Community Care of West Virginia, Inc.

Independent Auditor's Reports and Financial Statements

June 30, 2017

BKD
CPAs & Advisors

Community Care of West Virginia, Inc.
June 30, 2017

Contents

BKD
CPAs & Advisors

910 E. St. Louis Street, Suite 200 | P.O. Box 1190 | Springfield, MO 65801-1190
417.865.8701 | Fax 417.865.0682 | bkd.com

Independent Auditor's Report

Board of Directors
Community Care of West Virginia, Inc.
Rock Cave, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Community Care of West Virginia, Inc. (the "Organization"), which comprise the balance sheet as of June 30, 2017, and the related statements of operations and changes in net assets 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Community Care of West Virginia, Inc. as of June 30, 2017, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 1,* in 2017 the Organization changed its method of financial presentation. Also, the 2016 financial statements, before they were restated for the matters discussed in *Note 13*, were audited by other auditors and their report thereon, dated January 19, 2017, expressed an unmodified opinion. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of expenditures of state awards as required by the State of West Virginia Accountability Requirements (WV Code 12-4,14), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018, on our consideration of Community Care of West Virginia, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Care of West Virginia, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
March 20, 2018

DHHR - Finance

2018

Date Received

Community Care of West Virginia, Inc.
Balance Sheet
June 30, 2017

Assets

Current Assets	
Cash	$ 1,001,325
Patient accounts receivable, net of allowance of $321,000	1,905,188
Estimated amounts due from third-party payers	280,000
Grants and other receivables	113,118
Inventories	640,240
Prepaid expenses and other	98,004
Total current assets	4,037,875
Long-Term Investments	95,629
Property and Equipment, At Cost	
Land	422,025
Buildings and leasehold improvements	7,881,950
Furniture and equipment	2,475,486
	10,779,461
Less accumulated depreciation	4,101,857
	6,677,604
Other Assets	
Deposits	20,266
Goodwill	222,500
Total other assets	242,766
Total assets	$ 11,053,874

Liabilities and Net Assets

Current Liabilities	
Note payable to bank	$ 946,269
Current maturities of long-term debt	220,515
Other long-term liability - current	70,400
Accounts payable	1,065,673
Accrued expenses	502,594
Accrued compensated absences - current	861,460
Deferred grant revenue	54,346
Total current liabilities	3,721,257
Accrued Compensated Absences	201,219
Long-Term Debt	2,479,362
Other Long-Term Liability	140,920
Total liabilities	6,542,758
Unrestricted Net Assets	4,511,116
Total liabilities and net assets	$ 11,053,874

Community Care of West Virginia, Inc.
Statement of Operations and Changes in Net Assets
Year Ended June 30, 2017

Unrestricted Revenues, Gains and Other Support	
Patient service revenue (net of contractual discounts and allowances)	$ 22,551,322
Provision for uncollectible accounts	19,080
Net patient service revenue less provision for uncollectible accounts	22,532,242
Grant revenue	4,659,739
Contribution revenue	675,943
Other revenue	501,594
Total unrestricted revenues, gains and other support	28,369,518
Expenses and Losses	
Salaries and wages	15,722,010
Employee benefits	2,700,382
Purchased services and professional fees	111,881
Supplies and other	9,120,764
Rent	748,181
Depreciation	695,987
Interest	174,078
Gain on sale of property and equipment	(2,738)
Total expenses and losses	29,270,545
Deficiency of Revenues Over Expenses	(901,027)
Grants for acquisition of property and equipment	942,744
Increase in Unrestricted Net Assets and Change in Net Assets	41,717
Net Assets, Beginning of Year, as Previously Reported	5,217,412
Adjustment Applicable to Prior Years	(748,013)
Net Assets, Beginning of Year, as Restated	4,469,399
Net Assets, End of Year	$ 4,511,116

Community Care of West Virginia, Inc.

Statement of Cash Flows

Year Ended June 30, 2017

Operating Activities	
Change in net assets	$ 41,717
Items not requiring (providing) cash	
Gain on sale of property and equipment	2,738
Depreciation	695,987
Grants for acquisition of property and equipment	(942,744)
Change in contributed supplies	114,754
Changes in	
Patient accounts receivable, net	412,506
Grants and other receivables	(48,337)
Estimated amounts due to third-party payers	(280,000)
Prepaid expenses and other	108,154
Inventories	(138,042)
Accounts payable and accrued expenses	57,722
Deferred grant revenue	54,346
Deposits	(2,289)
Net cash provided by operating activities	76,512
Investing Activities	
Purchase of investments	(95,629)
Purchase of property and equipment	(2,004,635)
Proceed from sale of property and equipment	17,250
Net cash used in investing activities	(2,083,014)
Financing Activities	
Proceeds from grants and contributions for acquisition of property and equipment	942,744
Proceeds from issuance of long-term debt	661,750
Principal payments on long-term debt	(242,549)
Proceeds on note payable to bank	587,879
Payments on note payable to bank	(191,610)
Payments on other long-term liabilities	(70,440)
Net cash provided by financing activities	1,687,774
Decrease in Cash	(318,728)
Cash, Beginning of Year	1,320,053
Cash, End of Year	$ 1,001,325
Supplemental Cash Flows Information	
Interest paid	$ 174,078
Other long-term liability incurred for property and equipment	$ 281,760
Capital lease obligation incurred for property and equipment	$ 112,534

Community Care of West Virginia, Inc.
Notes to Financial Statements
June 30, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Community Care of West Virginia, Inc. (the "Organization") is a community health center that primarily earns revenues by providing primary care services through clinics located throughout North Central and Eastern West Virginia.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principle

In 2017, the Organization changed its method of financial statement presentation from reporting as a voluntary health and welfare organization to reporting as a health care organization. The Organization has determined that reporting as a health care organization better reflects the nature of its operations and activities. As a result of the change, the financial statements consist of a balance sheet, a statement of operations and changes in net assets and a statement of cash flows instead of the statements of financial position, activities and cash flows presented in prior years. This change had no effect on the previously reported net assets at June 30, 2016, and also had no effect on the change in net assets for the year ended June 30, 2016.

Cash

At June 30, 2017, the Organization's cash accounts exceeded federally insured limits by approximately $515,000.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients is 58% of self-pay accounts receivable at June 30, 2017. The Organization's write-offs were approximately $31,000 for the year ended June 30, 2017.

Inventories

The Organization states inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	3-40 years
Furniture and equipment	3-10 years

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the grants objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2017.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Capitation Revenue

The Organization has an agreement with the West Virginia Public Employees Insurance Agency to provide medical services to subscribing participants. Under this agreement, the Organization receives monthly capitation payments based on the number of participants, regardless of the services actually performed by the Organization. During 2017, the Organization recorded capitation revenue of $569,752, which is included in net patient service revenue on the statement of operations.

340B Revenue

The Organization participates in the 340B "Drug Discount Program" which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization operates an internal pharmacy to dispense the pharmaceuticals to its patients. Reported 340B revenue consists of the pharmacy reimbursements. Pharmacy gross receipts, cost of goods sold and administrative and filling fees are as follows for the year ended June 30, 2017:

Gross receipts	$ 2,669,553
Drug replenishment costs	(512,351)
Administrative and filling fees	(113,006)
Net revenue	$ 2,044,196

The 340B gross receipts are included in net patient service revenue on the statement of operations. The drug replenishment cost, administrative and fill fees are included in the supplies and other expense. The net 340B revenue from this program is used in furtherance of the Organization's mission.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of pharmacy inventory and rent. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as inventory or expense in its financial statements and similarly increase contribution revenue by a like amount. In-kind contributions of $675,783 were received for the year ended June 30, 2017.

Government Grant Revenue

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Deficiency of Revenues Over Expenses

The statement of operations includes deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets (including assets acquired using contributions which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of approximately $187,500 for 2017, which is included in other revenue in the statement of operations.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the "granting agency"). The general purpose of the grant is to provide expanded health care service delivery for residents of Rock CaveNorth Central and Eastern West Virginia. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the year ended June 30, 2017, the Organization recognized $4,272,926 in CHC grant funds. The Organization's present CHC grant award covers the grant period ending March 31, 2018, and is approved at $4,430,549.

In addition to the above grant, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for service provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed an all-inclusive rate for services under the program. The encounter rate is adjusted annually based on the annual change in the Medicaid Economic Index and certain other factors.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended June 30, 2017, was:

Medicaid	$ 9,216,586
Medicare	4,330,916
Self-pay	725,604
Other third-party payers	8,251,216
Total	$ 22,524,322

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2017, is:

Medicaid	44%
Medicare	20%
Self-pay	12%
Other third-party payers	24%
	100%

Note 5: Medical Malpractice Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing professionals covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claims experience, no accrual has been made for professional malpractice costs for the year ended June 30, 2017. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 6: Investments and Investment Return

Long-term investments at June 30, 2017, include the cash surrender value of life insurance policies on certain key employees for which the Organization is the owner and beneficiary. Interest return is comprised of interest and dividend income and was $1,349 for the year ended June 30, 2017, which is included in other revenue on the statement of operations.

Note 7: Note Payable to Bank

The Organization has a secured note payable that allows borrowings up to $1,000,000 with a variable interest rate based on the prime rate as published in the *Wall Street Journal* (4.25% at June 30, 2017). The note payable is secured by substantially all the Organization's assets. At June 30, 2017, there was $946,269 outstanding on this note payable. Interest payments are due monthly with the entire note balance payable on March 5, 2019 (maturity date). The bank may demand entire note repayment of this note prior to the maturity date. This note payable was paid in full in March 2018 (*Note 14*).

Note 8: Long-Term Debt

Note payable, bank (A)	$ 1,507,887
Note payable, bank (B)	499,750
Note payable, bank (C)	158,952
Lease revenue bonds (D)	144,784
Capital lease obligations (E)	388,504
	2,699,877
Less current maturities	220,515
	$ 2,479,362

(A) Due upon lender's demand. If no demand is made, due March 5, 2035; payable $10,585 monthly, including interest at 4.25% until April 2020, at which time interest rate will convert to a variable interest rate equal to prime interest rate as published in the *Wall Street Journal*, plus 1%; secured by certain real property. The note requires the Organization to comply with certain restrictive covenants including submitting audited financial statements within 60 days after the end of each fiscal year and to maintain certain financial ratios including a debt service coverage ratio of 1.20. The note payable was paid in full in March 2018 (*Note 14*).

(B) Due November 1, 2017; interest only payments due monthly at rate of 4.25%; secured by certain real property. The note payable was paid in full in March 2018 (*Note 14*).

(C) Due January 25, 2032; payable $1,309 monthly including interest at 5.25% until January 2022, at which time interest rate will convert to a variable interest rate equal to prime interest rate as published in the *Wall Street Journal* plus 1.5% with a floor of 4.5%; secured by certain real property.

(D) Lease revenue bonds (the "Bonds") consist of tax-exempt variable rate bonds in the original amount of $391,000 issued under the Town of West Milford Building Commission, privately placed with Premier Bank. The Bonds mature on September 25, 2022, payable $3,174 monthly including interest at 2.15% through September 25, 2017, at which time the interest will adjust to 2.81%, which is the prime rate as published in the *Wall Street Journal* multiplied by 66%. The Bonds are secured by certain real property.

(E) At varying rates of imputed interest from 3.98% to 10.20%, due through February 2021; collateralized by equipment.

Property and equipment included the following equipment under capital leases:

Equipment	$ 590,661
Less accumulated depreciation	241,860
	$ 348,801

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2017, are:

	Long-Term Debt	Capital Lease Obligations
2018	$ 109,786	$ 138,844
2019	130,962	133,009
2020	137,076	126,637
2021	142,348	37,989
2022	111,785	3,927
Thereafter	1,679,416	-
	$ 2,311,373	440,406
Less amount representing interest		51,902
Present value of future minimum lease payments		388,504
Less current maturities		110,729
Noncurrent portion		$ 277,775

Note 9: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

Health care services	$ 21,362,119
General and administrative	7,908,426
	$ 29,270,545

Note 10: Retirement Plan

The Organization has a defined contribution 401(k) retirement plan that covers substantially all employees. The Organization contributes 100% of the participant's contribution up to 3% of gross wages and 50% of the participant's contribution between 3% and 5% of gross wages. The Organization recognized $257,935 retirement plan expense for the year ended June 30, 2017.

Note 11: Operating Leases

The Organization has noncancellable operating leases for primary care outpatient offices which expire in various years through 2030.

Future minimum lease payments at June 30, 2017, were:

2018	$ 627,273
2019	510,865
2020	385,347
2021	255,005
2022	257,373
Thereafter	1,152,766
Future minimum lease payments	$ 3,188,629

In addition to the future minimum lease payments above, as part of a noncancellable operating lease, the Organization entered into an agreement with a lessor for which the lessor financed certain leasehold improvements. The leasehold improvements are included in property and equipment and the related liability is included in other long-term liability on the balance sheet. At June 30, 2017, the Organization owed $211,320 under this agreement. The other long-term liability is payable $5,870 monthly through June 30, 2020. The balance is due in full upon early cancellation of the operating lease.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 5*.

340B Drug Discount Program

The Organization participates in the 340B Drug Discount Program (340B Program) enabling the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The continuing implementation of the *Affordable Care Act*, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Note 13: Adjustments Applicable to Prior Years

In 2016 and prior, the Organization did not properly accrue for employee paid time off. During 2017, the Organization corrected this error to conform to the requirements of accounting principles generally accepted in the United States of America. An adjustment of $748,013 applicable to 2016 and prior has been included in the restated beginning net assets balance. This adjustment reduced the previously reported 2016 change in net assets by $192,624.

Note 14: Subsequent Events

In March 2018, the Organization entered into a note payable in the amount of $2,975,000. Beginning April 13, 2018, the note is payable in 60 monthly installments of $20,603, including interest at 5.50%. Beginning April 13, 2023, the note is payable in 180 monthly installments of $19,273, including variable interest equal to prime interest rate as published in the *Wall Street Journal* (4.50% as of March 2018). Proceeds of this note were used to pay in full the Organization's Note Payable to Bank and certain other notes payable (*Note 7*).

Subsequent events have been evaluated through March 20, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

Community Care of West Virginia, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/Consolidated Health Centers/Health Center Program Cluster	93.224	N/A	$ -	$ 979,851
U.S. Department of Health and Human Services/Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program/Health Center Program Cluster	93.527	N/A	-	3,293,075
Total Health Center Program Cluster			-	4,272,926
Appalachian Regional Commision/Marshall University Research Corporation/ Appalachian Research, Technical Assistance, and Demonstration Project/ Research and Development Cluster	23.011	P1701749	-	13,184
U.S. Department of Health and Human Services/Grants for Capital Development in Health Centers	93.526	N/A	-	953,784
U.S. Department of Health and Human Services/West Virginia Department of Health and Human Resources/Block Grants for Prevention and Treatment of Substance Abuse	93.959	G160547	-	12,500
			$ -	$ 5,252,394

The accompanying notes are an integral part of this Schedule

Community Care of West Virginia, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Community Care of West Virginia, Inc., under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Community Care of West Virginia, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of Community Care of West Virginia, Inc.

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Community Care of West Virginia, Inc., has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Community Care of West Virginia, Inc., did not have any federal loan programs during the year ended June 30, 2017.

Community Care of West Virginia, Inc.
Schedule of Expenditures of State Awards
Year Ended June 30, 2017

State Grantor/ Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	Program Period	Program or Award Amount	Passed Through to to Subrecipients	State Grant Receipts	Total State Expenditures
West Virginia Department of Health and Human Resources:						
Behavioral Health Program	G170567	10/1/16-9/30/17	$ 50,000	$ -	$ 30,920	$ 34,886
Primary Care Support Program	G170410	10/1/16-6/30/17	67,831	-	67,831	67,831
Primary Care Support Program	G170362	7/1/16-6/30/17	229,233	-	204,017	229,233
Recruitment and Retention Community Loan Repayment Program	G160661	10/1/15-6/30/16	60,000	-	(3,264)	(3,264)
State Loan Repayment Program (SLRP)	G170793	4/1/17-6/30/17	25,000	-	25,000	21,433
Total Expenditures of State Awards				$ -	$ 324,504	$ 350,119

BKD
CPAs & Advisors

910 E. St. Louis Street, Suite 200 | P.O. Box 1190 | Springfield, MO 65801-1190
417.865.8701 | Fax 417.865.0682 | bkd.com

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Community Care of West Virginia, Inc.
Rock CaveRock Cave, West Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Community Care of West Virginia, Inc. (the "Organization"), which comprise the balance sheet as of June 30, 2017, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2018, which contained an *Emphasis of Matters* paragraph regarding a change in accounting principle and correction of a material misstatement.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Care of West Virginia, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Care of West Virginia, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Care of West Virginia, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be material weaknesses.

Board of Directors
Community Care of West Virginia, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Care of West Virginia, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-002.

Community Care of West Virginia, Inc.'s Responses to the Findings

Community Care of West Virginia, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Community Care of West Virginia, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

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

BKD, LLP

Springfield, Missouri
March 20, 2018

BKD
CPAs & Advisors

910 E. St. Louis Street, Suite 200 | P.O. Box 1190 | Springfield, MO 65801-1190
417.865.8701 | Fax 417.865.0682 | bkd.com

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Community Care of West Virginia, Inc.
Rock CaveRock Cave, West Virginia

Report on Compliance for Each Major Federal Program

We have audited Community Care of West Virginia, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Community Care of West Virginia, Inc.'s major federal programs for the year ended June 30, 2017. Community Care of West Virginia, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Community Care of West Virginia, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Care of West Virginia, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Community Care of West Virginia, Inc.'s compliance.

Board of Directors
Community Care of West Virginia, Inc.

Opinion on Each Major Federal Program

In our opinion, Community Care of West Virginia, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Community Care of West Virginia, Inc., is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Care of West Virginia, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Care of West Virginia, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

BKD, LLP

Springfield, Missouri
March 20, 2018

Community Care of West Virginia, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☒ Yes	☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☒ Yes ☐ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal award program was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

Community Care of West Virginia, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527
Grants for Capital Development in Health Centers	93.526

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Organization qualified as a low-risk auditee? ☐ Yes ☒ No

Community Care of West Virginia, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-001	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – The Organization's financial statements required adjustments to be in conformity with the accounting principles generally accepted in the United States of America (GAAP), including adjustments applicable to prior years. Areas in which adjustments were proposed, including those which management recorded, include:

- Patient accounts receivable and net patient service revenue
- Inventories, prepaid expenses and other, and supplies and other expense
- Property and equipment and long-term debt
- Long-term investments
- Accrued expenses and employee benefits
- Deferred grant revenue and grant revenue
- Accrued rent payable and rent expense
- Other long-term liability
- Unrestricted net assets

Context – Timely and accurate account reconciliations of all balance sheet accounts and review of general ledger details are critical to identify necessary adjustments.

Effect – Adjusting journal entries were proposed as certain accounts on the unadjusted financial statements were misstated.

Cause – The Organization's year-end procedures did not identify certain necessary adjustments required to present the financial statements in accordance with GAAP or identify the needed adjustments in a timely manner.

Recommendation – Management should modify monthly and year-end closing procedures to ensure controls in place are sufficient to assure accounts and financial statements are prepared in accordance with GAAP.

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-001 (Continued)	Views of Responsible Officials and Planned Corrective Actions – The accounting department has implemented monthly, quarterly and annual checklists to improve its ability to identify unique items in a timely manner. The department is now using automated journal entries, within its accounting software, for deferred revenue and prepaid expenses. Additionally, the staff and senior accountants have provided additional internal training to the accounts payable and accounts receivable clerks on how to recognize revenue and expenses that should be classified deferred or prepaid. The A/P and A/R clerks are now notifying the accountants of any deferred revenue and prepaid expense items as they come through for posting. Additional automated financial reports have been created in the electronic health record system in order to timely and accurately capture any patient accounts receivable which are documented by the health center's medical providers after the routine monthly reports have been prepared. Additional controls are being implemented in the pharmacy which will automate the process for entering new inventory into the pharmacy software. New inventory purchases will be barcode scanned and uploaded electronically into the software and the inventory price lists will be electronically uploaded from the drug wholesaler weekly. This should help to eliminate a miss key of the cost of inventory. Previously, this was a manual process performed by a pharmacy tech. The process for the recording of lease agreements has been improved with the purchasing director obtaining the lease agreements and the fair market value (FMV) of leased equipment directly from the vendor at time of signing. By having these documents and the FMV in a timely manner, the assets can be timely and properly documented in the general ledger and depreciation schedule.

Community Care of West Virginia, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-002	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting, however, internal controls may be circumvented by collusion. Condition –The former Chief Information Officer (CIO) and the Organization's telephone and internet service vendor allegedly colluded to engage in a scheme to overbill and oversell services and equipment to the Organization. Context – The former CIO allegedly received kickbacks and other methods of compensation from the Organization's telephone and internet vendor in exchange for the unauthorized purchase of services and equipment that the Organization did not need and/or use. Invoices for unauthorized purchases by the former CIO lacked sufficient details to properly identify equipment and services for which the Organization was billed. Management identified unusual activity in vendor invoices and notified the vendor that all service contracts and equipment orders must be approved by the CEO or CFO. The vendor continued to provide unauthorized new services and equipment to the Organization without approval by the CEO or CFO. Federal funds were not used for these unauthorized purchases. Effect – After receiving service termination notices, the Organization paid for unauthorized services and purchased or financed equipment which they did not need or use to avoid disruption of internet and telephone services that could have negatively impacted the Organization's operations. Cause – The Organization's former CIO allegedly colluded with the telephone and internet service vendor to purchase unauthorized and unnecessary goods and services. The vendor disregarded the Organizations notices that all contracts or orders must be approved by the CEO or CFO. The vendor refused to provide the Organization adequate and accurate information regarding invoices for purchases of equipment and services and sent service termination notices for disputed invoices. Recommendation – The Organization should continue to review internal controls in place to ensure they are appropriately designed and operating effectively.

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-002 (Continued)	Views of Responsible Officials and Planned Corrective Actions – The management and board of directors of Community Care of West Virginia, Inc. (CCWV) have not taken this matter lightly. The CIO's employment was terminated. Thereafter, CCWV filed a lawsuit against the telephone/internet service vendor, the equipment leasing company, the telephone/internet service vendor's sales representative and CCWV's former CIO. The litigation is currently pending and the trial is set for May 2019. Management has reviewed the Organization's internal control processes, as well as its employee handbook and financial policies, to determine if any additional policies or processes or revisions to those policies and processes could prevent such an incident in the future. CCWV's internal controls were sufficient with detecting this instance of noncompliance; however, with the employee and the vendor conspiring to circumvent CCWV's policies and procedures, and with this being the only telephone and internet service provider in much of CCWV's territory, the unauthorized purchases were paid in order to not disrupt the telephone and internet services which would have been detrimental to the Organization's operations. CCWV will continue to be vigilant of any suspected fraudulent activity within the Organization and will monitor the effectiveness of its internal controls, policies and procedures.

Community Care of West Virginia, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Community Care of West Virginia, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Reference Number	Summary of Finding	Status
2016-001	Reconciliation of Accounting Records to Supporting Information	Unresolved See finding 2017-001

Condition – Audit adjusting entries were required to be made to the Organization's accounting records to reflect accurate balances in the Organization's assets, liabilities, net assets, revenues, and expenses. Various general ledger account balances were not properly reconciled to the supporting documentation such as receivables, prepaid expenses, property and equipment and the related depreciation expense, accrued expenses, revenues and expenses.

Criteria – One of the objectives of an internal control system is to provide management with reasonable assurance that transactions are recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. In addition, timely, accurate, and complete financial reporting is an essential management tool in monitoring and controlling operations.

Cause – Effective review procedures have not been fully implemented whereby the general ledger account balances are compared to the related source documents and subsidiary ledgers to ensure the balances are reflected accurately.

Effect – This resulted in an inaccurate and incomplete presentation of the financial position, results of operations, and cash flows of the Organization. Management therefore, was unable to produce financial statements presented in accordance with generally accepted accounting principles. The necessary adjusting journal entries were made during the audit to correct the errors.

Reason for Recurrence and Status of Corrective Action Plan – Over the past few years, Community Care of West Virginia, Inc. (CCWV) has developed enhanced procedures to ensure that reconciliations are performed on all accounts and subsidiary balances agree to the general ledger. With the hiring of an additional accounting position and with internal restructuring of accounting staff job duties, CCWV is now better positioned to have the ability to perform the reconciliation of the accounting records to supporting information in a timely manner. A closing date was been implemented in the accounting software to ensure that no entries could be erroneously posted for periods in the prior fiscal year. In addition, CCWV had contracted with an outside accounting firm

Reference Number	Summary of Finding	Status
2016-001 (Continued)	to perform reviews of the reconciliations to the general ledger on a monthly basis; however, the accounting firm was unable to fulfill that contract and so the contract was terminated prior to its implementation. The recurrence of finding 2016-001 for the fiscal year 2017 audit, was mostly instances of items that were unique and/or unordinary to the normal routine operations. As mentioned in the Corrective Action Plan 2017-001, CCWV has taken steps to identify these unique accounting items in a timely manner and ensure they are recorded accurately in the future.	

Community Care of West Virginia, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Reference Number	Summary of Finding	Status
2016-002	Accounts Payable Cut-off	Resolved

Condition – We noted errors in the June 30, 2016 accounts payable cut-off. Year end accounts payable erroneously included $9,993 of expenses that related to the fiscal year ending June 30, 2017. We also discovered $275,598 of unrecorded accounts payable at June 30, 2016.

Criteria – Generally accepted accounting principles require the recognition of expenses in the period in which they relate in accordance with the accrual basis of accounting.

Cause – Effective review procedures have not been fully implemented to ensure proper cut-off for recording the Organization's accounts payable.

Effect – Accounts payable were understated by $265,605 in the Organization's June 30, 2016 financial statements. The necessary adjusting journal entries were made during the audit to correct the errors.