Princeton Memorial Company

Financial Statements

Years Ended June 30, 2017 and 2016

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Princeton Memorial Company

We have audited the accompanying financial statements of Princeton Memorial Company (a nonprofit organization), which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Princeton Memorial Company as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dixon Hughes Goodman LLP

Richmond, Virginia
September 19, 2017

Management's Discussion and Analysis

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to *Princeton Memorial Company's* (PMC) basic financial statements. PMC's basic financial statements are comprised of two components: 1) Company-wide financial statements and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Company-wide financial statements include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the fiscal years ending June 30, 2017 and 2016. PMC operates similarly to a private business and, therefore, utilizes the proprietary fund method of accounting. This method provides both long-term and short-term financial information and requires that revenues and expenses are recognized on the full accrual basis.

The Balance Sheets present information on all of PMC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of PMC is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how PMC's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Statements of Cash Flows present information showing how PMC's cash position changed during the most recent fiscal years. All changes in cash position are reported by operating, financing, and investing activities.

BALANCE SHEET

Table 1 shows the changes in net position for 2017 compared to 2016 and 2016 compared to 2015.

Table 1
Balance Sheets

	2017	2016	Change
Assets:			
Current assets	**$ 1,556,889**	$ 1,554,515	$ 2,374
Investments	**3,563,854**	3,426,227	137,627
Assets whose use is limited	**-**	129,833	(129,833)
Capital assets, net	**3,107,798**	2,898,628	209,170
Other receivables	**101,324**	-	101,324
Total assets	**8,329,865**	8,009,203	320,662
Liabilities:			
Current liabilities	**924,577**	1,502,889	(578,312)
Long-term liabilities	**-**	56,718	(56,718)
Total liabilities	**924,577**	1,559,607	(635,030)
Net position:			
Invested in capital assets, net of related debt	**3,107,798**	2,303,172	804,626
Restricted	**-**	129,833	(129,833)
Unrestricted	**4,297,490**	4,016,591	280,899
Total net position	**$ 7,405,288**	$ 6,449,596	$ 955,692

	2016	2015	Change
Assets:			
Current assets	$ 1,554,515	$ 1,513,813	$ 40,702
Investments	3,426,227	3,207,728	218,499
Assets whose use is limited	129,833	172,655	(42,822)
Capital assets, net	2,898,628	2,855,762	42,866
Total assets	8,009,203	7,749,958	259,245
Liabilities:			
Current liabilities	1,502,889	1,299,327	203,562
Long-term liabilities	56,718	938,463	(881,745)
Total liabilities	1,559,607	2,237,790	(678,183)
Net position:			
Invested in capital assets, net of related debt	2,303,172	1,469,785	833,387
Restricted	129,833	172,655	(42,822)
Unrestricted	4,016,591	3,869,728	146,863
Total net position	$ 6,449,596	$ 5,512,168	$ 937,428

PMC's net position increased 15% from a surplus of $6,449,596 in 2016 to $7,405,288 in 2017. This is due to favorable results from operating income in 2017.

STATEMENT OF REVENUES AND EXPENSES

Table 2 shows the changes in revenues, expenses, and change in net position for 2017 compared to 2016 and 2016 compared to 2015.

Table 2
Revenues, Expenses, and Change in Net Position

	2017	2016	Change
Net resident revenues	**$ 11,192,797**	$ 11,115,383	$ 77,414
Total revenues	**11,192,797**	11,115,383	77,414
Expenses:			
Salaries and benefits	**6,134,977**	6,012,997	121,980
Supplies and other	**3,888,085**	3,924,027	(35,942)
Depreciation	**331,005**	310,810	20,195
Interest	**8,960**	38,132	(29,172)
Total expenses	**10,363,027**	10,285,966	77,061
Operating income	**829,770**	829,417	353
Nonoperating revenue	**125,922**	108,011	17,911
Change in net position	**$ 955,692**	$ 937,428	$ 18,264

	2016	2015	Change
Net resident revenues	$ 11,115,383	$ 11,199,475	$ (84,092)
Total revenues	11,115,383	11,199,475	(84,092)
Expenses:			
Salaries and benefits	6,012,997	5,768,089	244,908
Supplies and other	3,924,027	3,959,371	(35,344)
Depreciation and amortization	310,810	281,626	29,184
Interest	38,132	57,309	(19,177)
Total expenses	10,285,966	10,066,395	219,571
Operating income	829,417	1,133,080	(303,663)
Nonoperating revenue	108,011	57,212	50,799
Change in net position	$ 937,428	$ 1,190,292	$ (252,864)

PMC's operating revenues increased by 0.70% or approximately $77,000. The total cost of services increased 0.75% or approximately $77,000. This increase resulted from providing increased levels of skilled services, therapy and nursing, and inflation of medical supply costs. Personnel costs (salaries and benefits) increased 2% or approximately $122,000 and were the largest single cost to PMC, comprising 59% of total expenses.

CAPITAL ASSETS

At June 30, 2017, PMC had $3,107,798 in net capital assets as shown in Table 3.

Table 3
Capital Assets

	Balance June 30, 2017	Balance June 30, 2016	Change
Land	**$ 410,139**	$ 410,139	$ -
Land improvements	**753,993**	741,193	12,800
Construction in progress	**320,626**	-	320,626
Buildings and improvements	**4,513,543**	4,482,913	30,630
Furniture and equipment	**3,131,267**	2,969,561	161,706
	9,129,568	8,603,806	525,762
Accumulated depreciation	**(6,021,770)**	(5,705,178)	(316,592)
Total	**$ 3,107,798**	$ 2,898,628	$ 209,170

	Balance June 30, 2016	Balance June 30, 2015	Change
Land	$ 410,139	$ 410,139	$ -
Land improvements	741,193	693,518	47,675
Construction in progress	-	10,915	(10,915)
Buildings and improvements	4,482,913	4,252,026	230,887
Furniture and equipment	2,969,561	2,883,532	86,029
	8,603,806	8,250,130	353,676
Accumulated depreciation	(5,705,178)	(5,394,368)	(310,810)
Total	$ 2,898,628	$ 2,855,762	$ 42,866

LONG-TERM DEBT

During 2017, PMC fully repaid its long term debt and does not have any outstanding long-term debt remaining at June 30, 2017 as shown in Table 4.

Table 4
Debt

	Balance June 30, 2017	Balance June 30, 2016	Change
New Peoples Bank note payable	-	478,334	(478,334)
Series 2006 Mercer County Revenue Bonds	-	117,122	(117,122)
Total	$ -	$ 595,456	$ (595,456)

	Balance June 30, 2016	Balance June 30, 2015	Change
Series 2003 Mercer County Revenue Bonds	$ -	$ 401,442	$ (401,442)
New Peoples Bank note payable	478,334	806,693	(328,359)
Series 2006 Mercer County Revenue Bonds	117,122	177,842	(60,720)
Total	$ 595,456	$ 1,385,977	$ (790,521)

Fiscal Year 2018 Outlook

The Board approved the 2018 operating budget. This budget was developed after a review of key volume indicators and market trends. The budget incorporated PMC's current strategic business plan as well as state economic factors such as estimated population growth and unemployment rates, for its nursing facility, Princeton Health Care Center. The 2018 budget provides for total operating revenue of $10.2 million. The excess revenues over expenses budget for 2018 is budgeted at $46,000 a 0.45% excess margin.

In June 2017, the West Virginia legislature passed a budget for their fiscal 2018 year. The last item of compromise, was for no change in the State funding of the Medicaid program. The United States Senate has not passed a change to the Affordable Care Act. Most presented changes have included a substantial Federal reduction in funding the States' Medicaid programs. If either, or both, of these situations change, resulting in reduction of the West Virginia Medicaid funding, as over 80% of our revenues come from West Virginia Medicaid, would present a negative impact upon revenues and possibly cash flows.

Contacting the Company's Financial Management

This financial report provides the citizens of West Virginia, our clients, and creditors with a general overview of PMC's finances and operations. If you have any questions about this report, please contact the office of the Chief Financial Officer at Princeton Memorial Company, 315 Courthouse Road, Princeton, West Virginia 24740.

Princeton Memorial Company
Balance Sheets
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 572,824**	$ 439,544
Resident accounts receivable, net of allowance for doubtful debt of $228,000 in 2017 and $224,000 in 2016	**872,718**	907,212
Other receivables	**-**	134,179
Inventories and prepaid expenses	**111,347**	73,580
Total current assets	**1,556,889**	1,554,515
Investments	**3,563,854**	3,426,227
Assets whose use is limited	**-**	129,833
Capital assets, net	**3,107,798**	2,898,628
Other receivables	**101,324**	-
Total assets	**$ 8,329,865**	$ 8,009,203
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 708,633**	$ 590,762
Current portion of long-term debt	**-**	538,738
Due to third-party payors	**215,944**	373,389
Total current liabilities	**924,577**	1,502,889
Long-term debt, net of current portion	**-**	56,718
Total liabilities	**924,577**	1,559,607
Net position:		
Invested in capital assets, net of related debt	**3,107,798**	2,303,172
Restricted	**-**	129,833
Unrestricted	**4,297,490**	4,016,591
Total net position	**7,405,288**	6,449,596
Total liabilities and net assets	**$ 8,329,865**	$ 8,009,203

Princeton Memorial Company
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Net resident revenues	$ 11,192,797	$ 11,115,383
Total revenues	11,192,797	11,115,383
Operating expenses:		
Salaries and wages	4,913,759	4,771,808
Employee benefits	1,221,218	1,241,189
Supplies and other	3,888,085	3,924,027
Depreciation	331,005	310,810
Interest	8,960	38,132
Total operating expenses	10,363,027	10,285,966
Operating income	829,770	829,417
Nonoperating revenues:		
Investment income	92,812	94,442
Other nonoperating income	32,460	13,569
Gain on disposal of capital assets	650	-
Total nonoperating revenue	125,922	108,011
Change in net position	955,692	937,428
Net position, beginning of year	6,449,596	5,512,168
Net position, end of year	$ 7,405,288	$ 6,449,596

See accompanying notes.

Princeton Memorial Company
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from patients and third-party payors	**$ 11,102,701**	$ 11,052,306
Cash paid to suppliers and employees	**(9,942,958)**	(9,845,840)
Cash paid for interest	**(8,960)**	(38,132)
Net cash provided by operating activities	**1,150,783**	1,168,334
Cash flows from noncapital financing activities:		
Other nonoperating income	**32,460**	13,569
Net cash provided by noncapital financing activities	**32,460**	13,569
Cash flows from capital and related financing activities:		
Repayment of long-term debt	**(595,456)**	(790,521)
Purchases of capital assets	**(219,549)**	(364,591)
Proceeds from sale of capital assets	**650**	-
Net (increase) decrease in construction in progress	**(320,626)**	10,915
Net cash used by capital and related financing activities	**(1,134,981)**	(1,144,197)
Cash flows from investing activities:		
Investment income	**92,812**	94,442
Net change in investments	**(137,627)**	(218,499)
Net change in assets whose use is limited	**129,833**	42,822
Net cash provided (used) by investing activities	**85,018**	(81,235)
Net increase (decrease) in cash and cash equivalents	**133,280**	(43,529)
Cash and cash equivalents, beginning of year	**439,544**	483,073
Cash and cash equivalents, end of year	**$ 572,824**	$ 439,544
Cash flows from operating activities:		
Operating income	**$ 829,770**	$ 829,417
Adjustments to reconcile to net cash from operating activities:		
Depreciation	**331,005**	310,810
Provision for bad debts	**29,058**	60,385
Change in:		
Resident accounts receivable, net	**5,436**	(272,044)
Inventories and prepaid expenses	**(37,767)**	127,428
Accounts payable and accrued liabilities	**117,871**	(36,244)
Due to third-party payors	**(157,445)**	148,582
Net cash provided by operating activities	**$ 1,150,783**	$ 1,168,334

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

Princeton Memorial Company (PMC) operates Princeton Health Care Center, a 120-bed facility located in Princeton, West Virginia. Princeton Health Care Center is dually certified for skilled and extended care services.

Princeton Memorial Company bylaws provide that the City of Princeton, West Virginia, approve the Board of Directors of PMC.

2. Summary of Significant Accounting Policies

Basis of accounting and financial statement presentation

PMC is considered to be a special purpose government entity and, therefore, prepares its financial statements using the economic resource measurement focus and the accrual basis of accounting.

The accompanying basic financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) and other pronouncements applicable to health care organizations and guidance from the Governmental Accounting Standards Board (GASB), where applicable. The basic financial statements include all of the accounts of PMC.

PMC follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Governmental accounting standards board pronouncements

During 2016, PMC adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 provides guidance on how fair value should be measured and which assets and liabilities are subject to fair value measurement and disclosure.

Use of estimates

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. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Cash and cash equivalents

Cash and cash equivalents, including investments in money market funds, are carried at cost, which approximates market value.

Inventories

Inventories consist primarily of medical supplies and are valued at the lower of cost, as determined by the first-in, first-out method, or market.

Patient accounts receivable and net patient service revenue

Patient accounts receivable and net patient service revenue are derived from patients who reside primarily in PMC's local geographical region. PMC has agreements with third-party payors that provide for payments at amounts different from PMC's established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. PMC believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, except as noted below. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Allowance for uncollectible accounts

An allowance for uncollectible accounts is recorded based on historical bad debt experience and management's evaluation of the accounts receivable. Account balances are written off after all reasonable collection efforts have been made. Management believes that the allowance for doubtful accounts is adequate to provide for estimated uncollectible accounts associated with the accounts receivable balances. Any changes in this estimate will be reflected in the financial statements in subsequent periods as changes in the collectability of accounts receivable occur.

Investments

Investments consist of deposit accounts, government agency securities, common stock, preferred stock, fixed income bonds, and mutual funds and are stated at fair value.

Assets whose use is limited

Assets under the terms of bond indentures (externally designated) or Board designated for capital expansion are classified as assets whose use is limited.

Capital assets

Capital asset acquisitions are recorded at cost. PMC's policy is to capitalize property and equipment purchased with an aggregate cost greater than $5,000. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable assets ranging from 5 to 25 years for land improvements, 5 to 40 years for buildings, 3 to 20 years for building improvements and 3 to 20 years for furniture and equipment. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring or developing those assets. Management periodically reviews long-term assets for impairment. Any assets deemed to be impaired are written down to their estimated fair market value in the period in which the impairment occurs.

Credit risk

Financial instruments that potentially subject PMC to concentration of credit risk consist of interest bearing transaction accounts and accounts receivable. PMC places its interest bearing transaction accounts with high credit quality financial institutions. PMC has not experienced any losses in such accounts. At June 30, 2017 and 2016, the Company had $710,110 and $500,616 in excess of the federally insured limit.

Concentration of credit risk with respect to patient receivables is limited due to the large number of state and federally assisted patients. PMC has significant concentrations of resident accounts receivable with West Virginia Medicaid of approximately $754,000 and $703,000 and with Medicare of approximately $156,000 and $166,000 at June 30, 2017 and 2016, respectively. Revenue from the West Virginia Medicaid program accounted for approximately 81% and 78% for 2017 and 2016, respectively, and the Medicare program accounted for approximately 14% and 17% of PMC's net resident revenue for 2017 and 2016, respectively.

Net position

Net position classifications are defined as follows:

Invested in capital assets, net of related debt

This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted

This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt," above.

Statements of revenues, expenses and changes in net position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues, expenses, gains or losses.

Income tax status

PMC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and the applicable tax statues of the State of West Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. PMC has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2017 and 2016.

Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Subsequent events

In preparing these financial statements, PMC has evaluated events and transactions for potential recognition or disclosure through September 19, 2017, the date the financial statements were available to be issued.

3. Investments and Assets Whose Use Is Limited

Investments are stated at fair value and consist of the following:

	2017	2016
Cash and cash equivalents	$ **1,726,613**	$ 1,710,538
Fixed income, certificates of deposit, mutual funds, common stock, and preferred stock	**1,837,241**	1,715,689
	$ **3,563,854**	$ 3,426,227

Investment income is reported net of related investment expenses in the statement of revenues, expenses and changes in net position.

Assets whose use is limited are stated at fair value and consist of the following:

	2017	2016
Cash and cash equivalents	$ **-**	$ 129,833

4. Fair Value of Measurements

PMC reports fair value measurements in accordance with applicable accounting standards which define fair value as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ("exit price"). To estimate fair value, PMC utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that PMC has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Mutual funds and common stock

Valued at closing price reported on the active market on which the individual securities are traded (level 1).

U.S. Government agencies, municipal bonds, corporate bonds, certificates of deposit and preferred stock

Valued at quoted market prices of similar investments in active markets or quoted prices for identical or similar instruments in non-active markets (level 2).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although PMC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth the financial assets that were accounted for at fair value as of June 30, 2017, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
U.S. Government agencies	**$ -**	**$ 25,880**	**$ -**	**$ 25,880**
Municipal bonds	**-**	**34,468**	**-**	**34,468**
Corporate bonds	**-**	**776,222**	**-**	**776,222**
Preferred stock	**-**	**57,939**	**-**	**57,939**
Mutual funds:				
Fixed income	**202,285**	**-**	**-**	**202,285**
Equities	**109,354**	**-**	**-**	**109,354**
Other	**61,553**	**-**	**-**	**61,553**
Common stock	**569,540**	**-**	**-**	**569,540**
Total assets at fair value	**$ 942,732**	**$ 894,509**	**$**	**$ 1,837,241**

The following table sets forth the financial assets that were accounted for at fair value as of June 30, 2016, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
U.S. Government agencies	$ -	$ 81,229	$ -	$ 81,229
Municipal bonds	-	75,437	-	75,437
Corporate bonds	-	594,801	-	594,801
Preferred stock	-	64,923	-	64,923
Bank certificate of deposit	-	25,176	-	25,176
Mutual funds:				
Fixed income	181,182	-	-	181,182
Equities	96,300	-	-	96,300
Other	59,379	-	-	59,379
Common stock	537,262	-	-	537,262
Total assets at fair value	$ 874,123	$ 841,566	$ -	$ 1,715,689

5. Capital Assets

Capital assets at June 30, 2017, are summarized as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Land	**$ 410,139**	**$ -**	**$ -**	**$ 410,139**
Land improvements	**741,193**	**12,800**	**-**	**753,993**
Construction in progress	**-**	**320,626**	**-**	**320,626**
Buildings and improvements	**4,482,913**	**30,630**	**-**	**4,513,543**
Furniture and equipment	**2,969,561**	**176,119**	**(14,413)**	**3,131,267**
	8,603,806	**540,175**	**(14,413)**	**9,129,568**
Accumulated depreciation	**(5,705,178)**	**(331,005)**	**14,413**	**(6,021,770)**
Capital assets, net	**$ 2,898,628**	**$ 209,170**	**$ -**	**$ 3,107,798**

Capital assets at June 30, 2016, are summarized as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Land	$ 410,139	$ -	$ -	$ 410,139
Land improvements	693,518	47,675	-	741,193
Construction in progress	10,915	-	(10,915)	-
Buildings and improvements	4,252,026	230,887	-	4,482,913
Furniture and equipment	2,883,532	86,029	-	2,969,561
	8,250,130	364,591	(10,915)	8,603,806
Accumulated depreciation	(5,394,368)	(310,810)	-	(5,705,178)
Capital assets, net	$ 2,855,762	$ 53,781	$ (10,915)	$ 2,898,628

6. Lines of Credit

PMC has an unused revolving line of credit at both June 30, 2017 and 2016. The line of credit has maximum borrowings of $500,000 with interest payable monthly at the Wall Street Journal Prime rate with a floor of 4% (4% at June 30, 2017 and 2016), and a renewal date of February 25, 2019. This line of credit is secured by a first lien security interest in PMC's trust account with the bank. Loan advances are not to exceed 70% of the value in the trust account.

7. Long-Term Debt

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

	2017	2016
New Peoples Bank note payable, monthly installments including interest and principal through May 2018, subject to adjustment every five years. Effective August 2013, the loan was modified to an interest rate of 3.17% with monthly installments of $23,524. The loan was paid in full during 2017.	$ -	$ 478,334
Series 2006 Mercer County Revenue Bonds, due in monthly installments of $5,274, including interest and principal through 2018, at a fixed rate of 4.95% for the first five years and then subject to adjustment every five years thereafter. On August 15, 2016, PMC modified this debt. The new terms of the modified debt were monthly installments of $5,224, including interest and principal through May 2018, at a fixed rate of 2.625%. The bonds were paid in full during 2017.	-	117,122
	-	595,456
Current portion of long-term debt	-	(538,738)
	$ -	$ 56,718

The Series 2006 Mercer County Revenue Bonds' interest rate was adjusted every five years. On the fifth, tenth, and fifteenth anniversary dates of the loan, the rate of interest was adjusted so as to be equal to 75% of the then current New York Prime rate.

Under the terms of the Revenue Bonds, PMC was required to maintain certain deposits with MCNB Bank and Trust Company. Such deposits were classified on the balance sheet as assets whose use is limited. Loan and security agreements between PMC, New Peoples Bank and MCNB Bank and Trust Company were executed and assigned to the trustee. The loan and security agreements pledged virtually all assets of PMC as security for the debt. Additionally, the loan and security agreements contained certain covenants that limit PMC's ability to incur additional debt and certain other restrictions.

The following is a summary of PMC's long-term debt for the years ended June 30:

	2017	2016
Debt outstanding, July 1	$ -	$ 1,385,977
Retirements and repayments	-	(790,521)
Debt outstanding, June 30	$ -	$ 595,456

8. Retirement Plan

PMC contributes to the Princeton Memorial Company Employees' Retirement Plan (Plan), a defined contribution plan, for its full-time employees over the age of 21 that have completed one year of service. The Plan is administered by Keith Buchanan, PMC's Chief Financial Officer.

Benefit terms, including contribution requirements for the Plan are established and may be amended by PMC's Board of Directors. For each employee in the Plan, PMC is required to contribute 100% match of employee contributions up to 5% of annual compensation to an individual employee account. Employees are permitted to make contributions to the Plan, up to applicable Internal Revenue Code limits. For the years ended June 30, 2017 and 2016, employee contributions totaled $118,436 and $125,177. PMC's matching contributions were $109,461 and $107,320 for 2017 and 2016, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in PMC's contributions and earnings on those contributions after completion of 3 years of creditable service with PMC. Nonvested PMC contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the Plan's administrative expenses.

9. Commitments and Contingencies

General and professional liability

PMC had an "occurrence basis" malpractice insurance policy with a commercial provider that had limits of $5,000,000 per occurrence and $5,000,000 in the aggregate, subject to a $0 per claim retention that lapsed on July 1, 2017. A new policy, with the West Virginia Board of Risk and Insurance Management, has been obtained for the 2018 fiscal year. It has a $1,000,000 per occurrence and aggregate limit, with a $2,500 retention per occurrence. PMC also has a "claims made basis" insurance policy with a commercial provider for director and officer liability and employment practices that has limits of $3,000,000 per claim made, subject to a $15,000 per claim retention for the director and officer liability and $10,000 per claim retention for the employment practices policy.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. Many of these claims are in the early stages of the evaluation process. Accordingly, it is not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to certain lawsuits. In the opinion of management, after consultation with counsel, they believe that under the existing West Virginia statues, PMC has adequate insurance for any covered incidents that occurred during the policy period that ended on July 1, 2017. The eventual outcome of any of these claims is not expected to have a material adverse effect on PMC's financial position or its ability to provide adequate and proper health care to its residents. However, depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the future results of operations or cash flows in a particular period.

PMC follows FASB ASU 2010-24, "Presentation of Insurance Claims and Related Insurance Recoveries." Under this standard, PMC recognizes a receivable for estimated insurance recoveries and a corresponding gross up in the estimated professional and general liability obligation for outstanding claims. As of June 30, 2017 and 2016, management has not recorded any amounts for outstanding claims.

Regulatory contingencies

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that PMC is not in violation of the fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

In 2016, PMC received notifications from the Recovery Auditor Contractor (RAC) requesting information related to certain Medicare claims for therapy services to determine if there were any improper Medicare payments. Management complied with the RAC's request for documentation. Certain claims of approximately $96,000 were settled during 2017 and in accordance with their contract, denied claims are being appealed at the administrative law judge level by PMC's contracted therapy company. Even though the eventual outcome of this matter is uncertain, management has established a RAC reserve of approximately $50,000 as of June 30, 2017. This amount is included in due to third-party payors on the balance sheet. In addition, PMC has recorded a receivable of $101,324 as of June 30, 2017 for the portion of the reserve which is due from the contracted therapy company for their estimated contractual obligation from these denied RAC claims.

10. Functional Expenses

PMC provides housing, health care and other related services to residents of the extended care facilities. Expenses related to providing these services for the years ended June 30 are as follows:

	2017	2016
Health care services	**$ 8,221,334**	$ 8,286,445
General and administrative	**2,141,693**	1,999,521
	$ 10,363,027	$ 10,285,966

11. Subsequent Event - Promise to Give

In August 2017, PMC's Board of Directors approved a $250,000 pledge to be payable over five years to a local organization for their building project. The pledge is dependent upon PMC's availability of funds.