

**PRESTON HEALTH CARE CORPORATION**



**(A Component Unit of Preston County, West Virginia)**

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***Combined  
Financial Report***

***December 31, 2010***

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Preston Health Care Corporation (A Component Unit of  
Preston County, West Virginia)  
Kingwood, West Virginia

We have audited the accompanying basic combined balance sheets of Preston Health Care Corporation (A Component Unit of Preston County, West Virginia) as of December 31, 2010 and 2009, and the related combined statements of operations and changes in net assets, and combined cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Preston Health Care Corporation (A Component Unit of Preston County, West Virginia) as of December 31, 2010 and 2009, and the results of operations, changes in net assets and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**ARNETT & FOSTER, P.L.L.C.**

*Arnett & Foster, P.L.L.C.*

Charleston, West Virginia  
May 17, 2011

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**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010 and 2009**

**OVERVIEW**

This discussion and analysis of Preston Health Care Corporation's (A Component Unit of Preston County, West Virginia) (PHCC) financial performance provides an overview of PHCC's financial activities for the fiscal years ended December 31, 2010 and 2009. This narrative should be read in conjunction with the financial statements and accompanying notes to those financial statements, which begin on page 6.

**UNDERSTANDING THE BASIC FINANCIAL STATEMENTS**

The Balance Sheet presents all of PHCC's assets and liabilities, with the difference between the two reported as the "net assets". Over time, changes in the net assets may serve as a useful indicator of whether the financial position of PHCC is improving or deteriorating. The Statement of Operations and Changes in Net Assets presents information showing how PHCC's net assets changed during the most recent two fiscal years. It includes operating revenues, operating expenses, non-operating revenues and other adjustments to arrive at the increase in net assets. The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?".

**BALANCE SHEETS**

PHCC's net assets increased in 2010 by \$114,872 and increased by \$289,602 in 2009, as illustrated in PHCC's Balance Sheet below in Table 1. PHCC's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 6.

**Table 1**

**Assets, Liabilities and Net Assets**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets	\$ 3,602,951	\$ 3,502,875
Capital assets, net	3,621,927	3,747,819
Other noncurrent assets	<u>687,230</u>	<u>523,413</u>
<b>Total assets</b>	<b><u>\$ 7,912,108</u></b>	<b><u>\$ 7,774,107</u></b>
<b>Liabilities</b>		
Current liabilities	\$ 4,336,713	\$ 3,343,261
Long-term liabilities	<u>2,245,358</u>	<u>3,215,681</u>
<b>Total liabilities</b>	<b><u>\$ 6,582,071</u></b>	<b><u>\$ 6,558,942</u></b>
<b>Net Assets (Deficit)</b>		
Invested in capital assets, net of related debt	\$ 1,634,706	\$ 958,650
Restricted expendable net assets	557,433	556,427
Unrestricted(deficit)	<u>(862,102)</u>	<u>(299,912)</u>
<b>Total net assets</b>	<b><u>\$ 1,330,037</u></b>	<b><u>\$ 1,215,165</u></b>

**PRESTON HEALTH CARE CORPORATION**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010 and 2009**

Assets in each of the categories reported by PHCC at December 31, 2010 remained consistent with those at December 31, 2009. Current assets are comprised primarily of receivables from patients and third-party payors at 60% for 2010 and 52% for 2009 of total current assets.

Total liabilities increased by \$23,129 from 2009 to 2010. Accounts payable and accrued expenses increased by \$161,954 from 2009 to 2010. Long-term debt, net of current maturities, decreased by \$869,685. Accrued salaries and benefits increased by \$89,538 from 2009 to 2010. Estimated third-party settlements increased by \$938,821 from 2009 due to an overpayment from Medicare that was paid back after year end. Market conditions during 2010 improved the funding status of the defined benefit plan resulting in a reduction in the liability of \$100,638.

**OPERATING RESULTS AND CHANGES IN NET ASSETS**

PHCC's net assets increased by \$114,872 in 2010 and increased by \$289,602 in 2009. The best indicator of financial performance is the excess (deficiency) of revenues over expenses which was \$(344,484) in 2010 and \$(228,189) in 2009 or profit margins of (1.7)% for 2010 and (1.1)% for 2009. A change in the defined benefit plan's funded status resulted in an increase in net assets of \$74,581 in 2010 and in an increase in net assets of \$238,893 in 2009.

Following in Table 2 is a summary of the results of operations and changes in net assets for 2010 and 2009.

**Table 2**

	2010	2009
<b>Operating revenues</b>		
Net patient service revenue	\$ 19,984,892	\$ 19,610,355
Other operating revenue	334,170	275,546
<b>Total operating revenues</b>	<b>20,319,062</b>	19,885,901
<b>Operating expenses</b>		
Salaries and benefits	12,217,566	12,522,600
Depreciation and amortization	765,022	680,534
Other operating expenses	7,556,455	7,218,796
<b>Total operating expenses</b>	<b>20,539,043</b>	20,421,930
<b>Operating loss</b>	<b>(219,981)</b>	(536,029)
<b>Nonoperating revenues (expenses)</b>		
Investment income	18	43,950
Interest expense	(255,317)	(309,059)
Gain on sale of Home Health Agency	-	412,390
Gain on disposal of property and equipment	3,379	-
Noncapital grants and contributions	127,417	160,559
<b>Total nonoperating revenues (expenses)</b>	<b>(124,503)</b>	307,840

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010 and 2009**

	2010	2009
<b>Excess (deficiency) of revenues over expenses before capital grants, contributions and pension plan liability adjustment</b>	<b>(344,484)</b>	<b>(228,189)</b>
<b>Capital grants, contributions and other adjustments</b>	<b>384,775</b>	<b>278,898</b>
<b>Pension Plan liability adjustment</b>	<b>74,581</b>	<b>238,893</b>
<b>Increase in net assets</b>	<b>\$ 114,872</b>	<b>\$ 289,602</b>
<b>Net assets, end of year</b>	<b>\$ 1,330,037</b>	<b>\$ 1,215,165</b>

Following is an explanation of some of the more significant amounts in the statement of operations:

Patient Service Revenue

Gross patient service revenue increased \$609,357, or approximately 2%, during fiscal year 2010. Inpatient revenues decreased 18% while outpatient revenues increased 6% from fiscal year 2009. Admissions were down 86 or 6.2% from 2009. The outpatient revenue increase was due primarily to an increase in the standard charges for the various procedures. During fiscal year 2010, PHCC's payor mix remained consistent. The chart below demonstrates the comparisons of each financial class.

Financial Class	Fiscal Year	Fiscal Year
	2010	2009
Medicare	39.6%	37.7%
Medicaid	19.3%	20.6%
Commercial	20.6%	21.8%
Blue Cross	10.6%	10.5%
Private Pay	9.9%	9.4%
	<b>100.0%</b>	<b>100.0%</b>

Adjustments to Gross Revenue

Adjustments to gross revenue, which represent the difference between charges and cash payments from third party payors who pay based on terms under contract, include Medicare, Medicaid, Blue Cross, PEIA and other insurance carriers. Bad debt write offs, which represent charges written off for patients who refuse to pay, increased from \$2,204,911 to \$2,387,854, or 7.3% of gross patient revenue in 2009 to 7.8% of gross patient revenue in 2010. Charity care, which represents charges written off for patients who do not have the ability to pay, was \$447,329 and \$503,287 in 2010 and 2009, respectively.

Expenses

Operating expenses increased approximately .57% from 2009 to 2010 (net of malpractice refunds of \$362,747 and \$318,096 in 2009 and 2010, respectively). Operating expenses as a percentage of net patient service revenue decreased from 104% in 2009 to 103% in 2010. Salaries and benefits decreased by \$305,033. Salaries and benefits as a percent of net patient service revenue was 61% in 2010 and 64% in 2009, due to census lower than expected in 2010.

**PRESTON HEALTH CARE CORPORATION**  
(A Component Unit of Preston County, West Virginia)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2010 and 2009

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**CASH FLOWS**

Cash flow continues to be a significant challenge as a majority of PHCC's revenues are in patient receivables and third party settlements. PHCC has very low cash reserves and utilized existing lines of credit in 2010 to assist with cash flows.

The Hospital's cash flows were negatively affected by its deficiency of revenue over expenses of \$344,484 in 2010 and were negatively affected by its deficiency of revenue over expenses of \$228,189 in 2009. These amounts were enhanced because noncash depreciation expense exceeded actual capital asset expenditures by \$28,689 in 2010 and \$2,169 in 2009. Total cash outlays for debt service requirements were significant because of the amount of principal and interest paid on long term debt and short term debt in 2010 and 2009.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At the end of 2010, PHCC had \$3,621,927 invested in capital assets, net of accumulated depreciation. The total cost of the capital assets at the end of 2010 was \$14,863,278 and accumulated depreciation was \$11,241,351. These amounts illustrate the above average age of the facility and other capital assets which approximates 16 years (average age of plant). Total capital purchases in 2010 and 2009 were \$747,250 and \$1,013,794, respectively. Management is currently developing a long-range strategic plan that will address the growing need to replace or renovate the existing facility.

Debt

PHCC had total debt of \$2,564,191 and \$3,630,737 at December 31, 2010 and 2009, respectively, which includes bonds payable, notes payable and capital leases, as outlined in footnotes 6 and 7. There was no new debt incurred in 2010. The large portion of the debt (49%) is Hospital Revenue Refunding Bonds, which contain various covenants and restrictions as explained in footnote 7.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Preston Health Care Corporation's (A Component Unit of Preston County, West Virginia) finances. Questions concerning any information provided in this report or requests for additional information should be addressed to CFO, Preston Memorial Hospital, 300 South Price Street, Kingwood, WV 26537.

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINED BALANCE SHEETS**  
**December 31, 2010 and 2009**

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,073	\$ 22,412
Assets limited as to use	195,509	534,928
Beneficial interest in remainder trust	18,000	18,000
Patient accounts receivable, net of allowances for doubtful accounts of approximately \$644,000 in 2010 and \$635,000 in 2009	2,147,874	1,805,957
Inventories	633,078	392,910
Prepaid expenses and other current assets	598,417	690,392
Estimated third-party payor settlements	-	38,276
<b>Total current assets</b>	<b>3,602,951</b>	<b>3,502,875</b>
<b>Assets limited as to use, net of current portion</b>	<b>450,680</b>	<b>268,073</b>
<b>Beneficial interest in remainder trust, net of current portion</b>	<b>124,580</b>	<b>116,529</b>
<b>Capital assets, net</b>	<b>3,621,927</b>	<b>3,747,819</b>
<b>Bond issue costs, net</b>	<b>24,561</b>	<b>35,478</b>
<b>Other</b>	<b>87,409</b>	<b>103,333</b>
<b>Total assets</b>	<b>\$ 7,912,108</b>	<b>\$ 7,774,107</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt	\$ 772,491	\$ 780,183
Notes payable	191,400	380,569
Accounts payable and accrued expenses	1,412,194	1,250,240
Accrued salaries and benefits	1,021,807	932,269
Estimated third-party settlements	938,821	-
<b>Total current liabilities</b>	<b>4,336,713</b>	<b>3,343,261</b>
<b>Accrued pension costs</b>	<b>645,058</b>	<b>745,696</b>
<b>Long-term debt, net of current maturities</b>	<b>1,600,300</b>	<b>2,469,985</b>
<b>Total liabilities</b>	<b>6,582,071</b>	<b>6,558,942</b>
<b>Net assets (deficit)</b>		
Invested in capital assets, net of related debt	1,634,706	958,650
Restricted-expendable for capital assets and specific projects	557,433	556,427
Unrestricted	(862,102)	(299,912)
<b>Total net assets</b>	<b>1,330,037</b>	<b>1,215,165</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,912,108</b>	<b>\$ 7,774,107</b>

See Notes to Combined Financial Statements

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
<b>Operating revenues</b>		
Net patient service revenue, net of provision for bad debts of \$2,387,854 in 2010 and \$2,204,911 in 2009	\$ 19,984,892	\$ 19,610,355
Other operating revenue	334,170	275,546
<b>Total operating revenues</b>	<b>20,319,062</b>	<b>19,885,901</b>
<b>Operating expenses</b>		
Salaries and wages	9,827,819	9,681,628
Employee benefits	2,389,748	2,840,972
Professional fees and purchased services	2,606,780	2,147,224
Supplies and other expenses	3,819,871	3,742,633
Utilities	380,900	407,797
Insurance, net of refund of \$318,096 in 2010 and \$362,747 in 2009	201,173	281,029
Depreciation	765,022	680,534
Taxes	547,730	640,113
<b>Total operating expenses</b>	<b>20,539,043</b>	<b>20,421,930</b>
<b>Operating income (loss)</b>	<b>(219,981)</b>	<b>(536,029)</b>
<b>Nonoperating revenues (expenses)</b>		
Investment income	18	43,950
Interest expense	(255,317)	(309,059)
Gain on sale of Home Health Agency	-	412,390
Gain on disposal of property and equipment	3,379	-
Noncapital grants and contributions	127,417	160,559
<b>Total nonoperating revenues (expenses)</b>	<b>(124,503)</b>	<b>307,840</b>
<b>Excess (deficiency) of revenues over expenses before capital grants, contributions, and pension plan liability adjustment</b>	<b>(344,484)</b>	<b>(228,189)</b>
<b>Capital grants, contributions and other adjustments</b>	<b>384,775</b>	<b>278,898</b>
<b>Pension plan liability adjustment</b>	<b>74,581</b>	<b>238,893</b>
<b>Increase in unrestricted net assets</b>	<b>114,872</b>	<b>289,602</b>
<b>Net assets, beginning of year</b>	<b>1,215,165</b>	<b>925,563</b>
<b>Net assets, end of year</b>	<b>\$ 1,330,037</b>	<b>\$ 1,215,165</b>

See Notes to Combined Financial Statements

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Receipts from and on behalf of patients	\$ 20,620,072	\$ 19,732,548
Payments to suppliers and contractors	(7,541,909)	(6,614,613)
Payments to employees	(12,128,029)	(12,407,498)
Other receipts and payments, net	334,170	275,546
<b>Net cash provided by operating activities</b>	<b>1,284,304</b>	<b>985,983</b>
<b>Cash flows from noncapital financing activities</b>		
Noncapital grants and contributions	127,417	160,559
Net (repayments) proceeds from notes payable	(189,169)	55,000
Interest payments on notes payable	(16,033)	(18,590)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(77,785)</b>	<b>196,969</b>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(747,250)	(678,365)
Capital grants and contributions	384,775	287,844
Principal paid on long-term debt	(765,878)	(739,416)
Interest payments on bonds and other obligations	(239,284)	(290,469)
<b>Net cash used in capital and related financing activities</b>	<b>(1,367,637)</b>	<b>(1,420,406)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	(62,345)	(77,560)
Gain on sale of Home Health Agency	-	412,390
(Increase) decrease in beneficial interest in remainder trust	(8,051)	(8,697)
Investment income	18	43,950
<b>Net cash provided by (used in) investing activities</b>	<b>(70,378)</b>	<b>370,083</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(231,496)</b>	<b>132,629</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>624,328</b>	<b>491,699</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 392,832</b>	<b>\$ 624,328</b>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>		
Cash and cash equivalents in current assets	\$ 10,073	\$ 22,412
Cash and cash equivalents in assets limited as to use	382,759	601,916
<b>Total cash and cash equivalents</b>	<b>\$ 392,832</b>	<b>\$ 624,328</b>

(Continued)

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINED STATEMENTS OF CASH FLOWS (Continued)**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (219,981)	\$ (536,029)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	775,939	691,450
Provision for bad debts	2,387,854	2,204,911
Change in assets and liabilities:		
(Increase) decrease in patient accounts receivable	(2,729,771)	(2,229,307)
(Increase) decrease in inventories	(240,168)	(104,354)
(Increase) decrease in prepaid expenses and other assets	107,899	417,941
(Increase) decrease in estimated third-party payor settlements	977,097	146,589
Increase (decrease) in accounts payable, accrued pension costs, and accrued expenses	225,435	394,782
<b>Net cash provided by operating activities</b>	<b>\$ 1,284,304</b>	<b>\$ 985,983</b>
<b>Supplemental disclosure of noncash capital and financing activities</b>		
Capital lease obligations incurred for purchase of equipment	\$ -	\$ 228,582
Note payable incurred for purchase of equipment	\$ -	\$ 106,847
Other – Home Health joint venture	\$ -	\$ 103,333
Cancellation of debt and removal of related equipment	\$ 111,499	\$ -

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies**

**Reporting entity and nature of operations:** Preston Health Care Corporation (PHCC) is a not-for-profit corporation organized and existing under the laws of the state of West Virginia providing medical services to the residents of Kingwood, West Virginia and the surrounding communities. PHCC is organized for the principal purpose of managing the following subsidiaries:

- Preston Memorial Hospital Corporation (A Component Unit of Preston County, West Virginia) (PMHC) – A not-for-profit organization providing acute, medical, rehabilitative and outpatient services. PMHC is a discretely-presented component unit of the Commission and is operated by a Board of Directors approved by the Commission. The Commission has also guaranteed debt of PHCC.
- Preston Memorial Medical Group, Inc. (PMMG) – A not-for-profit organization with the principal purpose of organizing and operating medical clinics for charitable purposes to provide primary care to the citizens of Preston County, West Virginia and adjoining counties and to support the purpose of Preston Memorial Hospital Corporation.
- Preston Memorial Hospital Foundation (PMHF) – A not-for-profit organization with the principal purpose of fund raising for PMHC.

**A summary of significant accounting policies is as follows:**

**Principles of consolidation:** The accompanying combined financial statements include the accounts of PHCC and its affiliates. All significant intercompany transactions and balances have been eliminated in consolidation.

**Enterprise fund accounting:** PHCC uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, as amended, PHCC has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Net assets:** Net assets are classified into three categories according to the availability of assets for satisfaction of PHCC obligations. PHCC's net assets are classified as follows:

- **Invested in capital assets, net of related debt** – This represents PHCC's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- **Restricted net assets, expendable** – This includes resources in which PHCC is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Unrestricted net assets** – This represents resources derived from other than capital assets or restricted net assets. These resources are used for transactions relating to the general operations of PHCC, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Use of estimates:** Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for uncollectible accounts and the third-party settlement amounts with third-party payors. It is at least reasonably possible that the significant estimates used will change within the next year.

**Cash and cash equivalents:** For purposes of reporting the statement of cash flows, PHCC considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Patient accounts receivable:** Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

**Assets limited as to use:** Assets limited as to use include assets set aside under terms of debt agreements or restricted by donors. Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

**Beneficial interest in trust:** PHCC is the beneficiary of a remainder trust, the assets of which are not in the possession of PHCC. Net realized gains and losses and investment income from the trust is reported as income based on the donor gift to the trust, which restricts distribution from the trust to ten percent of the corpus, annually, and all interest and dividend income. Distributions from the trust are to be used for the acquisition of diagnostic or medical treatment equipment. The carrying value of the asset is equal to the market value of the underlying trust assets, which approximates the present value of the future cash flows to be derived from the trust account.

**Inventories:** Inventories are stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or market.

**Capital assets:** Capital assets are reported at historical cost. Contributed capital assets are recorded at estimated fair value at the date of contribution. All capital assets other than land are depreciated or amortized (in the case of capital leases) over the estimated useful lives of the respective assets by the straight-line method.

**Bond issue costs:** Bond issue costs include expenditures relating to costs incurred in connection with the Series 1999 bond issue. Bond issue costs are being amortized over the life of the bond issue on the straight-line method which approximates the interest method.

**Costs of borrowing:** Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of PHCC's interest cost was capitalized in either 2010 or 2009.

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

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**Compensated absences:** PHCC's employees earn vacation days at varying rates depending on years of service and employment status as salaried exempt or hourly non-exempt employees. Vacation benefits accrue up to a maximum of two times the employee's annual accrual rate. Unused vacation benefits are paid to employees upon separation of employment provided the employee gives the required notice as required by policy. Employees also earn sick leave benefits. Employees may accumulate sick leave up to a maximum of 480 hours. Employees are not paid for accumulated sick leave if they leave before retirement. Accumulated sick leave is forfeited upon separation from employment and is not an accrued benefit subject to payout.

**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 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.

**Charity care:** PHCC provides care to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because PHCC does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

**Operating revenues and expenses:** PHCC's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – PHCC's principal activity. Nonexchange revenues including grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Grants and contributions:** From time to time, PHCC receives grants and contributions from governmental organizations, private individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported as other changes in net assets.

**Income taxes:** PHCC and its subsidiaries are exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes.

**Risk management:** PHCC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Restricted resources:** When PHCC has both restricted and unrestricted resources available to finance a particular program, it is PHCC's policy to use restricted resources before unrestricted resources.

**Subsequent events:** PHCC has evaluated subsequent events through May 17, 2011, the date on which the financial statements were available to be issued.

**New or Recent Accounting Pronouncements:** Health Care Entities Topic 954 (Accounting Standards Update No. 2010-23) of the FASB Accounting Standards Codification *Measuring Charity Care for Disclosure* is effective for fiscal years beginning after December 15, 2010. Management's policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure shall be measured based on the provider's costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques. This should be applied retrospectively to all prior periods presented. Earlier application is permitted. PHCC will be required to adopt Topic 954 (No. 2010-23) in its 2011 annual financial statements.

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Health Care Entities Topic 954 (Accounting Standards Update No. 2010-24) of the FASB Accounting Standards Codification *Presentation of Insurance Claims and Related Insurance Recoveries* is effective for fiscal years beginning after December 15, 2010. A health care entity should not net insurance recoveries for medical malpractice claims against a related medical malpractice claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. A cumulative-effect adjustment should be recognized in opening net assets in the period of adoption if a difference exists between any liability and insurance receivables recorded as a result of application. Early application is permitted. PHCC will be required to adopt Topic 954 (No. 2010-24) in its 2011 annual financial statements.

Management does not believe these new standards will have a material impact on the combined financial statements.

**Note 2. Deposit Risks**

Custodial credit risk is the risk that in the event of a financial institution failure, PHCC's deposits may not be returned to it. PHCC does not have a formal deposit policy for custodial credit risk. As of December 31, 2010, all of PHCC's balances with financial institutions were covered by federal deposit insurance.

PHCC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, PHCC maintains invested assets solely in cash equivalent investment instruments that have limited exposure to fair value fluctuations resulting from changes in interest rates.

**Note 3. Assets Limited as to Use**

The composition of assets limited as to use at December 31, 2010 and 2009, is as follows, with investments stated at fair value:

	2010	2009
By Board for capital improvements and under donor agreements:		
Cash and cash equivalents	\$ 187,250	\$ 376,045
Mutual funds	263,430	201,085
	<u>450,680</u>	<u>577,130</u>
Under bond indenture:		
Bond related deposits – Cash and cash equivalents	195,509	225,871
Total assets limited as to use	646,189	803,001
Less current portion	195,509	534,928
	<u>\$ 450,680</u>	<u>\$ 268,073</u>

**Note 4. Trust Beneficiary**

PMHC is the beneficiary of the Wayne H. Fortney Preston Memorial Hospital Charitable Trust, established on behalf of PMHC through the Wayne Hollis Fortney Last Will and Testament. The income earned on the trust assets plus ten percent of the trust's corpus are distributed to PMHC annually. The value of the trust as of December 31, 2010 and 2009, was \$142,580 and \$134,529, respectively. Total income received earned from the trust for the years ended December 31, 2010 and 2009, was \$3,721 and \$4,330, respectively.

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**Note 5. Capital Assets**

Capital asset additions, retirements and balances for the years ended December 31, 2010 and 2009 were as follows:

<u>December 31, 2010</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 36,195	\$ -	\$ -	\$ 36,195
Construction in progress	189,448	37,765	-	227,213
Total capital assets not being depreciated	<u>225,643</u>	<u>37,765</u>	<u>-</u>	<u>263,408</u>
<b>Other capital assets:</b>				
Buildings and improvements	8,158,628	21,979	-	8,180,607
Equipment	5,946,186	680,447	(207,370)	6,419,263
Total other capital assets	<u>14,104,814</u>	<u>702,426</u>	<u>(207,370)</u>	<u>14,599,870</u>
<b>Less accumulated depreciation and amortization for:</b>				
Buildings and improvements	(6,450,628)	(155,949)	-	(6,606,577)
Equipment	(4,132,010)	(598,635)	95,871	(4,634,774)
Total accumulated depreciation and amortization	<u>(10,582,638)</u>	<u>(754,584)</u>	<u>95,871</u>	<u>(11,241,351)</u>
<b>Capital assets, net</b>	<b><u>\$ 3,747,819</u></b>	<b><u>\$ (14,393)</u></b>	<b><u>\$ (111,499)</u></b>	<b><u>\$ 3,621,927</u></b>
<u>December 31, 2009</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
Land	\$ 36,195	\$ -	\$ -	\$ 36,195
Construction in progress	86,685	102,763	-	189,448
Total capital assets not being depreciated	<u>122,880</u>	<u>102,763</u>	<u>-</u>	<u>225,643</u>
<b>Other capital assets:</b>				
Buildings and improvements	7,998,981	159,647	-	8,158,628
Equipment	5,194,802	751,384	-	5,946,186
Total other capital assets	<u>13,193,783</u>	<u>911,031</u>	<u>-</u>	<u>14,104,814</u>
<b>Less accumulated depreciation and amortization for:</b>				
Buildings and improvements	(6,300,295)	(150,333)	-	(6,450,628)
Equipment	(3,601,809)	(530,201)	-	(4,132,010)
Total accumulated depreciation and amortization	<u>(9,902,104)</u>	<u>(680,534)</u>	<u>-</u>	<u>(10,582,638)</u>
<b>Capital assets, net</b>	<b><u>\$ 3,414,559</u></b>	<b><u>\$ 333,260</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,747,819</u></b>

Capital lease assets at December 31, 2010 and 2009, included in capital assets are as follows:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 1,734,031	\$ 1,941,401
Less accumulated amortization	<u>(933,224)</u>	<u>(728,298)</u>
	<b><u>\$ 800,807</u></b>	<b><u>\$ 1,213,103</u></b>

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**Note 6. Notes payable**

PMHC has an unsecured line-of-credit for \$500,000 with a bank through September 2011. The interest rates, which were variable, were 4.5% for the years ended December 31, 2010 and 2009. The principal outstanding was \$0 and \$380,569 for the years ended December 31, 2010 and 2009, respectively.

PMHC has an unsecured line-credit for \$150,000 with a bank through December 2011. The interest rates, which were variable, were 5.5% and 3.25% for the years ended December 31, 2010 and 2009, respectively. The principal outstanding was \$6,400 and \$0 for the years ended December 31, 2010 and 2009, respectively.

During 2010, PMHC has a short-term note payable for \$185,285 with a bank, maturing November, 2011. The interest rate, which is fixed, is 5.5% for the term of the note. The principal outstanding was \$185,000 for the year ended December 31, 2010.

**Note 7. Long-Term Debt**

A schedule of changes in PHCC's long-term debt at December 31, 2010 and 2009 follows:

	Balance December 31, 2009			Balance December 31, 2010		
	Balance	Additions	Reductions	Balance	Additions	Reductions
<b>Long term debt:</b>						
Bonds payable	\$ 1,640,000	\$ -	\$ (375,000)	\$ 1,265,000	\$ -	\$ -
Notes payable	327,444	-	(63,214)	264,230	-	-
Capital leases	1,282,724	-	(439,163)	843,561	-	-
<b>Total long-term debt</b>	<b>\$ 3,250,168</b>	<b>\$ -</b>	<b>\$ (877,377)</b>	<b>\$ 2,372,791</b>	<b>\$ -</b>	<b>\$ -</b>
						<b>Amounts Due Within One Year</b>
						<b>395,000</b>
						<b>67,286</b>
						<b>310,205</b>
						<b>772,491</b>

  

	Balance December 31, 2008			Balance December 31, 2009		
	Balance	Additions	Reductions	Balance	Additions	Reductions
<b>Long term debt:</b>						
Bonds payable	\$ 1,990,000	\$ -	\$ (350,000)	\$ 1,640,000	\$ -	\$ -
Notes payable	283,482	106,847	(62,885)	327,444	-	-
Capital leases	1,380,673	228,582	(326,531)	1,282,724	-	-
<b>Total long-term debt</b>	<b>\$ 3,654,155</b>	<b>\$ 335,429</b>	<b>\$ (739,416)</b>	<b>\$ 3,250,168</b>	<b>\$ -</b>	<b>\$ -</b>
						<b>Amounts Due Within One Year</b>
						<b>375,000</b>
						<b>63,964</b>
						<b>341,219</b>
						<b>780,183</b>

A summary of long-term and capital lease obligations at December 31, 2010 and 2009, follows:

	2010	2009
Bonds payable, Hospital Revenue Refunding Bonds, 6.00%, terms below	\$ 1,265,000	\$ 1,640,000
Note payable, bank, variable rate of interest (8.346% at December 31, 2010), payable in monthly installments of \$2,058 through February 2014, secured by equipment	74,169	92,316
Note payable, bank, variable rate of interest (3.75% at December 31, 2010), payable in monthly installments of \$4,483 through September 2014, unsecured	190,061	235,128
Capital lease obligations with interest rates ranging from 5.10% to 8.00% and monthly payments ranging from \$1,554 to \$7,856, secured by equipment	843,561	1,282,724
	<b>2,372,791</b>	<b>3,250,168</b>
Less current maturities	<b>772,491</b>	<b>780,183</b>
Long-term obligations	<b>\$ 1,600,300</b>	<b>\$ 2,469,985</b>

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The Hospital Revenue Refunding Bonds are special obligations of the Preston County Building Commission payable solely from funds held by the Bond Trustee under the Bond indenture and the net revenues of PMHC. The bonds bear interest at the rate of six percent payable semi-annually on April 1 and October 1.

Substantially all assets and revenues of PMHC have been pledged as security for the Hospital Revenue Refunding Bonds. The bond documents contain several affirmative covenants regarding insurance coverage, debt service coverage and timeliness of payments.

Scheduled principal and interest payments are as follows for the years ending December 31:

Year Ending December 31	Long-Term Debt		Capital Leases	
	Principal	Interest	Principal	Interest
2011	\$ 462,286	\$ 87,111	\$ 310,205	\$ 52,172
2012	490,811	59,886	327,529	29,703
2013	524,554	30,943	198,154	8,327
2014	51,579	666	7,673	72
Total	\$ 1,529,230	\$ 178,606	\$ 843,561	\$ 90,274

**Note 8. Net Patient Service Revenue and Medicaid Contingency**

PMHC has agreements with third-party payors that provide for payments to them at amounts different from its established rates. PMHC received designation as a Critical Access Hospital (CAH) under the Medicare and Medicaid programs on January 1, 2003.

CAH's receive payments on a reasonable cost basis, for inpatient and most outpatient services provided to eligible Medicare and Medicaid patients.

A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** With the designation as a CAH, the Medicare program reimburses PMHC based upon its costs for inpatient, swing bed services, and traditional outpatient services. Under this payment system, PMHC is paid at a tentative rate with final settlement determined after submission of an annual cost report filed by PMHC.

PMHC receives reimbursement at 101% of costs for Medicare inpatient, swing-bed, and outpatient services.

- **Medicaid:** Inpatient and most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. PMHC is reimbursed at a tentative rate with final settlement determined after annual submission of a cost report filed by PMHC.

The State of West Virginia has a Medicaid Disproportionate Share Program which allows eligible hospitals to receive additional reimbursement based on Medicaid utilization and other factors. For the years ended December 31, 2010 and 2009, PMHC reduced contractual adjustments by \$1,733,376 and \$1,641,282, respectively, as a result of participation in this program and the amounts received in 2010 and 2009. PMHC is reimbursed 100% of its costs for uncompensated care provided to uninsured patients. The amounts are subject to audit and retroactive adjustment for differences in the interim payments received and the actual cost of uncompensated care provided to uninsured patients. The amounts received since the Hospital became a CAH in 2003 have not been audited. It is at least reasonably possible that the final settled amounts will differ from the amounts received and those differences could be material. Management is unable to determine what those differences could be because the laws and regulations governing Medicaid DSH payments are complex and subject to interpretation.

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- **Commercial Insurance:** PMHC also entered into payment agreements with certain commercial insurance carriers. The basis for payment to PMHC under these agreements includes various discounts from established charges.
- **West Virginia Health Care Authority:** The Legislature of the State of West Virginia has created the Health Care Authority to regulate gross patient revenue of hospitals based on limitation orders compiled from rate schedules and budgets submitted by the hospital on a periodic basis. If a hospital's charges are held to be excessive or unreasonable, the Health Care Authority may require rebates to consumers or adjustments to subsequent year revenue limits. However, the Authority has waived this requirement for CAHs.

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 19 percent, respectively, and 38 percent and 21 percent, respectively, of the PMHC's patient revenue for the years ended December 31, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. 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. The net patient service revenues for the years ended December 31, 2010 and 2009 were increased (decreased) by approximately \$530,000 and \$(137,000), respectively, as a result of settlements at amounts different than originally estimated.

A summary of gross and net patient service revenue for all payors for the years ended December 31, 2010 and 2009, follows:

	2010	2009
Gross patient service revenue	\$ 30,766,113	\$ 30,156,756
Less: Provisions for contractual adjustments under third-party reimbursement agreements	7,946,038	7,838,203
Charity care	447,329	503,287
Bad debts	2,387,854	2,204,911
Net patient service revenue	<u>\$ 19,984,892</u>	<u>\$ 19,610,355</u>

**Note 9. Pension Plans**

**Deferred Compensation Plan (Defined Contribution Plan):**

Employees are eligible for this benefit plan if they are over 21 years of age and have completed ninety days of service. PMHC contributed \$120,729 and \$124,175 during the years ended December 31, 2010 and 2009, respectively. Contributions made by PMHC vest over a five year period at twenty percent per year.

**Retirement Plan (Defined Benefit Plan):**

**Plan Description:** The Preston Memorial Hospital Corporation Retirement Plan (the Plan) for the Employees of PMHC is a single-employer defined benefit pension plan administered by PMHC. The Plan provides retirement benefits to Plan members and beneficiaries. PMHC reserves the right to amend the Plan at any time. If the Plan is terminated, the Plan assets will be distributed among the Plan participants based upon a priority allocation procedure. PMHC shall be liable for any unfunded vested benefits to the extent required by law. A plan amendment adopted December 31, 2001 froze benefit accruals as of that date. PMHC still has funding requirements, but no new participants can enter the plan. The Plan issues a separate financial report.

**Funding Policy:** The contributions by PMHC to the Plan meet the actuarially determined minimum funding requirements. The entire cost of the Plan is borne by PMHC. Therefore, active Plan members are not required to contribute to the Plan. PMHC is required to contribute at an actuarially determined

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amount. Contributions required in accordance with the funding policy for both of the years ended December 31, 2010 and 2009 were \$0.

**Annual Pension Cost and Net Pension Obligation:** PMHC's annual pension cost and net pension obligation to the Plan for 2010 and 2009, were as follows:

	2010	2009
Annual required contribution	\$ -	\$ -
Interest on net pension obligation	182,945	182,150
Actuarial adjustments to annual required contributions	36,732	89,770
Benefits paid	(146,003)	(122,631)
Contributions made	-	-
Increase (decrease) in net pension obligation	73,674	149,289
Benefit obligation, beginning of year	3,202,094	3,052,805
Benefit obligation, end of year	<u>\$ 3,275,768</u>	<u>\$ 3,202,094</u>

The annual required contribution for the current year was determined as part of the December 31, 2009, actuarial valuation using the service prorated unit credit method. The actuarial assumptions for 2010 and 2009 included (a) 8.00% investment rates of return compounded annually, (b) projected salary increases of 0.00% per annum, and (c) discount rates of 5.85% and 5.85%, respectively. The market value is used to determine the actuarial value of assets as part of the funding method.

Management relies on past performances, economic indicators of future returns, actuarial assumptions, and investment advisors to determine a reasonable expected return on the plan's assets.

**Schedule of Employer Contributions**

<b>Fiscal Year Ending</b>	<b>Annual Required Contribution (ARC)</b>	<b>Percentage of ARC Contributed</b>	<b>Benefit Obligation</b>
December 31, 2010	\$ -	100%	\$ 3,275,768
December 31, 2009	\$ -	100%	\$ 3,202,094
December 31, 2008	\$ -	100%	\$ 3,052,805

**Schedule of Funding Progress**

<b>Valuation Date</b>	<b>Actuarial Valuation Plan Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Total Unfunded (Overfunded) AAL</b>	<b>AAL Funded Ratio</b>
December 31, 2010	\$ 2,630,710	\$ 3,275,768	\$ 645,058	80%
December 31, 2009	\$ 2,456,398	\$ 3,202,094	\$ 745,696	77%
December 31, 2008	\$ 2,091,481	\$ 3,052,805	\$ 961,324	68%

**Plan Assets**

The composition of plan assets at December 31, 2010 and 2009 consist primarily of investments in various mutual funds which represent moderate risk as measured by credit quality, volatility and interest rate risk.

The Plan has invested in securities with a long-term focus, with broad objectives to achieve a rate of return sufficient to meet actuarial interest rates and provide for benefits and expenses in perpetuity. The Plan's investment objective has been to maintain a prudent risk level balancing growth with the need to preserve capital. The Plan investment objective has been a target allocation of 50% fixed income and

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50% equities, however, periodic fluctuations from the target objective occur because of necessary adjustments to invested assets resulting from the various risks of investing.

**Cash Flows**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2011	\$ 163,000
2012	\$ 162,000
2013	\$ 171,000
2014	\$ 185,000
2015	\$ 203,000
Thereafter	\$ 1,125,000

**Note 10. Estimated Third-Party Payor Settlements**

Estimated third-party payor settlements consist of amounts due from/(to) the Medicare and Medicaid programs for settlement of current and prior year cost reports and disproportionate share payments.

These estimated settlements by program are as follows:

	2010	2009
Medicare	\$ (980,963)	\$ (20,315)
Medicaid	(61,000)	(327,185)
Medicaid disproportionate share receivable	<u>103,142</u>	<u>385,776</u>
	<u>\$ (938,821)</u>	<u>\$ 38,276</u>

**Note 11. Rental Expense**

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

Future minimum lease payments under operating leases as of December 31, 2010, that have initial or remaining lease terms in excess of one year are as follows:

2011	\$ 373,487
2012	403,207
2013	<u>411,190</u>
	<u>\$ 1,187,884</u>

Total rental expense for the years ended December 31, 2010 and 2009, for all operating leases was \$252,137 and \$168,072, respectively.

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**Note 12. Concentrations of Credit Risk**

PHCC is located in Kingwood, West Virginia. PHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors is as follows:

	<b>2010</b>	<b>2009</b>
Medicare	<b>28%</b>	21%
Medicaid	<b>19%</b>	22%
Other third-party payors	<b>44%</b>	44%
Private pay	<b>9%</b>	13%
	<b><u>100%</u></b>	<b><u>100%</u></b>

**Note 13. Risk Management, Contingency and Subsequent Event**

PHCC carries malpractice insurance coverage on a claims-made basis. The annual premium is based on the claims expected to be filed in the current year, actual claims filed and the effectiveness of the risk management program. Claims filed in future years resulting from services provided in the current year will affect annual premiums in future years.

PHCC is a defendant in various lawsuits in the ordinary course of business wherein various amounts for damages are claimed. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage is remote and the judgments, if unfavorable, would not have a material adverse effect on PHCC's financial statements.

PMHC is also part of a group malpractice insurance program whose ultimate premium is based primarily on the experience of the group of healthcare organizations. Based on latest available information, indications suggest PMHC will receive a rebate, the amount of which is not determinable, during fiscal years 2011 and 2012 due to their group's history of low malpractice claims. PMHC received a rebate of \$362,747 in 2010 due to their group's history of low malpractice claims for the policy period ending December 2006. During March 2011, PMHC received \$318,096 for the policy period ending in 2007 which is included as a receivable in prepaid expenses and other current assets on the balance sheet.

**Note 14. Health Care Legislation and Regulation**

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by health care providers. 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. Management believes that PHCC is in compliance with fraud and abuse as well as other applicable government laws and regulations. If PHCC is found in violation of these laws, PHCC could be subject to substantial monetary fines, civil and criminal penalties and exclusion from participation in the Medicare and Medicaid programs.

**Note 15. Advertising Costs**

All advertising costs have been expensed as incurred for the years ended December 31, 2010 and 2009. Advertising costs for the years ended December 31, 2010 and 2009, were \$72,107 and \$99,862, respectively, and are included in supplies and other expenses on the combined statements of operations and changes in net assets.

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**Note 16. Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Topic describes three levels of input that may be used to measure fair value.

- Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3:** Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**Fair Value Measurements**

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

**Assets Limited as to Use and Beneficial Interest in Remainder Trust:** Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating.

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**Assets at Fair Value on a Recurring Basis**

The tables below present the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2010 and 2009.

	<b>Assets at Fair Value as of December 31, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Cash and cash equivalents</b>	<b>\$ 388,740</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 388,740</b>
<b>Mutual funds</b>				
Equity funds	282,861	-	-	282,861
Bond/fixed income funds	117,168	-	-	117,168
Total mutual funds	400,029	-	-	400,029
	<b>\$ 788,769</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 788,769</b>
	<b>Assets at Fair Value as of December 31, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 604,771	\$ -	\$ -	\$ 604,771
Mutual funds	332,759	-	-	332,759
	<b>\$ 937,530</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 937,530</b>

**Assets Recorded at Fair Value on a Nonrecurring Basis**

PHCC has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

**Note 17. Management Contract**

PMHC has a management advisory services agreement with Quorum Health Resources, LLC of Delaware. According to the agreement, Quorum is acting solely as an agent of PMHC. PMHC's Board of Directors shall retain all authority and shall exercise control over the business, policies, operation, and assets of PMHC, in accordance with PMHC's charter and bylaws. The agreement for management advisory services remains in effect for five years from the effective date of November 1, 2008, with an alternative early out date of May 2012. Management fees can be increased or decreased by the change in the consumer price index. For the years ended December 31, 2010 and 2009, amounts paid under the agreement were \$270,038 and \$261,032, respectively.

**Note 18. Designation of Land by County Commission**

During 2008, the Preston County Commission (Commission) designated 30 acres of land for the future development of a replacement facility for the Hospital. The land has been reserved as part of a master land-use plan by the Commission, and will be formally deeded to the Hospital once the plans to construct a new facility are complete.



## INDEPENDENT AUDITOR'S REPORT ON OTHER SUPPLEMENTARY INFORMATION

To the Board of Directors  
Preston Health Care Corporation (A Component Unit of  
Preston County, West Virginia)  
Kingwood, West Virginia

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements, as of and for the years ended December 31, 2010 and 2009, taken as a whole. The combining information on pages 24 through 27 has been presented for the purposes of additional analysis of the basic combined statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements as of and for the years ended December 31, 2010 and 2009 and, in our opinion, is fairly stated in all material respects, in relation to those basic combined financial statements taken as a whole.

**ARNETT & FOSTER, P.L.L.C.**

*Arnett + Foster, P. L. L. C.*

Charleston, West Virginia  
May 17, 2011

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**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINING BALANCE SHEET**  
**December 31, 2010**

	Preston Memorial Hospital	Preston Memorial Medical Group	Preston Memorial Hospital Foundation	Combining Entries	Combined Balance
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 4,649	\$ 5,424	\$ -	\$ -	\$ 10,073
Assets limited as to use	195,509	-	-	-	195,509
Beneficial interest in remainder trust	18,000	-	-	-	18,000
Patient accounts receivable, net of allowance for doubtful accounts	2,075,315	72,559	-	-	2,147,874
Inventories	629,256	3,822	-	-	633,078
Prepaid expenses and other current assets	593,018	5,399	-	-	598,417
<b>Total current assets</b>	<b>3,515,747</b>	<b>87,204</b>	<b>-</b>	<b>-</b>	<b>3,602,951</b>
<b>Assets limited as to use, net of current portion</b>	<b>145,787</b>	<b>-</b>	<b>304,893</b>	<b>-</b>	<b>450,680</b>
<b>Beneficial interest in remainder trust, net of current portion</b>	<b>124,580</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,580</b>
<b>Capital assets, net</b>	<b>3,553,560</b>	<b>68,367</b>	<b>-</b>	<b>-</b>	<b>3,621,927</b>
<b>Other assets</b>					
Bonds issue costs, net	24,561	-	-	-	24,561
Other	87,409	-	-	-	87,409
Due from related parties	-	-	14,070	(14,070)	-
<b>Total assets</b>	<b>\$ 7,451,644</b>	<b>\$ 155,571</b>	<b>\$ 318,963</b>	<b>\$ (14,070)</b>	<b>\$ 7,912,108</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 772,491	\$ -	\$ -	\$ -	\$ 772,491
Notes payable	191,400	-	-	-	191,400
Accounts payable and accrued expenses	1,389,492	6,795	15,907	-	1,412,194
Accrued salaries and benefits	985,100	36,707	-	-	1,021,807
Due to related parties	(15,799)	-	-	15,799	-
Estimated third-party payor settlements	938,821	-	-	-	938,821
<b>Total current liabilities</b>	<b>4,261,505</b>	<b>43,502</b>	<b>15,907</b>	<b>15,799</b>	<b>4,336,713</b>
<b>Accrued pension costs</b>	<b>645,058</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>645,058</b>
<b>Long-term debt, net of current maturities</b>	<b>1,600,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,600,300</b>
<b>Due to related parties</b>	<b>29,869</b>	<b>-</b>	<b>-</b>	<b>(29,869)</b>	<b>-</b>
<b>Total liabilities</b>	<b>6,536,732</b>	<b>43,502</b>	<b>15,907</b>	<b>(14,070)</b>	<b>6,582,071</b>
<b>Net assets (deficit)</b>					
Invested in capital assets, net of related debt	1,566,339	68,367	-	-	1,634,706
Restricted – expendable for capital assets and specific projects	254,377	-	303,056	-	557,433
Unrestricted	(905,804)	43,702	-	-	(862,102)
<b>Total net assets</b>	<b>914,912</b>	<b>112,069</b>	<b>303,056</b>	<b>-</b>	<b>1,330,037</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,451,644</b>	<b>\$ 155,571</b>	<b>\$ 318,963</b>	<b>\$ (14,070)</b>	<b>\$ 7,912,108</b>

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINING BALANCE SHEET**  
**December 31, 2009**

	Preston Memorial Hospital	Preston Memorial Medical Group	Preston Memorial Hospital Foundation	Combining Entries	Combined Balance
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 22,212	\$ 200	\$ -	\$ -	\$ 22,412
Assets limited as to use	534,928	-	-	-	534,928
Beneficial interest in remainder trust	18,000	-	-	-	18,000
Patient accounts receivable, net of allowance for doubtful accounts	1,650,193	155,764	-	-	1,805,957
Inventories	389,088	3,822	-	-	392,910
Prepaid expenses and other current assets	631,444	58,948	-	-	690,392
Due from related parties	-	-	83,969	(83,969)	-
Estimated third-party payor settlements	38,276	-	-	-	38,276
<b>Total current assets</b>	<b>3,284,141</b>	<b>218,734</b>	<b>83,969</b>	<b>(83,969)</b>	<b>3,502,875</b>
<b>Assets limited as to use, net of current portion</b>	<b>40,728</b>	<b>-</b>	<b>227,345</b>	<b>-</b>	<b>268,073</b>
<b>Beneficial interest in remainder trust, net of current portion</b>	<b>116,529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116,529</b>
<b>Capital assets, net</b>	<b>3,661,166</b>	<b>86,653</b>	<b>-</b>	<b>-</b>	<b>3,747,819</b>
<b>Other assets</b>					
Bonds issue costs, net	35,478	-	-	-	35,478
Other	103,333	-	-	-	103,333
Due from related parties	2,614,866	-	-	(2,614,866)	-
<b>Total assets</b>	<b>\$ 9,856,241</b>	<b>\$ 305,387</b>	<b>\$ 311,314</b>	<b>\$ (2,698,835)</b>	<b>\$ 7,774,107</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 780,183	\$ -	\$ -	\$ -	\$ 780,183
Notes payable	380,569	-	-	-	380,569
Accounts payable and accrued expenses	1,220,440	8,320	21,480	-	1,250,240
Accrued salaries and benefits	896,676	35,593	-	-	932,269
Due to related parties	83,969	-	-	(83,969)	-
<b>Total current liabilities</b>	<b>3,361,837</b>	<b>43,913</b>	<b>21,480</b>	<b>(83,969)</b>	<b>3,343,261</b>
<b>Accrued pension costs</b>	<b>745,696</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>745,696</b>
<b>Long-term debt, net of current maturities</b>	<b>2,469,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,469,985</b>
<b>Due to related parties</b>	<b>-</b>	<b>3,513,329</b>	<b>-</b>	<b>(3,513,329)</b>	<b>-</b>
<b>Total liabilities</b>	<b>6,577,518</b>	<b>3,557,242</b>	<b>21,480</b>	<b>(3,597,298)</b>	<b>6,558,942</b>
<b>Net assets (deficit)</b>					
Invested in capital assets, net of related debt	871,997	86,653	-	-	958,650
Restricted – expendable for capital assets and specific projects	266,593	-	289,834	-	556,427
Unrestricted	2,140,133	(3,338,508)	-	898,463	(299,912)
<b>Total net assets</b>	<b>3,278,723</b>	<b>(3,251,855)</b>	<b>289,834</b>	<b>898,463</b>	<b>1,215,165</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,856,241</b>	<b>\$ 305,387</b>	<b>\$ 311,314</b>	<b>\$ (2,698,835)</b>	<b>\$ 7,774,107</b>

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINING STATEMENT OF OPERATIONS AND  
 CHANGES IN NET ASSETS**  
**Year Ended December 31, 2010**

	Preston Memorial Hospital	Preston Memorial Medical Group	Preston Memorial Hospital Foundation	Combining Entries	Combined Balance
<b>Operating revenues:</b>					
Net patient service revenue	\$ 19,522,210	\$ 462,682	\$ -	\$ -	\$ 19,984,892
Other operating revenue	304,442	29,728	-	-	334,170
<b>Total operating revenues</b>	<b>19,826,652</b>	<b>492,410</b>	<b>-</b>	<b>-</b>	<b>20,319,062</b>
<b>Operating expenses:</b>					
Salaries and wages	9,176,577	651,242	-	-	9,827,819
Employee benefits	2,348,963	40,785	-	-	2,389,748
Professional fees and purchased services	2,531,618	75,162	-	-	2,606,780
Supplies and other expenses	3,660,618	124,329	34,924	-	3,819,871
Utilities	365,036	15,864	-	-	380,900
Insurance, net of refund	115,810	85,363	-	-	201,173
Depreciation	746,736	18,286	-	-	765,022
Taxes	542,965	4,765	-	-	547,730
<b>Total operating expenses</b>	<b>19,488,323</b>	<b>1,015,796</b>	<b>34,924</b>	<b>-</b>	<b>20,539,043</b>
<b>Operating income (loss)</b>	<b>338,329</b>	<b>(523,386)</b>	<b>(34,924)</b>	<b>-</b>	<b>(219,981)</b>
<b>Nonoperating revenues (expenses):</b>					
Investment income	11,219	-	(11,201)	-	18
Interest expense	(254,973)	(344)	-	-	(255,317)
Gain on disposal of property and equipment	3,379	-	-	-	3,379
Noncapital grants and contributions	68,070	-	59,347	-	127,417
<b>Total nonoperating revenues (expenses)</b>	<b>(172,305)</b>	<b>(344)</b>	<b>48,146</b>	<b>-</b>	<b>(124,503)</b>
<b>Excess (deficiency) of revenues over expenses before capital grants, contributions, and pension plan liability adjustment</b>	<b>166,024</b>	<b>(523,730)</b>	<b>13,222</b>	<b>-</b>	<b>(344,484)</b>
<b>Capital grants, contributions and other adjustments</b>	<b>384,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>384,775</b>
<b>Pension plan liability adjustment</b>	<b>74,581</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>74,581</b>
<b>Elimination of related party balances</b>	<b>(2,989,191)</b>	<b>3,887,654</b>	<b>-</b>	<b>(898,463)</b>	<b>-</b>
<b>Increase (decrease) in net assets</b>	<b>(2,363,811)</b>	<b>3,363,924</b>	<b>13,222</b>	<b>(898,463)</b>	<b>114,872</b>
<b>Net assets (deficit), beginning of year</b>	<b>3,278,723</b>	<b>(3,251,855)</b>	<b>289,834</b>	<b>898,463</b>	<b>1,215,165</b>
<b>Net assets (deficit), end of year</b>	<b>\$ 914,912</b>	<b>\$ 112,069</b>	<b>\$ 303,056</b>	<b>\$ -</b>	<b>\$ 1,330,037</b>

**PRESTON HEALTH CARE CORPORATION**  
**(A Component Unit of Preston County, West Virginia)**

**COMBINING STATEMENT OF OPERATIONS AND  
 CHANGES IN NET ASSETS**  
**Year Ended December 31, 2009**

	<b>Preston Memorial Hospital</b>	<b>Preston Memorial Medical Group</b>	<b>Preston Memorial Hospital Foundation</b>	<b>Combining Entries</b>	<b>Combined Balance</b>
<b>Operating revenues:</b>					
Net patient service revenue	\$ 18,860,599	\$ 749,756	\$ -	\$ -	\$ 19,610,355
Other operating revenue	283,561	28,800	-	(36,815)	275,546
<b>Total operating revenues</b>	<b>19,144,160</b>	<b>778,556</b>	<b>-</b>	<b>(36,815)</b>	<b>19,885,901</b>
<b>Operating expenses:</b>					
Salaries and wages	8,969,223	712,405	-	-	9,681,628
Employee benefits	2,741,030	99,942	-	-	2,840,972
Professional fees and purchased services	2,053,182	94,042	-	-	2,147,224
Supplies and other expenses	3,561,958	166,850	50,640	(36,815)	3,742,633
Utilities	390,224	17,573	-	-	407,797
Insurance, net of refund	177,110	103,919	-	-	281,029
Depreciation	659,742	20,792	-	-	680,534
Taxes	634,343	5,770	-	-	640,113
<b>Total operating expenses</b>	<b>19,186,812</b>	<b>1,221,293</b>	<b>50,640</b>	<b>(36,815)</b>	<b>20,421,930</b>
<b>Operating income (loss)</b>	<b>(42,652)</b>	<b>(442,737)</b>	<b>(50,640)</b>	<b>-</b>	<b>(536,029)</b>
<b>Nonoperating revenues (expenses):</b>					
Investment income	11,279	-	32,671	-	43,950
Interest expense	(306,987)	(2,072)	-	-	(309,059)
Gain on sale of Home Health Agency	412,390	-	-	-	412,390
Noncapital grants and contributions	125,408	-	35,151	-	160,559
<b>Total nonoperating revenues (expenses)</b>	<b>242,090</b>	<b>(2,072)</b>	<b>67,822</b>	<b>-</b>	<b>307,840</b>
<b>Excess (deficiency) of revenues over expenses before capital grants, contributions, and pension plan liability adjustment</b>	<b>199,438</b>	<b>(444,809)</b>	<b>17,182</b>	<b>-</b>	<b>(228,189)</b>
<b>Capital grants, contributions and other adjustments</b>	<b>278,898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>278,898</b>
<b>Pension plan liability adjustment</b>	<b>238,893</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>238,893</b>
<b>Increase (decrease) in net assets</b>	<b>717,229</b>	<b>(444,809)</b>	<b>17,182</b>	<b>-</b>	<b>289,602</b>
<b>Net assets (deficit), beginning of year</b>	<b>2,561,494</b>	<b>(2,807,046)</b>	<b>272,652</b>	<b>898,463</b>	<b>925,563</b>
<b>Net assets (deficit), end of year</b>	<b>\$ 3,278,723</b>	<b>\$ (3,251,855)</b>	<b>\$ 289,834</b>	<b>\$ 898,463</b>	<b>\$ 1,215,165</b>