309,708</u>	<u>\$ 1,309,708</u>	<u>\$ 1,309,708</u>
EMPLOYEE HEALTH AND WELFARE				
Employer's Share of FICA	-	481,363	-	450,967
Group Life & Disability	-	29,415	-	27,659
MD Unemployment Insurance	-	20,149	-	16,751
Medical Insurance	-	905,690	-	754,700
Pension Expense	-	100,467	-	98,143
Workmen's Compenstation	-	81,869	-	110,102
	<u>\$ -</u>	<u>\$ 1,618,953</u>	<u>\$ -</u>	<u>\$ 1,458,322</u>
Total	<u>\$ -</u>	<u>\$ 1,618,953</u>	<u>\$ -</u>	<u>\$ 1,458,322</u>