

**GRAHAM CHILDREN'S
HEALTH SERVICES, INC.**

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2016



CORLISS &
SOLOMON
PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Graham Children’s Health Services, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Graham Children's Health Services, Inc.
Burnsville, North Carolina

We have audited the accompanying financial statements of Graham Children's Health Services, Inc., which comprise the statement of assets, liabilities, and net assets—modified cash basis as of September 30, 2016, and the related statement of support, expenses, and changes in net assets—modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred above present fairly, in all material respects, the assets, liabilities and net assets of Graham Children's Health Services, Inc., as of September 30, 2016, and its support, expenses and changes in its net assets for the year then ended on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Carliss & Salaman, PLLC

Asheville, North Carolina
February 20, 2017

Graham Children's Health Services, Inc.
Statement of Assets, Liabilities and Net Assets-Modified Cash Basis
As of September 30, 2016

Assets

Current Assets

Cash and Equivalents	\$ 102,291
Total Current Assets	<u>102,291</u>

Long-Term Assets

Property and Equipment, Net	<u>9,112</u>
Total Long-Term Assets	<u>9,112</u>

Total Assets	<u>\$ 111,403</u>
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Liabilities and Net Assets

Current Liabilities

Payroll Taxes Payable	\$ 3,050
Total Current Liabilities	<u>3,050</u>

Net Assets

Unrestricted	51,061
Board Designated	<u>13,231</u>
Total Unrestricted	64,292
Temporarily Restricted	<u>44,061</u>
Total Net Assets	<u>108,353</u>

Total Liabilities and Net Assets	<u>\$ 111,403</u>
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See accompanying notes and independent accountant's review report.

Graham Children's Health Services, Inc.

Statement of Support, Expenses and Changes in Net Assets - Modified Cash Basis

Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support			
Foundation Grants	\$ -	\$ 85,180	\$ 85,180
Contributions	33,641	2,545	36,186
Government Grants and Contracts	19,147	9,000	28,147
Burnsville Fit Families Event	9,140	-	9,140
In Kind Donations	10,553	-	10,553
Interest Income	225	-	225
Other Income	416	-	416
Net Assets Released from Restrictions	95,779	(95,779)	-
Total Support	168,901	946	169,847
Expenses			
Salaries	69,259	-	69,259
Payroll Taxes	6,574	-	6,574
Board Expenses	188	-	188
Contract Services	6,822	-	6,822
Depreciation Expense	180	-	180
Direct Program Expenses			-
Grants Disbursed	19,500	-	19,500
Food and Supplies	25,497	-	25,497
Program Coordinator/Transportation	8,702	-	8,702
Burnsville Fit Families Event	5,655	-	5,655
Other Program Expenses	7,415	-	7,415
Equipment and Maintenance	94	-	94
Insurance	2,118	-	2,118
Miscellaneous Expense	1,101	-	1,101
Office Supplies	1,622	-	1,622
Postage and Printing	1,408	-	1,408
Professional Fees	2,000	-	2,000
Rent and Utilities (In-Kind)	6,796	-	6,796
Staff Development and Training	698	-	698
Travel and Meetings	432	-	432
Total Expenses	166,061	-	166,061
Change in Net Assets	2,840	946	3,786
Net Assets at Beginning of Year	61,452	43,115	104,567
Net Assets at End of Year	\$ 64,292	\$ 44,061	\$ 108,353

See the accompanying notes to the financial statements.

Graham Children's Health Services, Inc.

Notes to Financial Statements

Year Ended September 30, 2016

1. Description of Organization and Summary of Significant Accounting Policies

Description of the Organization

Graham Children's Health Services, Inc., brings people together to identify community needs and address public concerns in Yancey and Mitchell Counties. Using the Community Health Assessment, Graham Children's Health Services plans programs based on pressing health needs within the community, and work with community partners to implement a broad range of health initiatives. Graham Children's Health Services takes a multidisciplinary approach working from the ground-up to improve public health at individual, community and systemic levels. The programs unite local partners working in collaboration toward a vision of vibrant communities of active, healthy children and families.

Corporate and Tax-Exempt Status

The organization was established in November 1997 as a not-for-profit corporation under the laws of the state of North Carolina, and was recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code in September 1998.

Basis of Accounting

The records of Graham Children's Health Services are maintained on the modified cash-basis of accounting and the accompanying statements have been prepared on that basis. Modifications to the cash-basis method include recognizing in kind contributions, capitalization and depreciation of furniture and equipment, accrual of payroll and payroll tax expense and loan activity. Assets held by other organizations are not included in the financial statements (See note 8). All other transactions are recognized as either cash basis revenues or expenses. The modified cash-basis differs from U.S. generally accepted accounting principles primarily because certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

Financial Statement Presentation

Graham Children's Health Services follows standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally imposed restrictions. Descriptions of the three net asset classes are as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and that are available for general operating expenses of the organization.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions as to the purpose and/or time of use.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the organization. (The organization had no permanently restricted net assets as of September 30, 2016.)

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, the organization considers all unrestricted, highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Money market funds with investment companies are considered cash equivalents.

Property and Equipment

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The capitalization threshold is \$1,000 per item.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. As restrictions expire, net assets are reclassified to unrestricted net assets and are reported on the statement of activities as "Net assets released from restrictions."

In-Kind Contributions

The organization recognizes contributed goods and the use of facilities at estimated fair market value on the date of receipt. Contributed services are recognized in the financial statements if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. When recognized, contributed services are reported at fair value.

Income Taxes/Uncertain Tax Positions

Graham Children's Health Services is exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code. Under the Code, however, income from certain activities not related to the organization's tax-exempt purpose may be subject to taxation as unrelated business income. The organization had less than \$1,000 of income from unrelated business activities in 2015-16 and was, therefore, not required to file Federal Form 990-T (Exempt Organization Business Income Tax Return). The organization believes that it has appropriate support for all tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Grant and Contribution Revenue Recognition

In accordance with the modified cash-basis of accounting, the organization recognizes grants and contributions when received.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 period. Actual results could differ from those estimates.

2. Cash and Equivalents

As of September 30, 2016, the cash and equivalents balance consist of \$102,291 held in two bank accounts at one financial institution.

The accounts are insured in aggregate up to \$250,000 by the Federal Deposit Insurance Corporation. As of September 30, 2016, the balances did not exceed the federally insured limit. Management believes it is not exposed to any significant credit risk on its cash balances.

3. Property and Equipment

As of September 30, 2016, property and equipment consist of the following:

Land	\$	7,614
Equipment		2,990
Less: Accumulated Depreciation		(1,492)
Total Property and Equipment, Net	\$	<u>9,112</u>

Depreciation expense was \$180 for the year ended September 30, 2016.

4. Board Designated

As of September 30, 2016, the organization held Board Designated funds of \$13,231 to help in the creation of a future endowment.

5. Temporarily Restricted Net Assets

As of September 30, 2016, Graham's temporarily restricted net assets consisted of the following:

Medical Park Land	\$	7,614
Healthy Yancey		2,458
Substance Abuse Program		1,925
Teen Fitness Program		1,789
Mitchell After School Program		5,990
Summer Tennis		108
TRHD - MYSATF Health Promo		11,409
Branding and Marketing		7,500
Star Program		3,552
Funds for Future Endowment		1,716
Total Temporarily Restricted Net Assets	\$	<u>44,061</u>

6. In Kind Donations and Contributed Use of Facilities

Graham's agreement with Yancey County provides office space for ten years at the rate of one dollar per year. During the year, the organization recognized contributed use of facilities recorded at the estimated value of \$6,796 in addition to program supplies of \$3,757. Total in kind donations recognized for the year ended September 30, 2016 was \$10,553.

7. Functional Expenses

During the fiscal year ended September 30, 2016, approximately 93% of the organization's expenses related to program services, 5% percent to management and general activities, and 2% percent to fundraising.

8. Assets Held by Others

During fiscal years 2011 through 2013, Graham received federal and foundation grant funding to purchase telemedicine equipment for the benefit of organizations throughout the community. The total cost of this equipment was \$328,132. Graham retains ownership to this equipment but because it is not being utilized by Graham it is not included as an asset on the financial statements. The equipment was acquired using Federal grant dollars and as such Graham continues to be responsible for the ongoing monitoring of the equipment's utilization under the terms of the grant. The organization is currently in the process of seeking approval to transfer ownership of the assets to the organizations utilizing the equipment.

9. Subsequent Events

Graham is currently in the process of changing its name to Partners Aligned Towards Health (PATH), which was approved by the Board of Directors on November 15, 2016.

Subsequent events have been evaluated through February 20, 2017 which is the date the financial statements were available to be issued.