

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL****TABLE OF CONTENTS**

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**INDEPENDENT AUDITORS' REPORT**



## INDEPENDENT AUDITORS' REPORT

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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, 2015 and 2014, 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, 2015 and 2014, 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 17-18, the schedules of other operating revenues on page 19 and the schedules of operating expenses on pages 20-22 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**CERTIFIED PUBLIC ACCOUNTANTS**

Salisbury, Maryland  
December XX, 2015

**FINANCIAL STATEMENTS**

## THE EDWARD W. MCCREADY MEMORIAL HOSPITAL

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

## ASSETS

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,982,729	\$ 5,054,414
Accounts receivable, net of allowances for uncollectible accounts of \$1,406,100 and \$663,121 respectively	1,810,046	1,235,832
Inventories	305,824	307,465
Medicare periodic interim payment program		8,719
Prepaid expenses	258,090	247,630
Total current assets	<u>6,356,689</u>	<u>6,854,060</u>
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment	17,225,617	16,069,096
Less accumulated depreciation	<u>(10,978,320)</u>	<u>(10,037,035)</u>
Net property and equipment	<u>6,247,297</u>	<u>6,032,061</u>
<b>OTHER ASSETS</b>		
Due from McCready Foundation, Inc. Endowment Fund	56,489	43,516
Due from Alice Byrd Tawes Nursing Home	1,790,541	2,043,402
Due from Chesapeake Cove Assisted Living	1,564,238	1,489,205
Total other assets	<u>3,411,268</u>	<u>3,576,123</u>
Total assets	<u>\$ 16,015,254</u>	<u>\$ 16,462,244</u>

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

**LIABILITIES AND NET ASSETS**

	<u>2015</u>	<u>2014</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 936,156	\$ 911,844
Accrued salaries, annual leave and related taxes	491,608	463,831
Current portion of long term debt	288,812	369,873
Accrued interest	3,211	3,833
Medicare periodic interim payment program	58,141	
Blue Cross advance	97,800	157,400
Medicaid advance	36,924	36,265
Mortgage - PNC	300,978	
Total current liabilities	<u>2,213,630</u>	<u>1,943,046</u>
<b>LONG TERM DEBT</b>		
Mortgage - USDA	412,375	575,840
Capital equipment leases	63,272	191,795
Total long term debt	<u>475,647</u>	<u>767,635</u>
<b>TOTAL LIABILITIES</b>	<u>2,689,277</u>	<u>2,710,681</u>
<b>NET ASSETS</b>		
Unrestricted	13,325,977	13,751,563
Total net assets	<u>13,325,977</u>	<u>13,751,563</u>
Total liabilities and net assets	<u>\$ 16,015,254</u>	<u>\$ 16,462,244</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>		
Net patient service revenue	\$ 13,695,099	\$ 15,127,912
Other operating revenue	23,346	38,137
Total revenues, gains and other support	<u>13,718,445</u>	<u>15,166,049</u>
<b>EXPENSES</b>		
Professional care of patients	7,270,065	7,451,932
Dietary services	33,289	54,965
General services	1,999,368	1,917,452
Administrative services	2,205,654	1,716,188
Employee health and welfare	1,454,866	1,718,693
Medical malpractice costs		23,946
Depreciation	940,610	794,290
Bad debt expense	910,303	877,585
Total expenses	<u>14,814,155</u>	<u>14,555,051</u>
Operating income (loss)	<u>(1,095,710)</u>	<u>610,998</u>
<b>NON-OPERATING REVENUES AND EXPENSES</b>		
Contributions and donations	43,500	56,000
Grant revenues	708,111	1,313,824
Interest income	5,805	1,637
Interest expense	(89,592)	(111,120)
Gain on sale of assets	2,300	
Total non-operating revenues and expenses	<u>670,124</u>	<u>1,260,341</u>
Change in net assets	(425,586)	1,871,339
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>13,751,563</u>	<u>11,880,224</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 13,325,977</u>	<u>\$ 13,751,563</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

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (425,586)	\$ 1,871,339
Add items not affecting cash:		
Depreciation	940,610	794,290
Net change in operating assets and liabilities:		
Accounts receivable	(574,214)	658,682
Inventories	1,641	58,068
Medicare periodic interim payment program	66,860	17,083
Prepaid expenses	(10,460)	(68,516)
Accounts payable	24,312	228,575
Accrued salaries, annual leave, and related taxes	27,777	(139,019)
Accrued interest	(622)	(1,614)
Blue Cross advance	(59,600)	51,000
Medicaid advance	659	
Net cash provided (used) by operating activities	<u>(8,623)</u>	<u>3,469,888</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets net of disposals and transfers	(1,155,846)	(459,837)
Net cash used by investing activities	<u>(1,155,846)</u>	<u>(459,837)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Due from Alice Byrd Tawes Nursing Home	252,861	541,602
Due from Chesapeake Cove Assisted Living	(75,033)	(636,003)
Due to McCready Foundation Inc. Endowment fund	(12,973)	(252,632)
Net proceeds from and principal payments on long term debt	(72,071)	(486,431)
Net cash provided (used) by financing activities	<u>92,784</u>	<u>(833,464)</u>
Net increase (decrease) in cash	(1,071,685)	2,176,587
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,054,414</u>	<u>2,877,827</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,982,729</u>	<u>\$ 5,054,414</u>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid	<u>\$ 89,592</u>	<u>\$ 111,120</u>

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

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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, 2015 AND 2014****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 \$1,406,100 and \$663,121 as of June 30, 2015 and 2014, 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, 2015 or 2014.

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, 2015 AND 2014**

**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, 2015, 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 2011 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue	\$ 16,449,192	\$ 18,118,588
Less charity care and contractual adjustments	<u>(2,754,093)</u>	<u>(2,990,676)</u>
Net patient service revenue	<u><u>\$ 13,695,099</u></u>	<u><u>\$ 15,127,912</u></u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****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 XX, 2015**, 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, 2015 and 2014 amounted to \$166,605 and \$83,038, respectively.

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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, 2015, The McCready Foundation, Inc. has cash balances in excess of the amount insured by the FDIC.

The various cash balances at June 30, 2015 and 2014 are summarized below.

	2015	2014
Cash and cash equivalents		
Operating account (PNC)	\$ 835,042	\$ 1,988,017
Payroll account (PNC)	962	288
Special account (PNC)	18,154	93,899
License account (PNC)	2,664	1,341
Health plan (PNC)	4,453	982
Hospital account (PNC)	1,140,207	1,000,006
Commercial money market (M&T Bank)	453,266	252,105
Business savings (BB&T Bank)	250,856	250,354
Business checking (M&T Bank)	49,955	50,000
CDARS (Bank of Delmarva)	764,823	764,060
Wire transfer account (PNC)	9,270	1,025
Construction account (Hebron Savings)	252,035	251,406
Certificates of deposit (M&T brokerage)	200,004	399,842
Cash on hand	1,038	1,089
	<hr/>	<hr/>
Total cash & cash equivalents	<u>\$ 3,982,729</u>	<u>\$ 5,054,414</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****PROPERTY AND EQUIPMENT**

At June 30, 2015 and 2014, the cost and related depreciation of property and equipment were as follows:

	2015	2014
Land improvements	\$ 78,311	\$ 78,311
Building - new hospital	7,469,536	7,428,028
Building - old hospital	1,000,060	1,000,060
Building - hospital portion of nursing home	1,034,288	1,034,288
Fixed equipment	1,396,400	1,389,483
Major moveable equipment	5,378,600	4,681,333
Princess Anne	839,575	457,593
Major asset purchase	28,847	
Total assets	<u>\$ 17,225,617</u>	<u>\$ 16,069,096</u>
Less: accumulated depreciation	<u>(10,978,320)</u>	<u>(10,037,035)</u>
Net property and equipment	<u>\$ 6,247,297</u>	<u>\$ 6,032,061</u>

Depreciation expense for the years ended June 30, 2015 and 2014 amounted to \$940,610 and \$794,290, 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, 2015 and 2014, there were \$292,612 and \$302,107, 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, 2015 AND 2014**

**LONG TERM DEBT**

The following summarizes long-term debt at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</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	\$ 575,840	\$ 731,348
Scopes & PFT Machine - \$129,766 financed by First American for 60 months at \$2,583 (7.2144% interest rate)	(2,582)	15,174
Immunoassay Analyzer - \$85,000 financed by Siemens for 60 months at \$1,417 (0% interest rate)		4,245
GE Proteus XR/A System - \$79,203 financed by GE for 60 months at \$1,549 (6.46775% interest rate)	7,609	25,082
Hologic Digital Mammo System - \$246,400 financed by Provident Leasing for 60 months at \$4,751 (5.8899% interest rate)	18,772	72,936
GE Portable X-Ray - \$38,000 financed by First American for 36 months at \$1,146 (5.4034% interest rate)		1,141
Alban Generator - \$246,900 financed by Provident Leasing for 60 months at \$4,916 (7.2321% interest rate)	24,142	79,207
Various equipment	140,678	208,375
Total long term debt	<u>\$ 764,459</u>	<u>\$ 1,137,508</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****LONG TERM DEBT (Continued)**

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

2016	\$ 288,812
2017	235,099
2018	180,618
2019	<u>59,930</u>
Total	<u>\$ 764,459</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 \$261,629 and \$572,384 in the years ended June 30, 2015 and 2014, respectively.

**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, 2015 all funds had not yet been drawn down on the loan. The balance of this loan as of June 30, 2015 and 2014 was \$5,695,254 and \$5,611,126, respectively. The Nursing Home is to make all scheduled payments.

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****COMMITMENTS AND CONTINGENCIES (Continued)**

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 4<sup>th</sup> of July, 2016, and continuing on the like day of each month thereafter, to and including the 4<sup>th</sup> 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 4<sup>th</sup> 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, 2015 all funds had not yet been drawn down on the loan. The balance of this loan as of June 30, 2015 and 2014 was \$3,574,332 and \$3,672,432, respectively. The collateral is to include all assets of the Hospital, Nursing Home, and the Foundation. The Nursing Home is to make all scheduled payments.

The Hospital has elected the reimbursement method of Maryland unemployment coverage whereby the 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 2015 and 2014, respectively.

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****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, 2015 and 2014 amounted to \$80,731 and \$86,966, 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, 2015, the Hospital received a substantial amount of its support from Medicaid (approximately \$XXXXXX), and Medicare (approximately \$XXXXXX). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the Hospital's activities.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimated revenue will change by a material amount in the near term.

The Edward W. McCready Memorial Hospital, The Alice Byrd Tawes Nursing Home and Chesapeake Cove Assisted Living elected to be self-insured for employee health insurance up to a cap of about \$1.5 million. The Hospital's actual cost for the year ended June 30, 2015 and 2014 were \$746,104 and \$978,816, respectively.

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**OPERATING LEASES**

As of June 30, 2015, 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,	2016	\$ 142,342
	2017	126,399
	2018	124,950
	2019	<u>20,825</u>
		<u>\$ 414,516</u>

Rental expense for fiscal years 2015 and 2014 were **\$XXXXXX** and \$397,333, respectively.

**POST EMPLOYMENT BENEFITS**

There are no post employment benefits.

**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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>INPATIENT</b>		
Admission charge	\$ 66,826	\$ 99,043
Anesthesiology/CRNA	53,511	129,919
Blood	27,584	39,853
Cardiac rehab	4,410	8,915
CAT scan	96,099	179,217
Electrocardiology	40,740	62,006
Emergency and clinic treatment	269,332	393,817
Inhalation therapy	209,827	305,142
Intravenous	3,519	5,010
Laboratory	323,927	320,009
Medical/surgical acute	1,112,219	1,298,548
Medical and surgical supplies	47,089	75,369
MRI	19,664	53,541
Nuclear medicine	1,010	
Observation	58,201	76,922
OCC therapy	35,637	62,825
Operating room	70,221	13,822
Pharmacy	311,296	481,284
Physical therapy	62,426	119,997
Professional fees-radiology	237,277	293,264
Radiology	139,280	194,237
Same day surgery	10,072	
Speech therapy	8,373	24,130
Swing bed	836	3,179
Ultrasound	8,838	
Total inpatient revenue	<u>\$ 3,218,214</u>	<u>\$ 4,240,049</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**SCHEDULES OF NET PATIENT SERVICE REVENUES**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
	<u>                    </u>	<u>                    </u>
<b>OUTPATIENT</b>		
Anesthesiology/CRNA	\$ 127,054	\$ 223,239
Blood	27,128	21,168
CAT scan	532,177	893,271
Outpatient health centers	904,354	796,569
Electrocardiology	234,273	203,174
Emergency and clinic treatment	4,169,999	4,011,172
Inhalation therapy	227,447	179,760
Intravenous	7,222	7,506
Laboratory	1,865,639	1,623,216
Medical and surgical supplies	250,310	546,899
MRI	186,508	440,184
Observation	204,550	162,208
OCC therapy	103,866	141,325
Personal Care	22,236	54,444
Pharmacy	706,803	588,632
Physical therapy	1,069,119	1,217,069
Radiology	1,712,389	1,793,414
Same day surgery	191,529	217,855
Speech therapy	38,463	97,634
Surgical services	567,952	659,800
Ultrasound	81,960	
	<u>                    </u>	<u>                    </u>
Total outpatient revenue	\$ 13,230,978	\$ 13,878,539
	<u>                    </u>	<u>                    </u>
<b>TOTAL PATIENT SERVICE REVENUE</b>	\$ 16,449,192	\$ 18,118,588
Less contractual adjustments	(2,492,464)	(2,418,292)
Less charity care	(261,629)	(572,384)
	<u>                    </u>	<u>                    </u>
Net patient service revenue	\$ 13,695,099	\$ 15,127,912
	<u>                    </u>	<u>                    </u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**SCHEDULES OF OTHER OPERATING REVENUES**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>OTHER OPERATING REVENUE</b>		
Ambulance	\$ 39,517	\$ 16,060
Miscellaneous	(26,086)	7,138
Vendor rebates	3,410	7,093
Move program	75	275
Rental income- phys. office		180
Community benefits		692
Sale of medical records	4,821	5,180
Vending machine revenue	<u>1,609</u>	<u>1,519</u>
 Total other operating revenue	 <u>\$ 23,346</u>	 <u>\$ 38,137</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**SCHEDULES OF OPERATING EXPENSES**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	June 30, 2015		
	Personal Services	Supplies & Other Expenses	Total
<b>PROFESSIONAL CARE OF PATIENTS</b>			
Anesthesiology	\$ 116,397	\$ 183,807	\$ 300,204
Cardiac rehab	12,855	4,948	17,803
Clinic providers		74,162	74,162
Crisfield health center	516,014	111,351	627,365
Community services		2,521	2,521
CSR/CC			
CT scan	90,896	253,814	344,710
EEG/EKG	66,146	4,076	70,222
Emergency services	542,394	881,238	1,423,632
Laboratory	435,388	488,427	923,815
Medical and surgical	613,505	317,684	931,189
MRI		187,201	187,201
Occupational therapy	53,355	2,508	55,863
Operating room	44,769	658,165	702,934
Personal care	46,561		46,561
Pharmacy	145,199	161,410	306,609
Physical therapy	250,148	9,467	259,615
Princess Anne health center		18,285	18,285
PACU/recovery			
Radiology	215,959	345,893	561,852
Respiratory therapy	88,348	70,702	159,050
Speech therapy	41,850	250	42,100
Ultrasound	72,478	121,540	194,018
Patient care coord.	14,186	6,168	20,354
Total professional care of patients	<u>\$ 3,366,448</u>	<u>\$ 3,903,617</u>	<u>\$ 7,270,065</u>

June 30, 2014		
Personal Services	Supplies & Other Expenses	Total
\$	\$ 283,188	\$ 283,188
17,599	2,240	19,839
558,484	82,912	641,396
229,793	67,186	296,979
	8,186	8,186
37,334	22,273	59,607
87,578	273,353	360,931
66,011	29,823	95,834
642,831	820,709	1,463,540
449,337	525,518	974,855
598,335	263,923	862,258
	194,896	194,896
55,559	6,199	61,758
41,441	405,545	446,986
49,828	2,703	52,531
176,181	84,518	260,699
280,399	10,195	290,594
	4,525	4,525
62,013	5,038	67,051
224,636	317,041	541,677
146,423	37,440	183,863
48,112	8,722	56,834
79,537	122,831	202,368
16,537	5,000	21,537
<u>\$ 3,867,968</u>	<u>\$ 3,583,964</u>	<u>\$ 7,451,932</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**SCHEDULES OF OPERATING EXPENSES**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	June 30, 2015		
	Personal Services	Supplies & Other Exp.	Total
<b>GENERAL SERVICES</b>			
Courier	\$ 50,077	\$ 9,652	\$ 59,729
Groundskeeping	6,169	177,727	183,896
Housekeeping	156,063	33,469	189,532
Human resources	13,378	70,830	84,208
Information technology	162,432	289,453	451,885
Laundry and linen		46,213	46,213
Material management	52,171	25,675	77,846
Medical records	115,717	93,490	209,207
Medical staff		2,759	2,759
Operation of plant	192,726	332,864	525,590
Patient services	105,833	2,992	108,825
Security	52,084		52,084
Staff development	(1,614)	9,208	7,594
Total general services	<u>\$ 905,036</u>	<u>\$ 1,094,332</u>	<u>\$ 1,999,368</u>

June 30, 2014		
Personal Services	Supplies & Other Exp.	Total
\$ 45,780	\$ 18,813	\$ 64,593
	30,253	30,253
168,085	35,674	203,759
48,708	22,611	71,319
115,610	236,277	351,887
	41,625	41,625
49,874	4,733	54,607
125,711	87,986	213,697
	2,217	2,217
203,387	433,022	636,409
166,953	5,193	172,146
69,139	1,097	70,236
(1,236)	5,940	4,704
<u>\$ 992,011</u>	<u>\$ 925,441</u>	<u>\$ 1,917,452</u>

**THE EDWARD W. MCCREADY MEMORIAL HOSPITAL**

**SCHEDULES OF OPERATING EXPENSES**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	June 30, 2015		
	Personal Services	Supplies & Other Expenses	Total
<b>ADMINISTRATIVE SERVICES</b>			
Administrative	\$ 409,453	\$	\$ 409,453
Clinic clerical	398,895	26,657	425,552
Collection expenses			
Communications	26,294	567	26,861
Dues and subscriptions		36,172	36,172
Fiscal support services	411,111	322,237	733,348
Insurance		268,091	268,091
Marketing-advertising			
Office supplies and expenses		39,434	39,434
Other direct expenses		15,645	15,645
Legal		21,781	21,781
Repair and maintenance		173	173
Travel		22,385	22,385
Board of directors-food		7,172	7,172
Professional fees and consulting		32,982	32,982
Professional fee billing			
Development	60,997	105,608	166,605
	<u>\$ 1,306,750</u>	<u>\$ 898,904</u>	<u>\$ 2,205,654</u>
Total administrative services			
<b>EMPLOYEE HEALTH AND WELFARE</b>			
Employer's share of FICA	\$ 409,601	\$	\$ 409,601
Group life and disability	29,585		29,585
Maryland unemployment insurance	42,246		42,246
Medical insurance	746,104		746,104
Pension expense	80,731		80,731
Workmen's compensation	146,599		146,599
	<u>\$ 1,454,866</u>	<u>\$</u>	<u>\$ 1,454,866</u>
Total employee health and welfare			

June 30, 2014		
Personal Services	Supplies & Other Expenses	Total
\$ 231,034	\$	\$ 231,034
47,100		47,100
31,710	68,423	100,133
51,846	46,866	98,712
	40,260	40,260
387,280	243,369	630,649
	241,554	241,554
41,701	41,337	83,038
	20,685	20,685
	19,607	19,607
	38,185	38,185
	582	582
	5,320	5,320
	6,277	6,277
	121,112	121,112
29,162		29,162
(634)	3,412	2,778
<u>\$ 819,199</u>	<u>\$ 896,989</u>	<u>\$ 1,716,188</u>
\$ 408,291	\$	\$ 408,291
30,967		30,967
80,098		80,098
978,816		978,816
86,966		86,966
133,555		133,555
<u>\$ 1,718,693</u>	<u>\$</u>	<u>\$ 1,718,693</u>