FAIRFAX MEDICAL FACILITIES, INC.

Financial Statements
June 30, 2018 and 2017

With Independent Auditors' Report Thereon

FAIRFAX MEDICAL FACILITIES, INC.

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JOHNSTON & BRYANT

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Independent Auditors' Report

The Board of Directors
Fairfax Medical Facilities, Inc.
Fairfax, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Fairfax Medical Facilities, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fairfax Medical Facilities, Inc. as of June 30, 2018 and 2017, 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

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 31, 2018 on our consideration of Fairfax Medical Facilities 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 Fairfax Medical Facilities Inc.'s internal control over financial reporting and compliance.

Johnston & Bryant

Ada, Oklahoma
October 31, 2018

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EXHIBIT A

FAIRFAX MEDICAL FACILITIES, INC.
Statement of Financial Position
June 30, 2018 and 2017

ASSETS

	2018	2017
Current Assets		
Cash	$ 1,471,072	$ 424,602
Certificates of Deposit	729,391	731,966
Accounts Receivable:		
Patient, Net of Allowance for Uncollectibles	179,942	188,680
Grants/Contracts Receivable	277,364	344,888
Other Receivables	-	3,652
Inventories	119,931	141,778
Other Current Assets	50,345	57,133
Total Current Assets	2,828,045	1,892,699
Noncurrent Assets		
USDA Reserve Account	65,107	50,902
Land	74,500	74,500
Buildings and Fixed Equipment	3,615,597	3,525,274
Equipment	1,950,430	1,873,877
Total Property, Plant and Equipment	5,640,527	5,473,651
Accumulated Depreciation	(1,751,102)	(1,416,249)
Net Property, Plant and Equipment	3,889,425	4,057,402
Total Assets	$ 6,782,577	$ 6,001,003

LIABILITIES AND NET ASSETS

	2018	2017
Accounts Payable	$ 99,741	$ 70,907
Accrued Expenses:		
Salaries and Vacations Payable	342,552	308,571
Payroll Taxes and Other Withholdings	15,175	26,632
Interest Payable	6,793	7,086
Current Portion of Long-Term Debt	41,892	36,365
Total Current Liabilities	506,153	449,561
Long-Term Debt	2,676,704	2,722,411
Total Liabilities	3,182,857	3,171,972
Unrestricted Net Assets	3,599,720	2,829,031
Total Liabilities and Net Assets	$ 6,782,577	$ 6,001,003

The accompanying notes are an integral part of this financial statement.

FAIRFAX MEDICAL FACILITIES, INC.
Statement of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets:		
Fees and Grant From Governmental Agencies		
U.S. Department of Health and Human Services	$ 3,371,950	$ 2,327,734
Meaningful Use	17,000	59,500
Other Grants and Donations	38,924	36,956
Total Governmental Revenues	3,427,874	2,424,190
Other Revenues		
Patient Fees	6,339,195	5,802,105
Pharmaceuticals	1,028,113	959,671
Discounts Based on Eligibility and Doubtful Accounts	(2,738,583)	(1,892,790)
Net Patient Fees	4,628,725	4,868,986
Interest Income	12,487	11,780
Miscellaneous	48,361	15,910
Total Other Revenues	4,689,573	4,896,676
Total Revenue	8,117,447	7,320,866
Expenses:		
Personnel Services	3,814,273	3,989,206
Fringe Benefits	1,038,462	930,540
Travel	42,168	44,750
Supplies	271,190	300,952
Pharmaceuticals	676,888	613,863
Other	1,057,482	1,076,346
Depreciation	343,709	245,738
Interest Expense	102,586	104,333
Total Expenses	7,346,758	7,305,728
Change in Unrestricted Net Assets	770,689	15,138
Unrestricted Net Assets		
Beginning of Year	2,829,031	2,813,893
End of Year	$ 3,599,720	$ 2,829,031

The accompanying notes are an integral part of this financial statement.

FAIRFAX MEDICAL FACILITIES, INC.
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activity		
Patient Fees	$ 4,637,463	$ 4,925,002
Fees and Grants from Governmental Agencies	3,495,398	2,356,836
Other Revenue	52,013	15,486
Interest Income	12,487	11,780
Payments to Employees	(3,780,292)	(3,940,551)
Payments to Vendors and Suppliers	(3,040,178)	(3,092,721)
Net Cash Provided by Operating Activity	1,376,891	275,832
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(175,732)	(168,785)
Loan Advances	-	-
Principal Payments	(40,180)	(32,390)
Interest Payments	(102,879)	(98,968)
Net Cash Flows from Capital and Related Financing Activities	(318,791)	(300,143)
Increase in Cash	1,058,100	(24,311)
Cash - Beginning	1,207,470	1,231,781
Cash - Ending	$ 2,265,570	$ 1,207,470

The accompanying notes are an integral part of this financial statement.

FAIRFAX MEDICAL FACILITIES, INC.
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flow from Operating Activities		
Net Income from Operations	$ 770,689	$ 15,138
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	343,709	245,738
Interest Expense	102,586	104,333
Changes in Operating Assets and Liabilities		
Accounts Receivable	79,914	(11,762)
Other Assets	28,635	17,991
Accounts Payable and Accrued Liabilities	51,358	(95,606)
Net Cash Provided by Operations	$ 1,376,891	$ 275,832

The accompanying notes are an integral part of this financial statement.

Note 1. Organization

Fairfax Medical Facilities, Inc. (the Organization) was incorporated on September 5, 1995, as a non-profit corporation. The stated purpose of the Organization is to provide health care services to the residents of Fairfax, Oklahoma and surrounding area regardless of age, sex, race, creed, color, national origin, or ability to pay. The Organization provides medical services to the medically underserved.

Note 2. Summary of Significant Accounting Principles

The following summarizes certain significant accounting policies followed in the preparation of these financial statements:

Contributions

In accordance with Authoritative Guidance contributions received, including unconditional promises to give, are recognized as support in the period received at their fair values. For financial reporting purposes, Fairfax Medical Facilities, Inc. distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets. Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions which are met within the same reporting period, are reported as unrestricted support. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as temporarily restricted support if the restrictions are not met in the same reporting period.

When such donor imposed restrictions are met in subsequent reporting periods temporarily restricted net assets are classified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets. For the period ended June 30, 2018 and 2017, Fairfax Medical Facilities, Inc. had no temporarily or permanently restricted assets.

Recognition of Income

Patients are charged for medical and dental services based on established standard rates, less discounts based on a sliding scale schedule according to family size and income. Included in other revenues are amounts reimbursable from Medicare, Medicaid and other third-party programs under the provisions of reimbursement formulas in effect. Final determination of amounts earned is subject to audit by fiscal intermediaries. No estimated provisions have been made for adjustments that may result from such audits. Differences between amounts previously received and final settlement are reflected in future periods as final settlements are determined.

Grant funds are recognized as income over the term of the grant period. Unearned grant funds are reported as deferred income.

Note 2. Summary of Significant Accounting Policies (Continued)

Recognition of Income (continued)

Unapplied program income represents that portion of program income which was not used to reduce the federal share of the DHHS grant, as authorized by the grantor. Such funds are calculated according to specified formula, and may be expended by Fairfax Medical Facilities, Inc. for any purpose which furthers the objectives of the program.

Donated materials and services are reflected as contributions at their estimated fair values at the date of receipt. Nonfederal in-kind contributions are recorded as offsetting income and expense amounts at their estimated values at the date of receipt. No amounts have been reflected in the statements for donated personnel services (other than nonfederal in-kind).

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, cash on hand, and money market accounts.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset as prescribed by the American Hospital Association. Maintenance, repairs and minor renewals are expensed as incurred. Donated property and equipment are recorded at their estimated fair value at the date of receipt.

Property and equipment acquired under grants from the DHHS is considered to be owned by Fairfax Medical Facilities, Inc. while used in the program for which it was purchased or in other future authorized programs; however, DHHS and GSA have a reversionary interest in the property; its disposition, as well as the ownership of any proceeds therefrom is subject to federal regulations.

Income Taxes

Fairfax Medical Facilities, Inc. is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income to Section 501(a) of the Code.

Fairfax Medical Facilities, Inc. files a 990 information return in the U.S. federal jurisdiction. Fairfax Medical Facilities, Inc. is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

Note 2. Summary of Significant Accounting Principles (Continued)

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 reported period. Actual results could differ from those estimates.

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 Revenue and Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal and State Contracts

The Organization receives funding through federal and state contracts. Acceptance of these contacts requires compliance with contract conditions. Any costs disallowed by the contracts must be paid by non-governmental funds.

Note 3. Grant Revenue

The Organization is the recipient of a Consolidated Health Centers ("CHC") grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Fairfax, Hominy and Newkirk, Oklahoma, and the surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. The Organization recognized $3,371,950 and $2,364,690 in revenues from this grant for the years ended June 30, 2018 and 2017, respectively. The Organization's present CHC grant award covers the grant year ending March 31, 2018 and it authorized for funding in the amount of $2,756,104.

Note 4. Grants/Contracts Receivable

Grants/contracts receivable at June 30, 2018 and 2017 consisted of the following:

	2018	2017
U.S. Department of Health and Human Services	$ 277,364	$ 344,888
Total	$ 277,364	$ 344,888

Note 5. Accounts Receivable - Patient

	2018	2017
Total Receivable - Patients	$ 300,002	$ 490,266
Less Allowance for Uncollectible	(120,060)	(301,586)
Total	$ 179,942	$ 188,680

The allowance for uncollectible accounts is based on management's estimate of potential bad debts and the aging of all Accounts Receivable as of June 30, 2018 and 2017.

Note 6. Compensated Absences

Paid Day Off (PDO) is a time-off policy for eligible employees to use for vacation. Employees in the following employment classification(s) are eligible to earn and use PDO as described in this policy.

- Regular full-time employees
- Regular part-time employees

Once employees enter an eligible employment classification, they begin to earn PDO according to the schedule below. However, before PDO can be used, a waiting period of 90 calendar days must be completed. After that time, employees can request use of earned PDO.

The amount of PDO employees receive each year increases with the length of their employment as shown in the following schedule:

- Upon initial eligibility the employee is entitled to 5 PDO days each year, accrued biweekly.
- After 1 year of eligible service the employee is entitles to 10 PDO days each year, accrued biweekly.
- After 10 years of eligible service the employee is entitled to 15 PDO days each year, accrued biweekly.

Holidays will be paid at the rate of 8 hours per Holiday. Holidays do not require the use of PDOs.

The length of service is calculated on the basis of a “benefit year”. This is the 12-month period that begins when the employee starts to earn PDO. An employee’s benefit year, may be extended for any significant leave of absence expect military leave of absence. Military leave has effect on this calculation.

Note 6. Compensated Absences (continued)

PDO can be used in minimum increments of two (2) hours. Employees who have an unexpected need to be absent from work should notify their direct supervisor before the scheduled start of their workday, if possible. The direct supervisor must also be contacted on each additional day of unexpected absence.

Leave may be taken any time between January 1 and December 31, subject to the convenience of the Agency. Employees shall file a request with their supervisor at least two weeks prior to their desired leave date. Under no circumstances may PDO be used prior to being accrued. Neither does paid time off accrue during periods of leave of absence without pay, suspension, or layoff.

Upon reasonable notice, a supervisor may request an employee use a portion of his/her accrued paid time off for stated purposes (e.g. extended bereavement and FMLA) at any time this is deemed advisable.

An employee may carry over up to a maximum of 160 hours at a year end (December 31). Employees may cash in leave hours once a year to be paid the first paycheck in December. These employees must be able to maintain a minimum balance of 40 hours PDO at time of cash-in request. This cash in of PDO must be approved by the CEO.

Upon termination of employment, employees will be paid for unused PDO that has been earned through the last day of work.

Separation/Death

1. Separation - An employee will be paid for paid time off at the next regular pay period after the date of separation.

2. Death - In case of death of an employee, payment will be delivered to the employee’s beneficiary, estate or as otherwise provided by law.

A liability for unpaid compensated absences of $119,756 and $118,110 has been recorded as of June 30, 2018 and 2017 respectively.

Note 7. Long-Term Debt

A Summary of long-term debt, including capital lease obligations as of June, 2018 and 2017 are as follows:

			2018				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
USDA-RDA	3.75%	11/9/2051	$ 2,758,776	-	(40,180)	2,718,596	41,892
			2,758,776	-	(40,180)	2,718,596	41,892
			$ 2,758,776	-	(40,180)	2,718,596	41,892

			2017				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
USDA-RDA	3.75%	11/9/2051	$ 2,791,166	-	(32,390)	2,758,776	36,365
			2,791,166	-	(32,390)	2,758,776	36,365
			$ 2,791,166	-	(32,390)	2,758,776	36,365

Scheduled principal payment on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30:	
2019	$ 41,892
2020	43,490
2021	45,149
2022	46,872
2023	48,660
2024 and thereafter	2,492,533
	$ 2,718,596

Note 8. Operating Leases

The Organization has non-cancelable operating leases for certain health care facilities and equipment. The facility leases contain renewal options for varying periods through 2019. Lease expense totaled approximately $29,514 of $26,416 at June 30, 2018 and 2017, respectively. Future minimum lease payments at June 30, 2017 are as follows:

	Lease Obligation
2019	$ 11,107
2020	-
2021	-
2022	-
2023	-

Note 9. Service Contracts and Grants

Fairfax Medical Facilities, Inc. derives a majority of its revenue from service contracts and grants from federal and state agencies. A significant reduction in the level of revenue from these agencies could have a material effect on the Organization's programs, activities and operations.

Note 10. Contingencies

During the normal course of business, the Center is involved in various claims and lawsuits. In the opinion of management, the potential loss on any claim and lawsuit, net of insurance proceeds, will not be significant to the Center's financial position or results of operations.

Note 11. Concentration of Credit Risk

The Center is located in Fairfax, Oklahoma. The Center grants credit without collateral to its patients, most of whom are local residents and are uninsured or under insured.

Note 12. Charity Care and Other Community Benefits

The Center wrote off $2,738,533 in sliding-scale discounts, uncollectible accounts and contractual adjustments for the year ended June 30, 2018.

In addition to the services provided to the financially disadvantaged, the Center provides services to other individuals, various community agencies, and to the broader community. These services are provided at no charge to the public and include such items as health education and promotion, blood pressure and cholesterol screening, and health assessments. Costs related to these services are not separately identifiable.

Note 13. Fair Value of Financial Instruments

The following methods and assumptions were used by the Center in estimating the fair value of its financial instruments at June 30, 2018 and 2017. The carrying amounts reported in the balance sheet for cash, assets limited as to use, accounts payable and accrued expenses, approximate their fair value.

Note 14. Capital Assets

Major classifications of capital assets and their respective depreciable lives are summarized below.

	Depreciable Lives	2018	2017
Land	N/A	$ 74,500	74,500
Buildings and Fixed Equipment	20-40 Years	3,389,532	3,368,112
Building Improvements	15-25 Years	226,065	157,162
Equipment	5-10 Years	1,950,430	1,873,877
Total Property, Plant and Equipment		5,640,527	5,473,651
Accumulated Depreciation		(1,751,102)	(1,416,249)
Net Capital Assets		$ 3,889,425	$ 4,057,402

Note 15. Service Contracts and Grants

Fairfax Medical Facilities, Inc. derives a majority of its revenue from service contracts and grants from federal and state agencies. A significant reduction in the level of revenue from these agencies could have a material effect on the Organization’s programs, activities and operations.

Note 16. Net Patient Service Revenue

The Organization is approved as a FQHC for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates.

Note 16. Net Patient Service Revenue (continued)

These payment arrangements include:

Medicare – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for certain services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid – Covered FQHC services rendered to Medicaid programs beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for certain services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

Approximately 65% and 61% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Patient service revenue, net of contractual allowances and discounts, for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Total Patient Service Revenue	$ 7,367,308	$ 6,761,776
Less: Total Contractual, Sliding Fee and Bad Debt Adjustment	(2,738,583)	(1,892,790)
Net Patient Service Revenue	$ 4,628,725	$ 4,868,986

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

Note 17. Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. The Organization has adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (topic 954): Presentation of Insurance Claims and Related*

Note 17. Medical Malpractice Claims (continued)

Insurance Recoveries, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims cost for both reported claims and claims incurred but not reported where the risk of a loss had not been transferred to a financially viable insurer. There was no impact of ASU adoption to the Organization's financial statements.

Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the years ended June 30, 2018 and 2017. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 18. Functional Expenses

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

	2018	2017
Health Care Services	$ 3,710,131	$ 3,860,054
General and Administrative	3,636,627	3,445,674
Total Expenses	$ 7,346,758	$ 7,305,728

Note 19. Significant Estimates and Concentrations

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

Grant Revenues – Concentration of revenues related to grant awards and other support is described in Note 3.

Allowance for Net Patient Service Revenue Adjustments – Estimates of allowances for adjustments included in net patient service revenue are described in Notes 2, 5 and 16.

Note 19. Significant Estimates and Concentrations (continued)

Malpractice Claims – Estimates related to the accrual for professional liability claims are described in Note 17.

Current Economic Conditions – The current protracted economic decline continues to present community health centers with circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and declines in contributions. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization’s future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly and negatively impact the Organizations

Note 20. Subsequent Events

Subsequent events have been evaluated through October 31, 2018, which is the date the financial statements were available to be issued.

SINGLE AUDIT SUPPLEMENT

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
Fairfax Medical Facilities, Inc.
Fairfax, Oklahoma

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 Fairfax Medical Facilities, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 31, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Fairfax Medical Facilities Inc.’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 organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnston & Bryant

Ada, Oklahoma
October 31, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Fairfax Medical Facilities, Inc.
Fairfax, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Fairfax Medical Facilities, Inc.'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 Fairfax Medical Facilities, Inc.'s major federal programs for the year ended June 30, 2018. Fairfax Medical Facilities, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Fairfax Medical Facilities, Inc. 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, 2018.

Report on Internal Control over Compliance

Management of Fairfax Medical Facilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Fairfax Medical Facilities, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing 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 Fairfax Medical Facilities, Inc.'s internal control over compliance.

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

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

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

Johnston & Bryant

Ada, Oklahoma
October 31, 2018

FAIRFAX MEDICAL FACILITIES, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA/Contract Number	Expenditures
Major Programs		
U.S. Department of Health And Human Services		
Community Health Centers		
For the Period July 1, 2017		
to June 30, 2018	93.224	3,371,950
Total Community Health Center Cluster		3,371,950
Total Federal Expenditures		$ 3,371,950

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant expenditures of Fairfax Medical Facilities, Inc. for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirement, 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 financial statements.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The organization has elected not to use the 10-percent de minimis direct cost rate as allowed under the Uniform Guidance.

Note 3: Subrecipients

No amounts were passed through to a sub recipient.

FAIRFAX MEDICAL FACILITIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified	___ yes	X no
• Significant deficiency(ies) identified that are Not considered to be material weakness(es)?	___ yes	X none reported
Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified	___ yes	X no
• Significant deficiency(ies) identified that are Not considered to be material weakness(es)?	___ yes	X none reported
Type of auditor's report issued on compliance for Major programs:	Unmodified	
Identification of major programs:		
Any audit findings disclosed that are required to be Reported in accordance the Uniform Guidance?	___ yes	X no

Program	CFDA Number
Consolidated Health Centers Cluster	93.224

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as a low-risk auditee?	X yes	___ no

Section II – Findings Required to be Reported in Accordance with Government Auditing Standards:

None Reported

Section III – Findings Required to be Reported in Accordance with the Uniform Guidance:

None Reported

Section IV – Prior Year Findings Required to be Reported in Accordance with Government Auditing Standards:

None Reported

Section V – Prior Year Findings Required to be Reported in Accordance with the Uniform Guidance:

None Reported