

**PENDLETON COMMUNITY CARE, INC.**

**CONSOLIDATED FINANCIAL REPORT**

**June 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pendleton Community Care, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## **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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental schedule, the Schedule of Awards, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Pendleton Community Care, Inc. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pendleton Community Care, Inc.'s internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
October 20, 2017

**PENDLETON COMMUNITY CARE, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,361,574	\$ 1,641,382
Clinic accounts receivable, net (Note 3)	186,863	185,739
Grants receivable	275,886	1,508,868
Pharmacy receivables	105,070	255,084
Inventory	290,440	333,822
Prepaid expenses and other assets	57,554	48,245
<b>Total current assets</b>	<b>3,277,387</b>	<b>3,973,140</b>
Assets whose use is limited		
Cash internally designated by Board as reserves	150,000	150,000
Property and equipment, net (Note 4)	2,370,333	2,606,088
Intangible assets, net (Note 5)	42,115	48,170
<b>Total assets</b>	<b>\$ 5,839,835</b>	<b>\$ 6,777,398</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 67,912	\$ 63,249
Accrued liabilities	247,809	251,572
Current portion of long-term debt (Note 6)	52,191	49,749
<b>Total current liabilities</b>	<b>367,912</b>	<b>364,570</b>
Long-Term Debt (Note 6)	1,130,731	1,180,782
<b>Total liabilities</b>	<b>1,498,643</b>	<b>1,545,352</b>
<b>Net Assets</b>		
Unrestricted	4,024,379	3,682,251
Temporarily restricted (Note 8)	316,813	1,549,795
<b>Total net assets</b>	<b>4,341,192</b>	<b>5,232,046</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,839,835</b>	<b>\$ 6,777,398</b>

The accompanying notes are an integral part of these statements.

**PENDLETON COMMUNITY CARE, INC.**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Changes in Unrestricted Net Assets</b>		
<b>Revenues</b>		
Net patient service revenue (Note 9)	\$ 2,488,581	\$ 2,363,889
Pharmacy	2,649,072	2,639,900
Other operating income	103,946	72,972
	<u>5,241,599</u>	<u>5,076,761</u>
<b>Net Assets Released from Restrictions used for Operations</b>		
Federal - Community Health Centers Grant	2,177,017	1,916,815
State of WV Uncompensated Care Grant	56,963	58,949
State of WV School Based Health Center Grant	9,366	9,101
State of WV Mortgage Assistance Grant	-	6,700
Benedum Foundation Grant	-	17,633
Other Grants	5,050	17,584
Other - Mental Health	72,639	72,639
	<u>2,321,035</u>	<u>2,099,421</u>
Total net assets released from restrictions used for operations	<u>2,321,035</u>	<u>2,099,421</u>
Total revenue and reclassifications	<u>7,562,634</u>	<u>7,176,182</u>
<b>Operating Expenses (Note 14)</b>		
Salaries	3,001,715	2,989,053
Employee benefits	677,557	639,301
Pharmacy cost of sales	1,723,935	1,781,585
Supplies and other expenses	1,551,732	1,339,145
Interest	59,714	64,369
Depreciation and amortization	247,070	330,112
	<u>7,261,723</u>	<u>7,143,565</u>
Total operating expenses	<u>7,261,723</u>	<u>7,143,565</u>
<b>Operating Income</b>	<u>300,911</u>	<u>32,617</u>
<b>Other Income</b>	<u>41,217</u>	<u>38,999</u>
Increase in unrestricted net assets	<u>\$ 342,128</u>	<u>\$ 71,616</u>

The accompanying notes are an integral part of these statements.

PENDLETON COMMUNITY CARE, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Federal - Community Health Centers Grant	\$ 944,035	\$ 2,150,481
State of WV Uncompensated Care Grant	56,963	58,949
State of WV School Based Health Center Grant	9,366	9,101
State of WV Mortgage Assistance Grant	-	6,700
Other Grants	5,050	17,584
Other - Mental Health	72,639	72,639
Net assets released from restrictions	<u>(2,321,035)</u>	<u>(2,099,421)</u>
Increase in temporarily restricted net assets	<u>(1,232,982)</u>	<u>216,033</u>
<b>Change in Net Assets</b>	(890,854)	287,649
<b>Net Asset Balance, Beginning</b>	<u>5,232,046</u>	<u>4,944,397</u>
<b>Net Asset Balance, Ending</b>	<u><u>\$ 4,341,192</u></u>	<u><u>\$ 5,232,046</u></u>

The accompanying notes are  
an integral part of these statements.

**PENDLETON COMMUNITY CARE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (890,854)	\$ 287,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation & amortization	247,070	330,112
Provision for bad debts	1,160	21,317
(Increase) decrease in:		
Clinic accounts receivable	(2,284)	(5,923)
Grants receivable	1,232,982	(193,401)
Pharmacy receivables	150,014	76,432
Inventory	43,382	(12,937)
Prepaid expenses and other assets	(9,309)	(22,937)
Increase (decrease) in:		
Accounts payable	4,663	(22,355)
Accrued liabilities	(3,763)	(77,651)
Net cash provided by operating activities	<u>773,061</u>	<u>380,306</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(5,260)</u>	<u>(41,122)</u>
Net cash used in investing activities	<u>(5,260)</u>	<u>(41,122)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of long-term debt	<u>(47,609)</u>	<u>(46,807)</u>
Net cash used in financing activities	<u>(47,609)</u>	<u>(46,807)</u>
Net increase in cash	720,192	292,377
<b>CASH, BEGINNING OF YEAR</b>	<u>1,641,382</u>	<u>1,349,005</u>
<b>CASH, END OF YEAR</b>	<u>\$ 2,361,574</u>	<u>\$ 1,641,382</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 60,007</u>	<u>\$ 60,809</u>

The accompanying notes are  
an integral part of these statements.



**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**Note 1. Nature of Business**

Pendleton Community Care, Inc. (the “Clinic”) is a community health care center, consisting of three clinic locations, a radiology center, two retail pharmacies, and four school based health center sites. The Clinic 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. The Clinic had no permanently restricted net assets at June 30, 2017 or 2016.

Cash:

Cash includes cash on hand and in banks. Accounts in the bank are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, deposits exceed federally insured limits.

PENDLETON COMMUNITY CARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2017

**Note 2. Summary of Significant Accounting Policies (Continued)**

Clinic Accounts Receivable:

Accounts receivable represent billings to individuals, commercial insurance carriers, Medicare and Medicaid and are reported at estimated 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 \$57,839 and \$77,355, as of June 30, 2017 and 2016, 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 are recorded when awarded and 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.

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 as operating reserves or 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 \$5,000 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

Intangible Assets:

Costs related to the February 2009 purchase of the Pill Box Pharmacy (the "Pharmacy") included non-compete agreements, customer lists, and goodwill. Personal and corporate non-compete agreements were amortized on the straight-line basis over the terms of the contracts, five years. Customer lists were amortized on the straight-line basis over three years, based on management's best estimate of the useful life of the asset. Goodwill is amortized over ten years and is evaluated annually for impairment.

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

**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.

Contributions of cash and other assets whose stipulations are met in the same reporting period are reported as temporarily restricted support with a corresponding reclassification for amounts released from restriction.

Other Income:

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

Advertising:

Advertising costs are expensed as incurred. Such costs amounted to \$23,954 and \$31,041 for the years ended June 30, 2017 and 2016, respectively.

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.

Medical Malpractice Insurance:

The Clinic has medical malpractice insurance coverage through the Health Resources and Services Administration (HRSA) as supported by the Public Health Service Act, which provides liability protection under the Federal Tort Claims Act (FTCA). Coverage is comparable to an "occurrence" policy without a monetary cap.

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**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 over the counter medication sales and miscellaneous income from the sale of gift items.

Subsequent Events:

Subsequent events have been evaluated through October 20, 2017, the date that the financial statements were available to be issued.

Operating Income:

Changes in unrestricted net assets that are excluded from operating income, consistent with industry practice, include donations and miscellaneous income. All other revenue and expense are included in the operating income performance indicator during 2017 and 2016.

**Note 3. Clinic Accounts Receivable**

Clinic accounts receivable consist of the following at June 30:

	<b>2017</b>	<b>2016</b>
Accounts receivable	\$ 232,634	\$ 243,829
Less allowance for uncollectible accounts	(27,014)	(40,390)
Less allowance for contractual adjustments	(18,757)	(17,700)
	\$ 186,863	\$ 185,739

**Note 4. Property and Equipment**

Property and equipment consist of the following at June 30:

	<b>2017</b>	<b>2016</b>
Land	\$ 250,738	\$ 250,738
Buildings	3,534,812	3,533,863
Leasehold improvements	144,999	118,502
Professional equipment and furnishings	830,112	829,531
Pharmacy equipment and furnishings	93,144	93,144
Nonprofessional equipment and furnishings	265,003	269,914
Construction in process	-	33,419
	5,118,808	5,129,111
Less accumulated depreciation	(2,748,475)	(2,523,023)
	\$ 2,370,333	\$ 2,606,088

Depreciation expense amounted to \$241,015 and \$324,057 for 2017 and 2016, respectively.

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 5. Intangible Assets**

The Clinic adopted ASU No. 2014-02, *Intangibles- Goodwill and Other* during 2014. The standard is applied prospectively in that goodwill is amortized over ten years and is tested for impairment if a triggering event occurs. There were no triggering events in 2017 or 2016.

Intangible assets, as of June 30, consist of the following:

	<b>2017</b>	<b>2016</b>
Customer lists	\$ 50,000	\$ 50,000
Personal non-compete agreement	75,000	75,000
Corporate non-compete agreement	35,000	35,000
Pharmacy acquisition costs	11,332	11,332
Corporate goodwill	23,460	23,460
Personal goodwill	29,540	29,540
	224,332	224,332
Less accumulated amortization	(182,217)	(176,162)
	<b>\$ 42,115</b>	<b>\$ 48,170</b>
 Aggregate Amortization Expense:		
For fiscal year ended June 30	\$ 6,055	\$ 6,055

Estimated amortization expense for each of the years ending June 30, 2018 through 2022 is \$6,055.

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 6. Long-Term Debt**

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

	<b>2017</b>	<b>2016</b>
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, at which time it adjusted to prime plus 1.00%, with a 5.00% floor. The rate is subject to change every 60 months. Secured by lot that houses the radiology building.	242,761	252,781
Pendleton Community Bank \$56,235 loan dated July 19, 2011 to be repaid in 179 consecutive monthly principal and interest payments of \$474. Due and payable in full on July 19, 2026. Interest rate of 5.89% until the first scheduled rate change on 7/19/16, at which time it will adjust to the prime rate, with a 5.89% floor. The rate is subject to change every 60 months. Secured by lot behind Clinic used for parking.	46,347	47,175
Pendleton Community Bank \$438,937 loan dated April 17, 2013 to be repaid in 119 consecutive monthly principal and interest payments of \$2,865. Due and payable in full on April 17, 2023. Interest rate of 4.80% per annum. Secured by land and R/E known as the Pill Box Pharmacy and PCC medical office in Franklin, WV and North Fork Medical office.	378,488	393,977
Pendleton Community Bank \$600,000 loan dated March 20, 2013 to be repaid in 119 consecutive monthly principal and interest payments of \$3,917. Due and payable in full on March 20, 2023 at which time a balloon payment of approximately \$375,393 will be due. Interest rate of 4.80% per annum. Secured by land and R/E known as the Harman Health Center in Randolph County and land and R/E housing the PCC medical office in Franklin, WV.	515,326	536,598
	1,182,922	1,230,531
Less current maturities	(52,191)	(49,749)
	\$ 1,130,731	\$ 1,180,782

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 6. Long-Term Debt (Continued)**

The future principal maturities of long-term debt are as follows:

2018	\$	52,191
2019		54,752
2020		57,438
2021		60,257
2022		63,214
Thereafter		895,070
	<b>\$</b>	<b>1,182,922</b>

**Note 7. Line of Credit**

As of June 30, 2017 and 2016, the Clinic has an uncollateralized unused line of credit of \$100,000 with Pendleton Community Bank which expires August 26, 2018. This line of credit renews annually and has a variable interest rate based on prime.

**Note 8. Temporarily Restricted Net Assets**

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

	Other Grants	Federal Community Health Centers Grant	Total
<b>2017</b>			
Beginning of year	\$ 40,927	\$ 1,508,868	\$ 1,549,795
Grant funds received	144,018	944,035	1,088,053
Grant program expenditures	(144,018)	(2,177,017)	(2,321,035)
End of year	\$ 40,927	275,886	316,813
<b>2016</b>			
Beginning of year	\$ 58,560	\$ 1,275,202	\$ 1,333,762
Grant funds received	164,973	2,150,481	2,315,454
Grant program expenditures	(182,606)	(1,916,815)	(2,099,421)
End of year	\$ 40,927	1,508,868	1,549,795

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 9. 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:

	<b>2017</b>	<b>2016</b>
Gross patient service revenue	\$ 3,082,647	\$ 2,959,325
Adjustments for:		
Federal Qualified Health Center Supplement (Medicare)	27,811	(596)
Policy discounts, sliding scale and other adjustments	(620,717)	(573,523)
Provision for bad debts	(1,160)	(21,317)
	<b>\$ 2,488,581</b>	<b>\$ 2,363,889</b>

The Clinic has agreements with third-party payers that provide for payments to the Clinic at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- Medicare - Services are reimbursed based upon cost. The Clinic is reimbursed for services at a tentative rate with final settlement determined after submissions of annual cost reports by the Clinic and audits thereof by the Medicare fiscal intermediary. Final Medicare settlements have been determined for all years prior to and including 2015.
- Medicaid - Payment rates are set prospectively using the total clinic/centers reasonable cost of furnishing core and other ambulatory services for fiscal years 1999 and 2000, adjusted for any change in scope, divided by the number of encounters for the two year period to arrive at a cost per visit. For each calendar year thereafter, each clinic/center will be paid the per visit amount paid in the previous year, adjusted by the Medicare Economic Index (“MEI”) as reported on January 1 and adjusted to take into account any increase (or decrease) in the scope of services furnished during the fiscal year.

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

The Clinic recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Clinic recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Clinic’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Clinic records a significant provision for bad debts related to uninsured patients in the period the services are provided.



**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2017**

**Note 9. Net Patient Service Revenue (Continued)**

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

<b>2017</b>	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 2,274,979</u>	<u>\$ 214,762</u>	<u>\$ 2,489,741</u>
<b>2016</b>	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 2,137,259</u>	<u>\$ 205,313</u>	<u>\$ 2,342,572</u>

Revenue by source for the fiscal years ended June 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Patient Care (net of adjustments)	<u>48%</u>	<u>47%</u>
Pharmacy Services	<u>52%</u>	<u>53%</u>

The Clinic maintains records to identify and monitor the level of sliding scale discounts it provides. These records include the amount of charges foregone for services and supplies furnished under its sliding scale policy. The Clinic follows the provisions of Accounting Standards Update 10-23, *Health Care Entities (Topic 954) Measuring Charity Care for Disclosure*, which requires sliding scale discounts to be disclosed and measured at cost. The following information measures the level of sliding scale discounts provided:

	<b>2017</b>	<b>2016</b>
Cost of sliding scale discounts	<u>\$ 250,630</u>	<u>\$ 270,981</u>
Cost as a percentage of gross patient service revenue	<u>8.13%</u>	<u>9.16%</u>

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 10. Concentrations of Credit Risk**

The Clinic grants credit without collateral to its patients, many of whom are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors was as follows:

	<b>2017</b>	<b>2016</b>
Commercial	26%	26%
Patients	26%	26%
Medicare	21%	20%
Medicaid	24%	24%
Other	3%	4%
	100%	100%

**Note 11. 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 and distributed medications valued at \$16,944 and \$10,550 in 2017 and 2016, respectively.

**Note 12. 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 \$83,432 and \$79,464 for 2017 and 2016, respectively.

**Note 13. School Based Health Center**

The revenues and expenditures of the School Based Health Center program for 2017 and 2016, respectively, are as follows:

	<b>2017</b>	<b>2016</b>
Gross Patient Service Revenue	\$ 148,239	\$ 135,137
Net revenues - SBHC (excludes State of West Virginia grant)	\$ 135,208	\$ 86,667
Expenses:		
Salaries	(45,771)	(41,073)
Fringe benefits	(6,858)	(6,657)
Overhead	(24,978)	(28,879)
Other current year costs	(3,073)	(14,389)
Income (Deficit)	\$ 54,528	\$ (4,331)

**PENDLETON COMMUNITY CARE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2017**

**Note 14. Functional Expenses**

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

	<u>2017</u>	<u>2016</u>
Health care services	\$ 6,130,677	\$ 6,025,565
General and administrative	<u>1,131,046</u>	<u>1,118,000</u>
	<u>\$ 7,261,723</u>	<u>\$ 7,143,565</u>

There were no fundraising expenses in 2017 or 2016.

**Note 15. Leases**

On July 1, 2015, the Clinic entered into a lease agreement with the Veterans Administration (the “VA”) to lease out a portion of its radiology building for \$2,821 monthly. The lease agreement is for five years.

Minimum future lease payments under the lease are \$33,846 per year for each of the next three years.

**Note 16. New Accounting Standard**

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities* (“ASU 2016-14”). The standard will improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity’s (NFP’s) liquidity, financial performance, and cash flows. The standard will require a NFP to present two net asset classes on the statement of financial position, present the amount of change in each of the two classes of net assets on the statement of activities, provide the option to use the direct method on the statement of cash flows, provide enhanced disclosure information about a variety of topics, and other updates. ASU 2016-14 is required to be adopted for fiscal years beginning after December 15, 2017.

**SUPPLEMENTARY INFORMATION**

**PENDLETON COMMUNITY CARE, INC.**  
**SCHEDULE OF AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/ Pass Through Grantor/ Program Title	Grant Period	Federal CFDA Numbers	Program Award Amount	Grant Receivable July 1, 2016	Temporarily Restricted at July 1, 2016	Current Year Grant Revenue	Grant Disbursements/ Expenditures	Grant Receivable at June 30, 2017	Temporarily Restricted at June 30, 2017
<u>Federal</u>									
Department of Health and Human Services									
Health Resources and Services Administration									
1. Health Center Cluster	3/1/15 - 2/29/16	93.224, 93.527	\$ 1,560,065	\$ 232,314	\$ 232,314	\$ -	\$ 172,603	\$ 59,711	\$ 59,711
2. Health Center Cluster	3/1/16 - 2/28/17	93.224, 93.527	2,074,635	1,276,554	1,276,554	124,112	1,276,554	124,112	124,112
2. Health Center Cluster	3/1/17 - 2/28/18	93.224, 93.527	944,035	-	-	819,923	727,860	92,063	92,063
<u>Non-Federal</u>									
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									
Uncompensated Care - PCS	7/1/16 - 6/30/17		56,963	-	-	56,963	56,963	-	-
Other State of West Virginia Assistance									
1. Primary Care Support - School Based Health Center	7/1/16 - 6/30/17		9,366	-	-	9,366	9,366	-	-
Other									
1. Sisters of St. Joseph - Mental Health Counselor	11/1/16 -10/31/17		34,917	-	11,639	34,917	34,917	-	11,639
2. Sisters of St. Joseph - Mental Health Education	11/1/16 -10/31/17		37,722	-	12,574	37,722	37,722	-	12,574
3. West Virginia Primary Care Association Funding	7/1/15 - 6/30/16		-	-	3,700	-	-	-	3,700
4. Benedum Foundation	3/10/16 - 4/30/17		13,014	-	13,014	-	-	-	13,014
5. Partners in Prevention	7/1/16 - 6/30/17		5,050	-	-	5,050	5,050	-	-
Total Awards			<u>\$ 4,735,767</u>	<u>\$ 1,508,868</u>	<u>\$ 1,549,795</u>	<u>\$ 1,088,053</u>	<u>\$ 2,321,035</u>	<u>\$ 275,886</u>	<u>\$ 316,813</u>

## **COMPLIANCE**

**PENDLETON COMMUNITY CARE INC**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2017**

<b>Federal Grantor/State Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
Department of Health and Human Services:			
Health Resources and Services Administration:			
Health Center Program Cluster:			
Health Center Program	93.224		\$ 907,582
Grants for New and Expanded Services Under the Health Centers Program	93.527		<u>1,269,435</u>
			<u><u>\$ 2,177,017</u></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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, 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.

**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of Pendleton Community Care, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pendleton Community Care, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pendleton Community Care, Inc.'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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pendleton Community Care, Inc.'s consolidated financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
October 20, 2017



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Pendleton Community Care, Inc.’s compliance with the types of compliance requirements described in the *OMB 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, 2017. 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.

***Management’s Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of Pendleton Community Care, Inc.’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Pendleton Community Care, Inc.’s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Pendleton Community Care, Inc. complied, in all material respects, with the types of 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, 2017.

### **Report on Internal Control Over Compliance**

Management of Pendleton Community Care, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pendleton Community Care, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
October 20, 2017

**PENDLETON COMMUNITY CARE, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2017**

**A. SUMMARY OF AUDITOR’S RESULTS**

1. The auditor’s report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor’s 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 are reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no findings related to the major programs tested**.
7. The following programs were tested as major programs:  
  

<b>Health Center Program Cluster:</b>	
Health Center Program	93.224
Grants for New and Expanded Services Under the Health Centers Program	93.527
8. The **threshold** for distinguishing Type A and B programs was **\$750,000**.
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**

**None**