

THE ALICE BYRD TAWES NURSING HOME

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

Administrator and Board of Directors
The Alice Byrd Tawes Nursing Home
Crisfield, MD 21817

We have audited the accompanying statements of financial position of The Alice Byrd Tawes Nursing Home (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 Nursing Home'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 Alice Byrd Tawes Nursing Home is affiliated with and physically connected to the Edward W. McCready Memorial Hospital. The Nursing Home and The Hospital 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 Alice Byrd Tawes Nursing Home.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Alice Byrd Tawes Nursing Home 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2010, on our consideration of The Alice Byrd Tawes Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The

purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other schedules listed in the table of contents 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 James & Associates CPA, B.A.

Princess Anne, Maryland
September 9, 2010

The Alice Byrd Tawes Nursing Home
 STATEMENTS OF FINANCIAL POSITION
 As of June 30, 2010 and 2009

ASSETS		
	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 162,794	\$ 12,411
Accounts Receivable (less allowances for uncollectible accounts of \$305,850 in 2010 and 305,850 in 2009)	653,632	504,253
Inventories	3,095	3,769
Total Current Assets	819,521	520,433
PROPERTY AND EQUIPMENT, at cost		
Building - Old	861,294	861,295
- New with Assisted Living	11,775,331	2,333,772
Fixed Equipment	96,015	88,426
Major Movable Equipment	723,496	434,463
Kitchen Renovation	71,688	71,688
Total	13,527,824	3,789,644
Less: Accumulated Depreciation	(861,903)	(770,805)
Net Property and Equipment	12,665,921	3,018,839
OTHER ASSETS		
Patient Funds	26,537	78,679
Total Other Assets	26,537	78,679
Total Assets	\$ 13,511,979	\$ 3,617,951

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

The Alice Byrd Tawes Nursing Home
 STATEMENTS OF FINANCIAL POSITION
 As of June 30, 2010 and 2009

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES		
Accounts Payable	\$ 117,995	\$ 96,348
Accrued Interest Payable	28,749	-
Accrued Salaries, Annual Leave and Related Taxes	229,324	188,675
Medicaid Advance	41,660	41,660
	417,728	326,683
Total Current Liabilities		
OTHER LIABILITIES		
Patient Funds	26,537	78,679
Due To McCready Hospital	2,320,607	1,163,149
Due to McCready Foundation Endowment	402,322	239,111
Mortgage - USDA	4,850,467	-
Mortgage - Bank of Delmarva	3,233,644	-
	10,833,577	1,480,939
Total Other Liabilities		
TOTAL LIABILITIES	11,251,305	1,807,622
NET ASSETS		
Unrestricted	2,260,674	1,810,329
	2,260,674	1,810,329
Total Net Assets		
Total Liabilities and Net Assets	\$ 13,511,979	\$ 3,617,951

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

The Alice Byrd Tawes Nursing Home
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES, GAINS AND OTHER SUPPORT		
Net Patient Service Revenue	\$ 5,178,499	\$ 5,020,828
Total Revenues, Gains and Other Support	<u>5,178,499</u>	<u>5,020,828</u>
EXPENSES		
Professional Care Of Patients	1,860,637	1,940,814
Dietary Services	638,536	637,207
General Services	957,267	901,583
Administrative Services	331,734	310,373
Employee Health & Welfare	679,035	658,358
Medical Malpractice Costs	51,544	40,159
Depreciation	91,375	91,185
Provision for Bad Debts	354,152	302,722
Total Expenses	<u>4,964,280</u>	<u>4,882,401</u>
Operating Income (Loss)	<u>214,219</u>	<u>138,427</u>
NON-OPERATING REVENUES AND EXPENSES		
Donations	-	40,613
State of Maryland Bond Bill Grant	229,387	250,000
Interest Income	6,739	12,316
Abandoned Costs	-	(17,351)
Loss on Building Demolition	-	(61,139)
Loss on Community Foundation Funds	-	(105,496)
Total Non-Operating Revenue and Expenses	<u>236,126</u>	<u>118,943</u>
Increase (Decrease) In Unrestricted Net Assets	<u>\$ 450,345</u>	<u>\$ 257,370</u>

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

The Alice Byrd Tawes Nursing Home
STATEMENTS OF CHANGES IN NET ASSETS
For The Years Ended June 30, 2010 and 2009

	2010	2009
UNRESTRICTED NET ASSETS		
Operating Income (Loss)	\$ 214,219	\$ 138,427
Interest and Other Revenue (Expense)	236,126	118,943
Net Assets Released From Restrictions	-	-
Increase (Decrease) In Unrestricted Net Assets	450,345	257,370
Increase (Decrease) in Temporarily Restricted Net Assets	-	-
Increase (Decrease) In Net Assets	450,345	257,370
NET ASSETS, BEGINNING OF YEAR	1,810,329	1,552,959
NET ASSETS, END OF YEAR	\$ 2,260,674	\$ 1,810,329

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

The Alice Byrd Tawes Nursing Home
STATEMENTS OF CHANGES IN CASH FLOWS
For The Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 450,345	\$ 257,370
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	91,375	91,185
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(149,379)	330,259
Inventories	674	2,555
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	21,647	(106,577)
Accrued Interest Payable	28,749	-
Accrued Salaries, Annual Leave, and Related Taxes	40,649	7,854
Due To McCreedy Hospital	1,157,181	156,782
Due To McCreedy Foundation Endowment Fund	163,211	-
Net Cash Provided (Used) by Operating Activities	<u>1,804,452</u>	<u>739,428</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment - Net of Disposals	(9,738,180)	(1,921,072)
Community Foundation Fundraising Funds	-	409,306
Net Cash Provided (Used) by Investing Activities	<u>(9,738,180)</u>	<u>(1,511,766)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds - New Loans - USDA	4,850,467	-
- Bank of Delmarva	3,233,644	-
Net Cash Provided (Used) by Financing Activities	<u>8,084,111</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>150,383</u>	<u>(772,338)</u>
Cash And Cash Equivalentents at the Beginning of the Year	<u>12,411</u>	<u>784,749</u>
Cash and Cash Equivalentents at the End of the Year	<u>\$ 162,794</u>	<u>\$ 12,411</u>

The Nursing Home paid interest expense of \$199,878 in 2010 and none in 2009, and no income tax. 2010 construction period interest paid was capitalized to Construction in Progress - New Nursing Home and Assisted Living Building.

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

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

1. Summary of Significant Accounting Policies

Nature and Organization

The Alice Byrd Tawes Nursing Home is a 69 bed nursing home located in Crisfield, MD. The Nursing Home is associated with and physically connected to The Edward W. McCready Memorial Hospital. Both institutions are controlled by a common Board of Directors who operates under the name of McCready Foundation, Inc.

Accounting Standards Codification

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

Use of Estimates

The preparation of financial statements in conformity with United States 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 ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Property and Equipment

Property and equipment acquisitions are recorded at cost. The Nursing Home follows the policy of capitalizing any individual items with a cost greater than \$500. 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 Nursing Home 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

Net patient service revenue is reported at the estimated net realizable amounts from residents, 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.

Income Taxes

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

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

2. Change in Presentation and Accounting Method

Financial Statement Presentation

As addressed in Note 1, "Summary of Significant Accounting Policies", The Nursing Home has adopted (effective July 1, 2009) the financial statement presentation requirements of Accounting Standards Codification 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. There has been no effect on the change in net assets upon adoption of this method of financial statement presentation.

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 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.

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

3. Cash and Cash Equivalents

All cash and cash equivalent funds are invested in PNC Bank. The various bank balances at June 30, 2010 and 2009 are summarized below

	<u>2010</u>	<u>2009</u>
Unrestricted Cash:		
Operating Account	\$ 51,426	\$ 8,580
Activities Account	2,752	1,954
Money Market	108,515	1,827
Construction Account	51	-
Petty Cash	50	50
Total Unrestricted Cash	162,794	12,411
Restricted Cash:	26,537	78,679
Total Restricted Cash	26,537	78,679
Total Cash & Cash Equivalents: In Bank	\$ 189,331	\$ 91,090

Since the Hospital, Nursing Home, and the Endowment Fund operate under the same Federal Identification Number, the FDIC coverage with PNC Bank is exhausted with the Hospital cash accounts and the Nursing Home accounts are uninsured.

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>
Building and Improvements - Old	20-50 Years	\$ 861,294	\$ 861,295
- New	20-50 Years	11,775,331	2,333,772
Fixed Equipment	10-20 Years	96,015	88,426
Major Movable Equipment	10 Years	723,496	434,463
Kitchen Renovation	10-20 Years	71,688	71,688
Total Assets		13,527,824	3,789,644
Less: Accumulated Depreciation		(861,903)	(770,805)
Net Property and Equipment		\$ 12,665,921	\$ 3,018,839

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to \$91,375 and \$91,185 respectively.

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. Restricted Net Assets

There were no restricted net assets as of June 30, 2010 or 2009.

6. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from residents, 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. A cost settlement of \$306,070.64 was received from the State of Maryland in July 2010 and was included in the June 30, 2010 accounts receivable and revenues.

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	\$ 5,313,886	\$ 5,277,037
Less Charity Care and Contractual Adjustments	(135,387)	(256,209)
Net Patient Service Revenue	\$ 5,178,499	\$ 5,020,828

7. Employee Pension Plan

The Nursing Home and Hospital 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 Nursing Home employees for the years ended June 30, 2010 and 2009 amounted to \$38,197 and \$34,408, respectively.

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.

8. Related Party Transactions

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. The total premiums paid on this policy were \$1,426 in

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

fiscal year 2010 (term of February through June 2010) and \$16,288 in fiscal year 2009 (term of November 2008 through January 2010).

The Nursing Home is affiliated with The Edward W. McCready Memorial Hospital 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 Nursing Home with respect to these related entities are separately stated on the balance sheet.

9. Concentration of Credit Risk

The Nursing Home receives a substantial amount of its support from the State of Maryland – Medicaid. Gross charges were \$4,114,139 in 2010 and \$4,170,614 in 2009. A reduction in the level of this reimbursement, if this were to occur, may have an effect on the organization's activities.

The Nursing Home and the Hospital elected to be self-insured for employee health insurance up to a cap of about \$1.5 million. The Nursing Home's actual cost for the years ended June 30, 2010 and 2009 were \$381,067 and \$349,263, respectively. For the fiscal year ended June 30, 2010, the Nursing Home and the Hospital are self insured up to a cap of \$1,295,000.

10. Commitments and Contingencies

The Nursing Home 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

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 \$19,210 and \$24,894, respectively.

All of the Nursing Home's assets and future income are pledged as collateral for the loans of the McCready Hospital; ie, USDA mortgage loan, balance \$1,281,194 and City of Crisfield (PNC Bank) loan, balance \$149,123. They are also pledged for the new Nursing Home loans – USDA – \$4,850,467 and the Bank of Delmarva – \$3,233,644.

11. Compensated Absences

Employees of the Nursing Home are entitled to paid vacation, depending on length of service and job classification. At June 30, 2010 and 2009, there were \$104,032 and \$85,145, respectively of vacation benefits due employees. Rights to receive sick leave do not vest.

12. Rent Expense

The Nursing Home incurred rent expense of \$14,401 and \$15,608 for fiscal years 2010 and 2009, respectively. The expense was incurred for daily rental of oxygen and other patient equipment. Such rents are cancelable immediately upon vacancy.

13. Long-Lived Assets

The carrying value of long-lived assets and certain identifiable intangibles is reviewed by the Nursing Home 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. As of the date of this report, the remaining 80% of the Nursing Home building is occupied and in use, with complete demolition scheduled for sometime in fiscal year 2011, with an estimated loss of approximately \$224,000.

14. Subsequent Events

Construction on the new Nursing Home started in October 2008 with construction costs estimated to be approximately \$12,800,000. The proposed replacement facility includes a four story 70,300 square foot Nursing Home with 76 beds and a 30 bed assisted living center. Costs incurred as of June 30, 2010 and 2009 were \$11,775,331 and \$2,333,772, respectively. Draw downs on the new USDA and

THE ALICE BYRD TAWES NURSING HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Bank of Delmarva mortgages commenced in August 2009 and are disclosed in Note 18. As of the date of this report, construction on the new Nursing Home was completed, but it was not occupied. Depreciation on the new building will commence when it is placed into service during fiscal year 2011.

Subsequent events were reviewed through September 7, 2010.

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. Post-Employment Benefits

There are no post-employment benefits.

17. Mortgage and Note

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 during fiscal year 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 parties hereto, that the interest rate set forth herein

THE ALICE BYRD TAWES NURSING HOME
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009

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 during fiscal year 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.

18. Long Term Debt

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

2011	\$	-
2012		109,983
2013		115,807
2014		121,955
2015		128,444
Thereafter		<u>9,523,811</u>
 Total		 <u><u>\$ 10,000,000</u></u>

19. Risk Management

The Nursing Home 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 Nursing Home has obtained coverage from commercial insurance companies for these risks. There were no significant reductions in insurance coverage from the prior year. No settlements exceeded insurance coverage in the past three fiscal years.

The Alice Byrd Tawes Nursing Home
OPERATING EXPENSES
For The Years Ended June 30, 2010 and 2009

	June 30, 2010		June 30, 2009	
	Personal Services	Supplies & Other Exp.	Personal Services	Supplies & Other Exp.
PROFESSIONAL CARE OF PATIENTS:	\$ 1,630,114	\$ 230,523	\$ 1,631,502	\$ 309,312
TOTALS	\$ 1,860,637		\$ 1,940,814	
DIETARY SERVICES	\$ 331,573	\$ 306,963	\$ 339,471	\$ 297,736
TOTALS	\$ 638,536		\$ 637,207	
GENERAL SERVICES				
Patient Activities	\$ 79,975	\$ 3,215	\$ 77,121	\$ 5,779
Laundry	-	75,728	-	100,915
Housekeeping	117,429	20,606	113,252	32,864
Plant Operation	88,682	199,677	90,173	182,312
Security	23,200	283	19,605	543
Social Services	83,589	1,968	50,210	1,444
Inservice Training	23,778	1,608	20,827	1,719
Human Resources	31,682	8,008	30,045	7,727
Purchasing	8,572	768	7,966	734
Pharmacy	-	93,677	-	78,625
Occupational Therapy	25,003	-	22,331	450
Physical Therapy	42,251	5,005	32,410	9,848
Grounds	-	3,429	-	2,651
Speech Therapy	19,134	-	11,560	472
SUBTOTALS	\$ 543,295	\$ 413,972	\$ 475,500	\$ 426,083
TOTALS	\$ 957,267		\$ 901,583	
ADMINISTRATIVE SERVICES				
Administrative	140,419	13,467	127,157	25,571
Dues and Subscriptions	-	5,813	-	11,945
Travel and Training	-	9,338	-	5,259
Fiscal Services	80,472	13,945	79,002	17,157
Insurance	-	43,300	-	23,323
Communications	9,559	15,421	8,614	12,345
SUBTOTALS	\$ 230,450	\$ 101,284	\$ 214,773	\$ 95,600
TOTALS	\$ 331,734		\$ 310,373	
EMPLOYEE HEALTH AND WELFARE				
Medical Insurance	-	381,067	-	349,263
Payroll Taxes	-	197,501	-	193,962
Workmen's Compensation	-	31,445	-	43,927
Group Life and Disability	-	11,615	-	11,904
Pension Expense	-	38,197	-	34,408
MD Unemployment	-	19,210	-	24,894
SUBTOTALS	\$ -	\$ 679,035	\$ -	\$ 658,358
TOTALS	\$ 679,035		\$ 658,358	