

THE MCCREADY FOUNDATION, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

THE MCCREADY FOUNDATION, INC.

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6 - 18
SUPPLEMENTARY INFORMATION	
Consolidating statements of financial position	19 - 20
Consolidating statements of activities	21
Statements of activities by Organization	
McCready Memorial Hospital	22
Endowment	23
Chesapeake Cove Assisted Living	24
Alice B. Tawes Nursing Home	25

INDEPENDENT AUDITORS' REPORT



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

INDEPENDENT AUDITORS' REPORT

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

www.pkscpa.com

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

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

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

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

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, 2017 and 2016, 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 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 consolidated financial position of The McCreedy Foundation, Inc. and affiliates as of June 30, 2017 and 2016, 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 19 – 20, the consolidating statements of activities on page 21, and the statements of activity by organization on pages 22 - 25 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 27, 2017

CONSOLIDATED FINANCIAL STATEMENTS

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,861,021	\$ 3,428,220
Certificates of deposit	201,946	176,359
Accounts receivable, net	3,187,048	2,726,283
Pledges receivable	1,600	1,600
Inventories	369,470	316,065
Prepaid expenses	239,677	231,435
Total current assets	<u>6,860,762</u>	<u>6,879,962</u>
INVESTMENTS, AT FAIR VALUE		
Investments maintained by		
Community Foundation of the Eastern Shore	230,828	206,557
Total investments	<u>230,828</u>	<u>206,557</u>
PROPERTY AND EQUIPMENT		
Property and equipment	30,758,141	31,736,658
Less accumulated depreciation	(14,278,278)	(14,644,544)
Net property and equipment	<u>16,479,863</u>	<u>17,092,114</u>
OTHER ASSETS		
Restricted patient funds	20,236	13,508
Total other assets	<u>20,236</u>	<u>13,508</u>
Total assets	<u>\$ 23,591,689</u>	<u>\$ 24,192,141</u>

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Line of credit	\$ 101,236	\$ 114,500
Current portion of long-term debt	590,939	529,768
Accounts payable	867,948	791,979
Accrued salaries, annual leave and related taxes	869,582	851,870
Accrued interest	32,586	33,183
Medicare periodic interim payment program	49,419	2,336
Blue cross - advance	153,600	113,000
Medicaid - advance	186,632	78,584
Total current liabilities	<u>2,851,942</u>	<u>2,515,220</u>
LONG - TERM DEBT		
Loan payable	9,421,966	9,552,087
Total non-current liabilities	<u>9,421,966</u>	<u>9,552,087</u>
OTHER LIABILITIES		
Restricted patient funds	10,649	13,507
Total other liabilities	<u>10,649</u>	<u>13,507</u>
Total liabilities	<u>12,284,557</u>	<u>12,080,814</u>
NET ASSETS		
Unrestricted	11,307,132	12,111,327
Total net assets	<u>11,307,132</u>	<u>12,111,327</u>
Total liabilities and net assets	<u>\$ 23,591,689</u>	<u>\$ 24,192,141</u>

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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE	<u>22,697,869</u>	<u>21,797,811</u>
EXPENSES		
Wages and benefits		
Salaries and wages	10,828,142	10,665,388
Payroll taxes	779,490	760,084
Employee benefits	1,745,137	1,728,567
Total wages and benefits	<u>13,352,769</u>	<u>13,154,039</u>
Direct expenses		
Professional service fees	2,214,907	1,927,159
Consumable supplies	2,038,637	2,126,876
Advertising and recruiting	100,012	131,074
Service contracts and maintenance	963,631	1,095,243
Leases and rentals	540,445	538,193
Depreciation expense	1,394,248	1,366,485
Utilities	633,445	535,634
Interest expense	520,384	478,051
Insurance	489,558	423,511
Other expenses	727,358	829,600
Bad debt expense	708,677	806,090
Total direct expenses	<u>10,331,302</u>	<u>10,257,916</u>
Total expenses	<u>23,684,071</u>	<u>23,411,955</u>
Operating loss	<u>(986,202)</u>	<u>(1,614,144)</u>
NONOPERATING INCOME	<u>182,007</u>	<u>485,260</u>
Change in net assets	(804,195)	(1,128,884)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>12,111,327</u>	<u>13,240,211</u>
NET ASSETS, END OF YEAR	<u>\$ 11,307,132</u>	<u>\$ 12,111,327</u>

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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (804,195)	\$ (1,128,884)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,394,248	1,366,485
Unrealized loss (gain) on investments	(26,454)	2,052
(Increase) decrease in operating assets:		
Accounts receivable	(460,765)	(312,341)
Pledges receivable		700
Inventories	(53,405)	28,037
Medicare periodic interim payment program	47,083	(55,805)
Prepaid expenses	(8,242)	31,656
Increase (decrease) in operating liabilities:		
Accounts payable	75,969	(455,683)
Accrued salaries, annual leave and related taxes	17,712	244,373
Accrued interest	(598)	(1,942)
Blue Cross - advance	40,600	15,200
Deferred revenue		(42,211)
Deposits		(4,345)
Medicaid advance	108,048	
Restricted funds	(9,586)	(42)
Net cash provided (used) by operating activities	320,415	(312,750)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposit	(25,587)	5,262
Purchase of fixed assets net of disposals and transfers	(781,996)	(738,605)
Investments maintained by		
Community Foundation of the Eastern Shore	2,183	1,931
Net cash used by investing activities	(805,400)	(731,412)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	101,236	116,300
Principal payments on long term debt	(183,450)	(254,968)
Net cash used by financing activities	(82,214)	(138,668)
Net decrease in cash and cash equivalents	(567,199)	(1,182,830)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,428,220	4,611,050
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,861,021	\$ 3,428,220
SUPPLEMENTARY INFORMATION		
Interest paid	\$ 520,384	\$ 478,051

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

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 (CFES).

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.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 \$1,253,642 and \$1,288,584 as of June 30, 2017 and 2016, 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:

	<u>Life</u>
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, 2017 AND 2016

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, 2017 and 2016.

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, 2017, 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, 2017 AND 2016

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, 2017 and 2016:

	2017	2016
Gross patient service revenue	\$ 28,016,728	\$ 26,743,489
Less charity care and contractual adjustments	(5,318,859)	(4,945,678)
Net patient service revenue	<u>\$ 22,697,869</u>	<u>\$ 21,797,811</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, 2017 AND 2016

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 27, 2017, 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, 2017 and 2016 amounted to \$100,012 and \$131,074, 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, 2017, 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, 2017 AND 2016

PROPERTY AND EQUIPMENT

At June 30, 2017 and 2016, the cost and related depreciation of property and equipment were as follows:

	2017	2016
Land improvements	\$ 110,632	\$ 104,192
Buildings	24,008,155	23,379,319
Fixed equipment	1,549,032	1,712,843
Major moveable equipment	5,090,322	6,540,304
Total assets	30,758,141	31,736,658
Less: accumulated depreciation	(14,278,278)	(14,644,544)
Net property and equipment	<u>\$ 16,479,863</u>	<u>\$ 17,092,114</u>

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to \$1,394,248 and \$1,366,485, 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, 2017 and 2016, 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, 2017 and 2016 were \$458,495 and \$463,264, 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, 2017 and 2016 was \$101,236 and \$114,500, respectively.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

LONG TERM DEBT

The following summarizes long-term debt at June 30,

	2017	2016
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.	\$ 240,431	\$ 412,376
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%.	260,231	302,778
Hologic 3D Mammo System - \$414,178 financed by Provident Leasing for 36 months at \$12,409 (4.977% interest rate)	319,973	
Hemalology System - \$33,834 financed by Leasing Associates of Barrington for 48 months at \$733 (1.93% interest rate)	30,430	
C Arm Radiology System - \$76,985 financed by Siemens Financing for 60 months at \$1,353 (2.098% interest rate)	73,324	
Xray - \$106,260 financed by Provident Leasing for 36 months at \$3,184 (4.985% interest rate)	60,985	95,221
Ultrasound - \$154,375 financed by GE for 60 months at \$2,682 (1.64% interest rate)	97,629	139,501
Various equipment		63,272

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

LONG TERM DEBT (Continued)

	2017	2016
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.	5,528,023	5,610,129
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.	3,401,879	3,458,578
Total long term debt	\$ 10,012,905	\$ 10,081,855

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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>
2018	\$ 446,339	\$ 144,599	\$ 590,938
2019	324,052	152,319	476,371
2020	138,175	160,471	298,646
2021	88,569	169,081	257,650
2022	63,397	128,174	191,571
Thereafter	22,471	8,175,258	8,197,729
Total	<u>\$ 1,083,003</u>	<u>\$ 8,929,902</u>	<u>\$ 10,012,905</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 \$307,205 and \$193,864 in the years ended June 30, 2017 and 2016, 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, 2017 and 2016 were \$230,828 and \$206,557, 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, 2017 AND 2016

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 2017 and 2016 were \$23,142 and \$26,493 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, 2017 and 2016 amounted to \$136,260 and \$121,136 respectively.

CONCENTRATION OF CREDIT RISK

At June 30, 2017, the Foundation received a substantial amount of its support from Medicaid (approximately \$5,263,635), and Medicare (approximately \$9,177,183). 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, 2017 and 2016 were \$1,317,158 and \$1,340,519 respectively.

THE MCCREADY FOUNDATION INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

OPERATING LEASES

As of June 30, 2017, the Foundation had several non-cancelable operating lease agreements for the rental of various pieces of equipment expiring from 2018 to 2019. Minimum rentals, on an annual basis, are as follows:

	<u>Equipment</u>
Fiscal Year ending June 30, 2018	\$ 126,697
2019	<u>19,202</u>
	<u>\$ 145,899</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, 2017 AND 2016

FAIR VALUE MEASUREMENT

The FASB Accounting Standards Codification establishes a framework for measuring for fair value. That 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, 2017 AND 2016

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, 2017:

Assets Measured at Fair Value on a Recurring Basis

Description	Fair Value Measurement at Reporting Date			Total
	Using:			
	(Level 1)	(Level 2)	(Level 3)	
Investment maintained by CFES			230,828	230,828
Total	\$	\$	\$ 230,828	\$ 230,828

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, 2017.

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

	Investment maintained by CFES	Total
Balance, beginning of year	\$ 206,557	\$ 206,557
Administration fees	(2,183)	(2,183)
Unrealized loss	26,454	26,454
Contributions		
Balance, end of year	\$ 230,828	\$ 230,828

SUPPLEMENTARY INFORMATION

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

ASSETS	2017					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
CURRENT ASSETS						
Cash and cash equivalents	\$ 2,297,526	\$ 461,258	\$ 6,045	\$ 96,192	\$	\$ 2,861,021
Certificates of deposit		201,946				201,946
Accounts receivable, net	2,272,038		46,493	868,517		3,187,048
Pledges receivable		1,600				1,600
Inventories	350,706			18,764		369,470
Prepaid expenses	235,680			3,997		239,677
Total current assets	<u>5,155,950</u>	<u>664,804</u>	<u>52,538</u>	<u>987,470</u>		<u>6,860,762</u>
INVESTMENTS, AT FAIR VALUE						
Investments maintained by						
Community Foundation of the Eastern Shore		230,828				230,828
Total investments		<u>230,828</u>				<u>230,828</u>
PROPERTY AND EQUIPMENT						
Property and equipment	16,871,286		4,020,907	9,865,948		30,758,141
Less accumulated depreciation	(11,105,755)		(440,133)	(2,732,390)		(14,278,278)
Net property and equipment	<u>5,765,531</u>		<u>3,580,774</u>	<u>7,133,558</u>		<u>16,479,863</u>
OTHER ASSETS						
Due from affiliates	3,664,261			5,163,680	(8,827,941)	
Restricted patient funds				20,236		20,236
Total other assets	<u>3,664,261</u>			<u>5,183,916</u>	<u>(8,827,941)</u>	<u>20,236</u>
Total assets	<u>\$ 14,585,742</u>	<u>\$ 895,632</u>	<u>\$ 3,633,312</u>	<u>\$ 13,304,944</u>	<u>\$ (8,827,941)</u>	<u>\$ 23,591,689</u>

	2016					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
CURRENT ASSETS						
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		206,557				206,557
Total investments		<u>206,557</u>				<u>206,557</u>
PROPERTY AND EQUIPMENT						
Property and equipment	17,861,632		4,019,532	9,855,494		31,736,658
Less accumulated depreciation	(11,893,772)		(323,729)	(2,427,043)		(14,644,544)
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	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	<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>

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

LIABILITIES AND NET ASSETS

	2017					Total
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	
CURRENT LIABILITIES						
Line of credit	\$ 101,236	\$	\$	\$	\$	\$ 101,236
Current portion of long-term debt	446,340			144,599		590,939
Accounts payable	669,441		3,030	195,477		867,948
Accrued salaries, annual leave and related taxes	600,528		36,004	233,050		869,582
Accrued interest	2,484			30,102		32,586
Medicare periodic interim payment program	49,419					49,419
Blue cross - advance	153,600					153,600
Medicaid - advance	125,864			60,768		186,632
Total current liabilities	<u>2,148,912</u>		<u>39,034</u>	<u>663,996</u>		<u>2,851,942</u>
LONG - TERM DEBT						
Loan payable	636,663			8,785,303		9,421,966
Total non-current liabilities	<u>636,663</u>			<u>8,785,303</u>		<u>9,421,966</u>
OTHER LIABILITIES						
Due to affiliates		65,388	6,337,703	2,424,850	(8,827,941)	
Restricted patient funds				10,649		10,649
Total other liabilities		<u>65,388</u>	<u>6,337,703</u>	<u>2,435,499</u>	<u>(8,827,941)</u>	<u>10,649</u>
Total liabilities	<u>2,785,575</u>	<u>65,388</u>	<u>6,376,737</u>	<u>11,884,798</u>	<u>(8,827,941)</u>	<u>12,284,557</u>
NET ASSETS (DEFICIT)						
Unrestricted	11,800,167	830,244	(2,743,425)	1,420,146		11,307,132
Total net assets (deficit)	<u>11,800,167</u>	<u>830,244</u>	<u>(2,743,425)</u>	<u>1,420,146</u>		<u>11,307,132</u>
Total liabilities and net assets	<u>\$ 14,585,742</u>	<u>\$ 895,632</u>	<u>\$ 3,633,312</u>	<u>\$ 13,304,944</u>	<u>\$ (8,827,941)</u>	<u>\$ 23,591,689</u>

	2016					
	Hospital	Endowment	Assisted Living	Nursing Home	Eliminations	Total
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)	13,507
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

THE MCCREADY FOUNDATION, INC.

CONSOLIDATING STATEMENTS OF ACTIVITY

YEARS ENDED JUNE 30, 2017 AND 2016

	2017				
	Hospital	Endowment	Assisted Living	Nursing Home	Total
OPERATING REVENUE	\$ 15,793,531	\$	\$ 891,187	\$ 6,013,151	\$ 22,697,869
EXPENSES					
Wages and benefits					
Salaries and wages	7,161,287		514,681	3,152,174	10,828,142
Payroll taxes	507,947		33,484	238,059	779,490
Employee benefits	1,120,856		52,187	572,094	1,745,137
Total wages and benefits	8,790,090		600,352	3,962,327	13,352,769
Direct expenses					
Professional service fees	2,111,103	3,396	2,800	97,608	2,214,907
Consumable supplies	1,278,439		173,825	586,373	2,038,637
Advertising and recruiting	98,702		411	899	100,012
Service contracts and maintenance	831,907		427	131,297	963,631
Leases and rentals	464,862		1,003	74,580	540,445
Depreciation expense	942,899		91,464	359,885	1,394,248
Utilities	446,378		38,704	148,363	633,445
Interest expense	93,383		123,709	303,292	520,384
Insurance	302,760		18,736	168,062	489,558
Other expenses	558,614		5,986	162,758	727,358
Bad debt expense	645,702		11,095	51,880	708,677
Total direct expenses	7,774,749	3,396	468,160	2,084,997	10,331,302
Total expenses	16,564,839	3,396	1,068,512	6,047,324	23,684,071
Operating loss	(771,308)	(3,396)	(177,325)	(34,173)	(986,202)
NONOPERATING INCOME	139,638	31,794		10,575	182,007
Change in net assets	(631,670)	28,398	(177,325)	(23,598)	(804,195)
NET ASSETS, BEGINNING OF YEAR	12,431,837	801,846	(2,566,100)	1,443,744	12,111,327
NET ASSETS, END OF YEAR	\$ 11,800,167	\$ 830,244	\$ (2,743,425)	\$ 1,420,146	\$ 11,307,132

	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	8,581,671		505,997	4,066,371	13,154,039
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	7,748,528	3,508	477,240	2,028,640	10,257,916
Total expenses	16,330,199	3,508	983,237	6,095,011	23,411,955
Operating income (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

THE MCCREADY FOUNDATION, INC.

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

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Regulated revenue		
Total inpatient revenue	\$ 3,269,905	\$ 3,094,954
Total outpatient revenue	13,865,848	13,394,409
Gross regulated revenue	17,135,753	16,489,363
Less allowances	(2,578,161)	(2,766,875)
Less charity care	(303,372)	(185,796)
Net regulated revenue	14,254,220	13,536,692
Unregulated revenue		
Professional fees	2,250,473	1,761,815
Other services	7,927	4,169
Gross unregulated revenue	2,258,400	1,765,984
Less: allowances	(933,385)	(328,046)
Less: charity care	(3,833)	(8,068)
Net unregulated revenue	1,321,182	1,429,870
Other operating revenue	218,129	183,061
Operating revenue	15,793,531	15,149,623
EXPENSES		
Wages and benefits		
Salaries and wages	7,161,287	7,028,491
Payroll taxes	507,947	490,348
Employee benefits	1,120,856	1,062,832
Total wages and benefits	8,790,090	8,581,671
Direct expenses		
Professional service fees	2,111,103	1,774,202
Consumable supplies	1,278,439	1,402,375
Advertising & Recruiting	98,702	130,927
Service contracts and maintenance	831,907	1,007,863
Leases and rentals	464,862	491,247
Depreciation expense	942,899	922,197
Utilities	446,378	331,711
Interest expense	93,383	93,016
Insurance	302,760	236,276
Other expenses	558,614	656,672
Bad debt expense	645,702	702,042
Total direct expenses	7,774,749	7,748,528
Total expenses	16,564,839	16,330,199
Operating loss	(771,308)	(1,180,576)
Nonoperating income	139,638	481,442
Net loss	\$ (631,670)	\$ (699,134)

THE MCCREADY FOUNDATION, INC.

**STATEMENTS OF ACTIVITY BY ORGANIZATION
ENDOWMENT**

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING EXPENSES		
Direct expenses		
Professional service fees	<u>3,396</u>	<u>3,508</u>
Total direct expenses	<u>3,396</u>	<u>3,508</u>
Total expenses	<u>3,396</u>	<u>3,508</u>
Operating loss	(3,396)	(3,508)
Nonoperating income	<u>31,794</u>	<u>3,544</u>
Net income	<u>\$ 28,398</u>	<u>\$ 36</u>

THE MCCREADY FOUNDATION, INC.

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

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Room and board	891,187	777,306
Operating revenue	891,187	777,306
EXPENSES		
Wages and benefits		
Salaries and wages	514,681	423,354
Payroll taxes	33,484	29,389
Employee benefits	52,187	53,254
Total wages and benefits	600,352	505,997
Direct expenses		
Professional service fees	2,800	2,000
Consumable supplies	173,825	161,957
Advertising	411	
Service contracts and maintenance	427	477
Leases and rentals	1,003	667
Depreciation expense	91,464	117,351
Utilities	38,704	44,445
Interest expense	123,709	131,748
Insurance	18,736	16,095
Other expenses	5,986	2,500
Bad debt	11,095	
Total direct expenses	468,160	477,240
Total expenses	1,068,512	983,237
Operating loss	(177,325)	(205,931)
Net loss	\$ (177,325)	\$ (205,931)

THE MCCREADY FOUNDATION, INC.

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

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Patient revenue		
Room and board	6,598,173	6,669,504
Ancillary services	866,528	813,747
Allowances	(1,500,108)	(1,656,893)
Net patient revenue	5,964,593	5,826,358
Dietary income	48,558	41,351
Other operating revenue		3,173
Operating revenue	6,013,151	5,870,882
 EXPENSES		
Wages and benefits		
Salaries and wages	3,152,174	3,213,543
Payroll taxes	238,059	240,347
Employee benefits	572,094	612,481
Total wages and benefits	3,962,327	4,066,371
 Direct expenses		
Professional service fees	97,608	147,449
Consumable supplies	586,373	562,544
Advertising & Recruiting	899	147
Service contracts and maintenance	131,297	86,903
Leases and rentals	74,580	46,279
Depreciation expense	359,885	326,937
Utilities	148,363	159,478
Interest expense	303,292	253,287
Insurance	168,062	171,140
Other expenses	162,758	170,428
Bad debt expense	51,880	104,048
Total direct expenses	2,084,997	2,028,640
Total expenses	6,047,324	6,095,011
 Operating loss	(34,173)	(224,129)
 Nonoperating income	10,575	274
 Net loss	\$ (23,598)	\$ (223,855)