

North Country HealthCare, Inc.

**Financial Statements, Supplementary Information
and Single Audit Reports**

**Year Ended June 30, 2016
(with comparative totals for 2015)**

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Independent Auditors' Report

To the Board of Directors of
North Country HealthCare, Inc.
Flagstaff, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of North Country HealthCare, Inc. (the Center, a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Country HealthCare, Inc. as of June 30, 2016, 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 Center's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other 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 by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 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 October 19, 2016, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 the Center's internal control over financial reporting and compliance.

Fester & Chapman P.C.

October 19, 2016

North Country HealthCare, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(with comparative financial information as of June 30, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 3,450,266	\$ 6,323,417
Investments	2,179,636	2,261,405
Accounts receivable, patient revenues, net	3,007,148	2,386,576
PPS receivable	459,734	
Grants receivable	736,773	896,357
Other receivables	344,860	460,248
Inventory	416,483	423,069
Prepaid expenses	<u>268,636</u>	<u>278,904</u>
Total current assets	10,863,536	13,029,976
Property and equipment:		
Land	2,061,430	2,061,430
Buildings and improvements	16,709,078	16,498,278
Medical equipment	2,336,011	2,151,680
Leasehold improvements	1,353,100	1,311,625
Furniture, fixtures and office equipment	<u>4,427,113</u>	<u>3,999,414</u>
	26,886,732	26,022,427
Less accumulated depreciation and amortization	<u>(9,177,780)</u>	<u>(8,114,982)</u>
Total property and equipment	<u>17,708,952</u>	<u>17,907,445</u>
Total assets	<u>\$ 28,572,488</u>	<u>\$ 30,937,421</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,089,988	\$ 1,195,926
Accrued wages and benefits	807,626	733,673
Accrued vacations	1,293,990	1,164,796
Refundable advances	604,009	784,370
Due to AHCCCS		1,985,020
Current portion of long-term debt	<u>352,775</u>	<u>371,377</u>
Total current liabilities	4,148,388	6,235,162
Long-term debt, net of current maturities	<u>5,539,200</u>	<u>5,891,863</u>
Total liabilities	9,687,588	12,127,025
Net assets:		
Unrestricted	18,275,919	18,470,124
Temporarily restricted	325,623	60,964
Permanently restricted	<u>283,358</u>	<u>279,308</u>
Total net assets	<u>18,884,900</u>	<u>18,810,396</u>
Total liabilities and net assets	<u>\$ 28,572,488</u>	<u>\$ 30,937,421</u>

The accompanying notes are an integral part of these statements.

North Country HealthCare, Inc.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

(with comparative financial information for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
Revenue, support, losses and gains:					
Patient revenue, net	\$ 23,703,419			\$ 23,703,419	\$ 22,554,457
Health Centers Cluster grant	6,689,551			6,689,551	5,055,176
Other grants and contracts	7,161,621			7,161,621	6,405,511
Pharmacy sales	7,440,735			7,440,735	5,047,951
Other income	486,188	\$ 311,082	\$ 4,050	801,320	1,009,911
Net investment (losses) income	(86,291)			(86,291)	29,334
In-kind contributions	827,570			827,570	837,176
Net assets released from restrictions:					
Satisfaction of donor requirements	46,423	(46,423)			
Total revenue, support, losses and gains	46,269,216	264,659	4,050	46,537,925	40,939,516
Expenses:					
Wages and salaries	24,854,915			24,854,915	21,999,844
Payroll taxes and fringe benefits	4,433,174			4,433,174	4,027,133
Professional services - locums	1,624,677			1,624,677	1,728,464
Professional services - other	1,295,191			1,295,191	1,087,958
Pharmaceuticals	3,977,610			3,977,610	2,595,057
Supplies	1,643,063			1,643,063	1,238,223
Education	302,707			302,707	307,186
Repairs and maintenance	784,291			784,291	742,727
Telephone and internet	705,248			705,248	572,110
Marketing	514,799			514,799	363,776
Occupancy	1,268,419			1,268,419	1,053,556
Travel	498,280			498,280	348,611
Depreciation and amortization	1,078,065			1,078,065	1,129,555
Patient screening and assistance	633,568			633,568	596,251
Interest expense	209,395			209,395	232,762
Software maintenance	1,290,537			1,290,537	975,482
Recruitment, licensing and dues	257,293			257,293	248,934
Miscellaneous	264,619			264,619	215,054
In-kind expense	827,570			827,570	837,176
Total expenses	46,463,421			46,463,421	40,299,859
Change in net assets	(194,205)	264,659	4,050	74,504	639,657
Net assets, beginning of year	18,470,124	60,964	279,308	18,810,396	18,170,739
Net assets, end of year	\$ 18,275,919	\$ 325,623	\$ 283,358	\$ 18,884,900	\$ 18,810,396

The accompanying notes are an integral part of these statements.

North Country HealthCare, Inc.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

(with comparative financial information for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 74,504	\$ 639,657
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	1,078,065	1,129,555
Net losses on investments	144,164	89,250
Change in:		
Accounts receivable, patient revenues, net	(620,572)	(911,706)
PPS receivable	(459,734)	2,590,563
Grants receivable	159,584	(228,184)
Other receivables	115,388	(59,866)
Inventory	6,586	(26,585)
Prepaid expenses	10,268	58,095
Accounts payable	(105,938)	336,488
Accrued wages and benefits	73,953	(466,639)
Accrued vacations	129,194	172,137
Refundable advances	(180,361)	(194,584)
Due to AHCCCS	<u>(1,985,020)</u>	<u>1,985,020</u>
Net cash (used) provided by operating activities	(1,559,919)	5,113,201
Cash flows from investing activities:		
Acquisition of property and equipment	(879,571)	(500,384)
Proceeds from the sales of investments	971,794	306,949
Acquisition of investments	<u>(1,034,190)</u>	<u>(439,214)</u>
Net cash used by investing activities	(941,967)	(632,649)
Cash flows from financing activities:		
Principal payments on long-term debt	<u>(371,265)</u>	<u>(633,934)</u>
Net cash used by financing activities	<u>(371,265)</u>	<u>(633,934)</u>
Net change in cash	(2,873,151)	3,846,618
Cash, beginning of year	<u>6,323,417</u>	<u>2,476,799</u>
Cash, end of year	<u>\$ 3,450,266</u>	<u>\$ 6,323,417</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	\$ 209,395	\$ 232,762
Equipment acquired through capital leases		202,413

The accompanying notes are an integral part of these statements.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Country HealthCare, Inc. (the Center) is a nonprofit corporation formed in Arizona under Section 501(c)(3) of the Internal Revenue Code. The Center has fifteen service sites including two sites in Flagstaff, Arizona, with satellite clinics in Ash Fork, Seligman, Winslow, Holbrook, St. Johns, Round Valley/Springerville, Kingman, Grand Canyon, Show Low, Lake Havasu, Williams, Bullhead City and Payson, Arizona. The Center's objective is to provide accessible, affordable, comprehensive, quality primary health care in northern Arizona, through direct services, training, outreach and advocacy.

The Center's operations are in an area where a significant number of the target population is uninsured and below 200% of the Federal Poverty Level (FPL). In addition, there are a limited number of providers serving this target population in the service area.

The Center received Federal funding through the U.S. Department of Health and Human Services (DHHS) totaling \$8,282,927 and \$6,579,822, for the years ended June 30, 2016 and 2015, respectively. The Center receives other operating funds from Arizona Health Care Cost Containment System (AHCCCS), Medicare, private insurance, self-pay parties and various third party payers. Training and outreach programs are funded through a variety of grants and contracts.

The significant accounting policies of the Center follow:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. See Note 14 for details regarding restrictions on net assets.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Investments: Investments primarily consist of shares in mutual funds, and are stated at fair value. Unrealized and realized losses and gains are accounted for as investment (losses) income. The Center estimates the fair value of its investments using available market information and other valuation methodologies (See Note 3). Accordingly, the estimates presented are not necessarily indicative of the amounts that the Center could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2016 and 2015. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Grants Receivable: The Center recognizes grants as support when eligible costs are incurred or revenues are earned. Grants receivable are recorded when grant expenses are incurred or contracted services have been provided, but reimbursement has not been received by the Center.

Inventory: Inventory, which is comprised of pharmaceuticals and medical supplies, is stated at cost (which approximates fair value) for purchased items, and at estimated fair value for donated items. Cost for items on hand at year-end is determined using the first-in, first-out method.

Property and Equipment: Property and equipment costing \$5,000 or more are recorded at cost, or at their estimated fair value at the date of gift if donated. The cost or value is allocated to current and future periods through depreciation and amortization.

Depreciation and amortization is computed using the straight-line method based on estimated economic lives of the assets as follows:

Buildings and improvements	10 - 40 years
Medical equipment	5 - 7 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease
Furniture, fixtures and office equipment	5 - 7 years

DHHS and the State of Arizona retain reversionary interests in property and equipment purchased with their funds, as well as proceeds from the sale of such assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
CONTINUED

Refundable Advances: The Center records funds received from grant awards classified as exchange transactions as refundable advances until the related funds are expended and/or the services related to the awards are performed, at which time funds are recognized as revenue.

In-kind Contributions/Expenses: Donated goods and services are recorded at their estimated fair value at the date of contribution, and shown as revenues and expenses in the financial statements. Donated services are recognized in the financial statements at their estimated fair value if the following criteria are met:

- i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or
- ii) The services enhance or create an asset.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in Note 13. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Reclassifications: Certain reclassifications were made to the 2015 financial statements in order to conform to the 2016 presentation.

Prior Year Summarized 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 accounting principles generally accepted in the United States of America. Accordingly, such information should only be read in conjunction with the Center's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent Events: Subsequent events have been evaluated through October 19, 2016, which was the date the Center's financial statements were issued.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 2 - CONCENTRATIONS

The Center maintains cash and investments at several financial institutions located in northern Arizona. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC), or covered under the Securities Investor Protection Corporation (SIPC). The Center has not experienced material losses in such accounts and believes it is not exposed to significant credit risks.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENT

GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements, which are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP also establishes a fair value hierarchy that distinguishes between market participant assumptions and the Center's own assumptions about market participant assumptions.

Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are the Center's own assumptions about what market participants would assume based on the best information available in the circumstance.

Level 1 inputs – A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Center does not have any financial instruments it values based on Level 2 inputs.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Center does not have any financial instruments it values based on Level 3 inputs.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENT - CONTINUED

Fair value of assets measured on a recurring basis at June 30, 2016 were as follows:

	<u>Level 1</u>
Equities:	
U.S. large cap	\$ 417,476
U.S. mid cap	87,779
U.S. open-end funds	169,310
Non-U.S. equities funds	<u>635,706</u>
Total equities	1,310,271
Bonds:	
Core fixed income	366,211
High-yield fixed income	130,650
Short U.S. government funds	284,402
Emerging market local currency debt	<u>44,836</u>
Total bonds	826,099
Other	<u>43,266</u>
Totals	<u><u>\$ 2,179,636</u></u>

Fair value of assets measured on a recurring basis at June 30, 2015 were as follows:

	<u>Level 1</u>
Equities:	
U.S. large cap	\$ 392,779
U.S. mid cap	100,147
U.S. small cap	90,079
U.S. open-end funds	304,984
Non-U.S. equities	<u>296,610</u>
Total equities	1,184,599
Bonds:	
Core fixed income	690,206
High-yield fixed income	<u>168,959</u>
Total bonds	859,165
Co-mingled funds (equities and fixed income)	79,081
Real estate investment trust	101,708
Other	<u>36,852</u>
Totals	<u><u>\$ 2,261,405</u></u>

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENT - CONTINUED

Net investment (losses) income is comprised of the following for the years ended June 30,

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 57,873	\$ 118,584
Realized gains	1,967	54,218
Unrealized losses	<u>(146,131)</u>	<u>(143,468)</u>
Net investment (losses) income	<u>\$ (86,291)</u>	<u>\$ 29,334</u>

NOTE 4 - ACCOUNTS RECEIVABLE, PATIENT REVENUES - NET

Accounts receivable consist of charges to patients for services provided to them. Settled charges have been adjusted by a sliding fee schedule based on each patient's ability to pay. Management provides for uncollectible amounts through a provision for bad debt and contractual allowances, and based on its assessment of the current status of individual accounts. The following is a summary at June 30,

	<u>2016</u>	<u>2015</u>
Accounts receivable, patient revenues	\$ 5,658,844	\$ 3,830,221
Allowance for doubtful accounts and contractual allowances	<u>(2,651,696)</u>	<u>(1,443,645)</u>
Accounts receivable, patient revenues, net	<u>\$ 3,007,148</u>	<u>\$ 2,386,576</u>

NOTE 5 - PPS RECEIVABLE / DUE TO AHCCCS

The Prospective Payment System (PPS) receivable represents amounts due from AHCCCS, for quarterly payments net of subsequently completed reconciliations, negotiated among AHCCCS and Arizona-based Federally Qualified Health Centers (FQHCs). PPS payments were designed to compensate FQHCs for the unreimbursed cost of providing primary health care to AHCCCS members.

As of April 1, 2015, AHCCCS replaced the Prospective Payment System, and now FQHCs receive their all-inclusive per visit cost for each AHCCCS encounter provided by directly billing the contracted third party AHCCCS insurance plans. The Center completed reconciliations between its costs and PPS payments received. Based on these reconciliations, the Center was owed \$459,734 from AHCCCS at June 30, 2016, and the Center owed \$1,985,020 to AHCCCS at June 30, 2015.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 6 - REFUNDABLE ADVANCES

Refundable advances consist primarily of grant funds received that are unspent as of the end of the fiscal year. The following is a summary of refundable advances for the years ended June 30,

	<u>2016</u>	<u>2015</u>
Arizona Department of Health Services	\$ 26,776	\$ 31,340
Northern Arizona University	13,036	13,144
Department of Health and Human Services (Outreach and Enrollment)		75,334
Susan G. Komen Foundation	18,102	60,403
A.T. Still University	31,309	31,310
Northern Arizona Regional Behavioral Health Authority (NARBHA)	130,963	152,843
Flagstaff Community Foundation		64,429
Scottsdale Healthcare	114,503	32,895
Other grants	<u>269,320</u>	<u>322,672</u>
Total refundable advances	<u>\$ 604,009</u>	<u>\$ 784,370</u>

NOTE 7 - LINE-OF-CREDIT

The Center has a revolving line-of-credit with J.P. Morgan Chase Bank in the amount of \$2,000,000, secured by the Center's assets, maturing December 31, 2016. Borrowings under the line bear interest at LIBOR plus 3.085%. The outstanding balance on the line-of-credit was \$0 at June 30, 2016 and 2015.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 8 - LONG-TERM DEBT

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

	<u>2016</u>	<u>2015</u>
\$5,481,278 note payable to J.P. Morgan Chase Bank dated June 26, 2012, secured by the Center's land and the clinic in Flagstaff. The note is due in monthly installments of \$31,319, including interest at 3.27%, maturing on July 10, 2017, with a balloon payment due of \$4,456,016.	\$ 4,680,520	\$ 4,896,822
\$1,105,000 note payable to J.P. Morgan Chase Bank dated August 28, 2012, secured by the Show Low clinic. The note is due in monthly installments of \$6,681, including interest at 3.9%, maturing on September 12, 2017, with a balloon payment due of \$912,631.	959,882	1,001,106
\$211,500 note payable to White Mountain Communities Special Health Care District for the purchase of land in Springerville, Arizona, dated May 26, 2010, secured by the Center's Springerville clinic. The note is due in monthly installments of \$1,282, including 4.00% interest, maturing April 2030.	163,196	171,859
Capital lease obligations, see Note 9	<u>88,377</u>	<u>193,453</u>
Total	5,891,975	6,263,240
Less current maturities	<u>352,775</u>	<u>371,377</u>
Long-term debt, net of current maturities	<u>\$ 5,539,200</u>	<u>\$ 5,891,863</u>

Future maturities of long-term debt are as follows for the years ending June 30,

2017	\$ 352,775
2018	5,413,456
2019	9,766
2020	10,164
2021	10,578
Thereafter	<u>95,236</u>
	<u>\$ 5,891,975</u>

The Center is required to comply with the following financial covenants on the debt from J.P. Morgan Chase Bank: current ratio not less than 1.50 to 1.00 (quarterly), debt service coverage ratio of not less than 1.30 to 1.00 (annually), and a minimum ratio of debt to net assets not in excess of 1.75 to 1.00 (quarterly). At June 30, 2016 and 2015, the Center was in compliance with these requirements.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 9 - LEASES

Capital Leases:

The Center has capital leases for equipment and data infrastructure costing \$632,219. Amortization of the leased assets is included with depreciation expense. Accumulated amortization was \$175,450 and \$146,288 at June 30, 2016 and 2015, respectively. Future minimum lease payments required under the capital lease agreements are as follows for the years ending June 30,

2017	\$ 77,972
2018	<u>11,662</u>
Total minimum lease payments	89,634
Less amounts representing interest	<u>(1,257)</u>
Present value of minimum lease payments	<u><u>\$ 88,377</u></u>

Operating Leases:

The Center leases facilities and equipment under several operating lease agreements expiring through 2025. Rent expense for the years ended June 30, 2016 and 2015 was \$698,800 and \$577,871, respectively. Future minimum payments on noncancellable operating leases at June 30, 2016 are as follows:

Year ending June 30,	
2017	\$ 639,508
2018	574,432
2019	550,180
2020	355,882
2021	327,974
Thereafter	<u>958,233</u>
	<u><u>\$ 3,406,209</u></u>

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 10 - PATIENT REVENUE, NET

Patient revenue consists of gross charges to patients for services rendered. The charges are comparable to what other health service facilities would charge for the same services. The charges are then decreased by a sliding scale subsidy adjustment based on each patient's ability to pay. The Center also receives fees for services provided that are adjusted based on a negotiated fee schedule with the patient's insurer.

The following summarizes patient revenue for the years ended June 30,

	<u>2016</u>	<u>2015</u>
Patient service charges	\$ 38,485,962	\$ 37,742,671
Disallowed insurance, sliding scale subsidy, bad debt, and other contractual adjustments	<u>(14,782,543)</u>	<u>(15,188,214)</u>
Patient revenue, net	<u>\$ 23,703,419</u>	<u>\$ 22,554,457</u>

NOTE 11 - OTHER GRANTS AND CONTRACTS

The Center received the following grants and contracts revenue from various federal and non-federal sources during the years ended June 30,

	<u>2016</u>	<u>2015</u>
Arizona Department of Health Services:		
Health Start	\$ 422,843	\$ 301,180
Well Woman Health Check	681,689	596,980
Ryan White HIV Care Formula Grants	213,016	99,860
Affordable Care Act programs and other grants	581,108	652,125
University of Arizona - Model Area Health Education Center	547,459	463,649
University of Arizona - Family Medicine Education Center	228,586	254,390
National Park Service contract	641,697	637,011
Arizona Alliance of Community Health Centers	461,518	333,532
Clark County Social Service - Ryan White	258,362	219,686
United Way of Northern Arizona	27,370	26,000
Susan G. Komen Foundation	167,301	149,789
Northern Arizona Center Against Sexual Assault (NACASA)	118,460	77,053
A.T. Still University	375,705	375,786
Kresge Foundation		145,475
City of Williams, Arizona	651,475	865,760
Health Choice Integrated Care	447,030	406,400
Other grants and contracts	<u>1,338,002</u>	<u>800,835</u>
Total other grants and contracts	<u>\$ 7,161,621</u>	<u>\$ 6,405,511</u>

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 12 - IN-KIND CONTRIBUTIONS AND EXPENSES

During the years ended June 30, 2016 and 2015, the Center recognized in-kind contributions and expenses of \$526,232 and \$532,837, respectively, for donated vaccines, and \$301,338 and \$304,339, respectively, for donated medical services.

NOTE 13 - FUNCTIONAL EXPENSE ALLOCATION

The following is a summary of the Center's expenses by function for the years ended June 30,

	<u>2016</u>	<u>2015</u>
Primary health care and education	\$34,394,992	\$30,688,751
General and administrative	11,969,027	9,522,512
Fundraising	<u>99,402</u>	<u>88,596</u>
Total expenses	<u>\$46,463,421</u>	<u>\$40,299,859</u>

NOTE 14 - RESTRICTED NET ASSETS

The Center maintains its John H. Caskey endowment fund in accordance with Arizona's Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs the handling of endowment funds. Under UPMIFA, institutions may spend or accumulate as much as they determine to be prudent, taking into account the donor's intent, the duration and preservation of the endowment fund, and the purposes of the institution and the endowment fund. Assets in an endowment fund are donor restricted until appropriated for expenditure by the Center's governing Board.

Contributions to the endowment fund are classified as permanently restricted net assets, with investment income available for distribution, after the Board has appropriated such earnings for expenditure.

Asset Allocation, Return Objectives and Spending Policy

The Board has authorized the finance committee to review the endowment fund's asset allocation periodically. Endowment fund assets include investments in equity securities, bonds and money market accounts based on a Board-approved percentage range for each type of investment. Each year the Board may appropriate endowment funds to be available for expenditure. This distribution is calculated as 5% of the average balance of the endowment fund for the previous four quarters. The Board's finance committee may adjust the spending rate percentage as it deems appropriate, based on market conditions and other factors.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 14 - RESTRICTED NET ASSETS - CONTINUED

Distributions made from the endowment fund are transferred into the Center's Angel Fund and classified as temporarily restricted net assets. The Angel Fund includes amounts which are donor restricted to benefit patients in certain service areas or for specific purposes. These funds totaled \$79,368 and \$60,964 at June 30, 2016 and 2015, respectively.

At June 30, 2016, the Center's temporarily restricted net assets were comprised of the unspent portion of the Center's Angel Fund totaling \$79,368, and other donor-restricted contributions totaling \$246,255. At June 30, 2015, temporarily restricted net assets were comprised of the Angel Fund balance of \$60,964.

Activity of the endowment fund for the year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 28,337	\$ 40,589	\$ 279,308	\$ 348,234
Investment income			28,725	28,725
Contributions		166,438	4,050	170,488
Appropriated for expenditure		28,725	(28,725)	
Expenditures	<u>28,725</u>	<u>(28,725)</u>		
Endowment net assets, end of year	<u>\$ 57,062</u>	<u>\$ 207,027</u>	<u>\$ 283,358</u>	<u>\$ 547,447</u>

Activity of the endowment fund for the year ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,513	\$ 21,230	\$ 270,682	\$ 303,425
Investment income			16,824	16,824
Contributions		19,359	8,626	27,985
Appropriated for expenditure		16,824	(16,824)	
Expenditures	<u>16,824</u>	<u>(16,824)</u>		
Endowment net assets, end of year	<u>\$ 28,337</u>	<u>\$ 40,589</u>	<u>\$ 279,308</u>	<u>\$ 348,234</u>

NOTE 15 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Center has a 401(k) defined contribution retirement plan which allows employees with one year of service to participate. Under the plan, the Center provides matching contributions of up to 4 percent of each participating employee's salary. The Center's contributions to the plan were \$538,286 and \$456,507 for the years ended June 30, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(with comparative financial information as of and for the year ended June 30, 2015)

NOTE 16 - CONTINGENT LIABILITIES

Compliance: The Center participates in federally-funded and state-funded programs administered by various government agencies. The programs included in these financial statements may be subject to program compliance and/or financial monitoring by the granting agencies or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time.

Healthcare regulation: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Center is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) broadened the scope of certain fraud and abuse laws by adding several criminal provisions for fraud offenses that apply to all health benefit programs. HIPAA also added a prohibition against incentives intended to influence decisions by Medicare beneficiaries as to the provider from which they receive services. HIPAA was followed by the Balanced Budget Act of 1997, which created additional fraud and abuse provisions, including civil penalties for contractors.

HIPAA developed standards to protect the privacy and security of individually identifiable health-related information. The privacy standards regulate the use and disclosure of health-related information, whether communicated electronically, on paper or orally. Also, additional security regulations became mandatory on April 20, 2005, and require health care providers to implement administrative, physical and technical practices to protect the security of individually identifiable health-related information that is maintained or transmitted electronically. In February 2010, HIPAA requirements were updated by the Health Information Technology for Economic and Clinical Health Act (HITECH Act). Under the HITECH Act, violations of HIPAA requirements could now result in civil penalties of up to \$50,000 per incident, and up to \$1.5 million in total for each type of violation in a calendar year.

Professional liability insurance: The Federally Supported Health Centers Assistance Act of 1992 authorizes the Public Health Service to assume responsibility for medical malpractice claims involving approved grantees and certain other health care providers under the Federal Tort Claims Act (FTCA). The Center is currently covered under the FTCA.

Litigation: Periodically, the Center is involved in litigation and claims arising in the normal course of operations. In the opinion of management, based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

SUPPLEMENTARY INFORMATION

North Country HealthCare, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
U.S. Department of Health and Human Services:				
Health Centers Cluster:				
Health Center Program	93.224	N/A	\$ 2,032,760	\$
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>4,656,791</u>	<u> </u>
Total Health Centers Cluster			6,689,551	
Grants for Education, Prevention, and Early Detection of Radiogenic Cancers and Diseases	93.257	N/A	163,794	
Centers for Disease Control and Prevention_ Investigations and Technical Assistance, passed through Arizona Department of Health Services	93.283	HP86123 3-002-2, ADHS15- 083139	1,837	
PPHF Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Exchanges	93.750	N/A	88,037	
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds, passed through Arizona Department of Health Services	93.752	ADHS14- 069425:9	681,689	
HIV Emergency Relief Project Grants, passed through Arizona Department of Health Services	93.914	602819- 12	258,362	
HIV Care Formula Grants, passed through Arizona Department of Health Services	93.917	ADHS13- 050870	213,016	
Block Grants for Prevention and Treatment of Substance Abuse, passed through Northern Arizona Regional Behavioral Health Authority	93.959	None	70,846	
Area Health Education Centers, passed through University of Arizona	93.107	U77HP03 034	93,130	
Health Careers Opportunity Program, passed through University of Arizona	93.822	D18HP23 007	8,510	
ARRA - Community Health Applied Research Network: A Community Alliance for Technology Enabled Comparative Effectiveness Research, passed through Alliance of Chicago Community Health Services	93.420	1UB2HA 20234	<u>14,155</u>	<u> </u>
Total U.S. Department of Health and Human Services			8,282,927	

The accompanying notes are an integral part of this schedule.

North Country HealthCare, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
U.S. Department of Agriculture:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, passed through Arizona Community Action Association	10.561	None	229,806	
U.S. Department of Justice:				
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program, passed through Arizona Alliance for Community Health Centers	16.589	DOJ#200 7-WR- AX-0010	<u>104,152</u>	<u> </u>
Total expenditures of federal awards			<u>\$ 8,616,885</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

North Country HealthCare, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of North Country HealthCare, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from federal or pass-through grantors or the 2015 *Catalog of Federal Domestic Assistance*.

NOTE 3 - INDIRECT COST RATE

The Center has selected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Center did not pass on any federal funds to subrecipients during the fiscal year ended June 30, 2016.

SINGLE AUDIT REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
North Country HealthCare, Inc.
Flagstaff, Arizona

We have audited, in accordance with the 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 North Country HealthCare, Inc. (the Center, a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center'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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 organization'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman P.C.

October 19, 2016

Independent Auditors' Report on Compliance For Each Major Federal Program and
on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors of
North Country HealthCare, Inc.
Flagstaff, Arizona

Report on Compliance for Each Major Federal Program

We have audited North Country HealthCare, Inc. (the Center)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2016. The Center's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center'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 the Center'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 the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of 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, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Center 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 the Center'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 an 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 the Center'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be significant deficiencies.

The Center's responses to the internal control over compliance findings identified in our audit are described in the corrective action plan. The Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Fester & Chapman P.C.

October 19, 2016

North Country HealthCare, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified in internal control over financial reporting?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> X </u> yes	<u> </u> none reported

Type of auditors' report on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? X yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Programs or Cluster</u>
	Heath Centers Cluster:
93.224	Health Center Program
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR 200.511(b)? X yes no

Section II - Financial Statement Findings

None noted.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2016

Section III - Federal Award Findings and Questioned Costs

2016-001

Allowable Costs

Federal program:

CFDA 93.752 Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds
U.S. Department of Health and Human Services, passed through Arizona Department of Health Services
Federal grant number: ADHS14-069425:9

Questioned costs:

Immaterial

Criteria:

2 CFR 200.403(g) and .2 CFR 200.405(a)(1) requires that costs charged to a federal grant be adequately documented and incurred specifically for the federal award.

Condition:

Two of twenty-five expenditures that we tested under the the Well Woman HealthCheck Program (WWHP) were not adequately documented, or incurred specifically for the federal award. One of the expenditures was to reimburse the Center for a lab test belonging to a patient who was not determined to be eligible for the program. In addition, there was not adequate documentation for an additional \$34.55 paid to a vendor in excess of the amount that was invoiced to the Center for lab services.

Cause:

Unknown

Effect:

The Center's internal controls over costs charged to the WWHP program did not function in a manner to allow management to detect possible instances of noncompliance with allowable costs.

Recommendation:

We recommend that the Center develop policies and procedures to help ensure that charges to the WWHP program are incurred for services provided to eligible patients and that they are adequately documented.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2016

Section III - Federal Award Findings and Questioned Costs - CONTINUED

2016-002

Eligibility

Federal program:

CFDA 93.752 Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds
U.S. Department of Health and Human Services, passed through Arizona Department of Health Services
Federal grant number: ADHS14-069425:9

Criteria:

The Well Woman HealthCheck Program (WWHP) requires patients to have an income level at or below 250% of the Federal Poverty Level (FPL).

Condition:

There was information missing from two of twenty-five patients' financial applications tested to support the WWHP program eligibility determinations. For one of those patients, the household size was not included on the application, and the frequency of income (weekly, bimonthly, annually, etc.) was not indicated on the other application. This information is required to determine whether a patient meets the program's FPL requirements.

Cause:

Unknown

Effect:

The Center's internal controls over WWHP eligibility determinations did not function in a manner to allow management to detect possible instances of noncompliance with the program's patient income requirements.

Recommendation:

We recommend that the Center increase the frequency of management's review of WWHP patient applications to help ensure that eligibility determinations are adequately documented and that the information on each application is complete.

CORRECTIVE ACTION PLAN

Year ended June 30, 2016

DEPARTMENT OF HEALTH AND HUMAN SERVICES

North Country HealthCare, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of the independent public accounting firm:

Fester & Chapman P.C.
 4001 N. 3rd Street, Suite 275
 Phoenix, Arizona 85012

Audit Period: July 1, 2015 - June 30, 2016

The findings from the June 30, 2016 schedule of findings and questioned costs are discussed below.

2016-001- Program Income

Recommendation: We recommend that the Center develop policies and procedures to help ensure that charges to the WWHP program are incurred for services provided to eligible patients and that they are adequately documented.

Action Taken: North Country will continue a process whereby a checklist is utilized (WWHP MDE CL CER Checklist) for staff preparing the Minimal Data Elements (MDEs) for submission to complete and then sign. All forms will then be scanned in with the Program Documents Submission Bundle by the Program Coordinator and all clients on the Client List will be verified.

Completion Date: June 30, 2017

Ash Fork 928.637.2305	Flagstaff 928.522.9400	Holbrook 928.524.2851	Lake Havasu City 928.854.1800	Round Valley 928.333.0127	Show Low 928.537.4300	Williams 928.635.4441
Bullhead City 928.704.1221	Grand Canyon 928.638.2551	Kingman 928.753.1177	Payson 928.468.8610	Seligman 928.422.4017	St Johns 928.337.3705	Winslow 928.289.2000

2016-002 - Allowable Costs

Recommendation: We recommend that the Center increase the frequency of management's reviews of WWHP patient applications to help ensure that eligibility determinations are adequately documented and that the information on each application is complete.

Action Taken: We have added a new workflow for the billing office employees to confirm that only credible charges to the Well Woman Program for confirmation of charges coded to the grant.

We have added a new process in which supervisory staff double check any check request they are signing off on that contains multiple items to catch errors.

Completion Date: June 30, 2017

If the Department of Health and Human Services has questions regarding this plan, please call Gregory Kuzma at (928) 522-9568.

Sincerely,

Anne Newland
Chief Executive Officer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2016

Status of Federal Award Findings and Questioned Costs

Finding No.: 2015-001 - Program Income
 Status: Fully corrected.

Finding No.: 2015-002 - Allowable Costs
 Status: Fully corrected.