

THE MCCREADY FOUNDATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

THE MCCREADY FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

E. LEE McCABE, CPA

JEFFREY A. MICHALIK, CPA

ROBERT L. MOORE, CPA

DANIEL M. O'CONNELL II, CPA

JOHN M. STERN, JR., CPA

To the Management and Board of Directors
The McCready Foundation, Inc.
Crisfield, Maryland

Report on the consolidated financial statements

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE

P.O. Box 72

SALISBURY, MD 21803

TEL: 410.546.5600

Ocean City

12216 OCEAN GATEWAY

SUITE 800

OCEAN CITY, MD 21842

TEL: 410.213.7185

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Lewes

1143 SAVANNAH ROAD

SUITE 1

LEWES, DE 19958

TEL: 302.645.5757

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.

MEMBERS OF:

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MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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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 consolidated financial position of The McCready Foundation, Inc. and affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their 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 23 - 24, the consolidating statements of activities on page 25, the consolidating statements of functional expenses on pages 26 – 28 and the statements of activity by organization on pages 29 - 32 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.

Emphasis of matter

As discussed in the notes to the financial statements, the Organization adopted a new accounting guidance ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
October 16, 2019

CONSOLIDATED FINANCIAL STATEMENTS

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	ASSETS	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,411,763	\$ 1,278,677
Certificates of deposit	204,295	202,830
Accounts receivable, net	2,796,809	4,249,135
Inventories	361,924	385,967
Prepaid expenses	172,663	297,792
Total current assets	<u>4,947,454</u>	<u>6,414,401</u>
INVESTMENTS, AT FAIR VALUE		
Investments maintained by		
Community Foundation of the Eastern Shore	256,363	253,244
Total investments	<u>256,363</u>	<u>253,244</u>
PROPERTY AND EQUIPMENT		
Property and equipment	30,684,341	30,895,620
Less accumulated depreciation	<u>(15,688,855)</u>	<u>(14,998,176)</u>
Net property and equipment	<u>14,995,486</u>	<u>15,897,444</u>
OTHER ASSETS		
Restricted patient funds	14,251	18,618
Total other assets	<u>14,251</u>	<u>18,618</u>
Total assets	<u>\$ 20,213,554</u>	<u>\$ 22,583,707</u>

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Line of credit	\$ 70,576	\$ 86,206
Current portion of long-term debt	321,530	495,312
Accounts payable	1,813,408	1,774,335
Accrued salaries, annual leave and related taxes	959,150	996,060
Accrued interest	29,941	31,239
Medicare periodic interim payment program	97,753	123,244
Blue cross - advance	174,700	158,400
Assisted living deposits	1,211	2,413
Medicaid - advance	99,811	113,846
Total current liabilities	<u>3,568,080</u>	<u>3,781,055</u>
NON-CURRENT LIABILITIES		
Loan payable	8,710,689	9,036,860
Total non-current liabilities	<u>8,710,689</u>	<u>9,036,860</u>
OTHER LIABILITIES		
Restricted patient funds	14,251	18,493
Total other liabilities	<u>14,251</u>	<u>18,493</u>
 Total liabilities	 <u>12,293,020</u>	 <u>12,836,408</u>
NET ASSETS		
Without donor restrictions	7,920,534	9,747,299
Total net assets	<u>7,920,534</u>	<u>9,747,299</u>
 Total liabilities and net assets	 <u>\$ 20,213,554</u>	 <u>\$ 22,583,707</u>

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

THE MCCREADY FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUE	\$ 23,554,141	\$ 24,322,122
EXPENSES		
Program services	22,829,932	23,260,080
General and administrative	2,850,326	2,656,233
Total expenses	25,680,258	25,916,313
Operating loss	(2,126,117)	(1,594,191)
NON-OPERATING INCOME	299,352	104,910
Change in net assets	(1,826,765)	(1,489,281)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	9,747,299	11,236,580
NET ASSETS, END OF YEAR	\$ 7,920,534	\$ 9,747,299

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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018
	Program Services	General and Administrative	Total	Total
Salaries	\$ 10,306,958	\$ 995,611	\$ 11,302,569	\$ 11,757,351
Payroll taxes	718,059	68,931	786,990	826,756
Employee benefits	1,742,707	144,345	1,887,052	1,686,364
	12,767,724	1,208,887	13,976,611	14,270,471
Professional service fees	2,007,553	1,035,439	3,042,992	2,167,164
Consumable supplies	2,127,376	82,615	2,209,991	2,333,318
Advertising and recruiting		100,201	100,201	132,959
Service contracts and maintenance	1,675,873	4,975	1,680,848	1,524,806
Leases and rentals	401,134	17,407	418,541	510,124
Depreciation expense	1,064,568	29,731	1,094,299	1,246,459
Utilities	502,990	94,846	597,836	596,467
Interest expense	470,034		470,034	503,072
Insurance	423,994	27,377	451,371	416,532
Training	29,144	9,467	38,611	44,065
Dues and subscriptions	47,865	55,684	103,549	89,913
Laundry	74,773		74,773	77,646
Other expenses	379,721	183,697	563,418	799,585
Bad debt expense	857,183		857,183	1,203,732
Total expenses	\$ 22,829,932	\$ 2,850,326	\$ 25,680,258	\$ 25,916,313

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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (1,826,765)	\$ (1,489,281)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,094,299	1,246,459
Unrealized loss gain on investments	(5,559)	(24,873)
(Increase) decrease in operating assets:		
Accounts receivable	1,452,326	(1,062,087)
Pledges receivable		1,600
Inventories	24,043	(16,497)
Medicare periodic interim payment program	(25,491)	73,825
Prepaid expenses	125,129	(58,115)
Increase (decrease) in operating liabilities:		
Accounts payable	39,073	906,387
Accrued salaries, annual leave and related taxes	(36,910)	126,478
Accrued interest	(1,298)	(1,347)
Blue Cross - advance	16,300	4,800
Assisted living deposits	(1,202)	2,413
Medicaid advance	(14,035)	(72,786)
Restricted funds	125	9,462
Net cash provided (used) by operating activities	840,035	(353,562)
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of certificates of deposit	(1,465)	(884)
Purchase of fixed assets net of disposals and transfers	(192,341)	(734,592)
Investments maintained by		
Community Foundation of the Eastern Shore	2,440	2,457
Net cash used by investing activities	(191,366)	(733,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	70,576	86,206
Principal payments on long term debt	(586,159)	(581,969)
Net cash used by financing activities	(515,583)	(495,763)
Net increase (decrease) in cash and cash equivalents	133,086	(1,582,344)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,278,677	2,861,021
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,411,763	\$ 1,278,677
SUPPLEMENTARY INFORMATION		
Interest paid	\$ 470,034	\$ 503,072

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

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Basis of accounting

The financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the product or service has been received and the liability incurred.

New accounting pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about the expense and investment return. The Foundation has adjusted the presentation of these consolidated statements accordingly. The ASU has been applied retrospectively to all periods presented.

Basis of presentation

The Foundation has adopted the provisions of the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-For-Profit Entities* in the presentation of its financial information.

Net assets and revenues, including contributions, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets can be designated for specific purposes by action of the Board of Directors.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of presentation (continued)

With donor restrictions – Net assets subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time, such as term endowments. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity and are primarily comprised of original endowment gifts given to the Foundation by donors. Generally, the donors of these assets permit the Foundation to use all or part of the income on these assets.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified to net assets without donor restrictions in the statement of activities as net assets released from restrictions.

Net assets at the beginning of the year were reclassified to comply with the new standard as follows:

	Unrestricted	Without Donor Restrictions	Total
Balances, previously reported	\$ 9,822,627	\$	\$ 9,822,627
Reclassification	<u>(9,822,627)</u>	<u>9,822,627</u>	
Balances, as restated	<u>\$</u>	<u>\$ 9,822,627</u>	<u>\$ 9,822,627</u>

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 (CFES).

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (continued)

The Foundation has accepted the valuation of assets as provided by the CFES which has adopted the Financial Accounting Standards Board “*Accounting Standards Codification*.” Under FASB, 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.

Investment gains, losses and income

Gains and losses on investments are reported on the consolidated statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations. Dividends, interest and other investment income are reported in the period earned as increases in net assets without donor restrictions, unless the use of the income received is limited by donor-imposed restrictions.

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 \$745,936 and \$1,401,793 as of June 30, 2019 and 2018, 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 \$1,000 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 without donor restrictions 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 with donor restrictions. Absent donor stipulations regarding how long those donated assets must be

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (continued)

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 with donor restrictions net assets to without donor restrictions 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
Buildings	10 - 50 years
Fixed equipment	5 years
Major moveable equipment	10 - 20 years

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.

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 with donor restrictions 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, with donor restrictions net assets are reclassified as without donor restrictions 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 without donor restrictions contributions.

Income taxes

The Foundation 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 Foundation 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, 2019, the Foundation 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, 2019 AND 2018

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 27,788,247	\$ 28,971,818
Less charity care and contractual adjustments	<u>(5,647,546)</u>	<u>(4,649,696)</u>
Net patient service revenue	<u>\$ 22,140,701</u>	<u>\$ 24,322,122</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, 2019 AND 2018

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.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and general and administrative services. Therefore these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, leases, utilities, and insurance, which is allocated based on the department.

Subsequent events

Management has evaluated subsequent events through October 16, 2019, the date the consolidated financial statements were available and approved to be issued. With the exception of the matters discussed below, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

On June 26, 2019 the McCready Foundation, Inc. entered into an Affiliation Agreement with Peninsula Regional Health System, Inc. See the **AFFILIATION AGREEMENT** note for details about this agreement.

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, 2019 and 2018 amounted to \$100,201 and \$132,959, respectively.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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, 2019, The McCready Foundation, Inc. has cash balances totaling \$1,328,921 in excess of the amount insured by the FDIC.

AVAILABILITY AND LIQUIDITY

The following represents The McCready Foundation, Inc.'s financial assets at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 1,411,563
Certificates of deposit	204,295
Accounts receivable, net	2,796,809
Inventories	361,924
Total financial assets	<u>4,774,591</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 4,774,591</u>

The Foundation manages its cash available to meet general expenditures by adopting and operating within an annual budget approved by the Board of Directors.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

PROPERTY AND EQUIPMENT

At June 30, 2019 and 2018, the cost and related depreciation of property and equipment were as follows:

	2019	2018
Land improvements	\$ 126,380	\$ 106,851
Buildings	24,589,423	24,511,215
Fixed equipment	1,459,313	1,435,966
Major moveable equipment	4,509,225	4,841,588
Total assets	30,684,341	30,895,620
Less: accumulated depreciation	(15,688,855)	(14,998,176)
Net property and equipment	<u>\$ 14,995,486</u>	<u>\$ 15,897,444</u>

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$1,094,299 and \$1,246,459, 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*. There were no impairments identified as of June 30, 2019 and 2018, respectively.

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, 2019 and 2018 were \$497,278 and \$553,519, 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 as of June 30, 2019 and 2018 was \$70,576 and \$86,206, respectively.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

LONG TERM DEBT

The following summarizes long-term debt at June 30,

	2019	2018
Hospital long term debt:		
USDA 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.	\$	\$ 59,916
Convertible line of credit payable to PNC, made on May 15, 2015 and converted on December 15, 2015, with the original 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%.	170,209	216,038
Hologic 3D Mammo System - \$414,178 financed by Provident Leasing for 36 months at \$12,409 (4.977% interest rate)	39,745	182,792
Hemalology System - \$33,834 financed by Leasing Associates of Barrington for 48 months at \$733 (1.93% interest rate)	13,706	22,148
C Arm Radiology System - \$76,985 financed by Siemens Financing for 60 months at \$1,353 (2.098% interest rate)	43,338	59,105
Xray - \$106,260 financed by Provident Leasing for 36 months at \$3,184 (4.985% interest rate)		25,002
Ultrasound - \$154,375 financed by GE for for 60 months at \$2,682 (1.64% interest rate)	47,267	73,709
McKesson Coagulation Analyzer, NH Call System, Ultrasound \$117,806 financed by First American Lease for 60 months at \$2,249 (5.476% interest rate)	89,468	110,985

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

LONG TERM DEBT (Continued)

	<u>2019</u>	<u>2018</u>
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.	5,352,982	5,442,359
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. 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.	3,275,504	3,340,118
Total debt	9,032,219	9,532,172
Less short term portion of debt	321,530	495,312
Total long term debt	\$ 8,710,689	\$ 9,036,860

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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>
2020	\$ 161,058	\$ 160,472	\$ 321,530
2021	114,688	169,081	283,769
2022	88,663	178,174	266,837
2023	39,325	187,779	227,104
2024		197,926	197,926
Thereafter		7,735,053	7,735,053
Total	<u>\$ 403,734</u>	<u>\$ 8,628,485</u>	<u>\$ 9,032,219</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 \$378,616 and \$326,004 in the years ended June 30, 2019 and 2018, 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, 2019 and 2018 were \$256,363 and \$253,244, 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, 2019 AND 2018

FAIR VALUE MEASUREMENT

The framework for measuring for 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 Plan has the ability to access.

Level 2 Inputs other than quoted prices included within Level 1, 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 MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

FAIR VALUE MEASUREMENT (Continued)

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 following table sets forth by level, within the fair value hierarchy, the Endowment Fund's assets at fair value as of June 30, 2019 and 2018:

Assets Measured at Fair Value on a Recurring Basis June 30, 2019:

Description	Fair Value Measurement at Reporting Date			Total
	Using:			
	(Level 1)	(Level 2)	(Level 3)	
Investment maintained by CFES	\$	\$	\$ 256,363	\$ 256,363
Total	\$	\$	\$ 256,363	\$ 256,363

Assets Measured at Fair Value on a Recurring Basis June 30, 2018:

Description	Fair Value Measurement at Reporting Date			Total
	Using:			
	(Level 1)	(Level 2)	(Level 3)	
Investment maintained by CFES	\$	\$	\$ 253,244	\$ 253,244
Total	\$	\$	\$ 253,244	\$ 253,244

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, 2019.

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

	Investment maintained by CFES
Balance, beginning of year	\$ 253,244
Administration fees	(2,490)
Contribution	50
Unrealized gain	5,559
Balance, end of year	\$ 256,363

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

EMPLOYEE PENSION PLAN – DEFINED CONTRIBUTION

The Foundation provides a discretionary employer pension contribution with a salary cap of \$100,000 per year. The 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, 2019 and 2018 amounted to \$70,458 and \$148,146 respectively.

OPERATING LEASES

As of June 30, 2019, the Foundation had two operating lease agreements for the rental of various pieces of equipment. The agreements expired in 2019 and have been extended on a month to month schedule

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 2019 and 2018 were \$(2,669) and \$21,523 respectively.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

CONCENTRATION OF CREDIT RISK

At June 30, 2019, the Foundation received a substantial amount of its support from Medicaid and Medicare. 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, 2019 and 2018 were \$1,579,260 and \$1,368,425 respectively.

AFFILIATION AGREEMENT

The Affiliation Agreement entered into between the McCready Foundation, Inc. and Peninsula Regional Health System, Inc. ("PRHS") on June 26, 2019 will significantly change the manner in which the McCready Foundation, Inc. operates in the future.

Highlights of the agreement include PRHS becoming the sole member of the McCready Foundation, Inc. with sole voting rights on the closing date which is set to occur on or before November 30, 2019. Upon closing the McCready Board will be reduced in number to 5 members to be appointed by PRHS, all actions of this Board will be subject to approval of PRHS.

Prior to the closing date McCready and PRHS will work together to convert McCready Hospital to a Freestanding Medical Facility ("FMF") which will continue operations at McCready Hospital's current location until which time a new facility is constructed at a new location. Current inpatient and surgical services being offered by McCready Hospital will not be offered by the new FMF. The Nursing and Assisted Living facilities will operate in the same manner as they are currently operating, but as affiliates of PRHS after the closing.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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.

PRIOR PERIOD ADJUSTMENT

In 2018 the Hospital understated its liabilities. The adjustment to without donor restrictions is as follows:

	<u>Hospital</u>	<u>Endowment</u>	<u>Assisted Living</u>	<u>Nursing Home</u>	<u>Total</u>
Without donor restrictions at					
June 30, 2018, as previously reported	\$ 11,060,832	\$ 855,695	\$ (3,018,552)	\$ 924,652	\$ 9,822,627
Adjustment for the state of Maryland emergency funds	<u>(75,328)</u>				<u>(75,328)</u>
Without donor restrictions at June 30, 2018, as restated	<u>\$ 10,985,504</u>	<u>\$ 855,695</u>	<u>\$ (3,018,552)</u>	<u>\$ 924,652</u>	<u>\$ 9,747,299</u>

NEW ACCOUNTING STANDARDS

FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The new guidance on leases will take effect for the year ended June 30, 2021.

SUPPLEMENTARY INFORMATION

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	ASSETS					Total
	2019					
	Hospital	Endowment	Assisted Living	Nursing	Eliminations	
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,335,496	\$ 43,191	\$ 11,364	\$ 21,712		\$ 1,411,763
Certificates of deposit		204,295				204,295
Accounts receivable, net	1,962,056		59,018	775,735		2,796,809
Inventories	335,402			26,522		361,924
Prepaid expenses	168,870			3,793		172,663
Total current assets	<u>3,801,824</u>	<u>247,486</u>	<u>70,382</u>	<u>827,762</u>		<u>4,947,454</u>
INVESTMENTS, AT FAIR VALUE						
Investments maintained by Community Foundation of the Eastern Shore		256,363				256,363
Total investments		<u>256,363</u>				<u>256,363</u>
PROPERTY AND EQUIPMENT						
Property and equipment	16,689,643		4,030,007	9,964,691		30,684,341
Less accumulated depreciation	(11,816,538)		(957,571)	(2,914,746)		(15,688,855)
Net property and equipment	<u>4,873,105</u>		<u>3,072,436</u>	<u>7,049,945</u>		<u>14,995,486</u>
OTHER ASSETS						
Due from affiliates	4,748,682	370,640		5,439,599	(10,558,921)	
Restricted patient funds				14,251		14,251
Total other assets	<u>4,748,682</u>	<u>370,640</u>		<u>5,453,850</u>	<u>(10,558,921)</u>	<u>14,251</u>
Total assets	<u>\$ 13,423,611</u>	<u>\$ 874,489</u>	<u>\$ 3,142,818</u>	<u>\$ 13,331,557</u>	<u>\$ (10,558,921)</u>	<u>\$ 20,213,554</u>

	2018					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
CURRENT ASSETS						
Cash and cash equivalents	\$ 1,216,700	\$ 8,010	\$ 22,476	\$ 31,491	\$	\$ 1,278,677
Certificates of deposit		202,830				202,830
Accounts receivable, net	3,134,016		67,962	1,047,157		4,249,135
Pledges receivable						
Inventories	355,547			30,420		385,967
Prepaid expenses	293,795			3,997		297,792
Total current assets	<u>5,000,058</u>	<u>210,840</u>	<u>90,438</u>	<u>1,113,065</u>		<u>6,414,401</u>
INVESTMENTS, AT FAIR VALUE						
Investments maintained by						
Community Foundation of the Eastern Shore		253,244				253,244
Total investments		<u>253,244</u>				<u>253,244</u>
PROPERTY AND EQUIPMENT						
Property and equipment	16,858,976		4,051,429	9,985,215		30,895,620
Less accumulated depreciation	(11,480,843)		(872,326)	(2,645,007)		(14,998,176)
Net property and equipment	<u>5,378,133</u>		<u>3,179,103</u>	<u>7,340,208</u>		<u>15,897,444</u>
OTHER ASSETS						
Due from affiliates	4,263,500	402,811		5,328,509	(9,994,820)	
Restricted patient funds				18,618		18,618
Total other assets	<u>4,263,500</u>	<u>402,811</u>		<u>5,347,127</u>	<u>(9,994,820)</u>	<u>18,618</u>
Total assets	<u>\$ 14,641,691</u>	<u>\$ 866,895</u>	<u>\$ 3,269,541</u>	<u>\$ 13,800,400</u>	<u>\$ (9,994,820)</u>	<u>\$ 22,583,707</u>

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

LIABILITIES AND NET ASSETS

	2019					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
CURRENT LIABILITIES						
Line of credit	\$ 70,576	\$	\$	\$	\$	\$ 70,576
Current portion of long-term debt	161,058			160,472		321,530
Accounts payable	1,574,716		5,131	233,561		1,813,408
Accrued salaries, annual leave and related taxes	631,022		38,413	289,715		959,150
Accrued interest	855			29,086		29,941
Medicare periodic interim payment program	97,753					97,753
Blue cross - advance	174,700					174,700
Assisted living deposits			1,211			1,211
Medicaid - advance	41,596			58,215		99,811
Total current liabilities	<u>2,752,276</u>		<u>44,755</u>	<u>771,049</u>		<u>3,568,080</u>
NON-CURRENT LIABILITIES						
Loan payable	242,677			8,468,012		8,710,689
Total non-current liabilities	<u>242,677</u>			<u>8,468,012</u>		<u>8,710,689</u>
OTHER LIABILITIES						
Due to affiliates	370,640	11,200	6,429,721	3,747,360	(10,558,921)	
Restricted patient funds				14,251		14,251
Total other liabilities	<u>370,640</u>	<u>11,200</u>	<u>6,429,721</u>	<u>3,761,611</u>	<u>(10,558,921)</u>	<u>14,251</u>
Total liabilities	<u>3,365,593</u>	<u>11,200</u>	<u>6,474,476</u>	<u>13,000,672</u>	<u>(10,558,921)</u>	<u>12,293,020</u>
NET ASSETS (DEFICIT)						
Without donor restrictions	10,058,018	863,289	(3,331,658)	330,885		7,920,534
Total net assets (deficit)	<u>10,058,018</u>	<u>863,289</u>	<u>(3,331,658)</u>	<u>330,885</u>		<u>7,920,534</u>
Total liabilities and net assets	<u>\$ 13,423,611</u>	<u>\$ 874,489</u>	<u>\$ 3,142,818</u>	<u>\$ 13,331,557</u>	<u>\$ (10,558,921)</u>	<u>\$ 20,213,554</u>

	2018					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
CURRENT LIABILITIES						
Line of credit	\$ 86,206	\$	\$	\$	\$	\$ 86,206
Current portion of long-term debt	345,993			149,319		495,312
Accounts payable	1,392,186		3,204	378,945		1,774,335
Accrued salaries, annual leave and related taxes	686,782		32,888	276,390		996,060
Accrued interest	1,639			29,600		31,239
Medicare periodic interim payment program	123,244					123,244
Blue cross - advance	158,400					158,400
Assisted Living Deposits			2,413			2,413
Medicaid - advance	55,224			58,622		113,846
Total current liabilities	<u>2,849,674</u>		<u>38,505</u>	<u>892,876</u>		<u>3,781,055</u>
NON-CURRENT LIABILITIES						
Loan payable	403,702			8,633,158		9,036,860
Total non-current liabilities	<u>403,702</u>			<u>8,633,158</u>		<u>9,036,860</u>
OTHER LIABILITIES						
Due to affiliates	402,811	11,200	6,249,588	3,331,221	(9,994,820)	
Restricted patient funds				18,493		18,493
Total other liabilities	<u>402,811</u>	<u>11,200</u>	<u>6,249,588</u>	<u>3,349,714</u>	<u>(9,994,820)</u>	<u>18,493</u>
Total liabilities:	<u>3,656,187</u>	<u>11,200</u>	<u>6,288,093</u>	<u>12,875,748</u>	<u>(9,994,820)</u>	<u>12,836,408</u>
NET ASSETS (DEFICIT)						
Unrestricted, as restated	10,985,504	855,695	(3,018,552)	924,652		9,747,299
Total net assets (deficit), as restated	<u>10,985,504</u>	<u>855,695</u>	<u>(3,018,552)</u>	<u>924,652</u>		<u>9,747,299</u>
Total liabilities and net assets	<u>\$ 14,641,691</u>	<u>\$ 866,895</u>	<u>\$ 3,269,541</u>	<u>\$ 13,800,400</u>	<u>\$ (9,994,820)</u>	<u>\$ 22,583,707</u>

THE MCCREADY FOUNDATION, INC.
CONSOLIDATING STATEMENTS OF ACTIVITY
YEARS ENDED JUNE 30, 2019 AND 2018

	2019				Total
	Hospital	Endowment	Assisted Living	Nursing Home	
OPERATING REVENUE	\$ 16,508,581	\$	\$ 841,659	\$ 6,203,901	\$ 23,554,141
EXPENSES					
Program services	15,211,986		1,139,378	6,478,568	22,829,932
General and administrative	2,513,114	2,489	15,387	319,336	2,850,326
Total expenses	17,725,100	2,489	1,154,765	6,797,904	25,680,258
Operating loss	(1,216,519)	(2,489)	(313,106)	(594,003)	(2,126,117)
NON-OPERATING INCOME	289,033	10,083		236	299,352
Change in net assets	(927,486)	7,594	(313,106)	(593,767)	(1,826,765)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	10,985,504	855,695	(3,018,552)	924,652	9,747,299
NET ASSETS, END OF YEAR	\$ 10,058,018	\$ 863,289	\$ (3,331,658)	\$ 330,885	\$ 7,920,534

	2018				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
OPERATING REVENUE	\$ 17,343,163	\$	\$ 810,784	\$ 6,168,175	\$ 24,322,122
EXPENSES					
Program services	15,839,140		1,046,329	6,374,611	23,260,080
General and administrative	2,344,113	2,463	39,582	270,075	2,656,233
Total expenses	18,183,253	2,463	1,085,911	6,644,686	25,916,313
Operating loss	(840,090)	(2,463)	(275,127)	(476,511)	(1,594,191)
NON-OPERATING INCOME	75,185	27,914		1,811	104,910
Change in net assets	(764,905)	25,451	(275,127)	(474,700)	(1,489,281)
NET ASSETS, BEGINNING OF YEAR	11,750,409	830,244	(2,743,425)	1,399,352	11,236,580
NET ASSETS, END OF YEAR	\$ 10,985,504	\$ 855,695	\$ (3,018,552)	\$ 924,652	\$ 9,747,299

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019				
	Program Services				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
Salaries	\$ 6,181,293	\$	\$ 542,100	\$ 3,583,565	\$ 10,306,958
Payroll taxes	409,130		38,228	270,701	718,059
Employee benefits	1,055,969		62,128	624,610	1,742,707
	<u>7,646,392</u>		<u>642,456</u>	<u>4,478,876</u>	<u>12,767,724</u>
Professional service fees	1,955,902			51,651	2,007,553
Consumable supplies	1,350,327		192,875	584,174	2,127,376
Service contracts and maintenance	1,535,666		3,036	137,171	1,675,873
Leases and rentals	360,366			40,768	401,134
Depreciation expense	632,245		114,347	317,976	1,064,568
Utilities	279,320		41,070	182,600	502,990
Interest expense	60,721		133,204	276,109	470,034
Insurance	305,617		7,797	110,580	423,994
Training	26,837		504	1,803	29,144
Dues and subscriptions	42,433			5,432	47,865
Laundry	30,660			44,113	74,773
Other expenses	220,812		3,666	155,243	379,721
Bad debt expense	764,688		423	92,072	857,183
Total expenses	<u>\$ 15,211,986</u>	<u>\$</u>	<u>\$ 1,139,378</u>	<u>\$ 6,478,568</u>	<u>\$ 22,829,932</u>

2018					
Program Services					
	Hospital	Endowment	Assisted Living	Nursing Home	Total
Salaries	\$ 6,619,569	\$	\$ 512,490	\$ 3,624,774	\$ 10,756,833
Payroll taxes	441,513		36,130	251,654	729,297
Employee benefits	951,619		44,939	540,361	1,536,919
	<u>8,012,701</u>		<u>593,559</u>	<u>4,416,789</u>	<u>13,023,049</u>
Professional service fees	1,392,058			56,343	1,448,401
Consumable supplies	1,447,698		163,875	610,751	2,222,324
Service contracts and maintenance	1,401,021			109,458	1,510,479
Leases and rentals	421,187			57,305	478,492
Depreciation expense	793,912		109,217	317,542	1,220,671
Utilities	313,274		34,484	150,414	498,172
Interest expense	87,694		135,138	280,240	503,072
Insurance	255,653		9,735	124,047	389,435
Training	32,733		36	4,644	37,413
Dues and subscriptions	37,133		40	411	37,584
Laundry	29,243			48,403	77,646
Other expenses	462,329		112	147,169	609,610
Bad debt expense	1,152,504		133	51,095	1,203,732
Total expenses	<u>\$ 15,839,140</u>	<u>\$</u>	<u>\$ 1,046,329</u>	<u>\$ 6,374,611</u>	<u>\$ 23,260,080</u>

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019				
	General and Administrative				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
Salaries	\$ 763,730	\$	\$ 5,249	\$ 226,632	\$ 995,611
Payroll taxes	56,836		19	12,076	68,931
Employee benefits	126,207		66	18,072	144,345
	946,773		5,334	256,780	1,208,887
Professional service fees	1,006,550	2,489	7,750	18,650	1,035,439
Consumable supplies	76,449		395	5,771	82,615
Advertising and recruiting	94,795		125	5,281	100,201
Service contracts and maintenance	4,975				4,975
Leases and rentals	9,610		921	6,876	17,407
Depreciation expense	28,690			1,041	29,731
Utilities	94,846				94,846
Insurance	15,879		821	10,677	27,377
Training	6,240			3,227	9,467
Dues and subscriptions	50,090			5,594	55,684
Other expenses	178,217		41	5,439	183,697
Total expenses	\$ 2,513,114	\$ 2,489	\$ 15,387	\$ 319,336	\$ 2,850,326

2018

General and Administrative

	Hospital	Endowment	Assisted Living	Nursing Home	Total
Salaries	\$ 792,887	\$	\$ 29,983	\$ 177,648	\$ 1,000,518
Payroll taxes	76,048		570	20,841	97,459
Employee benefits	134,934		63	14,448	149,445
	<u>1,003,869</u>		<u>30,616</u>	<u>212,937</u>	<u>1,247,422</u>
Professional service fees	709,500	2,463		6,800	718,763
Consumable supplies	103,786		1,332	5,876	110,994
Advertising and recruiting	126,790			6,169	132,959
Service contracts and maintenance	14,108			219	14,327
Leases and rentals	23,877		989	6,766	31,632
Depreciation expense	23,078			2,710	25,788
Utilities	98,295				98,295
Insurance	15,694		963	10,440	27,097
Training	5,257		220	1,175	6,652
Dues and subscriptions	40,696			11,633	52,329
Other expenses	179,163		5,462	5,350	189,975
Total expenses	<u>\$ 2,344,113</u>	<u>\$ 2,463</u>	<u>\$ 39,582</u>	<u>\$ 270,075</u>	<u>\$ 2,656,233</u>

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019				
	Totals				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
Salaries	\$ 6,945,023	\$	\$ 547,349	\$ 3,810,197	\$ 11,302,569
Payroll taxes	465,966		38,247	282,777	786,990
Employee benefits	1,182,176		62,194	642,682	1,887,052
	<u>8,593,165</u>		<u>647,790</u>	<u>4,735,656</u>	<u>13,976,611</u>
Professional service fees	2,962,452	2,489	7,750	70,301	3,042,992
Consumable supplies	1,426,776		193,270	589,945	2,209,991
Advertising and recruiting	94,795		125	5,281	100,201
Service contracts and maintenance	1,540,641		3,036	137,171	1,680,848
Leases and rentals	369,976		921	47,644	418,541
Depreciation expense	660,935		114,347	319,017	1,094,299
Utilities	374,166		41,070	182,600	597,836
Interest expense	60,721		133,204	276,109	470,034
Insurance	321,496		8,618	121,257	451,371
Training	33,077		504	5,030	38,611
Dues and subscriptions	92,523			11,026	103,549
Laundry	30,660			44,113	74,773
Other expenses	399,029		3,707	160,682	563,418
Bad debt expense	764,688		423	92,072	857,183
Total expenses	<u>\$ 17,725,100</u>	<u>\$ 2,489</u>	<u>\$ 1,154,765</u>	<u>\$ 6,797,904</u>	<u>\$ 25,680,258</u>

	2018				
	Totals				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
Salaries	\$ 7,412,456	\$	\$ 542,473	\$ 3,802,422	\$ 11,757,351
Payroll taxes	517,561		36,700	272,495	826,756
Employee benefits	1,086,553		45,002	554,809	1,686,364
	<u>9,016,570</u>		<u>624,175</u>	<u>4,629,726</u>	<u>14,270,471</u>
Professional service fees	2,101,558	2,463		63,143	2,167,164
Consumable supplies	1,551,484		165,207	616,627	2,333,318
Advertising and recruiting	126,790			6,169	132,959
Service contracts and maintenance	1,415,129			109,677	1,524,806
Leases and rentals	445,064		989	64,071	510,124
Depreciation expense	816,990		109,217	320,252	1,246,459
Utilities	411,569		34,484	150,414	596,467
Interest expense	87,694		135,138	280,240	503,072
Insurance	271,347		10,698	134,487	416,532
Training	37,990		256	5,819	44,065
Dues and subscriptions	77,829		40	12,044	89,913
Laundry	29,243			48,403	77,646
Other expenses	641,492		5,574	152,519	799,585
Bad debt expense	1,152,504		133	51,095	1,203,732
Total expenses	<u>\$ 18,183,253</u>	<u>\$ 2,463</u>	<u>\$ 1,085,911</u>	<u>\$ 6,644,686</u>	<u>\$ 25,916,313</u>

THE MCCREADY FOUNDATION, INC.

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

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES		
Regulated revenue		
Total inpatient revenue	\$ 2,143,226	\$ 2,634,026
Total outpatient revenue	13,926,794	13,433,493
Gross regulated revenue	16,070,020	16,067,519
Less allowances	(3,314,129)	(1,822,583)
Less charity care	(342,529)	(290,760)
Net regulated revenue	12,413,362	13,954,176
Unregulated revenue		
Professional fees	2,771,100	4,101,074
Other services	1,008	8,496
Gross unregulated revenue	2,772,108	4,109,570
Less: allowances	(338,632)	(864,232)
Less: charity care	(36,087)	(35,244)
Net unregulated revenue	2,397,389	3,210,094
Other operating revenue	1,697,830	178,893
Operating revenue	16,508,581	17,343,163
EXPENSES		
Program services	15,211,986	15,839,140
General and administrative	2,513,114	2,344,113
Total expenses	17,725,100	18,183,253
Operating loss	(1,216,519)	(840,090)
NON-OPERATING INCOME	289,033	75,185
Net loss	\$ (927,486)	\$ (764,905)

THE MCCREADY FOUNDATION, INC.
STATEMENTS OF ACTIVITY BY ORGANIZATION
ENDOWMENT
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
EXPENSES		
General and administrative	2,489	2,463
Total expenses	<u>2,489</u>	<u>2,463</u>
Operating loss	(2,489)	(2,463)
NON-OPERATING INCOME	<u>10,083</u>	<u>27,914</u>
Net income	<u>\$ 7,594</u>	<u>\$ 25,451</u>

THE MCCREADY FOUNDATION, INC.

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

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Room and board	841,659	810,784
Operating revenue	<u>841,659</u>	<u>810,784</u>
EXPENSES		
Program services	1,139,378	1,046,329
General and administrative	15,387	39,582
Total expenses	<u>1,154,765</u>	<u>1,085,911</u>
Operating loss	<u>(313,106)</u>	<u>(275,127)</u>
Net loss	<u>\$ (313,106)</u>	<u>\$ (275,127)</u>

THE MCCREADY FOUNDATION, INC.

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

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Patient revenue		
Room and board	6,813,450	6,745,224
Ancillary services	900,302	955,686
Allowances	<u>(1,616,169)</u>	<u>(1,636,877)</u>
Net patient revenue	6,097,583	6,064,033
Dietary income	34,139	38,968
Other operating revenue	<u>72,179</u>	<u>65,174</u>
Operating revenue	<u>6,203,901</u>	<u>6,168,175</u>
EXPENSES		
Program services	6,478,568	6,374,611
General and administrative	<u>319,336</u>	<u>270,075</u>
Total expenses	<u>6,797,904</u>	<u>6,644,686</u>
Operating loss	(594,003)	(476,511)
NON-OPERATING INCOME	<u>236</u>	<u>1,811</u>
Net loss	<u>\$ (593,767)</u>	<u>\$ (474,700)</u>