Princeton Memorial Company

Financial Statements

Years Ended June 30, 2016 and 2015

DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

To the Board of Directors
Princeton Memorial Company

We have audited the accompanying financial statements of Princeton Memorial Company, which comprise the balance sheets as of June 30, 2016 and 2015, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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, 2016 and 2015, 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.

Other Matters

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

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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

Roanoke, Virginia
September 22, 2016

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, 2016 and 2015. 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.

During 2015, PMC adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB 68 provides guidance on the employer's accounting and reporting for pensions. The effects of adopting GASB 68 did not have a material effect on PMC's financial statements.

BALANCE SHEET

Table 1 shows the changes in net position for 2016 compared to 2015 and 2015 compared to 2014.

Table 1
Balance Sheets

	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

	2015	2014	Change
Assets			
Current assets	$ 1,513,813	$ 1,404,088	$ 109,725
Investments	3,207,728	2,807,697	400,031
Assets whose use is limited	172,655	172,543	112
Capital assets - net	2,855,762	2,554,724	301,038
Total assets	7,749,958	6,939,052	810,906
Liabilities			
Current liabilities	1,299,327	1,229,928	69,399
Long-term liabilities	938,463	1,387,248	(448,785)
Total liabilities	2,237,790	2,617,176	(379,386)
Net position			
Invested in capital assets - net of related debt	1,469,785	736,410	733,375
Restricted	172,655	172,543	112
Unrestricted	3,869,728	3,412,923	456,805
Total net position	$ 5,512,168	$ 4,321,876	$ 1,190,292

PMC's net position increased 17% from a surplus of $5,512,168 in 2015 to $6,449,596 in 2016. This is due to favorable results from operating income in 2016.

STATEMENT OF REVENUES AND EXPENSES

Table 2 shows the changes in revenues, expenses and change in net position for 2016 compared to 2015 and 2015 compared to 2014.

Table 2
Revenues, Expenses and Change in Net Position

	2016	2015	Change
Net resident revenues	**$ 11,115,383**	$ 11,199,475	$ (84,092)
Other operating revenue	**108,011**	58,174	49,837
Total revenues	**11,223,394**	11,257,649	(34,255)
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	**937,428**	1,191,254	(253,826)
Loss on disposal of property and equipment	**-**	(962)	962
Change in net position	**$ 937,428**	$ 1,190,292	$ (252,864)

	2015	2014	Change
Net resident revenues	$ 11,199,475	$ 10,615,071	$ 584,404
Other operating revenue	58,174	67,663	(9,489)
Total revenues	11,257,649	10,682,734	574,915
Expenses			
Salaries and benefits	5,768,089	5,942,126	(174,037)
Supplies and other	3,959,371	3,685,165	274,206
Depreciation and amortization	281,626	262,089	19,537
Interest	57,309	72,366	(15,057)
Total expenses	10,066,395	9,961,746	104,649
Operating income	1,191,254	720,988	470,266
Loss on disposal of property and equipment	(962)	-	(962)
Change in net position	$ 1,190,292	$ 720,988	$ 469,304

PMC's operating revenues decreased by 0.3% or approximately $34,300. The total cost of services increased 2% or approximately $220,000. 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 4% or approximately $245,000 and were the largest single cost to PMC, comprising 58% of total expenses.

CAPITAL ASSETS

At June 30, 2016, PMC had $2,898,628 in net capital assets as shown in Table 3.

Table 3
Capital Assets

	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
Less - accumulated depreciation	**(5,705,178)**	(5,394,368)	(310,810)
Total	**$ 2,898,628**	$ 2,855,762	$ 42,866

	Balance June 30, 2015	Balance June 30, 2014	Change
Land	$ 410,139	$ 410,139	$ -
Land improvements	693,518	681,518	12,000
Construction in progress	10,915	42,750	(31,835)
Buildings and improvements	4,252,026	3,794,369	457,657
Furniture and equipment	2,883,532	2,752,158	131,374
	8,250,130	7,680,934	569,196
Less - accumulated depreciation	(5,394,368)	(5,126,210)	(268,158)
Total	$ 2,855,762	$ 2,554,724	$ 301,038

DEBT

At June 30, 2016, PMC had $595,456 in debt as shown in Table 4.

Table 4
Debt

	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)

	Balance June 30, 2015	Balance June 30, 2014	Change
Series 2003 Mercer County Revenue Bonds	$ 401,442	$ 523,075	$ (121,633)
New Peoples Bank note payable	806,693	1,059,066	(252,373)
Series 2006 Mercer County Revenue Bonds	177,842	236,173	(58,331)
Total	$ 1,385,977	$ 1,818,314	$ (432,337)

Fiscal Year 2017 Outlook

The Board approved the 2017 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 2017 budget provides for total operating revenue of $10.3 million. The excess revenues over expenses budget for 2017 is budgeted at $193,000 a 1.85% excess margin.

On August 4, 2015 the West Virginia Medicaid program issued a memorandum informing providers of upcoming changes to the reimbursement methodologies. Among the changes noted were:

- The Bureau of Medical Services (BMS) will be implementing a new "across-the–board" rate reduction to the rates calculated for October 2015, by calculating rates and reducing each facility's payment a certain dollar amount per day. This rate reduction, unknown at issuance of memorandum, became $2.75 per patient day and the usual six month rate period of October 1, 2015 to March 31, 2016 was extended to June 30, 2016.
- Initially BMS was looking at changing the overall reimbursement methodology for all nursing facility providers as of July 2016; this has been delayed until at least a new State Administration is in place in January 2017.

On April 25, 2016 the West Virginia Department of Health and Human Resources notified all Medicaid providers that the state was facing a significant deficit for fiscal year 2016 which also projects to continue into fiscal 2017. This situation may affect the processing of claims against anticipated funds available; therefore, negatively impacting cash flow. As over 80% of PMC revenues come from West Virginia Medicaid, any delay in their payments would severely impact PMC's cash flow.

On June 9, 2016 the Office of Inspector General of the West Virginia Department of Health and Human Resources notified Princeton Health Care Center that during an annual survey, it was determined that Princeton Health Care Center was not in compliance with program standards. Princeton Health Care Center's failure to meet these requirements was determined to pose an Immediate Jeopardy to the health safety of the residents. Based on the deficiency the Officer of the Inspector General authorized that:

- A Civil Monetary Penalty be imposed,
- That the Bureau of Medial Services and the Nurse Aide Training and Competency Evaluation Program within the Office of Health Facility Licensure and Certification deny approval for Princeton Health Care Center to serve as a clinical training site for a period to two years,
- If the Center for Medical Services is not satisfied with the facility's corrections and plan of corrections timely, that Princeton Health Care Center also be subject to Medicare and Medicaid participation denials. Per letter dated August 30, 2016, the West Virginia Office of Facility Licensure and Certification notified Princeton Health Care Center of their acceptance of the corrections and plan of correction in these matters.

PMC has been and will continue to be proactive in implementing cost savings and revenue enhancement strategies. PMC continues to invest in technology with an eye toward increased efficiencies and improving patient care quality.

Contacting the Company's Financial Management

This financial report provides the citizens of West Virginia, our clients, bondholders, 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, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ **439,544**	$ 483,073
Resident accounts receivable - net of allowance for doubtful debt of $224,000 in 2016 and $219,000 in 2015	**907,212**	829,732
Other receivables	**134,179**	-
Inventories and prepaid expenses	**73,580**	201,008
Total current assets	**1,554,515**	1,513,813
Investments	**3,426,227**	3,207,728
Assets whose use is limited	**129,833**	172,655
Capital assets - net	**2,898,628**	2,855,762
Total assets	$ **8,009,203**	$ 7,749,958
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ **590,762**	$ 627,006
Current portion of long-term debt	**538,738**	447,514
Due to third-party payors	**373,389**	224,807
Total current liabilities	**1,502,889**	1,299,327
Long-term debt - net of current portion	**56,718**	938,463
Total liabilities	**1,559,607**	2,237,790
Net position		
Invested in capital assets - net of related debt	**2,303,172**	1,469,785
Restricted	**129,833**	172,655
Unrestricted	**4,016,591**	3,869,728
Total net position	**6,449,596**	5,512,168
	$ **8,009,203**	$ 7,749,958

See accompanying notes.

Princeton Memorial Company
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues		
Net resident revenues	$ 11,115,383	$ 11,199,475
Other operating revenue	108,011	58,174
Total revenues	11,223,394	11,257,649
Operating expenses		
Salaries and wages	4,771,808	4,572,993
Employee benefits	1,241,189	1,195,096
Supplies and other	3,924,027	3,959,371
Depreciation	310,810	281,626
Interest	38,132	57,309
Total operating expenses	10,285,966	10,066,395
Operating income	937,428	1,191,254
Nonoperating income		
Loss on disposal of property and equipment	-	(962)
Change in net position	937,428	1,190,292
Net position - beginning of year	5,512,168	4,321,876
Net position - end of year	$ 6,449,596	$ 5,512,168

See accompanying notes.

Princeton Memorial Company
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 11,052,306	$ 11,362,170
Other operating cash receipts	108,011	58,174
Cash paid to suppliers and employees	(9,845,840)	(9,835,755)
Cash paid for interest	(38,132)	(57,309)
Net cash from operating activities	1,276,345	1,527,280
Cash flows used in capital and related financing activities		
Repayment of long-term debt	(790,521)	(432,337)
Purchases of property and equipment	(364,591)	(615,461)
Decrease in construction in progress	10,915	31,835
Net cash used in capital and related financing activities	(1,144,197)	(1,015,963)
Cash flows used in investing activities		
Net change in assets whose use is limited	42,822	(112)
Purchases of investments	(218,499)	(400,031)
Net cash used in investing activities	(175,677)	(400,143)
Net change in cash and cash equivalents	(43,529)	111,174
Cash and cash equivalents - beginning of year	483,073	371,899
Cash and cash equivalents - end of year	$ 439,544	$ 483,073
Cash flows from operating activities		
Change in net position	$ 937,428	$ 1,190,292
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	310,810	281,626
Provision for bad debts	60,385	62,172
Loss on disposal of property and equipment	-	962
Change in:		
Resident accounts receivable - net	(272,044)	78,184
Inventories and prepaid expenses	127,428	(138,907)
Accounts payable and accrued liabilities	(36,244)	30,612
Due to third-party payors	148,582	22,339
Net cash from operating activities	$ 1,276,345	$ 1,527,280

See accompanying notes.

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.

During 2015, PMC adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB No. 68 provides guidance on the employer's accounting and reporting for pensions.

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, 2016 and 2015, the Company had $500,616 and $608,286 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 $702,500 and $666,000 and with Medicare of approximately $166,000 and $188,000 at June 30, 2016 and 2015, respectively. Revenue from the West Virginia Medicaid program accounted for approximately 78% and 74% for 2016 and 2015, respectively, and the Medicare program accounted for approximately 17% of PMC's net resident revenue for both 2016 and 2015.

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 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, 2016 and 2015.

Subsequent Events

In preparing these financial statements, PMC has evaluated events and transactions for potential recognition or disclosure through September 22, 2016, 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:

	2016	2015
Cash and cash equivalents	**$ 1,710,538**	$ 1,629,143
Fixed income, certificates of deposit, mutual funds, common stock, and preferred stock	**1,715,689**	1,578,585
	$ 3,426,227	$ 3,207,728

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:

	2016	2015
Cash and cash equivalents	**$ 129,833**	$ 172,655

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, 2016.

Mutual funds, certificates of deposit 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, 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, 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**

The following table sets forth the financial assets that were accounted for at fair value as of June 30, 2015, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
U.S. Government Agencies	$ -	$ 145,430	$ -	$ 145,430
Municipal bonds	-	156,987	-	156,987
Corporate bonds	-	365,360	-	365,360
Preferred stock	-	67,808	-	67,808
Bank certificate of deposit	-	50,877	-	50,877
Mutual funds:				
Fixed Income	249,236	-	-	249,236
Equities	83,360	-	-	83,360
Other	24,660	-	-	24,660
Common Stock	434,867	-	-	434,867
Total assets at fair value	$ 792,123	$ 786,462	$ -	$ 1,578,585

5. Capital Assets

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**
Less – accumulated depreciation	**(5,394,368)**	**(310,810)**	**-**	**(5,705,178)**
Capital assets – net	**$ 2,855,762**	**$ 53,781**	**$ (10,915)**	**$ 2,898,628**

Capital assets at June 30, 2015, are summarized as follows:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Land	$ 410,139	$ -	$ -	$ 410,139
Land improvements	681,518	12,000	-	693,518
Construction in progress	42,750	-	(31,835)	10,915
Buildings and improvements	3,794,369	457,657	-	4,252,026
Furniture and equipment	2,752,158	145,804	(14,430)	2,883,532
	7,680,934	615,461	(46,265)	8,250,130
Less – accumulated depreciation	(5,126,210)	(281,626)	13,468	(5,394,368)
Capital assets – net	$ 2,554,724	$ 333,835	$ (32,797)	$ 2,855,762

6. Lines of Credit

PMC has one unused revolving line of credit at both June 30, 2016 and 2015. 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, 2016 and 2015), and a renewal date of February 25, 2017. 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:

	2016	2015
Series 2003 Mercer County Revenue Bonds, due in monthly installments of $11,988, including interest and principal through 2018, at a fixed rate of 4.75% for the first five years and then subject to adjustment every five years thereafter. The debt was paid in full during the year ended June, 30, 2016.	**$ -**	$ 401,442
New Peoples Bank note payable, monthly installments including interest and principal, 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 matures in May 2018.	**478,334**	806,693
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 are monthly installments of $5,224, including interest and principal through May 2018, at a fixed rate of 2.625%.	**117,122**	177,842
	595,456	1,385,977
Less - current portion	**(538,738)**	(447,514)
	$ 56,718	$ 938,463

Estimated principal payments of long-term debt, after consideration of the refinance effective August 15, 2016, for future years ending June 30 are as follows:

	Principal	Interest	Total
2017	$ 538,738	$ 10,578	$ 549,316
2018	56,718	748	57,466
	$ 595,456	$ 11,326	$ 606,782

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

The Series 2003 Mercer County Revenue Bonds' interest rates were subject to adjustment every five years. On the fifth, tenth, and fifteenth anniversary dates of the loans, the rates of interest were subject to adjustment so as to be equal to 75% of the then current New York Prime rate but in no event was it be less than 4.75%. Beginning on the fifth anniversary date of the loans and ending on the tenth anniversary, the rate of interest shall not exceed 6.95%.

Under the terms of the Revenue Bonds, PMC is required to maintain certain deposits with MCNB Bank and Trust Company. Such deposits are 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 have been executed and assigned to the trustee. The loan and security agreements pledge virtually all assets of PMC as security for the debt. Additionally, the loan and security agreements contain certain covenants that limit PMC's ability to incur additional debt and certain other restrictions. Management believes that PMC has complied with all covenants of the loan as of June 30, 2016.

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

	2016	2015
Debt outstanding – July 1	**$ 1,385,977**	$ 1,818,314
Retirements and repayments	**(790,521)**	(432,337)
Debt outstanding – June 30	**$ 595,456**	$ 1,385,977

8. Pension Plan

PMC contributes to the Princeton Memorial Company Employees' Retirement Plan (Plan), a defined contribution pension 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 CFO.

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 pension 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 pension plan, up to applicable Internal Revenue Code limits. For the years ended June 30, 2016 and 2015, employee contributions totaled $125,177 and $129,257, and PMC recognized pension expense of $16,712 and $7,091, 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 pension plan's administrative expenses.

9. Commitments and Contingencies

General and Professional Liability

PMC has an “occurrence basis” malpractice insurance policy with a commercial provider that has limits of $5,000,000 per occurrence and $5,000,000 in the aggregate, subject to a $0 per claim retention. PMC 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, so the eventual outcome of such 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, 2016 and 2015, 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.

On June 9, 2016 the Office of Inspector General of the West Virginia Department of Health and Human Resources notified Princeton Health Care Center that during an annual survey, it was determined that Princeton Health Care Center was not in compliance with program standards. Princeton Health Care Center’s failure to meet these requirements was determined to pose an Immediate Jeopardy to the health safety of the residents. Based on the deficiency the Officer of the Inspector General authorized that:

- A Civil Monetary Penalty be imposed,
- That the Bureau of Medial Services and the Nurse Aide Training and Competency Evaluation Program within the Office of Health Facility Licensure and Certification deny approval for Princeton Health Care Center to serve as a clinical training site for a period to two years,
- If the Center for Medical Services is not satisfied with the facility’s corrections and plan of corrections timely, that Princeton Health Care Center also be subject to Medicare and Medicaid participation denials. Per letter dated August 30, 2016, the West Virginia Office of Facility Licensure and Certification notified Princeton Health Care Center of their acceptance of the corrections and plan of correction in these matters.

As of the date of the financial statements, the Office of the Inspector General has not assessed any civil money penalties in regard to the survey finding. Management has recorded an estimate of approximately $95,000 for the penalty which is included in due to third-party payors on the balance sheet.

Beginning in May 2016, PMC received notification 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 has complied with the RAC's request for documentation. Subsequent to yearend, PMC has received notification from the RAC that certain claims have been denied and other claims have been approved. In addition, PMC has received notification of an additional RAC request which is still under review. Even though the eventual outcome of these matters is uncertain, management has recorded a reserve of approximately $190,000 as of June 30, 2016. This amount is included in due to third-party payors on the balance sheet. In addition, PMC has recorded a receivable of $134,179 as of June 30, 2016 for the portion of the reserve which is estimated to be due from the therapy company with whom PMC has outsources therapy services.

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:

	2016	2015
Health care services	**$ 8,286,445**	$ 8,010,842
General and administrative	**1,999,521**	2,055,553
	$ 10,285,966	$ 10,066,395