

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

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STATE OF CALIFORNIA
COUNTY OF []

THE STATE OF CALIFORNIA, COUNTY OF []
DO HEREBY CERTIFY THAT THE ABOVE IS A TRUE AND CORRECT
TRANSLATION OF THE ORIGINAL DOCUMENT FILED WITH THE
CLERK OF THE SUPERIOR COURT OF THE COUNTY OF []

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF THE []
FOR THE YEAR ENDED []

WE HAVE EXAMINED THE STATEMENTS OF FINANCIAL POSITION AND STATEMENTS OF OPERATIONS OF THE [] FOR THE YEAR ENDED [] AND THE RELATED NOTES TO THESE STATEMENTS.

IN OUR OPINION, THE STATEMENTS OF FINANCIAL POSITION AND STATEMENTS OF OPERATIONS OF THE [] FOR THE YEAR ENDED [] PRESENTED IN ACCORDANCE WITH THE REQUIREMENTS OF THE []



PKS & Company, P.A.

Pigg, Krahl & Stern

**Certified Public Accountants
& Advisors to Business**

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
JEFFREY A. MICHALIK, CPA
DANIEL M. O'CONNELL II, CPA
JOHN M. STERN, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Management and Board of Directors
The Edward W. McCready Memorial Hospital
Crisfield, Maryland

www.pkscpa.com

Salisbury
1801 SWEETBAY DRIVE
P.O. BOX 72
SALISBURY, MD 21803
TEL: 410.546.5600
FAX: 410.548.9576

Ocean City
12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185
FAX: 410.213.7638

LEWES
1143 SAVANNAH ROAD
SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
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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 statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years 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 audits. 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.

Auditor's Responsibility (Continued)

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient service revenues on pages 18-19, the schedules of other operating revenues on page 20 and the schedules of operating expenses on pages 21-23 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 in relation to the financial statements as a whole.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
December 22, 2014

FINANCIAL STATEMENTS

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,054,414	\$ 2,877,827
Accounts receivable, net of allowances for uncollectible accounts of \$663,121 and \$732,582 respectively	1,235,832	1,894,514
Inventories	307,465	365,533
Medicare periodic interim payment program	8,719	25,802
Prepaid expenses	247,630	179,114
Total current assets	<u>6,854,060</u>	<u>5,342,790</u>
PROPERTY AND EQUIPMENT		
Property and equipment	16,069,096	15,664,882
Less accumulated depreciation	<u>(10,037,035)</u>	<u>(9,298,368)</u>
Net property and equipment	<u>6,032,061</u>	<u>6,366,514</u>
OTHER ASSETS		
Due from McCready Foundation, Inc. Endowment Fund	43,516	
Due from Alice Byrd Tawes Nursing Home	2,043,402	2,585,004
Due from Chesapeake Cove Assisted Living	1,489,205	853,202
Total other assets	<u>3,576,123</u>	<u>3,438,206</u>
Total assets	<u>\$ 16,462,244</u>	<u>\$ 15,147,510</u>

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

LIABILITIES AND NET ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts payable	\$ 911,844	\$ 683,269
Accrued salaries, annual leave and related taxes	463,831	602,850
Current portion of long term debt	369,873	480,904
Accrued interest	3,833	5,447
Blue Cross advance	157,400	106,400
Medicaid advance	36,265	36,265
Total current liabilities	<u>1,943,046</u>	<u>1,915,135</u>
LONG TERM DEBT		
Mortgage - USDA	575,840	731,349
Capital equipment leases	191,795	411,686
Total long term debt	<u>767,635</u>	<u>1,143,035</u>
OTHER LIABILITIES		
Due to McCready Foundation Inc. Endowment fund		209,116
Total other liabilities		<u>209,116</u>
TOTAL LIABILITIES	<u>2,710,681</u>	<u>3,267,286</u>
NET ASSETS		
Unrestricted	<u>13,751,563</u>	<u>11,880,224</u>
Total net assets	<u>13,751,563</u>	<u>11,880,224</u>
 Total liabilities and net assets	 <u>\$ 16,462,244</u>	 <u>\$ 15,147,510</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
REVENUES, GAINS AND OTHER SUPPORT		
Net patient service revenue	\$ 15,127,912	\$ 15,703,349
Other operating revenue	38,137	99,602
Total revenues, gains and other support	<u>15,166,049</u>	<u>15,802,951</u>
EXPENSES		
Professional care of patients	7,451,932	7,514,837
Dietary services	54,965	52,937
General services	1,917,452	2,160,081
Administrative services	1,716,188	1,965,665
Employee health and welfare	1,718,693	1,773,091
Medical malpractice costs	23,946	68,189
Depreciation	794,290	937,824
Bad debt expense	877,585	865,184
Total expenses	<u>14,555,051</u>	<u>15,337,808</u>
Operating income	<u>610,998</u>	<u>465,143</u>
NON-OPERATING REVENUES AND EXPENSES		
Contributions and donations	56,000	512
Grant revenues	1,313,824	99,775
Interest income	1,637	3,461
Interest expense	<u>(111,120)</u>	<u>(139,046)</u>
Total non-operating revenues and expenses	<u>1,260,341</u>	<u>(35,298)</u>
Change in net assets	1,871,339	429,845
NET ASSETS, BEGINNING OF YEAR	<u>11,880,224</u>	<u>11,450,379</u>
NET ASSETS, END OF YEAR	<u>\$ 13,751,563</u>	<u>\$ 11,880,224</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,871,339	\$ 429,845
Add items not affecting cash:		
Depreciation	794,290	937,824
Net change in operating assets and liabilities:		
Accounts receivable	658,682	(399,456)
Inventories	58,068	8,330
Medicare periodic interim payment program	17,083	57,849
Prepaid expenses	(68,516)	(65,427)
Accounts payable	228,575	(237,988)
Accrued salaries, annual leave, and related taxes	(139,019)	144,980
Accrued interest	(1,614)	(1,249)
Blue Cross advance	51,000	(91,000)
Net cash provided by operating activities	<u>3,469,888</u>	<u>783,708</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets net of disposals and transfers	<u>(459,837)</u>	<u>(492,538)</u>
Net cash used by investing activities	<u>(459,837)</u>	<u>(492,538)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Due from Alice Byrd Tawes Nursing Home	541,602	(158,746)
Due from Chesapeake Cove Assisted Living	(636,003)	(327,107)
Due to McCready Foundation Inc. Endowment fund	(252,632)	(134,641)
Net proceeds from and principal payments on long term debt	<u>(486,431)</u>	<u>(309,764)</u>
Net cash used by financing activities	<u>(833,464)</u>	<u>(930,258)</u>
 Net increase (decrease) in cash	 2,176,587	 (639,088)
 Cash and cash equivalents at beginning of year	 <u>2,877,827</u>	 <u>3,516,915</u>
 Cash and cash equivalents at end of year	 <u>\$ 5,054,414</u>	 <u>\$ 2,877,827</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 111,120</u>	<u>\$ 139,046</u>

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

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

ORGANIZATION

The Edward W. McCready Memorial Hospital (the "Hospital") is a rural hospital located in Crisfield, Maryland. The Hospital is a "McCready Foundation Facility," along with Alice Byrd Tawes Nursing Home and The Chesapeake Cove Assisted Living, both of which the Hospital is physically connected to. These three organizations along with The McCready Foundation, Inc. Endowment Fund are controlled by a common Board of Directors and Chief Executive Officer, operating under the name of The McCready Foundation, Inc. (the Parent Organization). The McCready Foundation, Inc. is a Maryland not-for-profit corporation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Inventories

Inventories, which primarily consist of medical supplies and drugs, are carried at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property and Equipment

Expenditures for property, equipment, and improvements are capitalized at cost. Equipment expenditures of \$500 or less are charged to expense. Ordinary repairs and maintenance are charged to expense when incurred. Donated assets are capitalized, and recorded as support, at their fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Hospital reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Hospital reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are as follows:

	<u>Life</u>
Land improvements	10 - 50 years
Building - new hospital	10 - 40 years
Building - old hospital	10 - 50 years
Building - hospital portion of nursing home	10 - 40 years
Fixed equipment	5 years
Major moveable equipment	10 - 20 years
Princess Anne	30 years

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowances

The Hospital's policy is to write off all patient accounts that have been identified as uncollectible. An allowance for doubtful accounts is recorded for accounts not yet written off that are anticipated to become uncollectible in future periods. When determining the allowance, the policy considers the probability of recoverability of accounts based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. The analysis of receivables is performed monthly, and the allowances are adjusted accordingly.

A reserve for uncollectible receivables has been established based on private pay, insurances and sliding scale fees. The reserve is estimated at \$663,121 and \$732,582 as of June 30, 2014 and 2013, 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.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. The Hospital did not have any temporarily or permanently restricted net assets at June 30, 2014 or 2013.

Donations and bequests

Unconditional promises to give and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily restricted or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. 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 activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions

Donated Services

No amounts have been reflected in the financial statements for donated services or materials. The Hospital generally pays for services requiring specific expertise.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Parent Organization 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. The Parent Organization files a consolidated Form 990 that includes all activities of The Edward W. McCready Memorial Hospital, The Alice Byrd Tawes Nursing Home, Chesapeake Cove Assisted Living, and The McCready Foundation, Inc. Endowment Fund.

Under the requirements of Financial Accounting Standards Board (FASB) ASC 740, "Income Taxes", tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. As of June 30, 2014, the Parent Organization has determined that it does not have any uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Federal returns for the Parent Organization for years after 2010 are subject to examination by the IRS, generally for three years after they are filed.

Net Patient Service Revenue

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 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.

The following estimated adjustments were made to gross patient revenues for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 18,118,588	\$ 19,614,759
Less charity care and contractual adjustments	<u>(2,990,676)</u>	<u>(3,911,410)</u>
Net patient service revenue	<u>\$ 15,127,912</u>	<u>\$ 15,703,349</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenue (Continued)

The Hospital's revenues may be subject to adjustments as a result of examination by government agencies or contractors, and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered.

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.

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 and disclosure of contingent assets and liabilities as of 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.

Subsequent Events

Management has evaluated subsequent events through December 22, 2014, the date the financial statements were available and approved to be issued.

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, 2014 and 2013 amounted to \$83,038 and \$137,287, respectively.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014, The McCready Foundation, Inc. has cash balances in excess of the amount insured by the FDIC.

The various cash balances at June 30, 2014 and 2013 are summarized below.

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents		
Operating account (PNC)	\$ 1,988,017	\$ 847,303
Payroll account (PNC)	288	910
Special account (PNC)	93,899	277
License account (PNC)	1,341	1,543
Health plan (PNC)	982	997
Hospital account (PNC)	1,000,006	
Commercial money market (M&T Bank)	252,105	250,756
Business savings (BB&T Bank)	250,354	250,166
Business checking (M&T Bank)	50,000	50,000
CDARS (Bank of Delmarva)	764,060	763,336
Wire transfer account (PNC)	1,025	60,710
Construction account (Hebron Savings)	251,406	250,778
Certificates of deposit (M&T brokerage)	399,842	399,962
Cash on hand	1,089	1,089
	<u>5,054,414</u>	<u>2,877,827</u>
Total cash & cash equivalents	<u>\$ 5,054,414</u>	<u>\$ 2,877,827</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

PROPERTY AND EQUIPMENT

At June 30, 2014 and 2013, the cost and related depreciation of property and equipment were as follows:

	2014	2013
Land improvements	\$ 78,312	\$ 78,312
Building - new hospital	7,428,027	7,381,277
Building - old hospital	1,000,060	1,016,842
Building - hospital portion of nursing home	1,034,288	1,034,288
Fixed equipment	1,389,483	1,387,293
Major moveable equipment	4,681,333	4,320,887
Princess Anne	457,593	445,983
Total assets	\$ 16,069,096	\$ 15,664,882
Less: accumulated depreciation	(10,037,035)	(9,298,368)
Net property and equipment	<u>\$ 6,032,061</u>	<u>\$ 6,366,514</u>

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$794,290 and \$937,824, 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.

COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid vacation, depending on length of service and job classification. At June 30, 2014 and 2013, there were \$302,107 and \$336,186, respectively of vacation benefits due employees. Rights to receive sick leave do not vest.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

LONG TERM DEBT

The following summarizes long-term debt at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</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. 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	\$ 731,348	\$ 879,288
Fluoroscopy system financed by First American for 72 months at \$4,545 (8% interest rate)		4,515
Olympus Endoscopy Suite - \$86,097 - financed by First American for \$1,902 for 60 months (11.69% interest rate)		7,522
Scopes & PFT Machine - \$129,766 financed by First American for 60 months at \$2,583 (7.2144% interest rate)	15,174	43,936
Immunoassay Analyzer - \$85,000 financed by Siemens for 60 months at \$1,417 (0% interest rate)	4,245	21,249
GE Proteus XR/A System - \$79,203 financed by GE for 60 months at \$1,549 (6.46775% interest rate)	25,082	41,464
Hologic Digital Mammo System - \$246,400 financed by Provident Leasing for 60 months at \$4,751 (5.8899% interest rate)	72,936	124,008
GE Portable X-Ray - \$38,000 financed by First American for 36 months at \$1,146 (5.4034% interest rate)	1,141	7,878

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

LONG TERM DEBT (Continued)

	<u>2014</u>	<u>2013</u>
Alban Generator - \$246,900 financed by Provident Leasing for 60 months at \$4,916 (7.2321% interest rate)	79,207	130,441
Healthland Clinical System Lease IV - \$283,362 financed by First American for 36 months at \$8,832 (7.6388% interest rate)		68,677
Telemetry System - \$34,641 financed by First American for 36 months at \$1,046 (5.5260% interest rate)		9,204
Various equipment	208,375	285,757
Total long term debt	<u>\$ 1,137,508</u>	<u>\$ 1,623,939</u>

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

2015	\$ 369,873
2016	291,988
2017	235,099
2018	180,618
2019	<u>59,930</u>
Total	<u>\$ 1,137,508</u>

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 \$572,384 and \$664,919 in the years ended June 30, 2014 and 2013, respectively.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014 all funds had not yet been drawn down on the loan. The balance of this loan as of June 30, 2014 and 2013 was \$5,611,126 and \$5,689,780, 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, 2014 all funds had not yet been drawn down on the loan. The balance of this loan as of June 30, 2014 and 2013 was \$3,672,432 and \$3,897,779, 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 EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

COMMITMENTS AND CONTINGENCIES (Continued)

The Hospital has elected the reimbursement method of Maryland unemployment coverage whereby the Hospital 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. There were no unemployment claims for fiscal years 2014 and 2013, 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, 2014 and 2013 amounted to \$86,966 and \$82,315, 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, 2014, the Hospital received a substantial amount of its support from Medicaid (approximately \$3,786,000), and Medicare (approximately \$8,516,000). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the Hospital's activities.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

CONCENTRATION OF CREDIT RISK (Continued)

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, 2014 and 2013 were \$978,816 and \$1,034,812, respectively.

OPERATING LEASES

As of June 30, 2014, the Hospital had entered into various non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2015 to 2019. Minimum rentals, on an annual basis, are as follows:

Fiscal year ending June 30,	2015	\$	152,662
	2016		142,342
	2017		126,399
	2018		124,950
	2019		20,825
			<u>567,178</u>
		\$	<u>567,178</u>

Rental expense for fiscal years 2014 and 2013 were \$397,333 and \$175,893, respectively.

POST EMPLOYMENT BENEFITS

There are no post employment benefits.

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
INPATIENT		
Admission charge	\$ 99,043	\$ 130,954
Anesthesiology/CRNA	129,919	66,020
Blood	39,853	36,551
Cardiac rehab	8,915	7,885
CAT scan	179,217	145,882
Electrocardiology	62,006	65,224
Emergency and clinic treatment	393,817	251,231
Inhalation therapy	305,142	381,310
Intravenous	5,010	8,109
Laboratory	320,009	376,128
Medical/surgical acute	1,298,548	1,763,040
Medical and surgical supplies	75,369	66,197
MRI	53,541	38,743
Nuclear medicine		846
Observation	76,922	111,900
OCC therapy	62,825	64,555
Operating room	13,822	16,819
Pharmacy	481,284	688,018
Physical therapy	119,997	82,385
Professional fees-radiology	293,264	272,285
Radiology	194,237	195,180
Same day surgery		724
Speech therapy	24,130	14,674
Swing bed	3,179	5,354
Total inpatient revenue	<u>\$ 4,240,049</u>	<u>\$ 4,790,014</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF NET PATIENT SERVICE REVENUES

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OUTPATIENT		
Anesthesiology/CRNA	\$ 223,239	\$ 86,432
Blood	21,168	27,134
Cardiac rehab		3,085
CAT scan	893,271	831,836
Outpatient health centers	796,569	758,908
Electrocardiology	203,174	245,143
Emergency and clinic treatment	4,011,172	4,101,371
Inhalation therapy	179,760	268,769
Intravenous	7,506	11,874
Laboratory	1,623,216	2,296,380
Medical and surgical supplies	546,899	397,247
MRI	440,184	537,111
Observation	162,208	373,589
OCC therapy	141,325	189,608
Operating room	659,800	506,698
Personal Care	54,444	58,266
Pharmacy	588,632	692,291
Physical therapy	1,217,069	952,201
Radiology	1,793,414	2,241,616
Same day surgery	217,855	181,764
Speech therapy	97,634	63,422
	<u> </u>	<u> </u>
Total outpatient revenue	<u>\$ 13,878,539</u>	<u>\$ 14,824,745</u>
TOTAL PATIENT SERVICE REVENUE	\$ 18,118,588	\$ 19,614,759
Less contractual adjustments	(2,418,292)	(3,246,491)
Less charity care	(572,384)	(664,919)
	<u> </u>	<u> </u>
Net patient service revenue	<u><u>\$ 15,127,912</u></u>	<u><u>\$ 15,703,349</u></u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OTHER OPERATING REVENUES

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OTHER OPERATING REVENUE		
Ambulance	\$ 16,060	\$ 45,518
Miscellaneous	7,138	37,881
Vendor rebates	7,093	5,727
Move program	275	950
Rental income- phys. office	180	240
Community benefits	692	2,684
Sale of medical records	5,180	5,138
Vending machine revenue	<u>1,519</u>	<u>1,464</u>
 Total other operating revenue	 <u>\$ 38,137</u>	 <u>\$ 99,602</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	June 30, 2014		
	Personal Services	Supplies & Other Expenses	Total
PROFESSIONAL CARE OF PATIENTS			
Anesthesiology	\$	\$ 283,188	\$ 283,188
Cardiac rehab	17,599	2,240	19,839
Clinic providers	558,484	82,912	641,396
Crisfield health center	229,793	67,186	296,979
Community services		8,186	8,186
CSR/CC	37,334	22,273	59,607
CT scan	87,578	273,353	360,931
EEG/EKG	66,011	29,823	95,834
Emergency services	642,831	820,709	1,463,540
Laboratory	449,337	525,518	974,855
Medical and surgical	598,335	263,923	862,258
MRI		194,896	194,896
Occupational therapy	55,559	6,199	61,758
Operating room	41,441	405,545	446,986
Personal care	49,828	2,703	52,531
Pharmacy	176,181	84,518	260,699
Physical therapy	280,399	10,195	290,594
Pocomoke health center			
Princess Anne health center		4,525	4,525
PACU/recovery	62,013	5,038	67,051
Radiology	224,636	317,041	541,677
Respiratory therapy	146,423	37,440	183,863
Speech therapy	48,112	8,722	56,834
Ultrasound	79,537	122,831	202,368
Patient care coor.	16,537	5,000	21,537
Total professional care of patients	\$ 3,867,968	\$ 3,583,964	\$ 7,451,932

June 30, 2013

<u>Personal Services</u>	<u>Supplies & Other Expenses</u>	<u>Total</u>
\$ 135	\$ 86,930	\$ 87,065
21,184	2,609	23,793
495,688	53,936	549,624
264,071	113,522	377,593
103	3,618	3,721
40,995	(4,112)	36,883
102,967	338,646	441,613
69,118	2,762	71,880
648,491	826,663	1,475,154
485,536	538,328	1,023,864
689,530	297,696	987,226
	171,268	171,268
55,862	7,852	63,714
38,224	302,209	340,433
55,501	1,665	57,166
191,924	126,816	318,740
259,428	52,876	312,304
	123	123
	5,943	5,943
67,880	2,759	70,639
260,122	310,057	570,179
202,267	38,511	240,778
13,857	2,205	16,062
78,318	112,727	191,045
70,495	7,532	78,027
<u>\$ 4,111,696</u>	<u>\$ 3,403,141</u>	<u>\$ 7,514,837</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	June 30, 2014		
	Personal Services	Supplies & Other Exp.	Total
GENERAL SERVICES			
Courier	\$ 45,780	\$ 18,813	\$ 64,593
Groundskeeping		30,253	30,253
Housekeeping	168,085	35,674	203,759
Human resources	48,708	22,611	71,319
Information technology	115,610	236,277	351,887
Laundry and linen		41,625	41,625
Material management	49,874	4,733	54,607
Medical records	125,711	87,986	213,697
Medical staff		2,217	2,217
Operation of plant	203,387	433,022	636,409
Patient services	166,953	5,193	172,146
Security	69,139	1,097	70,236
Social services			
Staff development	(1,236)	5,940	4,704
Total general services	<u>\$ 992,011</u>	<u>\$ 925,441</u>	<u>\$ 1,917,452</u>

June 30, 2013

<u>Personal</u>	<u>Supplies &</u>	
<u>Services</u>	<u>Other Exp.</u>	<u>Total</u>
\$ 44,930	\$ 19,786	\$ 64,716
	15,907	15,907
155,473	36,984	192,457
63,540	22,055	85,595
154,555	241,489	396,044
	42,343	42,343
46,720	7,403	54,123
185,524	122,484	308,008
	3,539	3,539
173,899	536,663	710,562
163,694	13,098	176,792
84,386	1,024	85,410
	500	500
17,821	6,264	24,085
<u>\$ 1,090,542</u>	<u>\$ 1,069,539</u>	<u>\$ 2,160,081</u>

THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

SCHEDULES OF OPERATING EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	June 30, 2014		
	Personal Services	Supplies & Other Expenses	Total
ADMINISTRATIVE SERVICES			
Administrative	\$ 231,034	\$	\$ 231,034
Clinic clerical	47,100		47,100
Collection expenses	31,710	68,423	100,133
Communications	51,846	46,866	98,712
Dues and subscriptions		40,260	40,260
Fiscal support services	387,280	243,369	630,649
Insurance		241,554	241,554
Marketing-advertising	41,701	41,337	83,038
Office supplies and expenses		20,685	20,685
Other direct expenses		19,607	19,607
Legal		38,185	38,185
Repair and maintenance		582	582
Travel		5,320	5,320
Board of directors-food		6,277	6,277
Professional fees and consulting		121,112	121,112
Professional fee billing	29,162		29,162
Development	(634)	3,412	2,778
	<u>\$ 819,199</u>	<u>\$ 896,989</u>	<u>\$ 1,716,188</u>
Total administrative services			
EMPLOYEE HEALTH AND WELFARE			
Employer's share of FICA	\$ 408,291	\$	\$ 408,291
Group life and disability	30,967		30,967
Maryland unemployment insurance	80,098		80,098
Medical insurance	978,816		978,816
Pension expense	86,966		86,966
Workmen's compensation	133,555		133,555
	<u>\$ 1,718,693</u>	<u>\$</u>	<u>\$ 1,718,693</u>
Total employee health and welfare			

June 30, 2013

<u>Personal Services</u>	<u>Supplies & Other Expenses</u>	<u>Total</u>
\$ 136,655	\$	\$ 136,655
64,747	(514)	64,233
43,189	79,815	123,004
37,701	41,413	79,114
	31,296	31,296
451,766	236,194	687,960
	144,473	144,473
51,165	86,122	137,287
	331,876	331,876
	15,773	15,773
	59,147	59,147
	15,497	15,497
	7,383	7,383
	2,114	2,114
	26,102	26,102
51,739		51,739
44,003	8,009	52,012
<u>\$ 880,965</u>	<u>\$ 1,084,700</u>	<u>\$ 1,965,665</u>
\$ 433,801	\$	\$ 433,801
30,267		30,267
40,843		40,843
1,034,812		1,034,812
82,315		82,315
151,053		151,053
<u>\$ 1,773,091</u>	<u>\$</u>	<u>\$ 1,773,091</u>