

THE MCCREADY FOUNDATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

THE MCCREADY FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

To the Management and Board of Directors
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PKF INTERNATIONAL

We have audited the accompanying consolidated financial statements of The McCready Foundation, Inc. (a nonprofit organization) and affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The McCready Foundation, Inc. and affiliates as of June 30, 2016 and 2015, and the results of their activities, changes in net assets and 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 consolidated financial statements as a whole. The consolidating statements of financial position on pages 20 – 21, the consolidating statements of activities on page 22, and the statements of activity by organization on pages 23 - 27 are presented for the purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects to the consolidated financial statements as a whole.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 21, 2016

CONSOLIDATED FINANCIAL STATEMENTS

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,428,220	\$ 4,611,050
Certificates of deposit	176,359	181,621
Accounts receivable, net	2,726,283	2,413,942
Pledges receivable	1,600	2,300
Inventories	316,065	344,102
Prepaid expenses	231,435	263,091
Total current assets	6,879,962	7,816,106
INVESTMENTS, AT FAIR VALUE		
Investments maintained by		
Community Foundation of the Eastern Shore	206,557	210,540
Total investments	206,557	210,540
PROPERTY AND EQUIPMENT		
Property and equipment	31,736,658	30,998,057
Less accumulated depreciation	(14,644,544)	(13,278,063)
Net property and equipment	17,092,114	17,719,994
OTHER ASSETS		
Restricted patient funds	13,508	26,105
Total other assets	13,508	26,105
Total assets	<u>\$ 24,192,141</u>	<u>\$ 25,772,745</u>

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Line of credit	\$ 114,500	\$ 300,978
Current portion of long-term debt	529,768	467,316
Accounts payable	791,979	1,247,662
Accrued salaries, annual leave and related taxes	851,870	607,497
Deposits		42,211
Deferred revenue		4,345
Accrued interest	33,183	35,125
Medicare periodic interim payment program	2,336	58,141
Blue cross - advance	113,000	97,800
Medicaid - advance	78,584	78,584
Total current liabilities	<u>2,515,220</u>	<u>2,939,659</u>
LONG - TERM DEBT		
Loan payable	9,552,087	9,566,729
Total non-current liabilities	<u>9,552,087</u>	<u>9,566,729</u>
OTHER LIABILITIES		
Restricted patient funds	<u>13,507</u>	<u>26,146</u>
Total other liabilities	<u>13,507</u>	<u>26,146</u>
Total liabilities	<u>12,080,814</u>	<u>12,532,534</u>
NET ASSETS		
Unrestricted	<u>12,111,327</u>	<u>13,240,211</u>
Total net assets	<u>12,111,327</u>	<u>13,240,211</u>
Total liabilities and net assets	<u>\$ 24,192,141</u>	<u>\$ 25,772,745</u>

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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUE	21,797,811	21,184,152
EXPENSES		
Wages and benefits		
Salaries and wages	10,665,388	9,439,597
Payroll taxes	760,084	724,896
Employee benefits	1,728,567	1,652,859
Total wages and benefits	<u>13,154,039</u>	<u>11,817,352</u>
Direct expenses		
Professional service fees	1,927,159	2,188,571
Consumable supplies	2,126,876	1,748,333
Advertising and recruiting	131,074	86,433
Service contracts and maintenance	1,095,243	922,240
Leases and rentals	538,193	481,957
Depreciation expense	1,366,485	1,397,474
Utilities	535,634	572,387
Interest expense	478,051	504,219
Insurance	423,511	458,462
Other expenses	829,600	813,450
Bad debt expense	806,090	1,802,741
Total direct expenses	<u>10,257,916</u>	<u>10,976,267</u>
Total expenses	<u>23,411,955</u>	<u>22,793,619</u>
Operating loss	<u>(1,614,144)</u>	<u>(1,609,467)</u>
NONOPERATING INCOME	485,260	776,061
Change in net assets	(1,128,884)	(833,406)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	13,240,211	14,073,617
NET ASSETS, END OF YEAR	\$ 12,111,327	\$ 13,240,211

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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (1,128,884)	\$ (833,406)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,366,485	1,397,474
Unrealized loss on investments	2,052	1,582
(Acrease) decrease in operating assets:		
Accounts receivable	(312,341)	(359,351)
Pledges receivable	700	23,121
Inventories	28,037	2,638
Medicare periodic interim payment program	(55,805)	66,860
Prepaid expenses	31,656	(15,460)
Increase (decrease) in operating liabilities:		
Accounts payable	(455,683)	154,812
Accrued salaries, annual leave and related taxes	244,373	(65,172)
Accrued interest	(1,942)	(1,217)
Blue Cross - advance	15,200	(59,600)
Deferred revenue	(42,211)	42,211
Deposits	(4,345)	4,345
Medicaid advance		659
Restricted funds	(42)	41
Net cash provided (used) by operating activities	<u>(312,750)</u>	<u>359,537</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposit	5,262	3,752
Purchase of fixed assets net of disposals and transfers	(738,605)	(1,255,172)
Investments maintained by		
Community Foundation of the Eastern Shore	1,931	1,958
Net cash used by investing activities	<u>(731,412)</u>	<u>(1,249,462)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	114,500	300,978
Principal payments on long term debt	(253,168)	(387,021)
Net cash used by financing activities	<u>(138,668)</u>	<u>(86,043)</u>
Net decrease in cash and cash equivalents	(1,182,830)	(975,968)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,611,050</u>	<u>5,587,018</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,428,220</u>	<u>\$ 4,611,050</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 478,051</u>	<u>\$ 504,219</u>

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

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

ORGANIZATION

The McCready Foundation, Inc. (Foundation) is located in Crisfield, Maryland. The Foundation consists of The Edward W. McCready Memorial Hospital (Hospital), The Alice Byrd Tawes Nursing Home (Nursing Home), Chesapeake Cove Assisted Living Center (Chesapeake Cove), and The McCready Foundation, Inc. Endowment Fund (Endowment Fund). These four organizations are controlled by a common Board of Directors and Chief Executive Officer that operates under the name of The McCready Foundation, Inc. (the Parent Organization). The consolidated financial statements consist of a combination of the individual financial statements of the Hospital, Nursing Home, Chesapeake Cove, and Endowment Fund with eliminations of certain inter-entity balances and transactions.

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 net realizable value. Cost is determined using the first-in, first-out method.

Investments

The Foundation's investment policies follow conservative guidelines desired to yield modest returns on low-risk investments. The investment policy reflects a modest objective with only investments in cash products, such as certificates of deposit, encouraged. The only exception to this conservative approach are the funds that were placed in the custody of the Community Foundation of the Eastern Shore (CEFS).

The Foundation has accepted the valuation of assets as provided by the CFES which has adopted the Financial Accounting Standards Board "*Accounting Standards Codification*". Accordingly, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable and allowances

The Organization's policy is to write off all patient accounts that have been identified as uncollectible. A reserve for uncollectible receivables 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 \$1,288,584 and \$1,757,747 as of June 30, 2016 and 2015, 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.

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 Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization 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:

	Life
Land improvements	10 - 50 years
Buildings	10 - 50 years
Fixed equipment	5 years
Major moveable equipment	10 – 20 years

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets are restricted by donors to be maintained in perpetuity. The Foundation did not have any temporarily or permanently restricted net assets at June 30, 2016 and 2015.

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 reported in the financial statements for donated services or materials. The organization generally pays for services requiring specific expertise.

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, 2016, 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 MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Foundation 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, 2016 and 2015:

	2016	2015
Gross patient service revenue	\$ 26,743,489	\$ 24,881,868
Less charity care and contractual adjustments	<u>(4,945,678)</u>	<u>(3,389,149)</u>
Net patient service revenue	<u>\$ 21,797,811</u>	<u>\$ 21,492,719</u>

The Foundation'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 Foundation 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 Foundation has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Foundation is based on charges for services provided to the patients.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated 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 October 21, 2016, the date the consolidated financial statements were available and approved to be issued.

ADVERTISING

The Foundation's policy is to expense advertising costs as the costs are incurred. Total advertising, marketing and development costs for the years ended June 30, 2016 and 2015 amounted to \$131,074 and \$86,433, respectively.

CASH AND CASH EQUIVALENTS

All cash and cash equivalent funds are in local banks and are secured up to \$250,000, per bank, by the Federal Deposit Insurance Corporation (FDIC), an agency of the Federal government. The bank accounts of all four organizations controlled by The McCready Foundation, Inc. have been opened as accounts of The McCready Foundation, Inc. As a result these four organizations are subject to FDIC as one entity. As of June 30, 2016, The McCready Foundation, Inc. has cash balances in excess of the amount insured by the FDIC.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

PROPERTY AND EQUIPMENT

At June 30, 2016 and 2015, the cost and related depreciation of property and equipment were as follows:

	2016	2015
Land improvements	\$ 104,192	\$ 99,268
Buildings	23,379,319	22,731,950
Fixed equipment	1,712,843	1,692,043
Major moveable equipment	<u>6,540,304</u>	<u>6,474,796</u>
Total assets	31,736,658	30,998,057
Less: accumulated depreciation	(14,644,544)	(13,278,063)
Net property and equipment	<u>\$ 17,092,114</u>	<u>\$ 17,719,994</u>

Depreciation expense for the years ended June 30, 2016 and 2015 amounted to \$1,366,485 and \$1,397,474, respectively.

LONG-LIVED ASSETS

The carrying value of long-lived assets and certain identifiable intangibles is reviewed by the Organization 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 Foundation are entitled to paid vacation, depending on length of service and job classification. Accrued vacation balances at June 30, 2016 and 2015 were \$463,264 and \$419,617, respectively. Rights to receive sick leave do not vest.

LINE OF CREDIT

The Hospital Agency opened a Convertible Line of Credit with PNC Bank on January 27, 2016 with an available line of credit totaling \$114,500. Interest on any borrowing against this line of credit is due the 27th of each month until the conversion date, when all accrued interest shall be due and payable. The balance outstanding at June 30, 2016 \$114,500 .

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

LONG TERM DEBT

The following summarizes long-term debt at June 30,

	2016	2015
Hospital long term debt:		
<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 \$6,000,000.	\$ 412,376	\$ 575,840
Convertible line of credit payable to PNC, made on May 15, 2015 and converted on December 15, 2015, with the orginal amount owed of \$300,978 and upon conversion \$326,958 maturing November 15, 2022, payable in monthly installments of \$4,427.56 at an interest rate of 3.67%.	302,778	
GE Proteus XR/A System - \$79,203 financed by GE for 60 months at \$1,549 (6.46775% interest rate)	7,609	
Hologic Digital Mammo System - \$246,400 financed by Provident Leasing for 60 months at \$4,751 (5.8899% interest rate)	18,772	
Alban Generator - \$246,900 financed by Provident Leasing for 60 months at \$4,916 (7.2321% interest rate)	24,142	
Xray - \$106,260 financed by Provident Leasing for 36 months at \$3,184 (4.985% interest rate)	95,221	
Ultrasound - \$154,375 financed by GE for 60 months at \$2,682 (1.64% interest rate)	139,501	
Various equipment	63,272	138,096

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

LONG TERM DEBT (Continued)

	2016	2015
Nursing Home long term debt:		
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 interest only through June 4, 2011, with monthly principal and interest payments commencing on July 4, 2011. As of June 30, 2014 all funds had not yet been drawn down on the loan.	5,610,129	5,695,254
June 4, 2009 bearing interest at 6.5% on the total sums disbursed, starting July 4, 2009 to June 4, 2011. Monthly principal and interest payments commenced on July 4, 2011 and shall continue through 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 July 4, 2016, and continuing on the like day of each month thereafter, to and including the June 4, 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 the USDA. The collateral is to include all assets of the Hospital, Nursing Home, Chesapeake Cove Assisted Living and the Foundation.		
Total long term debt	3,458,578	3,574,332
	\$ 10,081,855	\$ 10,034,045

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

LONG TERM DEBT (Continued)

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

	<u>Hospital</u>	<u>Nursing Home</u>	<u>Total</u>
2017	\$ 342,188	\$ 187,580	\$ 529,768
2018	291,546	197,126	488,672
2019	162,038	207,165	369,203
2020	79,336	217,723	297,059
2021	65,495	228,829	294,324
Thereafter	<u>72,545</u>	<u>8,030,284</u>	<u>8,102,829</u>
Total	<u><u>\$ 1,013,148</u></u>	<u><u>\$ 9,068,707</u></u>	<u><u>\$ 10,081,855</u></u>

CHARITY CARE

The Foundation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Foundation does not pursue collection of amounts determined to qualify as charity care. The amount of charges foregone for services and supplies furnished under the Foundation's charity care policy aggregated approximately \$193,864 and \$261,629 in the years ended June 30, 2016 and 2015, respectively.

INVESTMENTS MAINTAINED BY COMMUNITY FOUNDATION OF THE EASTERN SHORE

During the year ended June 30, 2011, the Foundation established a fund in the amount of \$105,000 with the Community Foundation of the Eastern Shore (CFES) in order to develop a constant stream of income. CFES is a community based charitable organization established to support worthwhile projects in Wicomico, Worcester, and Somerset Counties. The CFES fund is managed by third party investment managers in a diversified portfolio. The principal of this fund is considered unrestricted. Written board approval is required to draw on the principal of the fund. The balances of the account at June 30, 2016 and 2015 were \$206,557 and \$210,540, respectively. Unrealized gain (loss) on investments represents the Foundation's share of CFES's realized and unrealized gains and losses, interest and dividends.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

COMMITMENTS AND CONTINGENCIES

The Foundation'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 Foundation has elected the reimbursement method of Maryland unemployment coverage whereby the organization reimburses the State of Maryland Unemployment Insurance Fund for unemployment claims charged against its account. These amounts are recorded as expense when a bill is received from the State of Maryland Department of Labor, Licensing, and Regulation Division of Unemployment Insurance. No accrual for estimated unassessed reimbursements has been made since the amount charged to an employer's account is subject to complex rules and management believes any reimbursement to be assessed will not be material. Unemployment claims for fiscal years 2016 and 2015 were \$26,493 and \$59,975 respectively.

EMPLOYEE PENSION PLAN – DEFINED CONTRIBUTION

The Foundation 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 years ended June 30, 2016 and 2015 amounted to \$117,901 and \$126,630 respectively.

CONCENTRATION OF CREDIT RISK

At June 30, 2016, the Foundation received a substantial amount of its support from Medicaid (approximately \$4,645,379), and Medicare (approximately \$8,857,288). A reduction in the level of this reimbursement, if this were to occur, may have an effect on the organization's activities.

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

The Foundation elected to be self-insured for employee health insurance up to a cap of about \$1.5 million. The Foundation's actual cost for the year ended June 30, 2016 and 2015 were \$1,299,786 and \$1,246,715 respectively.

THE MCCREADY FOUNDATION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

OPERATING LEASES

As of June 30, 2016, the Foundation had entered into various non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2014 to 2019. Minimum rentals, on an annual basis, are as follows:

	<u>Equipment</u>
Fiscal Year ending June 30, 2017	\$ 126,697
2018	125,247
2019	<u>20,874</u>
	<u><u>\$ 272,818</u></u>

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.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

FAIR VALUE MEASUREMENT

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Endowment Fund has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Investments maintained by the Community Foundation of the Eastern Shore: Valued at the reported fund balances by the CFES which represents the Endowment Fund's share in a portion of the total investments held by the CFES.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Endowment Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE MCCREADY FOUNDATION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

FAIR VALUE MEASUREMENT (Continued)

The following table sets forth by level, within the fair value hierarchy, the Endowment Fund's assets at fair value as of June 30, 2016:

Assets Measured at Fair Value on a Recurring Basis

Description	Fair Value Measurement at Reporting Date Using:			Total
	(Level 1)	(Level 2)	(Level 3)	
Investment maintained by CFES			206,557	206,557
Total	\$	\$	\$ 206,557	\$ 206,557

The following table sets forth a summary of changes in the fair value of the plan's level 3 assets for the year ended June 30, 2016.

Assets measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3).

	Investment maintained by CFES	Total
Balance, beginning of year	\$ 210,540	\$ 210,540
Administration fees	(2,008)	(2,008)
Unrealized loss	(2,045)	(2,045)
Contributions	70	70
Balance, end of year	\$ 206,557	\$ 206,557

THE MCCREADY FOUNDATION INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

PRIOR PERIOD ADJUSTMENT

In 2015 the Hospital overstated accounts receivable and accrued expenses. The adjustment to unrestricted net assets is as follows:

Unrestricted net assets at June 30, 2015, as previously reported	\$ 13,204,106
Adjustment for accounts receivable	(195,000)
Adjustment for accrued expenses	<u>121,865</u>
Unrestricted net assets at June 30, 2015, as restated	<u><u>\$ 13,130,971</u></u>

In 2015 the Nursing Home overstated its account receivable. The adjustment to unrestricted net assets is as follows:

Unrestricted net assets at June 30, 2015, as previously reported	\$ 1,976,166
Adjustment for accounts receivable	(308,567)
Unrestricted net assets at June 30, 2015, as restated	<u><u>\$ 1,667,599</u></u>

SUPPLEMENTARY INFORMATION

THE MCCREADY FOUNDATION, INC.
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents
Certificates of deposit
Accounts receivable, net
Pledges receivable
Inventories
Prepaid expenses
Total current assets

	2016					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
Cash and cash equivalents	\$ 2,859,905	\$ 457,114	\$ 1,199	\$ 110,002	\$	\$ 3,428,220
Certificates of deposit		176,359				176,359
Accounts receivable, net	2,135,847		57,247	533,189		2,726,283
Pledges receivable		1,600				1,600
Inventories	292,576			23,489		316,065
Prepaid expenses	227,735			3,700		231,435
Total current assets	<u>5,516,063</u>	<u>635,073</u>	<u>58,446</u>	<u>670,380</u>		<u>6,879,962</u>

INVESTMENTS, AT FAIR VALUE

Investments maintained by
Community Foundation of the Eastern Shore
Total investments

Investments maintained by	206,557				206,557
Total investments	<u>206,557</u>				<u>206,557</u>

PROPERTY AND EQUIPMENT

Property and equipment
Less accumulated depreciation
Net property and equipment

Property and equipment	17,861,632	4,019,532	9,855,494		31,736,658
Less accumulated depreciation	<u>(11,893,772)</u>	<u>(323,729)</u>	<u>(2,427,043)</u>		<u>(14,644,544)</u>
Net property and equipment	<u>5,967,860</u>	<u>3,695,803</u>	<u>7,428,451</u>		<u>17,092,114</u>

OTHER ASSETS

Due from affiliates
Restricted patient funds
Total other assets

Due from affiliates	3,447,608	13,205	4,881,485	(8,342,298)	
Restricted patient funds			13,508		13,508
Total other assets	<u>3,447,608</u>	<u>13,205</u>	<u>4,894,993</u>	<u>(8,342,298)</u>	<u>13,508</u>

Total assets

Total assets	<u>\$ 14,931,531</u>	<u>\$ 854,835</u>	<u>\$ 3,754,249</u>	<u>\$ 12,993,824</u>	<u>\$ (8,342,298)</u>	<u>\$ 24,192,141</u>
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ASSETS**CURRENT ASSETS**

	2015				
	Assisted Living		Nursing Home	Eliminations	Total
Cash and cash equivalents	\$ 3,894,390	\$ 456,425	\$ 1,200	\$ 259,035	\$ 4,611,050
Certificates of deposit		\$ 181,621			\$ 181,621
Accounts receivable, net	1,703,385		36,643	673,914	2,413,942
Pledges receivable		2,300			2,300
Inventories	305,824			38,278	344,102
Prepaid expenses	258,091			5,000	263,091
Total current assets	6,161,690	640,346	37,843	976,227	7,816,106

INVESTMENTS, AT FAIR VALUE

Investments maintained by				
Community Foundation of the Eastern Shore		210,540		210,540
Total investments		210,540		210,540

PROPERTY AND EQUIPMENT

Property and equipment	17,225,617	4,017,545	9,754,895	30,998,057
Less accumulated depreciation	(10,978,320)	(231,583)	(2,068,160)	(13,278,063)
Net property and equipment	6,247,297	3,785,962	7,686,735	17,719,994

OTHER ASSETS

Due from affiliates	3,411,268	7,413	4,550,783	(7,969,464)
Restricted patient funds			26,105	26,105
Total other assets	3,411,268	7,413	4,576,888	(7,969,464)
Total assets	\$ 15,820,255	\$ 858,299	\$ 3,823,805	\$ (7,969,464)
				\$ 25,772,745

THE MCCREADY FOUNDATION, INC.
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Line of credit	\$ 114,500	\$	\$	\$	\$ 114,500
Current portion of long-term debt	342,188			187,580	529,768
Accounts payable	604,637		9	187,333	791,979
Accrued salaries, annual leave and related taxes	612,622		23,289	215,959	851,870
Accrued interest	2,527			30,656	33,183
Medicare periodic interim payment program	2,336				2,336
Blue cross - advance	113,000				113,000
Medicaid - advance	36,924			41,660	78,584
Total current liabilities	1,828,734		23,298	663,188	2,515,220

LONG - TERM DEBT

Loan payable	670,960		8,881,127		9,552,087
Total non-current liabilities	670,960		8,881,127		9,552,087

OTHER LIABILITIES

Due to affiliates		52,989	6,297,051	1,992,258	(8,342,298)
Restricted patient funds				13,507	13,507
Total other liabilities		52,989	6,297,051	2,005,765	(8,342,298)
Total liabilities	2,499,694	52,989	6,320,349	11,550,080	(8,342,298)
					12,080,814

NET ASSETS (DEFICIT)

Unrestricted	12,431,837	801,846	(2,566,100)	1,443,744		12,111,327
Total net assets (deficit)	12,431,837	801,846	(2,566,100)	1,443,744		12,111,327
Total liabilities and net assets	\$ 14,931,531	\$ 854,835	\$ 3,754,249	\$ 12,993,824	\$ (8,342,298)	\$ 24,192,141

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Line of credit
 Current portion of long-term debt
 Accounts payable
 Accrued salaries, annual leave and related taxes
 Accrued interest
 Deferred revenue
 Deposits
 Medicare periodic interim payment program
 Blue cross - advance
 Medicaid - advance
 Total current liabilities

	2015					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
\$ 300,978	\$ 288,812	\$ 1,058,027	\$ 369,737	\$ 178,504	\$ 189,630	\$ 300,978
				5	215,368	467,316
				22,392	31,907	1,247,662
			3,218			607,497
				42,211		35,125
				4,345		42,211
						4,345
58,141	97,800	36,924				58,141
				41,660		97,800
						78,584
2,213,637			68,953	657,069		2,939,659

LONG - TERM DEBT

Loan payable
 Total non-current liabilities

475,647			9,091,082		9,566,729
475,647			9,091,082		9,566,729

OTHER LIABILITIES

Due to affiliates
 Restricted patient funds
 Total other liabilities
 Total liabilities

	56,489	6,115,021	1,797,954	(7,969,464)	
			26,146		26,146
	56,489	6,115,021	1,824,100	(7,969,464)	26,146
2,689,284	56,489	6,183,974	11,572,251	(7,969,464)	12,532,534

NET ASSETS (DEFICIT), AS RESTATED

Unrestricted
 Total net assets (deficit)
 Total liabilities and net assets

13,130,971	801,810	(2,360,169)	1,667,599		13,240,211
13,130,971	801,810	(2,360,169)	1,667,599		13,240,211
\$ 15,820,255	\$ 858,299	\$ 3,823,805	\$ 13,239,850	\$ (7,969,464)	\$ 25,772,745

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF ACTIVITY

YEARS ENDED JUNE 30, 2016 AND 2015

	2016				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
OPERATING REVENUE	\$ 15,149,623	\$	\$ 777,306	\$ 5,870,882	\$ 21,797,811
EXPENSES					
Wages and benefits					
Salaries and wages	7,028,491		423,354	3,213,543	10,665,388
Payroll taxes	490,348		29,389	240,347	760,084
Employee benefits	1,062,832		53,254	612,481	1,728,567
Total wages and benefits	<u>8,581,671</u>		<u>505,997</u>	<u>4,066,371</u>	<u>13,154,039</u>
Direct expenses					
Professional service fees	1,774,202	3,508	2,000	147,449	1,927,159
Consumable supplies	1,402,375		161,957	562,544	2,126,876
Advertising and recruiting	130,927			147	131,074
Service contracts and maintenance	1,007,863		477	86,903	1,095,243
Leases and rentals	491,247		667	46,279	538,193
Depreciation expense	922,197		117,351	326,937	1,366,485
Utilities	331,711		44,445	159,478	535,634
Interest expense	93,016		131,748	253,287	478,051
Insurance	236,276		16,095	171,140	423,511
Other expenses	656,672		2,500	170,428	829,600
Bad debt expense	702,042			104,048	806,090
Total direct expenses	<u>7,748,528</u>	<u>3,508</u>	<u>477,240</u>	<u>2,028,640</u>	<u>10,257,916</u>
Total expenses	<u>16,330,199</u>	<u>3,508</u>	<u>983,237</u>	<u>6,095,011</u>	<u>23,411,955</u>
Operating loss	(1,180,576)	(3,508)	(205,931)	(224,129)	(1,614,144)
NONOPERATING INCOME	481,442	3,544		274	485,260
Change in net assets	(699,134)	36	(205,931)	(223,855)	(1,128,884)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	13,130,971	801,810	(2,360,169)	1,667,599	13,240,211
NET ASSETS, END OF YEAR	\$ 12,431,837	\$ 801,846	\$ (2,566,100)	\$ 1,443,744	\$ 12,111,327

	2015				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
OPERATING REVENUE	\$ 14,382,353	\$	\$ 527,090	\$ 6,274,709	\$ 21,184,152
EXPENSES					
Wages and benefits					
Salaries and wages	5,808,427		344,860	3,286,310	9,439,597
Payroll taxes	451,847		23,799	249,250	724,896
Employee benefits	1,003,019		51,820	598,020	1,652,859
Total wages and benefits	7,263,293		420,479	4,133,580	11,817,352
Direct expenses					
Professional service fees	1,995,036	3,608	1,200	188,727	2,188,571
Consumable supplies	1,056,751		118,258	573,324	1,748,333
Advertising and recruiting	86,433				86,433
Service contracts and maintenance	841,900		350	79,990	922,240
Leases and rentals	447,470		630	33,857	481,957
Depreciation expense	940,610		121,596	335,268	1,397,474
Utilities	372,998		43,205	156,184	572,387
Interest expense	89,592		133,231	281,396	504,219
Insurance	268,091		16,785	173,586	458,462
Other expenses	630,170		2,982	180,298	813,450
Bad debt expense	1,780,420	22,321			1,802,741
Total direct expenses	8,509,471	25,929	438,237	2,002,630	10,976,267
Total expenses	15,772,764	25,929	858,716	6,136,210	22,793,619
Operating income (loss)	(1,390,411)	(25,929)	(331,626)	138,499	(1,609,467)
NONOPERATING INCOME	769,819	4,677		1,565	776,061
Change in net assets	(620,592)	(21,252)	(331,626)	140,064	(833,406)
NET ASSETS, BEGINNING OF YEAR	13,751,563	823,062	(2,028,543)	1,527,535	14,073,617
NET ASSETS, END OF YEAR, AS RESTATED	\$ 13,130,971	\$ 801,810	\$ (2,360,169)	\$ 1,667,599	\$ 13,240,211

THE MCCREADY FOUNDATION, INC.

**STATEMENTS OF ACTIVITY BY ORGANIZATION
MCCREADY MEMORIAL HOSPITAL**

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Regulated revenue		
Total inpatient revenue	\$ 3,094,954	\$ 2,966,592
Total outpatient revenue	<u>13,394,409</u>	<u>12,155,365</u>
Gross regulated revenue	16,489,363	15,121,957
Less allowances	(2,766,875)	(1,640,831)
Less charity care	<u>(185,796)</u>	<u>(244,503)</u>
Net regulated revenue	<u>13,536,692</u>	<u>13,236,623</u>
Unregulated revenue		
Professional fees	1,761,815	1,176,255
Other unregulated services	<u>4,169</u>	<u>7,476</u>
Gross unregulated services	1,765,984	1,183,731
Less unregulated allowances	(328,046)	(176,516)
Less unregulated charity care	<u>(8,068)</u>	<u>(17,126)</u>
Net unregulated services	<u>1,429,870</u>	<u>990,089</u>
Other operating revenue	<u>183,061</u>	<u>155,641</u>
Operating revenue	<u>15,149,623</u>	<u>14,382,353</u>
EXPENSES		
Wages and benefits		
Salaries and wages	7,028,491	5,808,427
Payroll taxes	490,348	451,847
Employee benefits	<u>1,062,832</u>	<u>1,003,019</u>
Total wages and benefits	<u>8,581,671</u>	<u>7,263,293</u>
Direct expenses		
Professional service fees	1,774,202	1,995,036
Consumable supplies	1,402,375	1,056,751
Advertising & Recruiting	130,927	86,433
Service contracts and maintenance	1,007,863	841,900
Leases and rentals	491,247	447,470
Depreciation expense	922,197	940,610

THE MCCREADY FOUNDATION, INC.

**STATEMENTS OF ACTIVITY BY ORGANIZATION
MCCREADY MEMORIAL HOSPITAL**

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
EXPENSES (Continued)		
Direct expenses (continued)		
Utilities	331,711	372,998
Interest expense	93,016	89,592
Insurance	236,276	268,091
Other expenses	656,672	630,170
Bad debt expense	702,042	1,780,420
Total direct expenses	<u>7,748,528</u>	<u>8,509,471</u>
Total expenses	<u>16,330,199</u>	<u>15,772,764</u>
 Operating loss	 (1,180,576)	 (1,390,411)
 Nonoperating income	 <u>481,442</u>	 <u>769,819</u>
 Net loss	 <u>\$ (699,134)</u>	 <u>\$ (620,592)</u>

THE MCCREADY FOUNDATION, INC.

**STATEMENTS OF ACTIVITY BY ORGANIZATION
ENDOWMENT**

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING EXPENSES		
Direct expenses		
Professional service fees	3,508	3,608
Bad debt expense		22,321
Total direct expenses	<u>3,508</u>	<u>25,929</u>
Total expenses	<u>3,508</u>	<u>25,929</u>
Operating loss	(3,508)	(25,929)
Nonoperating income	<u>3,544</u>	<u>4,677</u>
Net income (loss)	<u>\$ 36</u>	<u>\$ (21,252)</u>

THE MCCREADY FOUNDATION, INC.

**STATEMENTS OF ACTIVITY BY ORGANIZATION
CHESAPEAKE COVE ASSISTED LIVING**

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Room and board	777,306	527,090
Operating revenue	<u>777,306</u>	<u>527,090</u>
EXPENSES		
Wages and benefits		
Salaries and wages	423,354	344,860
Payroll taxes	29,389	23,799
Employee benefits	<u>53,254</u>	<u>51,820</u>
Total wages and benefits	<u>505,997</u>	<u>420,479</u>
Direct expenses		
Professional service fees	2,000	1,200
Consumable supplies	161,957	118,258
Service contracts and maintenance	477	350
Leases and rentals	667	630
Depreciation expense	117,351	121,596
Utilities	44,445	43,205
Interest expense	131,748	133,231
Insurance	16,095	16,785
Other expenses	<u>2,500</u>	<u>2,982</u>
Total direct expenses	<u>477,240</u>	<u>438,237</u>
Total expenses	<u>983,237</u>	<u>858,716</u>
Operating loss	<u>(205,931)</u>	<u>(331,626)</u>
Net loss	<u>\$ (205,931)</u>	<u>\$ (331,626)</u>

THE MCCREADY FOUNDATION, INC.

**STATEMENTS OF ACTIVITY BY ORGANIZATION
ALICE B. TAWES NURSING HOME**

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Patient revenue		
Room and board	6,669,504	6,446,176
Ancillary services	813,747	1,012,592
Allowances	<u>(1,656,893)</u>	<u>(1,310,173)</u>
Net patient revenue	5,826,358	6,148,595
Dietary income	41,351	53,902
Other operating revenue	3,173	72,212
Operating revenue	<u>5,870,882</u>	<u>6,274,709</u>
EXPENSES		
Wages and benefits		
Salaries and wages	3,213,543	3,286,310
Payroll taxes	240,347	249,250
Employee benefits	<u>612,481</u>	<u>598,020</u>
Total wages and benefits	4,066,371	4,133,580
Direct expenses		
Professional service fees	147,449	188,727
Consumable supplies	562,544	573,324
Advertising & Recruiting	147	
Service contracts and maintenance	86,903	79,990
Leases and rentals	46,279	33,857
Depreciation expense	326,937	335,268
Utilities	159,478	156,184
Interest expense	253,287	281,396
Insurance	171,140	173,586
Other expenses	170,428	180,298
Bad debt expense	<u>104,048</u>	
Total direct expenses	<u>2,028,640</u>	<u>2,002,630</u>
Total expenses	<u>6,095,011</u>	<u>6,136,210</u>
Operating income (loss)	(224,129)	138,499
Nonoperating income	274	1,565
Net income (loss)	<u>\$ (223,855)</u>	<u>\$ 140,064</u>