

PENDLETON COMMUNITY CARE, INC.
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

DHHR - Finance

DEC 21 2009

Date Received

November 10, 2009

To the Board of Directors
Pendleton Community Care, Inc

We have audited the consolidated financial statements of Pendleton Community Care, Inc. for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 27, 2009. Professional standards also require that we communicate to you the following information related to our audit:

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pendleton Community Care, Inc. are described in Note 2 to the financial statements. Other than Financial Accounting Standards Board (SFAS) No. 157, *Fair Value Measurements*, (SFAS) No. 141, *Business Combinations*, SFAS No. 142, *Goodwill and Other Intangible Assets* and Statement of Position (SOP) 94-3-1, *Reporting of Related Entities by Not-for-Profit Organizations*, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008 - 2009. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for bad debts is based on historical bad debt experience and management's evaluation of the account. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole. The goodwill impairment loss was based on an analysis in which the fair value of the Pharmacy was calculated utilizing Management's projected fiscal year 2010 Pharmacy net income and a number of assumptions as directed by accounting standards. Management evaluated the analysis and provided us with the fair value to be utilized in calculating the goodwill impairment loss. We believe that the fair value utilized and the resulting goodwill impairment loss is reasonable.

To the Board of Directors
Pendleton Community Care, Inc.
November 10, 2009
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The disclosures in the financial statements are neutral, consistent, and clear. For the current year the following footnotes were added: Note 2 - Summary of Significant Accounting Policies: Consolidation & Intangibles, Note 4 - Goodwill, Note 12 - Pharmacy, and Note 13 - Service Lines. As a result of the purchase of the Pill Box Pharmacy additional information was added to Note 1 - Nature of Business.

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

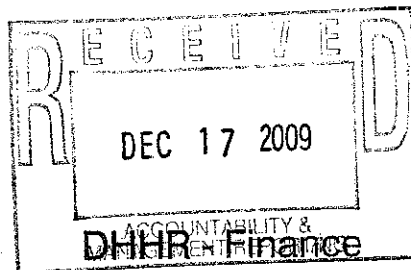
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Directors
Pendleton Community Care, Inc.
November 10, 2009
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This information is intended solely for the use of the Board of Directors and management of Pendleton Community Care, Inc. and is not intended to be and should not be used by anyone other than these specified parties

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS



DEC 21 2009

Date Received

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pendleton Community Care, Inc
Franklin, West Virginia

We have audited the accompanying consolidated statement of financial position of Pendleton Community Care, Inc. (a nonprofit organization) as of June 30, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Pendleton Community Care, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Pendleton Community Care, Inc. as of June 30, 2008, were audited by S.B. Hoover & Company, LLP, who merged with Brown, Edwards & Company, LLP as of November 1, 2008, and whose report dated September 8, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pendleton Community Care, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2009 on our consideration of Pendleton Community Care, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Pendleton Community Care, Inc
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Pendleton Community Care, Inc taken as a whole. The accompanying supplemental schedules, including schedule of Supplies and Other Expenses and Summary of Total Expenses are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements of the Pendleton Community Care, Inc. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brown, Edwards & Company, L.L.P.

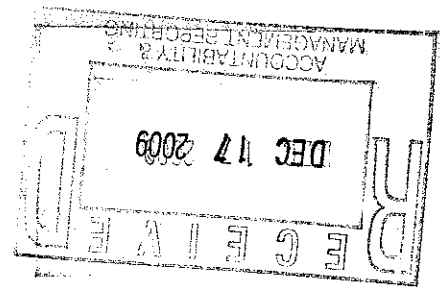
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 10, 2009

DHHR - Finance

DEC 21 2009

Date Received



PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash	\$ 397,880	\$ 611,569
Accounts receivable, net of allowance for uncollectible accounts of \$52,751 and \$58,046	175,353	196,714
Grants receivable	1,192,981	607,184
Other receivables	93,847	-
Inventory	141,917	54,793
Prepaid expenses	22,887	9,048
Total current assets	2,024,865	1,479,308
Assets whose use is limited		
Internally designated by Board for operating reserves	220,000	220,000
Net property and equipment (Note 3)	1,173,236	1,017,984
Intangible assets, net (Note 4)	209,859	-
Total assets	\$ 3,627,960	\$ 2,717,292
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 27,703	\$ 46,643
Accrued liabilities	106,405	81,038
Current portion of long-term debt (Note 5)	78,785	146,694
Total current liabilities	212,893	274,375
Long-Term Debt (Note 5)	706,540	169,597
Total liabilities	919,433	443,972
Net Assets		
Unrestricted	1,758,763	1,866,131
Temporarily restricted (Note 7)	949,764	407,189
Total net assets	2,708,527	2,273,320
Total liabilities and net assets	\$ 3,627,960	\$ 2,717,292

The accompanying notes are
an integral part of these statements

PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For The Years Ended June 30, 2009 and 2008

	2009	2008
Changes in Unrestricted Net Assets		
Revenues		
Net patient service revenue (Note 8)	\$ 1,650,766	\$ 1,719,930
Administration fees	13,480	12,036
Pharmacy (Note 12)	460,258	-
Other operating income	43,509	38,222
	2,168,013	1,770,188
Net Assets Released from Restrictions		
Federal - Community Health Centers Grant	615,510	607,503
Federal - IDS/CIP	42,235	-
State of WV Uncompensated Care Grant	265,609	244,622
State of WV School Based Health Center Grant	61,000	61,000
State of WV Mortgage Assistance Grant	60,000	60,000
State of WV Adolescent Health Specialist Grant	47,500	48,527
Other - Mental Health	95,125	75,625
Other - Mary Bland Grant	40,000	-
Other - WV Bureau for Public Preparedness	(1,677)	3,600
	1,225,302	1,100,877
Assets Released from Restrictions		
	1,225,302	1,100,877
Total Revenue	3,393,315	2,871,065
Operating Expenses		
Salaries	1,762,248	1,473,737
Employee benefits	417,013	316,276
Pharmacy cost of sales (Note 12)	335,834	-
Supplies and other expenses	844,305	819,130
Provision for bad debts	40,125	41,319
Interest	21,572	18,547
Depreciation & amortization	139,007	115,704
	3,560,104	2,784,713
Total expenses	3,560,104	2,784,713
Operating income (loss)	(166,789)	86,352
Other Income	256,420	4,827
Goodwill Impairment Losses	(197,000)	-
	(197,000)	-
Increase (decrease) in unrestricted net assets	\$ (107,369)	\$ 91,179

The accompanying notes are
an integral part of these statements

PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Changes in Temporarily Restricted Net Assets		
Federal - Community Health Centers Grant	\$ 632,162	\$ 607,183
Federal - American Recovery and Reinvestment Act of 2008	566,480	-
State of WV Uncompensated Care Grant	265,609	244,622
State of WV School Based Health Center Grant	61,000	61,000
State of WV Mortgage Assistance Grant	60,000	60,000
State of WV Adolescent Health Specialist Grant	47,500	48,527
Other - Mental Health	95,125	2,500
Other - State Loan Repayment Program	40,000	-
Other - WV Bureau for Public Preparedness	-	6,000
Net assets released from restrictions	(1,225,302)	(1,100,876)
	<u>542,574</u>	<u>(71,043)</u>
Increase (decrease) in temporarily restricted net assets		
Change in Net Assets	435,206	20,136
Net Asset Balance, Beginning	<u>2,273,321</u>	<u>2,253,185</u>
Net Asset Balance, Ending	<u>\$ 2,708,527</u>	<u>\$ 2,273,321</u>

PENDLETON COMMUNITY CARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 435,206	\$ 20,136
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation & amortization	139,007	115,704
Provision for bad debt	52,750	58,046
Goodwill impairment losses	197,000	-
Donation of Real Estate	(245,000)	-
(Increase) Decrease in:		
Accounts receivable	(31,390)	(87,530)
Other receivables	(93,847)	-
Grants receivable	(585,797)	(1,322)
Inventory	(87,123)	9,500
Prepaid expenses	(13,839)	3,870
Accounts payable	(18,939)	18,257
Accrued liabilities	25,367	32,081
Net cash provided by (used in) operating activities	(226,606)	168,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment, and intangibles	(193,619)	(60,931)
Net change in Board designated cash	-	(10,021)
Net cash used in investing activities	(193,619)	(70,952)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	262,500	-
Payments on long-term debt	(55,966)	(41,453)
Net cash provided by (used in) financing activities	206,534	(41,453)
NET CHANGE IN CASH	(213,691)	56,337
Cash, Beginning	611,570	555,233
Cash, Ending	\$ 397,880	\$ 611,570
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 21,444	\$ 18,547
Schedule of non-cash investing activities		
Donated real estate	\$ 245,000	\$ -
Schedule of non-cash financing activities		
Pharmacy financing	\$ 262,500	\$ -

The accompanying notes are
an integral part of this statement

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 1. Nature of Business

Pendleton Community Care, Inc. (Clinic) has two clinic locations, owns and operates a retail pharmacy and is organized as a nonprofit corporation. The Clinic provides rural health care, a 340B Program, and wellness education in Pendleton County, West Virginia

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements of Pendleton Community Care, Inc. include the accounts of the Clinic and PCC Professional Buildings, LLC, (the "LLC"). The Clinic is the sole member of the LLC, which was established on December 31, 2008. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates and Assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash:

Cash includes cash on hand and in banks. Both cash and internally designated funds may, at times, exceed federal depository insurance limits. However, the Clinic does not believe it is subject to any significant credit risk as a result of these deposits.

Accounts Receivable:

Accounts receivable represent billings to individuals, commercial insurance carriers, Medicare and Medicaid and are reported at net realizable value. Balances are written off after all reasonable collection efforts have been made. The allowance for uncollectible accounts is an estimate based on historical bad debt experience and management's evaluation of the accounts.

The Clinic had balances in excess of 90 days of approximately \$41,000 and \$67,000, as of June 30, 2009 and 2008, respectively. The Clinic does not charge interest on past due balances.

Inventory:

Inventory of materials and supplies are valued at the lower of cost, as determined on the first-in, first-out basis, or market.

Assets Whose Use is Limited:

Assets whose use is limited are unrestricted resources designated by the Board of Directors for future capital improvements. The Board retains control over these funds and may, at its discretion, use the funds for other purposes.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 2. Summary of Significant Accounting Policies (Continued)

Property and Equipment:

All acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are recorded at cost (or at fair value on the date of contribution for donated items). Depreciation is provided using the straight-line method over the following estimated useful lives:

Building	25 years
Leasehold improvements	10 – 20 years
Furniture, fixtures, and equipments	3 – 20 years

Intangibles:

Costs related to the purchase of the Pill Box Pharmacy (the "Pharmacy") included non-compete agreements, corporate files (customer lists), and goodwill. Personal and corporate non-compete agreements are amortized on the straight-line basis over the terms of the contracts, five years. Corporate files are amortized on the straight-line basis over 3 years, based on management's best estimate of the useful life of this asset. Under United States Generally Accepted Accounting Principles, goodwill is not amortized but is tested annually for impairment. See Note 4 for additional information relating to intangibles.

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, including estimated retroactive adjustment of the Federal Qualified Health Center Supplement under the reimbursement agreement with Medicare (a third-party payor).

Retroactively calculated adjustments arising under the reimbursement agreement with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Temporarily Restricted Net Assets:

Grant revenue is reported as temporarily restricted revenue that is released from the restriction as services are provided and costs incurred. Such amounts received but not yet expended are reported as temporarily restricted net assets.

Other Income:

Other income includes items such as interest income, donations, and rental income.

Income Taxes:

The Clinic is exempt from federal income taxes on income derived from its exempt purpose as a nonprofit organization under Internal Revenue Code Section 501(c)(3) and is not a private foundation.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 2. Summary of Significant Accounting Policies (Continued)

Service Lines:

The Clinic is primarily engaged in two service lines: patient care and pharmacy services. Patient care includes patient visits and the school based health care program. Pharmacy services include retail, 340B pharmacy, and OTC medication sales and miscellaneous income from the sale of gift items. A breakdown of the Clinic's revenue by source for the fiscal year ended June 30, 2009 is as follows:

Patient Care (net of adjustments)	<u>79%</u>
Pharmacy Services	<u>21%</u>

Recent Accounting Pronouncements:

In 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the entity's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. FIN 48-3 permits non-public companies to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008. The Clinic has elected to defer adoption of FIN 48. The Clinic does not expect the adoption of FIN 48 to have an impact on its results of operations or financial position.

Subsequent Events:

Subsequent events have been evaluated through November 10, 2009, the date the consolidated financial statements were available to be issued.

Note 3. Property and Equipment

Property and equipment as of June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 116,847	\$ 107,847
Building	1,482,403	1,246,403
Leasehold improvements	2,924	2,924
Professional equipment and furnishings	154,507	149,625
Pharmacy equipment and furnishings	20,573	-
Nonprofessional equipment and furnishings	<u>260,052</u>	<u>273,511</u>
	2,037,306	1,780,310
Less accumulated depreciation	<u>(864,070)</u>	<u>(762,326)</u>
Net Property and Equipment	<u>\$ 1,173,236</u>	<u>\$ 1,017,984</u>

(Continued)

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 4. Acquired Intangible Assets

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:		
Corporate files	\$ 50,000	\$ 6,119
Personal non-compete agreement	75,000	5,507
Corporate non-compete agreement	35,000	2,570
Legal costs	11,332	277
	<u>\$ 171,332</u>	<u>\$ 14,473</u>
Unamortized intangible assets:		
Corporate goodwill	\$ 23,460	
Personal goodwill	29,540	
	<u>\$ 53,000</u>	
Aggregate Amortization Expense:		
For fiscal year ended June 30, 2009	\$ 14,473	
Estimated Amortization Expense:		
For fiscal year ended June 30, 2010	\$ 39,422	
For fiscal year ended June 30, 2011	39,422	
For fiscal year ended June 30, 2012	33,303	
For fiscal year ended June 30, 2013	22,755	
For fiscal year ended June 30, 2014	14,678	

According to SFAS No 157, Fair Value Measurements, management has determined that level 3 inputs, significant unobservable inputs, have been utilized to value goodwill. The fair value of goodwill has been determined by projecting future cash flows utilizing discounts rates derived from observed rates of return for comparable assets that are traded in the market.

The changes in the carrying amount of goodwill for the fiscal year ended June 30, 2009 are as follows:

Balance as of July 1, 2008	\$ -
Goodwill acquired during year	250,000
Impairment losses	<u>(197,000)</u>
Balance as of June 30, 2009	<u>\$ 53,000</u>

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 4. Acquired Intangible Assets (Continued)

The pharmacy purchased in February 2009 was tested for impairment at the June 30, 2009 fiscal year end. The value of the pharmacy was estimated using the expected value of future cash flows. The estimated future cash flows were then compared to the carrying value of the business to determine if an impairment loss had occurred. In accordance with the provisions of Statement 142, goodwill was written down to its implied fair value of \$53,000, resulting in an impairment charge of \$197,000, which was included in earnings for the fiscal year.

Note 5. Long-Term Debt

Long-term debt consists of the following as of June 30:

	<u>2009</u>	<u>2008</u>
The Center for Rural Health Development, Inc. \$280,000 loan dated November 21, 2002. The line of credit was renewed on November 21 st , 2008 in the amount of \$115,407 plus closing costs. Principal and interest payments in the amount of \$1,009 shall be made in 59 consecutive monthly installments. The interest rate is fixed at 5.0% per annum. Secured by co-first deed of trust and fixture filing on the land and all improvements of the Clinic	\$ 105,694	\$ 119,545
Pendleton Community Bank promissory note requiring payments of principal and interest of \$2,954 per month through December 2022. Variable interest rate is based on changes in an independent index, equivalent to 90% of the highest New York prime rate. At June 30, 2009, the rate of interest is 4.5%. Secured by the assets of the Clinic.	163,823	\$196,746
The Center for Rural Health Development, Inc. \$262,500 loan dated January 31, 2009. Principal and interest payments of \$2,008 per month through February 2012 and a balloon payment of \$196,560 due the 60 th month. The interest rate shall be 4.5% for the first 12 months & adjusted to a flat fixed rate of 5% per annum for the remaining 48 months. Secured by all Clinic and Pharmacy revenues, land and improvements of the Clinic and land and R/E known as the Pill Box Property	\$256,678	-

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 5. Long-Term Debt (Continued)

Pendleton Community Bank \$262,500 loan dated February 9, 2009 to be repaid in 240 consecutive monthly principal and interest payments of \$2,954. Due and payable in full on March 3, 2029. First 12 months of the loan interest will accrue at a fixed rate of 5.25% per annum, 13th – 24th month at 5.50%, and 25th – 60th months at 5.875%. On the 61st month the loan will bear interest at a fluctuating annual rate which is 1.5% above the prime rate. Secured by all land owned by the Clinic and land and R/E known as the Pill Box Property.

	<u>\$259,130</u>	<u>-</u>
	785,325	316,291
Less current maturities	<u>(78,785)</u>	<u>(146,694)</u>
	<u>\$ 706,540</u>	<u>\$ 169,597</u>

The principal maturities of long-term debt for the five succeeding years are as follows:

2009	\$ 78,785
2010	80,681
2011	83,732
2012	87,523
2013	314,144
Thereafter	<u>140,460</u>
	<u>\$ 785,325</u>

Note 6. Note Payable

As of June 30, 2009, the Clinic has an unused line of credit of \$100,000 with Pendleton Community Bank.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, consisting of funds received from grants that had not been expended at the balance sheet date:

2009	Other Grants	Federal Community Health Centers Grant	State of WV Grants	Federal Stimulus Awards AARA Grants	Total
Beginning of year	\$ -	\$ 404,789	\$ 2,400	\$ -	\$ 407,189
Grant funds available	3,700	632,162	-	560,818	1,196,680
Grant program expenditures	-	(615,510)	(2,400)	(36,196)	(654,106)
End of year	<u>\$ 3,700</u>	<u>\$ 421,441</u>	<u>\$ -</u>	<u>\$ 524,622</u>	<u>\$ 949,763</u>
2008			Federal Community Health Centers Grant	State of WV Grants	Total
Beginning of year		\$ 73,125	\$ 405,108	\$ -	\$ 478,233
Grant funds available		-	607,184	2,400	609,584
Grant program expenditures		(73,125)	(607,503)	-	(680,628)
End of year		<u>\$ -</u>	<u>\$ 404,789</u>	<u>\$ 2,400</u>	<u>\$ 407,189</u>

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 8. Net Patient Service Revenue

The Clinic provides services to patients that are paid or reimbursed at amounts different from its established rates (See Note 2) Net patient service revenue consists of the following:

	2009	2008
Gross patient service revenue	\$ 2,121,087	\$ 2,154,419
Adjustments for:		
Federal Qualified Health Center Supplement (Medicare)	51,668	59,634
Policy discounts, sliding scale and other adjustments	(521,989)	(494,123)
Net patient service revenue	\$ 1,650,766	\$ 1,719,930

Note 9. Donated Medications

The Clinic assists eligible patients with securing donated prescription medications. Medications designated for specific patients and donated by the various pharmaceutical companies are shipped directly to the Clinic. Once received these medications are segregated and distributed to the appropriate patients. The Clinic serves as an agency for the donated medications, thus the medications are not recognized as revenue or income on the consolidated statement of activities. The Clinic received medications valued at \$265,448 and \$223,008 in the years ended June 30, 2009 and 2008, respectively.

Note 10. Retirement Plan

The Clinic has adopted a retirement plan covering substantially all of its employees. The plan is a defined contribution plan, with all contribution amounts determined by management. Contributions to the plan were \$43,179 and \$38,560 for the years ended June 30, 2009 and 2008, respectively.

Note 11. School Based Health Center

The revenues and expenditures of the School Based Health Center program for years ended June 30, 2009 and 2008, respectively, are as follows:

	2009	2008
Gross Patient Service Revenue	\$ 79,779	\$ 64,768
Net revenues - SBHC (excludes State of West Virginia grant)	\$ 45,901	\$ 36,462
Expenses:		
Salaries	(47,489)	(36,570)
Fringe benefits	(4,713)	(2,800)
Overhead	(24,766)	(25,147)
Other current year costs	(5,053)	(4,647)
Deficit for Year End	\$ (36,120)	\$ (32,702)

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

Note 12. Pharmacy

The Clinic owns and operates a retail pharmacy, the Pill Box Pharmacy. The Pharmacy was purchased on February 17, 2009 and the Clinic began managing pharmacy operations on February 23, 2009. The revenue and expenses of the Pharmacy for the year ended June 30, 2009 are as follows.

Pharmacy revenue:	
Retail prescription	\$ 324,514
340B Program prescriptions	114,833
Other pharmacy	<u>20,911</u>
	<u>460,258</u>
Expenses:	
Cost of sales	(335,834)
Salaries	(95,602)
Fringe benefits	(13,565)
Management fee	(6,996)
Other current year costs	<u>(66,953)</u>
	<u>(518,950)</u>
Excess of expense over revenue	<u>\$ (58,692)</u>

PENDLETON COMMUNITY CARE, INC.

**SUPPLEMENTAL SCHEDULE
SUPPLIES AND OTHER EXPENSES (CONSOLIDATED)
Years Ended June 30, 2009 and 2008**

	2009	2008
Supplies and Other Expenses		
Advertising and promotion	\$ 11,907	\$ 17,825
Counseling supplies	788	388
Custodial supplies and services	24,441	21,864
Dues, memberships and licenses	12,071	13,724
Education and conferences	21,932	24,689
Contracted health services and consultants	21,287	11,595
Insurance - liability	14,075	9,484
Legal and accounting fees	30,486	20,220
Maintenance and repair	26,074	18,147
Medical supplies	332,061	451,039
Office supplies and expenses	123,693	51,872
Other insurance	15,334	10,652
Outside lab fees	6,917	28,461
Overhead	814,878	741,150
Less overhead allocations included above	(814,878)	(741,150)
Other	77,691	18,712
Pharmacy supplies	3,368	-
Postage and shipping	8,132	6,375
Printing and copying	6,894	9,787
Provider tax	5,629	7,879
School registered nurse contract	22,050	22,050
Telephone	22,354	20,643
Travel	25,200	30,101
Utilities	31,921	23,623
	\$ 844,305	\$ 819,130
Total supplies and Other Expenses		

PENDLETON COMMUNITY CARE, INC.

SUPPLEMENTAL SCHEDULE
SUMMARY OF TOTAL EXPENSES (CONSOLIDATED)
Year Ended June 30, 2009 and 2008

	2009	2008
Total Expenses		
Accounting	\$ 30,345	\$ 20,100
Advertising and promotion	11,907	17,825
Amortization	14,472	-
Bad debt expense provision	40,125	41,319
Books, publications and literature	3,167	3,093
Computer expenses	97,653	35,148
Conferences	12,125	18,113
Consultants - other	34	347
Continuing education	9,084	6,576
Contracted health services	43,303	33,298
Custodial supplies and services	24,441	21,864
Depreciation - buildings and improvements	71,186	74,880
Depreciation - equipment	12,069	9,982
Depreciation - office	41,280	30,842
Dues, memberships and licenses	12,071	13,724
FICA	121,759	95,277
Health insurance	246,116	178,238
Insurance - liability	14,075	9,484
Insurance - property	14,389	9,707
Interest	24,921	18,547
Legal	141	120
Management Fees	6,996	-
Medical records	35,319	62,487
Medical supplies	24,051	18,329
Medications - 340B	158,979	260,687
Miscellaneous	9,150	12,816
Non-consumable supplies	21,143	6,403
Outside lab fees	6,917	28,461
Pension	43,179	38,560
Pharmacy cost of sales	335,834	-
Postage and shipping	8,132	6,375
Printing and copying	6,894	9,787
Recruitment	42,017	826
Repair and maintenance	26,074	18,147
Salaries and wages	1,762,248	1,473,737
State unemployment tax	599	-
Supplies - lab	113,713	109,536
Supplies - Office	20,367	13,631
Supplies - Pharmacy	3,368	-
Taxes - medicaid provider	5,629	7,879
Telephone	22,354	20,643
Travel - medical	1,552	5,404
Travel - other	23,648	24,697
Utilities	31,922	23,623
Worker's comp	5,356	4,201
	<u>\$ 3,560,104</u>	<u>\$ 2,784,713</u>

COMPLIANCE

PENDLETON COMMUNITY CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

<u>Federal Grantor/State Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Health and Human Services:		
Health Resources and Services Administration:		
Health Center Cluster	93.224	\$ 607,184
ARRA - Increase Services to Health Centers	93.703	6,039
WV Department of Health and Human Resources:		
Maternal and Child Health Services Block Grant to the States	93.994	<u>47,500</u>
		<u>\$ 660,723</u>

Note to Schedule of Expenditures of Federal Awards

Significant Accounting Policy

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting as contemplated by accounting principles generally accepted in the United States of America.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Pendleton Community Care, Inc
Franklin, West Virginia

We have audited the financial statements of Pendleton Community Care, Inc (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pendleton Community Care, Inc's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pendleton Community Care, Inc's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Providing Professional Business Advisory & Consulting Services

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Board of Directors
Pendleton Community Care, Inc
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pendleton Community Care, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2009-1.

We noted certain other matters that we reported to management of Pendleton Community Care, Inc. in a separate letter dated November 10, 2009

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 10, 2009

DHHR - Finance

DEC 21 2009

Date Received

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Pendleton Community Care, Inc.
Franklin, West Virginia

Compliance

We have audited the compliance of Pendleton Community Care, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Pendleton Community Care, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pendleton Community Care, Inc.'s management. Our responsibility is to express an opinion on Pendleton Community Care, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pendleton Community Care, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pendleton Community Care, Inc.'s compliance with those requirements.

In our opinion, Pendleton Community Care, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Pendleton Community Care, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pendleton Community Care, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pendleton Community Care, Inc.'s internal control over compliance.

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Board of Directors
Pendleton Community Care, Inc
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Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item (2009-1) to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Pendleton Community Care, Inc's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pendleton Community Care, Inc's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

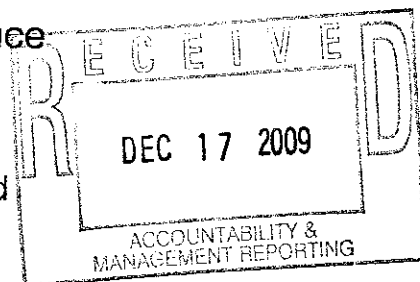
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 10, 2009

DHHR - Finance

DEC 21 2009

Date Received



PENDLETON COMMUNITY CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
3. **No instances of noncompliance** material to the financial statements were disclosed
4. **One significant deficiency** relating to the audit of the major federal award program was reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award program expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding relating to the major program**.
7. The following program was tested as a major program:

Health Center Cluster	93,224
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8. The **threshold** for distinguishing Types A and B programs was **\$300,000**.
9. The Organization **was not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT:

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2009-1: One of the requirements for the Health Center Cluster is that Health Centers have a schedule of fees or payments for the provision of their health services consistent with locally prevailing rates or charges and designed to cover their reasonable cost of operations. Furthermore, they are also required to have a corresponding schedule of discounts applied and adjusted on the basis of the patient's ability to pay. The Organization has adopted a sliding scale that they use to determine a patient's ability to pay. While testing this sliding scale during the current year audit there were two instances noted when the sliding scale was not adhered to and the patient's were charged incorrect amounts. We recommend that the Organization develop a process where sliding scale applications are reviewed by more than one individual to ensure that patients are being charged the correct amounts and that the Organization is following their sliding scale policy.

Response: As planned corrective action, management intends to have a second individual review sliding scale applications on a frequent basis to ensure patients are being charged rates that correspond with the sliding scale the Organization has adopted.