

Pender Adult Services, Inc.

Financial Statements

*For the Year Ended June 30, 2017
(with Comparative Totals for 2016)*



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pender Adult Services, Inc.

We have audited the accompanying financial statements of Pender Adult Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pender Adult Services, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Pender Adult Services, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ewing & Company, L.L.P.

Wilmington, North Carolina
October 2, 2017

Pender Adult Services, Inc.
Statement of Financial Position
As of June 30, 2017

| | 2017 | | | Total | 2016 Comparative Total |
|-------------------------------------|--------------------|--------------------|---------------------------|--------------------|------------------------------|
| | Unrestricted | | Temporarily Restricted | | |
| | Operating | Property | | | |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash & cash equivalents | \$1,053,933 | \$ 1,950 | \$ - | \$1,055,883 | \$1,059,802 |
| Grant & contract receivables | 234,088 | - | - | 234,088 | 117,069 |
| Patient receivables, net | 260,890 | - | - | 260,890 | 213,184 |
| Total Current Assets | <u>1,548,911</u> | <u>1,950</u> | <u>-</u> | <u>1,550,861</u> | <u>1,390,055</u> |
| Property in Service | | | | | |
| Land | - | 144,596 | - | 144,596 | 144,592 |
| Buildings | - | 3,429,210 | - | 3,429,210 | 3,427,110 |
| Improvements | - | 25,356 | - | 25,356 | 25,356 |
| Equipment | - | 419,983 | - | 419,983 | 382,557 |
| Vehicles | - | 614,543 | - | 614,543 | 578,467 |
| Total Property in Service | - | 4,633,688 | - | 4,633,688 | 4,558,082 |
| Less: Accumulated depreciation | - | (2,152,872) | - | (2,152,872) | (1,958,489) |
| Net Property | - | <u>2,480,816</u> | - | <u>2,480,816</u> | <u>2,599,593</u> |
| Total Assets | <u>\$1,548,911</u> | <u>\$2,482,766</u> | <u>\$ -</u> | <u>\$4,031,677</u> | <u>\$3,989,648</u> |
| LIABILITIES & NET ASSETS | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 19,224 | \$ - | \$ - | \$ 19,224 | \$ 87,056 |
| Accrued liabilities | 211,208 | - | - | 211,208 | 195,671 |
| Unearned revenue | 7,403 | - | - | 7,403 | 8,343 |
| Current portion of notes payable | - | 34,164 | - | 34,164 | 32,708 |
| Total Current Liabilities | <u>237,835</u> | <u>34,164</u> | <u>-</u> | <u>271,999</u> | <u>323,778</u> |
| Notes payable (Note 3) | - | 400,558 | - | 400,558 | 434,861 |
| Total Liabilities | <u>237,835</u> | <u>434,722</u> | <u>-</u> | <u>672,557</u> | <u>758,639</u> |
| Net Assets | | | | | |
| Unrestricted | 1,311,076 | 2,048,044 | - | 3,359,120 | 3,231,009 |
| Temporarily restricted | - | - | - | - | - |
| Total Net Assets | <u>1,311,076</u> | <u>2,048,044</u> | <u>-</u> | <u>3,359,120</u> | <u>3,231,009</u> |
| Total Liabilities & Net Assets | <u>\$1,548,911</u> | <u>\$2,482,766</u> | <u>\$ -</u> | <u>\$4,031,677</u> | <u>\$3,989,648</u> |

The Accompanying Notes are an Integral Part of these Financial Statements

Pender Adult Services, Inc.
Statement of Activities
For the Year Ended June 30, 2017

| | 2017 | | | Total | 2016 Comparative Total |
|--------------------------------------|--------------------|--------------------|---------------------------|--------------------|------------------------------|
| | Unrestricted | | Temporarily Restricted | | |
| | Operating | Property | | | |
| PUBLIC SUPPORT | | | | | |
| Contributions | \$ - | \$ - | \$ 8,500 | \$ 8,500 | \$ 32,701 |
| United Way | - | - | 5,951 | 5,951 | 5,298 |
| Government grants | - | - | 609,431 | 609,431 | 641,238 |
| Council of Governments | - | - | 505,283 | 505,283 | 512,620 |
| Special events, net | 45,856 | - | - | 45,856 | 56,201 |
| Net assets released from restriction | <u>1,078,284</u> | <u>50,881</u> | <u>(1,129,165)</u> | <u>-</u> | <u>-</u> |
| Total Public Support | <u>1,124,140</u> | <u>50,881</u> | <u>-</u> | <u>1,175,021</u> | <u>1,248,058</u> |
| REVENUE | | | | | |
| Patient fees | 1,396,851 | - | - | 1,396,851 | 1,416,310 |
| Program service fees | 577,214 | - | - | 577,214 | 390,259 |
| Interest income | 4,384 | - | - | 4,384 | 1,691 |
| Other revenue | <u>16,061</u> | <u>3,000</u> | <u>-</u> | <u>19,061</u> | <u>33,811</u> |
| Total Revenue | <u>1,994,510</u> | <u>3,000</u> | <u>-</u> | <u>1,997,510</u> | <u>1,842,071</u> |
| Total Public Support & Revenue | <u>3,118,650</u> | <u>53,881</u> | <u>-</u> | <u>3,172,531</u> | <u>3,090,129</u> |
| EXPENSES | | | | | |
| Program | 2,544,124 | 192,946 | - | 2,737,070 | 2,806,940 |
| Administrative | 235,413 | 17,151 | - | 252,564 | 233,036 |
| Fundraising | <u>50,498</u> | <u>4,288</u> | <u>-</u> | <u>54,786</u> | <u>69,698</u> |
| Total Expenses | <u>2,830,035</u> | <u>214,385</u> | <u>-</u> | <u>3,044,420</u> | <u>3,109,674</u> |
| Change in Net Assets | 288,615 | (160,504) | - | 128,111 | (19,545) |
| Net Assets, Beginning | 1,063,144 | 2,167,865 | - | 3,231,009 | 3,250,554 |
| Transfer | <u>(40,683)</u> | <u>40,683</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Assets, Ending | <u>\$1,311,076</u> | <u>\$2,048,044</u> | <u>\$ -</u> | <u>\$3,359,120</u> | <u>\$3,231,009</u> |

The Accompanying Notes are an Integral Part of these Financial Statements

Pender Adult Services, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2017

| | 2017 | | | Total | 2016 Comparative Total |
|--------------------------|--------------------|-------------------|------------------|--------------------|------------------------------|
| | Program | Administrative | Fundraising | | |
| Salaries | \$1,515,667 | \$ 153,270 | \$ 34,060 | \$1,702,997 | \$1,572,786 |
| Benefits | 236,600 | 23,926 | 5,317 | 265,843 | 236,640 |
| Payroll taxes | <u>118,525</u> | <u>11,985</u> | <u>2,663</u> | <u>133,173</u> | <u>121,187</u> |
| Total Payroll Expenses | <u>1,870,792</u> | <u>189,181</u> | <u>42,040</u> | <u>2,102,013</u> | <u>1,930,613</u> |
| Professional fees | 17,507 | 4,377 | - | 21,884 | 19,872 |
| Supplies | 168,364 | 14,966 | 3,741 | 187,071 | 186,741 |
| Telephone | 14,394 | 1,472 | 491 | 16,357 | 11,755 |
| Postage | 4,557 | 466 | 155 | 5,178 | 5,187 |
| Occupancy | 50,238 | 4,465 | 1,116 | 55,819 | 54,832 |
| Repairs & maintenance | 76,394 | 6,791 | 1,698 | 84,883 | 27,667 |
| Printing | 5,716 | 585 | 195 | 6,496 | 8,837 |
| Travel | 14,396 | - | - | 14,396 | 13,193 |
| Conferences | 13,648 | - | - | 13,648 | 11,570 |
| Insurance | 47,783 | 4,247 | 1,062 | 53,092 | 64,140 |
| Miscellaneous | 22,860 | 2,540 | - | 25,400 | 22,286 |
| Advertising | 17,188 | - | - | 17,188 | 14,279 |
| Contract services | 38,948 | - | - | 38,948 | 41,272 |
| Dues & subscriptions | 19,607 | - | - | 19,607 | 25,299 |
| Food | 71,312 | - | - | 71,312 | 74,171 |
| Transportation | <u>75,665</u> | <u>-</u> | <u>-</u> | <u>75,665</u> | <u>358,656</u> |
| Total Operating Expenses | <u>2,529,369</u> | <u>229,090</u> | <u>50,498</u> | <u>2,808,957</u> | <u>2,870,370</u> |
| Interest | 14,755 | 6,323 | - | 21,078 | 22,478 |
| Depreciation | <u>192,946</u> | <u>17,151</u> | <u>4,288</u> | <u>214,385</u> | <u>216,826</u> |
| Total Expenses | <u>\$2,737,070</u> | <u>\$ 252,564</u> | <u>\$ 54,786</u> | <u>\$3,044,420</u> | <u>\$3,109,674</u> |

The Accompanying Notes are an Integral Part of these Financial Statements

Pender Adult Services, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2017

| | 2017 | | | Total | 2016 Comparative Total |
|---|--------------------|------------------|---------------------------|--------------------|------------------------------|
| | Unrestricted | | Temporarily Restricted | | |
| | Operating | Property | | | |
| Cash Flows From Operating Activities | | | | | |
| Cash Collections for: | | | | | |
| Support | \$1,007,121 | \$ 50,881 | \$ - | \$1,058,002 | \$1,133,882 |
| Revenue | 1,941,480 | 3,000 | - | 1,944,480 | 1,816,537 |
| Interest | 4,384 | - | - | 4,384 | 1,691 |
| Less: Cash Payments for: | | | | | |
| Staff compensation | (2,086,476) | - | - | (2,086,476) | (1,934,196) |
| Other expenses | <u>(795,854)</u> | <u>-</u> | <u>-</u> | <u>(795,854)</u> | <u>(709,328)</u> |
| Net Cash Provided (Used) | | | | | |
| By Operating Activities | <u>70,655</u> | <u>53,881</u> | <u>-</u> | <u>124,536</u> | <u>308,586</u> |
| Cash Flows From Investing Activities | | | | | |
| Acquisition of property & equipment | - | (95,608) | - | (95,608) | (250,012) |
| Disposal of property & equipment | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,959</u> |
| Net Cash Provided (Used) | | | | | |
| By Investing Activities | <u>-</u> | <u>(95,608)</u> | <u>-</u> | <u>(95,608)</u> | <u>(242,053)</u> |
| Cash Flows From Financing Activities | | | | | |
| Transfers | (40,683) | 40,683 | - | - | - |
| Principal payments | <u>-</u> | <u>(32,847)</u> | <u>-</u> | <u>(32,847)</u> | <u>(31,447)</u> |
| Net Cash Provided (Used) | | | | | |
| By Financing Activities | <u>(40,683)</u> | <u>7,836</u> | <u>-</u> | <u>(32,847)</u> | <u>(31,447)</u> |
| Net Increase (Decrease) in Cash | 29,972 | (33,891) | - | (3,919) | 35,086 |
| Cash & Cash Equivalents, Beginning | <u>1,023,961</u> | <u>35,841</u> | <u>-</u> | <u>1,059,802</u> | <u>1,024,716</u> |
| Cash & Cash Equivalents, Ending | <u>\$1,053,933</u> | <u>\$ 1,950</u> | <u>\$ -</u> | <u>\$1,055,883</u> | <u>\$1,059,802</u> |
| Reconciliation of Change in Net Assets to Net Cash Provided (Used) | | | | | |
| By Operating Activities: | | | | | |
| Change in net assets | \$ 288,615 | \$(160,504) | \$ - | \$ 128,111 | \$ (19,545) |
| Depreciation | - | 214,385 | - | 214,385 | 216,826 |
| Grants receivable (increase) decrease | (117,019) | - | - | (117,019) | 114,176 |
| Receivables (increase) decrease | (47,706) | - | - | (47,706) | 23,843 |
| Prepaid expenses (increase) decrease | - | - | - | - | 955 |
| Unearned revenue increase (decrease) | (940) | - | - | (940) | (1,194) |
| Accounts payable increase (decrease) | <u>(52,295)</u> | <u>-</u> | <u>-</u> | <u>(52,295)</u> | <u>(26,475)</u> |
| Net Cash Provided (Used) | | | | | |
| By Operating Activities | <u>\$ 70,655</u> | <u>\$ 53,881</u> | <u>\$ -</u> | <u>\$ 124,536</u> | <u>\$ 308,586</u> |
| Supplemental Disclosure | | | | | |
| Interest paid | | | | <u>\$ 21,078</u> | <u>\$ 22,478</u> |
| Income tax paid | | | | <u>\$ -</u> | <u>\$ -</u> |

The Accompanying Notes are an Integral Part of these Financial Statements

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

1. DESCRIPTION OF ORGANIZATION

Pender Adult Services, Inc. (the "Organization") is a nonprofit corporation organized in 1982 under the laws of North Carolina. The Organization operates as a care center in Pender County and provides services to the elderly including home delivered meals, congregate meals, companion services, personal care services, patient medical aid, and group activities.

The Organization receives substantially all of its revenue from federal, state, and local governments, primarily from providing reimbursable services to Medicaid program beneficiaries and from grants received from a pass-through organization and Cape Fear Council of Governments. A significant reduction in the levels of support, if this were to occur, would have a significant effect on the Organization's programs and activities.

Administrative activities include the functions necessary to provide support to the Organization's program activities. Administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Accordingly, contributions to the Organization may be deductible by donors and related purpose income is exempt from income tax. The Organization is required to file Form 990, Return of Organization Exempt from Income Tax. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations. Accordingly, the financial statements have been prepared on the accrual basis. Revenue is recorded when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness and understandability of the financial statements.

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors as follows:

- a) **Unrestricted net assets** are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- b) **Temporarily restricted net assets** are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

- c) **Permanently restricted net assets** are resources whose use by the Organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class. The Organization had no permanently restricted net asset activity in 2017 or 2016.

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts and short-term certificates of deposits with maturities of three months or less. From time to time during the periods presented, the Organization has had cash balances in financial institutions that have exceeded federal depository insurance limits. Cash and cash equivalents are as follows at June 30:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|---------------------|---------------------|
| Cash on hand (petty cash) | \$ 405 | \$ 405 |
| First Citizens Bank | 497,588 | 621,951 |
| First Bank | 404,835 | 401,605 |
| First Bank CD | 151,105 | - |
| TD Bank | <u>1,950</u> | <u>35,841</u> |
| Total Cash & Cash Equivalents | <u>\$ 1,055,883</u> | <u>\$ 1,059,802</u> |

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit under the Uniform Grant Guidance and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

Net Patient Revenue

Patient revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. Patient receivables are stated at the amount that management expects to collect. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. The allowance for uncollectible receivables is based on analysis and aging of accounts and was \$5,000 in 2017 and 2016.

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

Property and Depreciation

Land, buildings, and equipment are reported in the statement of financial position at cost if purchased and at fair value at the date of donation if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$500 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets (39 years for buildings, 7-15 years for improvements, and 5-7 years for equipment and furnishings).

Land, buildings, and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets, unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due and therefore, are reported as temporarily restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional; that is, until all conditions on which they depend are substantially met.

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

Gifts-In-Kind Contributions

The Organization periodically receives contributions in a form other than cash or investments. If the Organization receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Organization's capitalization policy. Donated use of facilities, if any, is reported as contributions and as expenses at the estimated fair value of similar space for rent under similar conditions. If the use of the space is promised unconditionally for a period greater than one year, the contribution is reported as a contribution and an unconditional promise to give at the date of gift and the expense is reported over the term of use. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

The Organization benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Organization's program operations and in its fundraising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Total expenses for 2017 were \$3,053,472, which includes \$9,052 of netted special events direct expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using objective basis, such as time spent, salaries, square feet, and other basis.

Administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

Prior Year Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

Subsequent Events

Subsequent events have been evaluated through October 2, 2017, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. NOTES PAYABLE

Notes payable consists of the following two notes to the USDA:

The first note is due in annual payments of principal and interest of \$31,605 through June 2029, at which time the remainder of principal is due. The interest rate is fixed at 4.75%. The balance at June 30, 2017 is \$286,097.

The second note is due in annual payments of principal and interest of \$22,320 through June 2026, at which time the remainder of principal is due. The interest rate is fixed at 4.125%. The balance at June 30, 2017 is \$148,625.

The maturities are as follows for the years ending June 30:

| | |
|----------------------|-------------------|
| 2018 | \$ 34,164 |
| 2019 | 35,686 |
| 2020 | 37,275 |
| 2021 | 38,936 |
| 2022 | 40,671 |
| Thereafter | <u>247,990</u> |
| Total | 434,722 |
| Less: Current | <u>(34,164)</u> |
| Total Long-Term Debt | <u>\$ 400,558</u> |

The security agreement with USDA Rural Development requires that the Organization establish a reserve account setting aside \$54,174. At June 30, 2017, the Organization had reserves in excess of that amount outside of their operating account.

Pender Adult Services, Inc.
Notes to Financial Statements
June 30, 2017

4. GOVERNMENT GRANTS

The Organization receives its revenue from a variety of governmental agencies summarized as follows for the years ended June 30:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| North Carolina Department of Transportation: | | |
| Rural Operating Assistance Program | \$ 166,478 | \$ 149,895 |
| Community Transportation Program | 89,203 | 98,199 |
| Capital | 50,881 | 98,590 |
| Elderly Individuals and Individuals with Disabilities | 68,630 | 58,360 |
| North Carolina Department of Insurance: | | |
| SHIIP | 5,718 | 5,014 |
| Corporation for National and Community Service | 66,678 | 66,694 |
| Federal Emergency Management Agency | 6,235 | - |
| Local sources | <u>155,608</u> | <u>164,486</u> |
| Total Government Grants | <u>\$ 609,431</u> | <u>\$ 641,238</u> |

5. RETIREMENT PLAN

The Organization maintains a 403(b) qualified retirement plan (the "Plan") for all employees meeting eligibility requirements. The Organization has the option of matching contributions on an annual basis to the Plan on each participant's behalf in the amount of up to 50% of the first 4% of compensation that is contributed by each participant pursuant to a salary reduction agreement. No contributions were made during the year ended June 30, 2017 and June 30, 2016.

6. CONCENTRATIONS OF RISK

Amounts held in financial institutions are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The Organization deposits its cash with high quality institutions, and management believes the Organization is not exposed to significant credit risk on those amounts.

The Organization's revenue is received from federal grants and Medicaid billing. As such, the Organization's ability to generate resources is dependent upon the economic health of the grantors and Medicaid. Any major changes could cause a decrease in revenue.

7. CONTINGENCIES

The Organization is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of liability, natural disasters, employee and officer errors and omissions, and employee workers' compensation.

The Organization purchases commercial insurance coverage against risk of loss due to errors and omissions, fiduciary liability, property damage and theft, fraud, employment liability, and numerous other insurable risks. The Organization carries fire, wind, and hail property insurance in the aggregated amount of \$3,332,200 for 2017 and 2016 with a deductible of \$1,000 per location.

The Organization is covered by professional liability insurance on a claims made basis. Policy limits provided are on a per occurrence basis with coverage up to \$1,000,000 and aggregate coverage of \$3,000,000. Management believes the coverage results in no remaining exposure to the Organization.

The Organization has an umbrella policy for up to \$1,000,000 per occurrence. The Organization also has a directors and officers policy.

No claim payment has exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above.