

PENDLETON COMMUNITY CARE, INC.
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

DHHR - Finance

DEC 12 2011

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 statements of financial position of Pendleton Community Care, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years 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 audits.

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 provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 14, 2011 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 the 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.

Your Success is Our Focus

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Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Pendleton Community Care, Inc. taken as a whole. The accompanying supplemental schedule including the Schedule of Awards is presented for purposes of additional analysis and is not a required part of the 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 in relation to the financial statements as a whole.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 14, 2011

DHHR - Finance

DEC 12 2011

Date Received

PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

ASSETS	2011	2010
Current Assets		
Cash	\$ 349,279	\$ 426,916
Clinics accounts receivable, net of allowance for uncollectible accounts of \$61,323 and \$58,403	232,522	192,082
Grants receivable	1,855,914	1,279,733
Pharmacy & LLC receivables	99,812	94,361
Inventory	213,677	181,047
Prepaid expenses	21,620	27,012
Total current assets	2,772,824	2,201,151
Assets whose use is limited		
Internally designated by Board for operating reserves	150,000	220,000
Net property and equipment (Note 3)	2,191,957	1,100,144
Intangible assets, net (Note 4)	131,015	170,437
Total assets	\$ 5,245,796	\$ 3,691,732
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 32,434	\$ 21,542
Accrued liabilities	161,231	137,738
Current portion of long-term debt (Note 5)	93,291	80,681
Total current liabilities	286,956	239,961
Long-Term Debt (Note 5)	849,610	634,572
Total liabilities	1,136,566	874,533
Net Assets		
Unrestricted	2,558,058	1,841,524
Temporarily restricted (Note 7)	1,551,172	975,675
Total net assets	4,109,230	2,817,199
Total liabilities and net assets	\$ 5,245,796	\$ 3,691,732

The accompanying notes are
an integral part of these statements

PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2011 and 2010

	2011	2010
Changes in Unrestricted Net Assets		
Revenues		
Net patient service revenue (Note 8)	\$ 1,710,920	\$ 1,597,176
Administration fees	6,016	16,310
Pharmacy	1,575,073	1,411,438
Other operating income	37,025	35,428
	3,329,034	3,060,352
Net Assets Released from Restrictions used for operations		
Federal - Community Health Centers Grant	800,903	757,162
Federal - State Health Access Program	49,980	-
State of WV Uncompensated Care Grant	269,406	266,021
State of WV School Based Health Center Grant	67,193	66,954
State of WV Mortgage Assistance Grant	57,000	60,000
State of WV Adolescent Health Specialist Grant	72,500	72,500
Other - Mental Health	87,994	91,750
	1,404,976	1,314,387
Total net assets released from restrictions used for operations		
Total revenue	4,734,010	4,374,739
Operating Expenses		
Salaries	2,213,646	2,026,297
Employee benefits	512,350	496,660
Pharmacy cost of sales	983,786	898,880
Supplies and other expenses	804,425	709,768
Provision for bad debts	55,284	40,461
Interest	35,540	35,854
Depreciation & amortization	174,474	170,497
	4,779,505	4,378,417
Total expenses		
Operating income	(45,495)	(3,678)
Net assets released from restrictions used for equipment and construction		
Federal - American Recovery and Reinvestment Act	450,534	75,089
Federal - Affordable Care Act	302,577	-
	753,111	75,089
Total net assets released from restrictions used for equipment and construction		
Other Income	8,918	11,350
Increase in unrestricted net assets	\$ 716,534	\$ 82,761

The accompanying notes are an integral part of these statements

PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in Temporarily Restricted Net Assets		
Federal - Community Health Centers Grant	\$ 850,879	\$ 782,162
Federal - American Recovery and Reinvestment Act	-	76,000
Federal - Affordable Care Act	1,278,632	-
Federal - State Health Access Program	49,980	-
State of WV Uncompensated Care Grant	269,406	266,021
State of WV School Based Health Center Grant	67,193	66,954
State of WV Mortgage Assistance Grant	57,000	60,000
State of WV Adolescent Health Specialist Grant	72,500	72,500
Other - Mental Health	87,994	91,750
Net assets released from restrictions	<u>(2,158,087)</u>	<u>(1,389,476)</u>
Increase in temporarily restricted net assets	<u>575,497</u>	<u>25,911</u>
Change in Net Assets	1,292,031	108,672
Net Asset Balance, Beginning	<u>2,817,199</u>	<u>2,708,527</u>
Net Asset Balance, Ending	<u>\$ 4,109,230</u>	<u>\$ 2,817,199</u>

The accompanying notes are
an integral part of these statements

PENDLETON COMMUNITY CARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,292,031	\$ 108,672
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation & amortization	174,474	170,497
Loss on disposal of property and equipment	-	56
Provision for bad debt	61,323	58,403
(Increase) Decrease in:		
Accounts receivable	(101,763)	(75,132)
Other receivables	(5,451)	(514)
Grants receivable	(576,181)	(86,752)
Inventory	(32,630)	(39,130)
Prepaid expenses	5,392	(4,125)
Accounts payable	10,892	(6,161)
Accrued liabilities	23,493	31,333
Net cash provided by operating activities	851,580	157,147
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment, and intangibles	(1,226,865)	(58,039)
Net change in Board designated cash	70,000	-
Net cash used in investing activities	(1,156,865)	(58,039)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	300,000	-
Payments on long-term debt	(72,352)	(70,072)
Net cash provided by (used in) financing activities	227,648	(70,072)
Net increase (decrease) in Cash	(77,637)	29,036
CASH, BEGINNING OF YEAR	426,916	397,880
CASH, END OF YEAR	\$ 349,279	\$ 426,916
Supplemental Cash Flow Disclosures:		
Cash paid for interest	\$ 35,540	\$ 35,854

The accompanying notes are
an integral part of this statement.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

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.

Basis of Accounting and Financial Reporting:

The financial statements of the Clinic have been prepared in accordance with the accounting principles generally accepted in the United States of America. The accompanying financial statements present information regarding the Clinic's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated by donor restrictions.

Unrestricted net assets – net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor and grantor imposed stipulations that may or will be met by actions of the Clinic or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Clinic.

Cash:

Cash includes cash on hand and in banks. Accounts in the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts. Effective December 31, 2010, all non-interest bearing accounts are insured by the FDIC without limit. At times, deposits exceed federally insured limits.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 2. Summary of Significant Accounting Policies (Continued)

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 \$54,748 and \$41,199, as of June 30, 2011 and 2010, respectively. The Clinic does not charge interest on past due balances.

Grants Receivable:

Grants receivable represent amounts awarded by various state and federal agencies but not yet received by the Clinic. Amounts awarded are based on budgets submitted by the Clinic for specific projects and programs. Once the Clinic has incurred the expenditures necessary to meet the requirements of the grant awards, the funds are requested for reimbursement from the various state and federal agencies. Grants receivable consisted of \$1,855,914 and \$1,279,733 at June 30, 2011 and 2010, respectively.

Inventory:

Clinic and Pharmacy inventories of pharmaceuticals, 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.

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 three 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.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 2. 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, 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.

The Clinic has also entered into payment arrangements with commercial insurance carriers. The basis for payments to the Clinic under these agreements provide for discounts from established charges.

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. Income from certain Pill Box Pharmacy activities not directly related to the Clinic's tax-exempt purpose is subject to taxation as unrelated business income. Tax years beginning in 2008 through 2010 remain subject to examination by federal and state jurisdictions.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

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 years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Patient Care (net of adjustments)	<u>53%</u>	<u>54%</u>
Pharmacy Services	<u>47%</u>	<u>46%</u>

Subsequent Events:

Subsequent events have been evaluated through November 14, 2011, 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>2011</u>	<u>2010</u>
Land	\$ 140,838	\$ 140,838
Building	1,963,222	1,482,404
Leasehold improvements	21,105	21,105
Professional equipment and furnishings	629,091	151,815
Pharmacy equipment and furnishings	23,546	23,546
Nonprofessional equipment and furnishings	260,071	259,409
Construction in Progress	<u>257,592</u>	<u>2,400</u>
	3,295,465	2,081,517
Less accumulated depreciation	<u>(1,103,508)</u>	<u>(981,373)</u>
Net Property and Equipment	<u>\$ 2,191,957</u>	<u>\$ 1,100,144</u>

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 4. Acquired Intangible Assets

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:		
Corporate files	\$ 50,000	\$ 39,453
Personal non-compete agreement	75,000	35,507
Corporate non-compete agreement	35,000	16,570
Legal costs	11,332	1,787
	<u>\$ 171,332</u>	<u>\$ 93,317</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, 2011	\$ 39,422	
Estimated Amortization Expense:		
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	
For fiscal year ended June 30, 2015	\$ 755	
For fiscal year ended June 30, 2016	\$ 755	
Thereafter	\$ 5,769	

According to the fair value measurement accounting literature, 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 discount rates derived from observed rates of return for comparable assets that are traded in the market.

There were no changes in the carrying amount of goodwill for the fiscal years ended June 30, 2011 and 2010.

The pharmacy purchased in February 2009 was tested for impairment at the June 30, 2011 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. Per the above described analysis there was no impairment of goodwill.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 5. Long-Term Debt

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

	2011	2010
<p>The Center for Rural Health Development, Inc. \$280,000 loan dated November 21, 2002. The loan was renewed on November 21, 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 future filing on the land and all improvements of the Clinic.</p>	\$ 74,821	\$ 90,338
<p>Pendleton Community Bank promissory note requiring payments of principal and interest of \$2,954 per month through June 2014. Variable interest rate is based on changes in an independent index, equivalent to 90% of the highest New York prime rate. At June 30, 2011 and 2010 the rate of interest is 2.925%. Secured by the assets of the Clinic.</p>	94,593	128,631
<p>The Center for Rural Health Development, Inc. \$262,500 loan dated February 17, 2009. Principal and interest payments of \$2,008 per month through February 2014 and a balloon payment of \$125,533 due the 60th 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.</p>	231,229	244,101

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 5. Long-Term Debt (Continued)

<p>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.</p>	244,203	252,183
<p>Pendleton Community Bank \$300,000 loan dated September 22, 2010 to be repaid in 240 consecutive monthly principal and interest payments of \$1,992. Due and payable in full on April 22, 2031. Interest rate of 5.00% until the first scheduled rate change on 9/22/15. Interest rate will not be less than 5.00% plus prime and is subject to change every 60 months. Secured by lot that houses the radiology building</p>	298,055	-
	942,901	715,253
Less current maturities	(93,291)	(80,681)
	\$ 849,610	\$ 634,572

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

2012	\$ 93,291
2013	97,225
2014	314,384
2015	39,857
2016	41,896
Thereafter	356,248
	\$ 942,901

Note 6. Note Payable

As of June 30, 2011, 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, 2011

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:

	Other Grants	Federal Community Health Centers Grant	Federal Affordable Care Act Capital Development	Federal Stimulus Awards AARA Grants	Total
2011					
Beginning of year	\$ 3,700	\$ 521,441	\$ -	\$ 450,534	\$ 975,675
Grant funds available	-	850,879	1,278,632	-	2,129,511
Grant program expenditures	-	(800,903)	(302,577)	(450,534)	(1,554,014)
End of year	<u>\$ 3,700</u>	<u>\$ 571,417</u>	<u>\$ 976,055</u>	<u>\$ -</u>	<u>\$ 1,551,172</u>
2010					
Beginning of year	\$ 3,700	\$ 421,441	\$ -	\$ 524,623	\$ 949,764
Grant funds available	-	782,162	-	497,570	1,279,732
Grant program expenditures	-	(682,162)	-	(571,659)	(1,253,821)
End of year	<u>\$ 3,700</u>	<u>\$ 521,441</u>	<u>\$ -</u>	<u>\$ 450,534</u>	<u>\$ 975,675</u>

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

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:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 2,366,309	\$ 2,191,419
Adjustments for:		
Federal Qualified Health Center Supplement (Medicare)	31,480	33,537
Policy discounts, sliding scale and other adjustments	<u>(686,869)</u>	<u>(627,780)</u>
Net patient service revenue	<u>\$ 1,710,920</u>	<u>\$ 1,597,176</u>

Note 9. Concentrations of Credit Risk

The Clinic grants credit without collateral to its patients, whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Commercial	14%	16%
Patients	31%	26%
Medicare	27%	27%
Medicaid	17%	18%
Other government	4%	3%
Anthem	7%	10%
	<u>100%</u>	<u>100%</u>

Note 10. 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 labeled with the patient name and prescription, sent to the PillBox Pharmacy, logged in and distributed to the appropriate patient. 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 \$695,990 and \$268,217 in the years ended June 30, 2011 and 2010, respectively.

Note 11. Retirement Plan

The Clinic has adopted a 401(k) retirement plan covering substantially all of its employees with all contribution amounts determined by management. Contributions to the plan were \$60,104 and \$53,468 for the years ended June 30, 2011 and 2010, respectively.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 12. School Based Health Center

The revenues and expenditures of the School Based Health Center program for years ended June 30, 2011 and 2010, respectively, are as follows:

	<u>2011</u>	<u>2010</u>
Gross Patient Service Revenue	\$ 86,906	\$ 72,538
Net revenues - SBHC (excludes State of West Virginia grant)	\$ 47,693	\$ 42,598
Expenses:		
Salaries	(51,577)	(49,196)
Fringe benefits	(5,138)	(4,596)
Overhead	(31,357)	(30,798)
Other current year costs	(674)	(3,142)
Deficit for Year End	<u>\$ (41,053)</u>	<u>\$ (45,134)</u>

Note 13. Functional Expenses

The Company provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2011</u>	<u>2010</u>
Health care services	\$ 4,062,579	\$ 3,707,178
General and administrative	716,926	671,239
	<u>\$ 4,779,505</u>	<u>\$ 4,378,417</u>

Note 14. Commitment

In February 2011, the Clinic entered into a contract with Lantz Construction Company for the construction of a two-story office addition to be added to the current clinic facility. As of June 30, 2011, the project was not yet complete and had an approximate balance to finish of \$879,000.

Note 15. Subsequent Event

On July 19, 2011, the Clinic purchased land adjacent to the current clinic facility in the approximate amount of \$57,500. Due to increased demand for Clinic services, this land will be developed into a gravel parking lot necessary for staff and patient vehicles.

PENDLETON COMMUNITY CARE, INC.
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor/ Program Title	Grant Period	Federal CFDA Numbers	Program Award Amount	Grant Receivable July 1, 2010	Temporarily Restricted at July 1, 2010	Current Year Grant Receipts	Grant Disbursements/ Expenditures	Grant Receivable at June 30, 2011	Temporarily Restricted at June 30, 2011
Department of Health and Human Services									
Health Resources and Services Administration									
1. Community Health Centers	3/1/10 - 2/28/11	93.224	\$ 782,162	\$ 782,162	\$ 521,441	\$ 521,441	\$ 782,162	\$ -	\$ -
2. Community Health Centers	3/1/11 - 2/28/12	93.224	850,879	-	-	279,462	79,641	850,879	571,417
3. ARRA - Increase Services to Health Centers	3/27/09 - 3/26/11	93.703	149,928	79,641	50,018	50,018	-	-	-
4. ARRA - Capital Improvement Program	6/29/09 - 6/28/11	93.703	417,930	417,930	400,516	400,516	417,930	-	-
5. Affordable Care Act - Capital Development in Health Centers	10/1/10 - 9/30/12	93.526	1,278,632	-	-	302,577	302,577	976,055	976,055
Other Federal Assistance									
West Virginia Department of Health and Human Resources									
Bureau for Public Health									
Block Grant Adolescent Health Initiative	7/1/10 - 6/30/11	93.558	72,500	-	-	72,500	72,500	-	-
State Health Access Program	9/1/10 - 8/31/11	93.256	138,600	-	-	49,980	49,980	28,980	-
Non-Federal									
State of West Virginia									
Department of Health and Human Services									
West Virginia Dept. of Health and Human Resources									
Bureau for Public Health									
1. Primary Care Specialist	7/1/10 - 6/30/11	-	269,406	-	-	269,406	269,406	-	-
Uncompensated Care - PCS									
Other State of West Virginia Assistance									
1. Primary Care Support - School Based Health Center	7/1/10 - 6/30/11	-	67,193	-	-	67,193	67,193	-	-
2. Grant for Mortgage Assistance	7/1/10 - 6/30/11	-	57,000	-	-	57,000	57,000	-	-
Other									
1. Sisters of St. Joseph - Mental Health Counselor	7/1/10 - 6/30/11	-	45,125	-	-	45,125	45,125	-	-
2. Sisters of St. Joseph - Mental Health Education	7/1/10 - 6/30/11	-	42,869	-	-	42,869	42,869	-	-
3. West Virginia Primary Care Association Funding	7/1/10 - 6/30/11	-	3,700	-	3,700	-	-	-	3,700
Total Awards									
			\$ 4,175,924	\$ 1,279,733	\$ 975,675	\$ 2,158,087	\$ 2,186,383	\$ 1,855,914	\$ 1,531,172

COMPLIANCE

PENDLETON COMMUNITY CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/State Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Health Resources and Services Administration:			
Consolidated Health Centers	93.224		\$ 782,162
Affordable Care Act - Capital Development in Health Centers	93.526		302,577
ARRA - Grants to Health Center Programs	93.703		497,571
WV Department of Health and Human Resources:			
State Health Access Program	93.256		49,980
Temporary Assistance for Needy Families (Adolescent Health Initiative Grant)	93.558	G 100393	<u>72,500</u>
			<u>\$ 1,704,790</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Pendleton Community Care, Inc for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Pendleton Community Care, Inc, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pendleton Community Care, Inc.

Note 2: Summary of Significant Accounting Policies

(a) 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.

(b) Pass-through entity identifying numbers are presented where available.



**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, 2011, and have issued our report thereon dated November 14, 2011. 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 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 14, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Pendleton Community Care, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pendleton Community Care, Inc.'s major federal programs for the year ended June 30, 2011. Pendleton Community Care, Inc.'s major federal programs are 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Pendleton Community Care, Inc.'s responses 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 the responses.

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 14, 2011

DHHR - Finance

DEC 12 2011

Received

PENDLETON COMMUNITY CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

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. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133
5. The auditor's report on compliance for the major federal award program expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding related to a major program tested**.
7. The following programs were tested as major programs:

ARRA – Grants to Health Center Programs	93.703
Affordable Care Act – Capital Development in Health Centers	93.526
8. The **threshold** for distinguishing Types A and B programs was **\$300,000**.
9. The Organization was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT: None

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

2011-1: ARRA – Grants to Health Center Programs, CFDA 93.703

Condition:

One grant disbursement was found to be requested for reimbursement five days before the actual invoice was paid.

Recommendation:

Procedures should be implemented where reimbursements are only requested for disbursements after they have been paid.

Management's Response

Management concurs with finding and notes this was an isolated incident that occurred in March 2011 when the government was threatening to shut down due to budget issues. This threatened shutdown created a need for the reimbursement to be requested early in order to pay an equipment invoice that was due upon presentation



INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Board of Directors and Management of
Pendleton Community Care, Inc.

In planning and performing our audit of the consolidated financial statements of Pendleton Community Care, Inc. as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Pendleton Community Care, Inc.'s internal control over financial reporting (internal control) 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, VA
December 2, 2011

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