

**ALTERNATIVES COMMUNITY MENTAL
HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES**

Financial Statements

Years Ended June 30, 2017 and 2016
And
Supplemental Information

**ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alternatives Community Mental Health Center, Inc., DBA Denali Family Services, Inc.
Anchorage, Alaska

Report on the Financial Statements

We have audited the accompanying financial statements of Alternatives Community Mental Health Center, Inc., DBA Denali Family Services, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits 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.

Board of Directors
Denali Family Services, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alternatives Community Mental Health Center, Inc., DBA Denali Family Services, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statements of revenues and expenses – budget and actual on pages 14 through 16, 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 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 November 11, 2017, on our consideration of Alternatives Community Mental Health Center, Inc., DBA Denali Family Services, Inc.'s internal control over financial reporting and on 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 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 Alternatives Community Mental Health Center, Inc., DBA Denali Family Services, Inc.'s internal control over financial reporting and compliance.

Foster and Company, LLC

Foster and Company, LLC
Wasilla, Alaska

November 11, 2017

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 644,397	\$ 1,298,965
Accounts receivable, net of allowances	661,974	1,428,916
Grants receivable	18,900	20,289
Prepaid expenses	222,647	268,444
Total Current Assets	1,547,918	3,016,614
Deposits	59,584	59,584
Property and equipment, net	236,887	268,270
TOTAL ASSETS	\$ 1,844,389	\$ 3,344,468
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 130,970	\$ 126,663
Accrued payroll and related liabilities	249,785	246,880
Accrued vacation	219,634	191,763
Current portion of long term debt	442,329	312,734
Deferred revenue	-	1,239,000
Total Current Liabilities	1,042,718	2,117,040
Non-Current Liabilities		
Reorganization payables	2,053,824	2,263,912
Accrued federal taxes	82,102	404,511
TOTAL LIABILITIES	3,178,644	4,785,463
NET ASSETS		
Unrestricted - Designated:		
Investment in property and equipment	236,887	268,270
Board Designated: Property and equipment replacement	370,000	370,000
Unrestricted - Undesignated	(1,941,142)	(2,079,265)
Total Net Assets	(1,334,255)	(1,440,995)
TOTAL LIABILITIES and NET ASSETS	\$ 1,844,389	\$ 3,344,468

See Independent Auditor's Report and accompanying notes to the financial statements.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Statements of Activities
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Operating activities:		
Support:		
Individual and corporation	\$ 2,562	\$ 25
Grant revenue	386,891	405,787
Total support	<u>389,453</u>	<u>405,812</u>
Revenue:		
Client service fees, net	10,538,203	11,642,356
Medical record fees	1,377	667
Rental	43,258	86,515
Other	3,215	2,917
Total revenues	<u>10,586,053</u>	<u>11,732,455</u>
Total support and revenues	10,975,506	12,138,267
Expenses:		
Program services:		
Children's services	2,420,978	2,590,829
Case Management Services	1,362,233	1,393,931
Clinical Services	1,878,403	1,929,103
Foster care	3,386,268	3,552,857
Total program services	<u>9,047,882</u>	<u>9,466,720</u>
Supporting services:		
Administration	<u>1,767,433</u>	<u>1,727,728</u>
Net operating activities	<u>160,191</u>	<u>943,819</u>
Non-operating activities:		
Reorganization expenses	(17,239)	(26,473)
Reorganization expense recovery	-	46,391
Depreciation expense	<u>(36,212)</u>	<u>(31,025)</u>
Total other income	(53,451)	(11,107)
Increase (decrease) in unrestricted net assets	106,740	932,712
Net assets at beginning of year, as previously stated	<u>(1,440,995)</u>	<u>(1,958,585)</u>
Prior-period adjustments (Note 9)	-	(415,122)
Net assets at beginning of year, restated	<u>(1,440,995)</u>	<u>(2,373,707)</u>
Net assets, at end of year	<u>\$ (1,334,255)</u>	<u>\$ (1,440,995)</u>

See Independent Auditor's Report and accompanying notes to the financial statements.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Statement of Functional Expense
Year Ended June 30, 2017

	Program Services						Support Services Administration	Total Program and Support Services
	Case				Foster Care	Total		
	Children's Services	Management Services	Clinical Services					
Personnel	\$ 2,026,091	1,048,906	1,518,020	549,236	5,142,253	1,139,094	\$ 6,281,347	
Stipends	-	-	-	2,650,555	2,650,555	-	2,650,555	
Occupancy	213,550	164,332	225,650	90,882	694,414	274,627	969,041	
Contractual services	16,770	31,231	46,755	17,535	112,291	185,237	297,528	
Insurance	35,292	9,335	17,900	16,586	79,113	35,134	114,247	
Supplies	13,499	3,941	7,073	2,835	27,348	15,814	43,162	
Travel and training	36,666	49,272	32,332	22,548	140,818	32,387	173,205	
Communications	30,445	20,373	21,003	7,960	79,781	36,246	116,027	
Subscriptions, licenses and fees	375	-	770	-	1,145	13,425	14,570	
Repair and maintenance	2,990	5,061	7,390	2,263	17,704	19,778	37,482	
Marketing and advertising	-	-	-	1,050	1,050	1,934	2,984	
Consumer assistance	10	198	89	-	297	-	297	
Postage and delivery	-	-	-	-	-	1,321	1,321	
Other	678	502	230	23,338	24,748	12,436	37,184	
Operating expenses	<u>2,420,978</u>	<u>1,362,233</u>	<u>1,878,403</u>	<u>3,386,268</u>	<u>9,047,882</u>	<u>1,767,433</u>	<u>10,815,315</u>	
Depreciation and amortization	26,479	3,166	-	-	29,645	6,567	36,212	
Penalties and interest	-	-	-	-	-	17,239	17,239	
Total Expenses	<u>\$ 2,447,457</u>	<u>1,365,399</u>	<u>1,878,403</u>	<u>3,386,268</u>	<u>9,077,527</u>	<u>1,791,239</u>	<u>\$ 10,868,766</u>	

See Independent Auditor's Report and accompanying notes to the financial statements.

ALTERNATIVES COMMUNITY MEANTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Statement of Functional Expense
Year Ended June 30, 2016

	Program Services					Support Services Administration	Total Program and Support Services
	Children's Services	Case Management Services	Clinical Services	Foster Care	Total		
Personnel	\$ 2,192,188	1,072,023	1,552,006	530,645	5,346,862	1,043,149	\$ 6,390,011
Stipends	-	-	-	2,828,338	2,828,338	-	2,828,338
Occupancy	205,620	160,694	213,299	83,892	663,505	272,725	936,230
Contractual services	20,586	31,284	50,104	14,904	116,878	164,787	281,665
Insurance	25,864	9,335	17,900	16,587	69,686	34,799	104,485
Supplies	16,604	12,728	6,282	4,997	40,611	16,314	56,925
Travel and training	52,672	57,947	50,613	37,638	198,870	26,037	224,907
Communications	33,332	23,896	27,677	7,609	92,514	30,733	123,247
Subscriptions, licenses and fees	-	-	660	1,685	2,345	22,412	24,757
Repair and maintenance	3,242	5,232	7,792	2,106	18,372	9,736	28,108
Marketing and advertising	-	-	-	5,424	5,424	2,920	8,344
Consumer assistance	40,239	20,629	2,613	7,026	70,507	40	70,547
Postage and delivery	-	163	157	6	326	1,164	1,490
Bad debt expense	-	-	-	-	-	97,055	97,055
Other	482	-	-	12,000	12,482	5,857	18,339
Operating expenses	<u>2,590,829</u>	<u>1,393,931</u>	<u>1,929,103</u>	<u>3,552,857</u>	<u>9,466,720</u>	<u>1,727,728</u>	<u>11,194,448</u>
Depreciation and amortization	13,998	5,075	9,127	2,825	31,025	-	31,025
Penalties and interest	-	-	-	-	-	26,473	26,473
Total Expenses	<u>\$ 2,604,827</u>	<u>1,399,006</u>	<u>1,938,230</u>	<u>3,555,682</u>	<u>9,497,745</u>	<u>1,754,201</u>	<u>\$ 11,251,946</u>

See Independent Auditor's Report and accompanying notes to the financial statements.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 106,740	\$ 932,712
Adjustments to reconcile change in net cash provided (used) by operating activities:		
Bad debt	-	97,055
Depreciation	36,212	31,025
Disposal of equipment	607,908	-
Recovery of accumulated depreciation	(607,908)	-
(Increase) decrease in assets:		
Accounts receivable	766,942	(887,757)
Grants receivable	1,389	206
Prepaid expenses	45,797	(109,432)
Increase (decrease) in liabilities:		
Accounts payable	(76,186)	(247,139)
Deferred revenue	(1,239,000)	-
Accrued payroll and related liabilities	30,776	33,222
Accrued federal taxes	(322,409)	(303,581)
Net cash provided (used) by operating activities	(649,739)	(453,689)
Cash flows provided (used) by investing activities:		
Purchase of equipment	(4,829)	(29,481)
Net cash provided (used) by investing activities	(4,829)	(29,481)
Net increase (decrease) in cash and cash equivalents	(654,568)	(483,170)
Cash at beginning of year	1,298,965	1,782,135
Cash at end of year	\$ 644,397	\$ 1,298,965

See Independent Auditor's Report and accompanying notes to the financial statements.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity

Alternatives Community Mental Health Center, Inc., DBA Denali Family Services was incorporated in May 1995 to provide mental health programs and services in the State of Alaska. The organization receives its funding primarily from the State of Alaska through the Medicaid program and State grants.

Basis of Presentation

The accounting records of Denali Family Services are maintained on an accrual basis of accounting under which revenues are recognized when earned and expenses when incurred. Grant revenues are recorded as earned after allowable costs allocable to the grant have been incurred.

Denali Family Services has adopted FASB ASC 958-205 which established reporting standards for external financial statements for not-for-profit organizations. The adoption of this statement affects the classification of assets and liabilities and clearly defines the restrictions, if any, associated with the Organization's resources. Under these provisions, net assets, revenues and expenses, and gains and losses, are classified based on the existence or absence of external restrictions, which are generally donor-imposed. The Organization also adopted FASB ACS 958-605 which established standards of financial accounting and reporting for contributions received and accounting for contributed services, collections of works of art, historical treasures, and similar assets acquired by contributions or by other means.

Denali Family Services 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.

Unrestricted net assets represent that portion of net assets of Denali Family Services that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent assets of Denali Family Services whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by action of Denali Family Services. When the stipulated time restriction ends or action is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent the part of the net assets from contributions and grants whose use by Denali Family Services is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Denali Family Services.

To ensure observance of limitations and restrictions placed on the use of resources available to Denali Family Services, the accounts are maintained in accordance with the principles of fund accounting, whereby resources and related expenses are classified for accounting and reporting purposes into permanently restricted, temporarily restricted, and unrestricted funds established according to their nature and purpose. However, all net assets are unrestricted for use by Denali Family Services, or their temporary donor restrictions were met within the year.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Cash and Cash Equivalents

For the purpose of the statements of cash flows, Denali Family Services considers all unrestricted highly liquid investments with initial maturity of three months or less to be cash equivalents.

Investments

Denali Family Services carries investments, if any, in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Property and Equipment

Denali Family Services reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Denali Family Services reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Property and equipment are stated at cost. Expenses for maintenance and repairs are charged to expense as incurred, and expenses for major renovations are capitalized. All expenses for equipment in excess of \$500 are capitalized. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis.

Accrued Vacation

All regular employees accrue annual leave which is available for use while remaining in a permanent position. Accordingly, an accrual for future annual leave benefits to be used or paid out has been estimated and recorded on the statement of financial position.

Revenue Recognition

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those specific net asset classes.

Revenues from client services are reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts.

Cost reimbursable grant revenues are recorded as earned when related expenses are incurred. Unearned grant receipts are deferred until expended for the purpose of the grant.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the year end, are recorded as prepaid items.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Denali Family Services is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Denali Family Services is exempt from State income taxes under the Alaska Nonprofit Corporation Act. Therefore, the accompanying statements do not reflect a provision for income taxes.

Although Denali Family Services is exempt from federal income taxes, any income derived from unrelated business activities is subject to the requirement of filing Federal Income Tax Form 990-T and a tax liability may be determined on these activities. The Organization believes that it has appropriate support for any tax positions taken, and as such does not have any uncertain tax positions that are material to the financial statements.

NOTE 2 – CASH AND EQUIVALENTS

Cash and equivalents consist of the following:

	2017		2016	
	Bank Balance	Book Balance	Bank Balance	Book Balance
Petty cash	\$ -	\$ 2,884	\$ -	\$ 2,890
Checking and savings accounts	977,178	641,513	1,428,034	1,296,075
	<u>\$ 977,178</u>	<u>\$ 644,397</u>	<u>\$ 1,428,034</u>	<u>\$ 1,298,965</u>

Amounts are insured up to Federal Depository Insurance Limitations. As of June 30, 2017 and 2016, \$250,000 of the bank balance was insured and \$727,178 and \$1,178,034, respectively, were uninsured and uncollateralized.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 and 2016 consists of the following:

	2017	2016
Medicaid and third party medical insurance receivable	\$ 759,029	\$ 1,525,971
Less: allowance for doubtful accounts	(97,055)	(97,055)
	<u>\$ 661,974</u>	<u>\$ 1,428,916</u>

See Independent Auditor's Report

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Notes to the Financial Statements

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 454,864	\$ 454,864
Vehicles	53,947	82,434
Office furnishings	9,130	232,189
Equipment	<u>27,036</u>	<u>378,570</u>
	544,977	1,148,057
Less: accumulated depreciation and amortization	<u>(308,090)</u>	<u>(879,787)</u>
	<u>\$ 236,887</u>	<u>\$ 268,270</u>

Denali Family Services had depreciation expense of \$36,212 and \$31,024 during the years ended June 30, 2017 and 2016, respectively. During FY17, \$607,908 of fully depreciated and previously disposed equipment, vehicle, and furnishings were removed from the accounting system. Also, in FY17, \$4,829 in equipment was purchased.

NOTE 5 – CLIENT SERVICE REVENUE

Client service revenues, net of contractual allowances, for the years ended June 30, 2017 and 2016 were \$10,538,203 and \$11,642,356, respectively.

NOTE 6 – OPERATING LEASES

Denali Family Services has entered into a non-cancelable lease with Noodlum Equities, Ltd., for office space to house both program and administrative services. The lease agreement extends through March 31, 2027. Monthly payments are \$40,100.

Denali Family Services has entered into a non-cancelable lease with James Murphy for office space to house both program and administrative services. The lease agreement extends through December 31, 2019. Monthly payments are \$8,156.

Denali Family Services has entered into a non-cancelable lease with James Murphy for office space to house both program and administrative services. The lease agreement extends through December 31, 2020. Monthly payments are \$3,920.

Denali Family Services has entered into a non-cancelable lease with James Murphy for office space to house both program and administrative services. The lease agreement extends through April 30, 2020. Monthly payments are \$3,920.

Denali Family Services has entered into a non-cancelable lease with Carr Gottstein for office space to house administrative services. The lease agreement extends through December 31, 2022. Monthly payments are \$17,238.

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Notes to the Financial Statements

NOTE 6 – OPERATING LEASES, *continued*

Future minimum operating lease payments for all leases are as follows:

Year ending June 30,

2018	\$ 886,285
2019	900,954
2020	859,178
2021	753,138
2022	745,950
Thereafter	2,635,692

NOTE 7 – 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 disclosures 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.

NOTE 8 – CONTINGENCIES

Amounts received or receivable from the State of Alaska Medicaid program and granting agencies are subject to audit and adjustment. Any disallowed claims, including amounts already collected, would become a liability of Denali Family Services.

NOTE 9 – PRIOR-PERIOD ADJUSTMENTS

During FY17, Denali Family Services recorded prior-period adjustments related to Medicaid accounts receivables. Upon analysis of the receivables for FY17 and FY16, FY16 receivables were overstated at year end by \$415,122. A correcting entry was made to FY16 to decrease Medicaid receivables and reduce unrestricted net assets by this amount.

NOTE 10 – DEFERRED REVENUE

In FY14, Denali Family Services received advance payments from the State of Alaska as a bridge to cover the financial gap for providers impacted by Medicaid billing processing issues. During FY17, \$318,929 of the FY16 deferred revenue was recognized by Denali Family Services and the remaining \$920,070 was repaid to the State of Alaska.

See Independent Auditor's Report

ALTERNATIVES COMMUNITY MENTAL HEALTH CENTER, INC.
DBA DENALI FAMILY SERVICES
Notes to the Financial Statements

NOTE 11 – BANKRUPTCY FILING

During fiscal year 2012, substantial negative cash flow resulted in a \$1.5M loss from operating activities. As a result, on March 3, 2013, Denali Family Services filed a Chapter 11 bankruptcy petition in the United States Bankruptcy Court for the District of Alaska. Management implemented a system of reductions in staff salaries, as well as vacating certain leases during the bankruptcy process, and relocating to more affordable facilities.

Under the protection of the U.S. Bankruptcy Court, Denali Family Services developed a reorganization plan that included a negotiated plan of repayment of past due amounts with trade vendors and the Internal Revenue Service. The plan was approved by the US Bankruptcy Judge on October 9, 2013. Following confirmation of the plan, three claims resulting from rejected leases remained unresolved. Denali Family Services filed objections to proofs of claim entered for 4600 Debarr Road, 11921 Palmer-Wasilla Highway, and 7521 Brayton Drive. Decisions on the objections were delivered on November 18, 2013, March 3, 2014, and March 10, 2014, respectively. All prepetition claims have now been settled and will be paid on a pro rata basis in accordance with the reorganization plan.

Denali Family Services has agreed to a payment plan to the IRS totaling \$1,650,268 at a 3% interest rate over five years. Additionally, they have agreed to pay \$30,000 per quarter to other unsecured creditors until the IRS debt is paid in full, at which time, the quarterly amount moves to a minimum of \$60,000 per quarter until the remaining debts are paid or January 2024, whichever comes first.

Future minimum payments on these amounts are:

2018	\$ 442,329
2019	292,103
2020	240,000
2021	240,000
2022	240,000
Thereafter	1,123,823
	\$ 2,578,255

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 11, 2017, the date which the financial statements were available for issue. No events were identified that would require disclosure according to generally acceptable accounting principles.

SUPPLEMENTAL INFORMATION

Comprehensive Behavioral Health Treatment & Recovery Programs
Statement of Revenue and Expenses - Budget and Actual
602-208-1768
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
State	\$ 139,026	\$ 139,026	\$ -
<i>Total Revenues</i>	139,026	139,026	-
Expenditures:			
Personnel	133,626	133,626	-
Travel	900	900	-
Facility	-	-	-
Supplies	4,500	4,500	-
Equipment	-	-	-
Other Program	-	-	-
Indirect costs	-	-	-
<i>Total Expenditures</i>	139,026	139,026	-
Revenue over expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report and accompanying notes to the financial statements.

Comprehensive Behavioral Health Treatment & Recovery Programs
Statement of Revenue and Expenses - Budget and Actual
602-208-1769
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
State	\$ 99,950	\$ 99,950	\$ -
<i>Total Revenues</i>	99,950	99,950	-
Expenditures:			
Personnel	99,950	99,950	-
Travel	-	-	-
Facility	-	-	-
Supplies	-	-	-
Equipment	-	-	-
Other Program	-	-	-
Indirect costs	-	-	-
<i>Total Expenditures</i>	99,950	99,950	-
Revenue over expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report and accompanying notes to the financial statements.

Comprehensive Behavioral Health Treatment & Recovery Programs
Statement of Revenue and Expenses - Budget and Actual
602-208-1770
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
State	\$ 139,026	\$ 139,026	\$ -
<i>Total Revenues</i>	139,026	139,026	-
Expenditures:			
Personnel	133,626	133,626	-
Travel	900	900	-
Facility	-	-	-
Supplies	4,500	4,500	-
Equipment	-	-	-
Other Program	-	-	-
Indirect costs	-	-	-
<i>Total Expenditures</i>	139,026	139,026	-
Revenue over expenditures	\$ -	\$ -	\$ -

See Independent Auditor's Report and accompanying notes to the financial statements.

STATE COMPLIANCE REPORTS

Foster and Company, LLC

Karen M. Foster, CPA
Michael C. Foster, CPA

Independent Auditor's 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

Board of Directors
Denali Family Services
Anchorage, Alaska

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 Denali Family Services (DFS, a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Denali Family Services' 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 Denali Family Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. 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 assurances about whether Denali Family Services' 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Foster and Company, LLC

Foster and Company, LLC
Wasilla, Alaska

November 11, 2017

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