

McCREADY FOUNDATION, INC.

ENDOWMENT FUND

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

Administrator and Board of Directors
McCready Foundation, Inc.
Endowment Fund
Crisfield, MD 21817

We have audited the accompanying statements of financial position of The McCready Foundation, Inc. (a non-profit organization) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The McCready Foundation has a common Board of Directors that also controls The Edward W. McCready Memorial Hospital and The Alice Byrd Tawes Nursing Home. We have also audited the financial statements of these commonly controlled entities. The accompanying financial statements reflect only the transactions of the McCready Foundation, Inc.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the McCready Foundation as of June 30, 2010 and 2009, and the results of its activities and cash flows for the years then ended in conformity with United States Generally Accepted Accounting Principles.

Scott Tawes & Associates CPA, P.A.

Princess Anne, Maryland
September 7, 2010

McCREADY FOUNDATION, INC.
 ENDOWMENT FUND
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2010 AND 2009

	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 111,415	\$ 263,265
Certificates of Deposits	193,224	188,335
Due From Nursing Home	402,322	239,111
Due From McCready Hospital	294,270	202,801
Pledges Receivable (Less Reserve of \$1,200 in 2010 and \$6,000 in 2009)	32,180	27,911
Total Current Assets	1,033,411	921,423
OTHER ASSETS		
Pledges Receivable - Due after one year	48,069	50,045
Total Assets	\$ 1,081,480	\$ 971,468
LIABILITIES		
Total Liabilities	NIL -	NIL -
NET ASSETS		
Unrestricted	\$ 548,171	\$ 541,516
Temporarily Restricted	533,309	429,952
Total Net Assets	1,081,480	971,468
Total Liabilities and Net Assets	\$ 1,081,480	\$ 971,468

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

McCREADY FOUNDATION, INC.
 ENDOWMENT FUND
 STATEMENTS OF ACTIVITIES
 JUNE 30, 2010 AND 2009

	2010	2009
UNRESTRICTED NET ASSETS		
Revenues		
Interest Income	\$ 6,603	\$ 7,804
Investment Return	52	8
Fund Raising - Income	-	6,300
- Expense	-	-
	6,655	14,112
Total Revenues		
	6,655	14,112
Increase (Decrease) in Unrestricted Net Assets		
	6,655	14,112
TEMPORARILY RESTRICTED NET ASSETS		
Pledge Revenue	27,000	36,550
Contributions	76,357	42,294
	103,357	78,844
Increase (Decrease) in Temporarily Restricted Net Assets		
	110,012	92,956
Increase (Decrease) in Net Assets		
	971,468	878,512
NET ASSETS AT BEGINNING OF YEAR		
	971,468	878,512
NET ASSETS AT END OF YEAR	\$ 1,081,480	\$ 971,468

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

McCREADY FOUNDATION, INC.
 ENDOWMENT FUND
 STATEMENTS OF CASH FLOWS
 JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<hr/> CASH FLOWS FROM OPERATING ACTIVITIES <hr/>		
Increase (Decrease) in Net Assets	\$ 110,012	\$ 92,956
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Loan Rec--ABTNH	(163,211)	-
(Increase) Decrease in Loan Rec--From Hospital	(91,469)	11,519
(Increase) Decrease in Pledges Receivable	<u>(2,293)</u>	<u>16,073</u>
Net Cash Provided (Used) by Operating Activities	<u>(146,961)</u>	<u>120,548</u>
<hr/> CASH FLOWS FROM INVESTING ACTIVITIES: <hr/>		
(Increase) Decrease in CD's	<u>(4,889)</u>	<u>3,376</u>
Net Cash Provided (Used) by Investing Activities	<u>(4,889)</u>	<u>3,376</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(151,850)	123,924
Cash and Cash Equivalents at Beginning of Year	<u>263,265</u>	<u>139,341</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 111,415</u></u>	<u><u>\$ 263,265</u></u>

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

McCREADY FOUNDATION, INC.
ENDOWMENT FUND
NOTES TO FINANCIAL STATEMENTS
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1. Summary of Significant Accounting Policies

Nature and Organization

The McCready Foundation, Inc. has a common Board of Directors that controls both The Edward W. McCready Memorial Hospital and The Alice Byrd Tawes Nursing Home. The Foundation's primary purpose is to oversee and solicit contributions on behalf of the Hospital and the Nursing Home.

Use of Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards Codification

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

Basis of Presentation

Financial statement presentation follows the standards established by ASC Topic 958 Not-for-profit Entities (formerly FASB Statement 117, *Financial Statements of Not-For-Profit Organizations*).

Contributions and Presentation of Net Assets by Restriction

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence or nature of any donor

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restriction. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Cash and Cash Equivalents

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

Investments

Investments are carried at fair market value.

Income Taxes

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

Donated Services and Materials

No amounts have been reported in the financial statements for donated services or materials inasmuch as no objective basis is available to measure the value of such services or materials.

2. Change in Presentation and Accounting Method

Financial Statement Presentation

As addressed in Note 1, "Summary of Significant Accounting Policies", The Foundation has adopted (effective July 1, 2009) the financial statement presentation requirements of Accounting Standards Codification 958 Not-for-profit Entities (formerly Financial Accounting Standards Board Statement (SFAS) No. 117, "*Financial Statements of Not-For-Profit Organizations*"). The presentation has eliminated the traditional fund classifications used previously in financial statements prepared in accordance with the American Institute of Certified Public Accountant's industry audit guide, Audits of Providers of Health Care Services. There has been no effect on the change in net assets upon adoption of this method of financial statement presentation.

McCREADY FOUNDATION, INC.
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Contributions

The Foundation has also adopted ASC 958 Not-for-profit Entities (formerly SFAS No. 116, "Accounting for Contributions Received and Contributions Made") to account for contributions made and received. In accordance with ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. There has been no effect on the change in net assets upon adoption of this method of accounting.

3. Cash and Cash Equivalents

At year end and at various times during the year, the Foundation's cash in bank balances were uninsured because McCready Hospital cash balances exceeded the \$250,000 limit. All cash and cash equivalent funds are in local banks. The various cash accounts at June 30, 2010 and 2009 are summarized below.

	<u>2010</u>	<u>2009</u>
Unrestricted Cash:		
PNC Bank - Money Market	\$ 111,415	\$ 110,726
PNC Bank - Year 2003 Fund Drive	-	152,539
	111,415	263,265
Restricted Cash and Certificates of Deposit:		
PNC Bank - Mortgage Escrow	50,896	50,198
Bank of Delmarva - CD	142,328	138,137
	193,224	188,335
Total Cash, Cash Equivalents and Certificates of Deposit	\$ 304,639	\$ 451,600

Restrictions on cash and CD's are as follows:

PNC Bank CD – Escrowed on behalf of The Edward W. McCready Memorial Hospital as required by the Hospital's USDA mortgage loan agreement.

Bank of Delmarva CD – Pledged as collateral to the State of Maryland – DEED Unemployment fund.

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4. Related Party Transactions

The Foundation receives donor contributions on behalf of The Edward W. McCready Memorial Hospital and The Alice Byrd Tawes Nursing Home. Absent any donor restrictions, the Board of Directors has discretionary control over the amounts to be distributed to these providers of health care services, the timing of such distributions, and the purpose for which such funds are to be used.

From time to time, the Foundation has provided financing for the Hospital's major equipment acquisitions. The Foundation has also made various demand loans to the Hospital and Nursing Home.

The Endowment Board forgave \$829,580 of accrued interest due from McCready Hospital and forgave \$1,482,576 of previous loans for the year ended June 30, 2002. There is one loan outstanding to the Hospital at June 30, 2010 for \$294,270 and one to the Nursing Home for \$402,322.

5. Temporarily Restricted Net Assets

During the fiscal year ending June 30, 2007 the McCready Foundation entered into a major Fund Drive to help finance the cost of the construction of a \$12.8 million four-story, 70,300 square feet replacement facility including 106 beds and a 30 bed assisted living center. These funds are restricted to be spent on this facility.

6. Contingencies

The Endowment Fund is contingently liable for the following loans used to finance construction of the new Nursing Home:

USDA – Second mortgage – \$6,000,000 dated June 4, 2009 bearing interest at 4.25%. It is amortized over 40 years with the final installment due 6/4/2049. The purpose of the loan is to construct the new nursing home. The collateral is to include all assets of the Hospital, Nursing Home and the Foundation. Payments are scheduled to be interest only through 6/4/2011, with monthly principal and interest payments of \$26,580 starting 7/4/2011. There were no draw downs on this loan as of June 30, 2009. Draws on this loan for the fiscal year ended June 30, 2010 amounted to \$4,850,467. The Nursing Home is to make all scheduled payments.

The Bank of Delmarva – Third mortgage – \$4,000,000 dated June 4, 2009 bearing interest at 6.5% on the total sums disbursed, starting July 4, 2009 to June 4, 2011. Principal and interest payments of \$25,287.01 shall commence on July 4, 2011 monthly until June 4, 2016. From and after the 4th of June, 2016, principal and

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interest at the rate of prime minus one-half percent (-.50%), as of June 4, 2016, on the unpaid principal, shall be due and payable in Three Hundred (300) consecutive monthly installments (based on a thirty (30) year amortization) commencing on the 4th of July, 2016, and continuing on the like day of each month thereafter, to and including the 4th of June, 2041, when the final payment of all principal and interest shall be due and payable in full. The term "prime rate of interest" as used herein is defined as the prevailing corporate prime rate as published daily in the Wall Street Journal, or its successor publication. Any increase or decrease in said rate of interest shall be adjusted every 60 months beginning June, 2016, and shall be due on the 4th day of each month following such change in said interest rate. Notwithstanding the above, it is understood and agreed, by and between the parties hereto, that the interest rate set forth herein shall, in no event, be less than 6.50%, nor greater than 9.75%, for the life of the loan. This loan is guaranteed by USDA. There were no draw downs on this loan as of June 30, 2009. Draws on this loan for the fiscal year ended June 30, 2010 amounted to \$3,233,644. The collateral is to include all assets of the Hospital, Nursing Home, and the Foundation. The Nursing Home is to make all scheduled payments.

The Endowment Fund is also contingently liable for the following loans on behalf of the McCready Hospital:

USDA – First Mortgage – Made on February 5, 1979 in the amount of \$3.2 million, balance as of June 30, 2010 was \$1.28 million. Matures January 2021, payable in installments of \$15,712 including interest at 5%.

City of Crisfield – PNC Loan to the City of Crisfield, reloaned to the Hospital in 2003 for payment of delinquent payroll tax in the amount of \$1.3 million, amortized over 15 years, balance as of June 30, 2010 was \$149,123. Matures in April 2013, payable in installments of \$9,047 including interest at 4%. This loan was paid in full in July 2010.

7. Concentration of Credit Risk for Cash Held in Bank

The Endowment Fund maintains cash balances in PNC bank, which are not insured by the FDIC. At June 30, 2010, the Fund's uninsured cash and Certificates of Deposit balances totaled \$162,311. The Bank of Delmarva Certificate of Deposit is fully insured.

8. Fair Value Measurement

During the year ended June 30, 2010, the Endowment Fund adopted ASC Topic 820 Fair Value (formerly SFAS No. 157, *Fair Value Measurements*). ASC 820 establishes a single authoritative definition of fair value, sets out a framework for

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measuring fair value, and requires additional disclosures about fair value measurements. ASC 820 applies to all assets and liabilities that are being measured and reported on a fair value basis. ASC 820 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- a. Level 1: Quoted market prices in active markets for identical assets or liabilities
- b. Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
- c. Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Endowment Fund performs a detailed analysis of the assets and liabilities that are subject to ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	<u>\$ 193,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,224</u>