

**The Wright Center for
Graduate Medical Education**

Financial Statements and
Supplementary Information

June 30, 2014 and 2013



BAKER TILLY

Candor. Insight. Results.

The Wright Center for Graduate Medical Education

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Independent Auditors' Report

Board of Directors
The Wright Center for Graduate Medical Education

Report on the Financial Statements

We have audited the accompanying financial statements of The Wright Center for Graduate Medical Education (the "Organization"), which comprise the statement of financial position as of June 30, 2014 and 2013, 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.

Auditors' 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 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 The Wright Center for Graduate Medical Education as of June 30 2014 and 2013, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 January 9, 2015 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Baker Tilly Viechow Krause, LLP

Wilkes-Barre, Pennsylvania
January 9, 2015

The Wright Center for Graduate Medical Education

Statement of Financial Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 822,436	\$ 121,214
Accounts receivable	431,871	460,156
Grants receivable	939,019	201,188
Due from affiliate	-	428,240
Prepaid expenses and other current assets	23,278	263,716
Total current assets	2,216,604	1,474,514
Investments		
Long-Term	4,290,145	3,829,199
Deferred Compensation	140,971	-
Property and Equipment, Net	<u>235,912</u>	<u>126,443</u>
Total assets	<u>\$ 6,883,632</u>	<u>\$ 5,430,156</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 908,488	\$ 381,264
Accrued wages	817,503	726,165
Payroll withholdings payable	498,917	321,908
Accrued pension	37,004	38,040
Due to affiliate	673,519	-
Deferred revenue	43,322	101,614
Total current liabilities	2,978,753	1,568,991
Deferred compensation payable	<u>140,971</u>	<u>-</u>
Total liabilities	3,119,724	1,568,991
Net Assets		
Unrestricted net assets	<u>3,763,908</u>	<u>3,861,165</u>
Total liabilities and net assets	<u>\$ 6,883,632</u>	<u>\$ 5,430,156</u>

See notes to financial statements

The Wright Center for Graduate Medical Education

Statement of Activities

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Revenues and Other Support		
Federal grants	\$ 8,481,277	\$ 2,772,245
Hospital affiliation agreement funding residency and fellowship program	9,786,151	6,807,200
Hospital reimbursement - clinic	(10,320)	36,237
Temple University School of Medicine teaching undergraduate program fees	-	1,400
IRB and research fees	70,475	25,425
Interest and dividends	116,844	113,252
	<u>18,444,427</u>	<u>9,755,759</u>
Expenses		
Program services:		
Residency and fellowship program	8,335,929	5,344,892
Teaching health center graduate medical education initiative	7,345,253	2,428,197
HIV program	272,587	344,048
IRB clinical research	43,320	57,051
School-based	218,737	-
Psychiatry	1,259	525
	<u>16,217,085</u>	<u>8,174,713</u>
Total program services		
	16,217,085	8,174,713
Support services, Management and general	2,784,228	1,500,676
	<u>19,001,313</u>	<u>9,675,389</u>
Total expenses		
	19,001,313	9,675,389
Revenues (less than) in excess of expenses	(556,886)	80,370
Other Income		
Realized and unrealized gains and losses, net	459,629	243,246
	<u>459,629</u>	<u>243,246</u>
Change in net assets	(97,257)	323,616
Net Assets, Beginning of Year	3,861,165	3,537,549
	<u>3,861,165</u>	<u>3,537,549</u>
Net Assets, End of Year	\$ 3,763,908	\$ 3,861,165
	<u>\$ 3,763,908</u>	<u>\$ 3,861,165</u>

See notes to financial statements

The Wright Center for Graduate Medical Education

Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services						Support Services	Total Program and Support Services Expenses
	Residency and Fellowship Program	Teaching Health Center Graduate Medical Education Initiative	HIV Program	IRB Clinical Research	School-Based	Psychiatry	Management and General	
Salaries	\$ 4,352,014	\$ 3,511,955	\$ 158,872	\$ 28,808	\$ 4,855	\$ -	\$ 1,356,599	\$ 9,413,103
Employee benefits	520,955	371,442	17,290	4,492	1,619	-	390,037	1,305,835
Contract services - professional fees	2,364,767	484,090	63,542	6,180	-	-	308,740	3,227,319
Learning Environments - THC	53,277	2,130,765	-	-	-	-	-	2,184,042
Payroll taxes and other expenses	301,434	251,726	10,876	2,121	851	-	154,254	721,262
Insurance	298,433	241,795	(104)	-	-	-	12,781	552,905
Conference expenses	86,218	61,883	-	-	-	-	10,434	158,535
Consultant fees	-	-	-	-	-	-	11,694	11,694
Telephone and internet	61,039	42,573	2,693	-	-	-	52,483	158,788
Occupancy expense	58	-	-	-	-	-	89,127	89,185
Depreciation	38,944	3,967	-	416	-	-	38,374	81,701
Meeting expense	57,113	29,986	-	159	-	-	27,516	114,774
Professional dues and memberships	57,642	18,295	-	-	-	-	29,287	105,224
Service contract expense	671	-	-	-	-	-	26,892	27,563
Library expense	39,283	28,916	-	-	83	1,259	8,055	77,596
Office supplies	4,104	10,614	1,795	-	-	-	41,237	57,750
Licenses	7,597	11,120	-	-	-	-	6,340	25,057
Recruitment expense	11,907	8,140	-	-	-	-	34,766	54,813
Furniture and equipment	1,266	6,545	-	-	-	-	6,326	14,137
Investment fees	-	-	-	-	-	-	14,607	14,607
Staff travel and parking	5,302	63,078	826	-	-	-	12,085	81,291
Advertising	319	85	-	-	-	-	29,798	30,202
Audit fees	-	-	-	-	-	-	65,825	65,825
Patient care costs	2,750	300	2,292	-	-	-	300	5,642
Staff training and development costs	30,612	31,574	-	-	-	-	3,969	66,155
Auto allowance	1,513	-	-	-	-	-	(191)	1,322
Computer supplies	2,392	15,415	-	922	-	-	24,017	42,746
Equipment rental and maintenance	2,221	1,981	-	-	-	-	2,621	6,823
Printing and copying	3,811	2,245	-	-	-	-	1,902	7,958
Bank charges	-	51	-	-	-	-	4,868	4,919
Donations	-	-	-	-	-	-	11,431	11,431
Postage and shipping	1,678	1,516	731	222	-	-	5,251	9,398
Laboratory research costs	18,033	597	13,774	-	-	-	90	32,494
Answering service	964	-	-	-	-	-	-	964
Medication expense	505	505	-	-	-	-	1,237	2,247
Construction expense	-	-	-	-	211,329	-	-	211,329
Miscellaneous expense	9,107	14,094	-	-	-	-	1,476	24,677
	<u>\$ 8,335,929</u>	<u>\$ 7,345,253</u>	<u>\$ 272,587</u>	<u>\$ 43,320</u>	<u>\$ 218,737</u>	<u>\$ 1,259</u>	<u>\$ 2,784,228</u>	<u>\$ 19,001,313</u>

See notes to financial statements

The Wright Center for Graduate Medical Education

Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services					Support Services	Total Program and Support Services Expenses
	Residency and Fellowship Program	Teaching Health Center Graduate Medical Education Initiative	HIV Program	IRB Clinical Research	Psychiatry	Management and General	
Salaries	\$ 2,797,724	\$ 1,288,318	\$ 231,754	\$ 42,067	\$ -	\$ 839,881	\$ 5,199,744
Employee benefits	541,975	182,311	33,448	7,440	-	130,276	895,450
Contract services - professional fees	940,365	287,167	2,758	2,050	-	114,010	1,346,350
Learning Environments - THC	-	246,368	-	-	-	-	246,368
Payroll taxes and other expenses	195,478	94,013	19,018	4,251	-	68,545	381,305
Insurance	334,931	65,782	211	-	-	11,501	412,425
Conference expenses	114,946	34,919	14,246	-	525	2,123	166,759
Consultant fees	14,090	6,620	-	-	-	6,170	26,880
Telephone and internet	48,283	16,476	1,200	-	-	35,221	101,180
Occupancy expense	527	7,890	-	-	-	84,489	92,906
Depreciation	48,882	1,417	1,424	416	-	14,954	67,093
Meeting expense	38,575	46,197	8,233	159	-	16,868	110,032
Professional dues and memberships	102,499	3,376	861	-	-	3,548	110,284
Contract services - Moses Taylor Hospital	-	-	22,131	-	-	-	22,131
Service contract expense	7,470	3,409	-	-	-	47,782	58,661
Library expense	42,202	6,461	61	169	-	5,412	54,305
Office supplies	6,473	14,953	133	150	-	27,421	49,130
Licenses	11,971	39,994	-	-	-	39	52,004
Recruitment expense	14,340	618	-	-	-	-	14,958
Furniture and equipment	950	4,341	113	-	-	2,383	7,787
Investment fees	-	-	-	-	-	13,818	13,818
Staff travel and parking	23,718	38,380	3,618	-	-	4,661	70,377
Advertising	1,284	3,234	44	-	-	8,040	12,602
Audit fees	-	-	-	-	-	29,475	29,475
Patient care costs	3,600	-	100	-	-	-	3,700
Staff training and development costs	32,491	3,303	16	-	-	-	35,810
Auto allowance	4,488	-	-	-	-	1,996	6,484
Computer supplies	717	986	-	-	-	15,039	16,742
Equipment rental and maintenance	2,034	2,288	-	-	-	1,416	5,738
Printing and copying	8,931	1,396	-	-	-	3,463	13,790
Bank charges	-	-	350	-	-	3,675	4,025
Donations	750	-	-	-	-	3,091	3,841
Postage and shipping	2,639	737	-	349	-	2,721	6,446
Laboratory research costs	205	-	4,266	-	-	535	5,006
Answering service	1,174	-	-	-	-	-	1,174
Medication expense	-	-	14	-	-	-	14
Miscellaneous expense	1,180	27,243	49	-	-	2,123	30,595
	<u>\$ 5,344,892</u>	<u>\$ 2,428,197</u>	<u>\$ 344,048</u>	<u>\$ 57,051</u>	<u>\$ 525</u>	<u>\$ 1,500,676</u>	<u>\$ 9,675,389</u>

See notes to financial statements

The Wright Center for Graduate Medical Education

Statement of Cash Flows

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (97,257)	\$ 323,616
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(459,629)	(243,246)
Depreciation	81,701	67,093
Changes in assets and liabilities:		
Accounts receivable	28,285	30,104
Grants receivable	(737,831)	(201,188)
Due to (from) affiliate	1,101,759	(247,308)
Prepaid expenses and other current assets	240,438	(248,317)
Accounts payable	527,224	246,948
Payroll withholdings payable	177,009	86,259
Accrued wages	91,338	360,605
Accrued pension	(1,036)	(16,488)
Deferred revenue	(58,292)	95,171
Deferred compensation plan	140,971	-
	<u>1,034,680</u>	<u>253,249</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Proceeds from sale of long-term investments	97,864	268,600
Purchase of long-term investments	(240,152)	(367,854)
Purchase of property and equipment	(191,170)	(53,906)
	<u>(333,458)</u>	<u>(153,160)</u>
Net cash used in investing activities		
Increase in cash and cash equivalents	701,222	100,089
Cash and Cash Equivalents, Beginning	<u>121,214</u>	<u>21,125</u>
Cash and Cash Equivalents, Ending	<u>\$ 822,436</u>	<u>\$ 121,214</u>

See notes to financial statements

The Wright Center for Graduate Medical Education

Notes to Financial Statements

June 30, 2014 and 2013

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Wright Center for Graduate Medical Education (the "Organization"), is a non-profit corporation operating from facilities located in Scranton, Pennsylvania. The principal activity of the organization is to provide medical education instruction in a primary care internal residency program at hospitals and outpatient clinics.

The Organization's major program services are as follows:

Residency Program provides medical educational instruction in a primary care internal medicine residency program at affiliated hospitals and clinics. The Cardiology Fellowship Program provides medical educational instruction focusing on a cardiovascular curriculum. These programs are operated pursuant to affiliation agreements as described in Note 7.

Teaching Health Center Graduate Medical Education Initiative was established as an internal residency program that trains graduated physicians to become American Board of Internal Medicine certified internists in Northeastern Pennsylvania. The program has promoted medical education throughout the region, at a time when the area has a serious shortage of medical manpower.

The HIV Program is made up of the Ryan White Outpatient Early Intervention Services Program. The HIV Early Intervention Program provides comprehensive continuum of outpatient HIV primary care services to people living with HIV/AIDS in the seven counties of Northeastern Pennsylvania (Lackawanna, Luzerne, Monroe, Pike, Susquehanna, Wayne, and Wyoming). Services include HIV counseling, testing and referral; medical evaluation and clinical care, other primary care services (oral health, adherence counseling, outpatient mental health, substance abuse treatment and nutritional services), and referral to other health services.

IRB (Institutional Review Board) Clinical Research is established in accordance with the Food and Drug Administration regulations. Its purpose is to review biomedical and behavioral research involving human subjects/patients in order to protect the rights of the human subjects/patients of such research.

School-based: The Organization was awarded \$500,000 through the Affordable Care Act grants for a school-based health center capital program which was utilized in collaboration with the North Pocono Districts. These funds were utilized to renovate and upgrade the nursing suites with the sole purposes of providing necessary space for the development of health services provided to students in the school. The grant was awarded in December 2012. The grant period is two years.

Subsequent Events

The Organization has evaluated subsequent events for recognition or disclosure through January 9, 2015, the date the financial statements were available to be issued.

The Wright Center for Graduate Medical Education

Notes to Financial Statements

June 30, 2014 and 2013

Use of Estimates

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

Contributions

The Organization accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be 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 net asset classes. When a temporary restriction expires, temporarily restricted net assets are re-classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are received.

Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted cash and other highly liquid investments with initial maturities of three months or less, excluding long-term investments.

Accounts Receivable

The Organization's accounts receivable consists substantially of amounts due from local hospitals under affiliation agreements with the Organization as described in Note 7. Accounts receivable are reported at the net realizable value. Accounts are written off when they are determined by management to be uncollectible based upon management's assessment of individual accounts. Recoveries of accounts receivable written off, if any, are credited to the bad debt expense account. Management has determined a reserve for bad debts is not necessary due to the current status and nature of the accounts.

Grants Receivable

Grants receivable consists of amounts due from state and federal agencies for expenses incurred in relation to the grant programs of the Organization.

Investments and Investment Risk

Investments in mutual funds with readily determinable fair values are measured at fair value. Realized and unrealized gains and losses are included in the change in net assets. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2014 and 2013

The Organization's investments are comprised of a variety of financial instruments and are measured by the third-party investment advisor. The fair values reported in the statement of financial position are subject to various risks including changes in equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of each class of depreciable asset.

Deferred Revenue

Amounts that have not yet been expended under the grant agreements of the Organization and therefore have not been recognized as revenue are reported as deferred revenue.

Functional Allocation of Expenses

The expenses of the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited based on actual time and resources used.

New Accounting Standards

In April 2013, the FASB issued ASU 2013-06, Not-for-Profit Entities (Topic 958): *Services Received from Personnel of an Affiliate*. This amendment will require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Such services will be required to be measured at the cost recognized by the affiliate to the personnel providing those services. However, if this measurement will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either the cost recognized by the affiliate for the personnel providing that service or the fair value of that service. This update is effective for the Organization's fiscal year beginning July 1, 2014. The guidance is prospective and management does not believe the adoption of this ASU will have a significant impact on the Organization's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is not permitted. The Organization has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2014 and 2013

2. Due (to) from Affiliate

The Wright Center Medical Group, P.C. (“WCMG”) is an affiliated organization created to bill for patient services provided to third party payors. The Organization’s faculty service program has been operated by this affiliated organization. These organizations are affiliated through the employment of a common management team, and through the shared employment of medical residents utilized by each organization in furtherance of the medical education programs. Each organization is governed by a separate and distinct board of directors.

The balance due (to) from WCMG as of June 30, 2014 and 2013 is \$(406,557) and \$428,240, respectively. The inter-company transactions arise from the fact that the two entities share a common paymaster for payroll related and certain other transactions associated with the affiliates clinical care operations. Payroll and related expenses of the faculty members and administrative employees are charged based upon employment agreements, and through the sharing of administrative services provided to each organization. Salaries and employee benefits paid to the Organization by WCMG were approximately \$7,102,000 in 2014 and \$5,732,000 in 2013. Other expenses paid to the Organization by WCMG were approximately \$2,314,000 in 2014 and \$1,957,000 in 2013. As indicated in Note 7, WCMG also sub-leases a portion of administrative offices from the Organization.

Community Health HUB (“CHH”) is affiliated with the Organization through the employment of a common management team. Each organization is governed by a separate and distinct board of directors. The balance due to CHH as of June 30, 2014 is \$266,962. There was no balance outstanding as of June 30, 2013. The inter-company transactions arise from the fact that the Organization is distributing funds to CHH for the further development and enhancement of the Organization’s national network under the teaching health center grant.

3. Investments, Fair Value

The Organization measures its long-term investments on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Organization for identical assets or liabilities. The generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

The Wright Center for Graduate Medical Education

Notes to Financial Statements

June 30, 2014 and 2013

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The Organization had no Level 2 or Level 3 investments as of June 30, 2014 and 2013.

The financial instruments were measured with the following inputs at June 30, 2014 and 2013:

	2014	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments		
Long-Term:		
Mutual funds - bonds	\$ 1,947,331	\$ 1,947,331
Mutual funds – equity securities	2,342,814	2,342,814
Deferred compensation:		
Mutual funds – equity securities	140,971	140,971
Total	<u>\$ 4,431,116</u>	<u>\$ 4,431,116</u>

	2013	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments		
Long-Term:		
Mutual funds - bonds	\$ 1,874,220	\$ 1,874,220
Mutual funds – equity securities	1,954,979	1,954,979
Total	<u>\$ 3,829,199</u>	<u>\$ 3,829,199</u>

Investment income and gains and losses for long-term investments are comprised of the following:

	2014	2013
Interest and dividends	\$ 116,844	\$ 113,252
Other income:		
Realized gain on sale of securities, net	26,496	77,920
Change in unrealized gains and losses	433,133	165,326
Total	<u>\$ 576,473</u>	<u>\$ 356,498</u>

The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2014 and 2013

Expenses relating to investments, including investment fees, amounted to \$14,607 for 2014 and \$13,818 for 2013, and are included in the management and general expenses in the accompanying statement of activities.

4. Deferred Compensation

In 2014, the Organization established a deferred compensation retirement agreement with several employees. The carrying value of the investments associated with this agreement was \$140,971 at June 30, 2014. The assets associated with this agreement are held to settle the liability and are restricted to be used only for that purpose. Amounts are payable under this agreement at the earlier of the participants death, disability, severance from employment with the Organization, April of the calendar year following the year in which the participants attain age 70 ½, or in the event of an approved financial hardship due to an unforeseeable emergency. Participants in the agreement vest over a three year period with the exception of one participant who vests immediately. Contributions to the agreement are at the discretion of the Organization's board of directors and amounted to \$122,500 at June 30, 2014.

5. Property and Equipment

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 37,340	\$ 33,550
Furniture and fixtures	63,140	65,067
Medical equipment	10,456	16,837
Office equipment	17,895	18,979
Computer software	89,467	64,678
Computer equipment	248,959	171,342
Electronic medical records equipment	114,273	114,273
Construction in progress	<u>29,163</u>	<u>2,929</u>
Total	610,693	487,655
Less: accumulated depreciation	<u>(374,781)</u>	<u>(361,212)</u>
Property and equipment, net	<u>\$ 235,912</u>	<u>\$ 126,443</u>

Depreciation expense was \$81,701 in 2014 and \$67,093 in 2013.

Property and equipment is considered owned by the Organization while used under the Affordable Care Act – Grants for School-Based Health Centers Capital Program and in other future authorized programs; however, the United States Federal Government has a reversionary interest in certain property and equipment with a depreciated cost of \$29,163 at June 30, 2014. The disposition of such items and any proceeds therefrom is subject to federal regulations. The Organization did not have property and equipment with a reversionary interest at June 30, 2013.

The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2014 and 2013

6. Line of Credit

In 2013, the Organization entered into an unsecured line of credit agreement with a local bank for \$250,000 which expires in January 2015. Interest on the line of credit is based on the Wall Street Journal prime rate (3.25% at June 30, 2014). There was no outstanding balance on the line of credit at June 30, 2014 and 2013.

7. Commitments

Operating Leases

The Organization has several leases for property and other tangible property which expire at various dates through 2016 and are classified as operating leases. Most of the leases provide for a minimum annual rental plus other operating expenses applicable to the leased assets.

Minimum future rentals on non-cancelable operating leases as of June 30, 2014 are as follows:

Years ending June 30:

2015	\$ 74,547
2016	<u>72,547</u>
Total	<u>\$ 147,094</u>

Rent expense, net of sublease income, for these operating leases was \$85,396 in 2014 and \$88,931 in 2013.

Sublease

The Organization has an agreement to sub-lease a portion of its administrative offices to its affiliate, WCMG. The sub-lease agreement requires WCMG to reimburse the Organization \$7,265 monthly for a portion of the administrative offices plus expenses associated with its occupancy.

Future minimum rentals on the sublease as of June 30, 2014 are as follows:

2015	\$ 87,177
2016	<u>87,177</u>
Total	<u>\$ 174,354</u>

The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2014 and 2013

Affiliation Agreements

Residency Program - The Organization has affiliation agreements with four Scranton, Pennsylvania hospitals in order to promote and support the Internal Medicine Residency Program. The agreements provide, in part, that the Organization will administer and operate the Residency Program within the participating hospitals and the participating hospital will provide administrative, technical and financial support for the program. Such support includes providing financial resources to support and maintain the operating budget of the Program as well as providing facilities, equipment, professional and technical support personnel. Total participating hospital contributions for the residency program was \$8,783,843 and \$5,841,975 for the years ended June 30, 2014 and 2013, respectively.

Cardiology Fellowship - The Organization has affiliation agreements with three Scranton, Pennsylvania hospitals in order to promote and support the Cardiology Fellowship Program. The agreements provide, in part, that the Organization will administer and operate the Cardiology Fellowship Program within the participating hospitals and the participating hospital will provide administrative, technical and financial support for the program. Such support includes providing financial resources to support and maintain the operating budget of the Program as well as providing facilities, equipment, professional and technical support personnel. Total participating hospital contributions for the Cardiology Fellowship Program was \$1,002,308 and \$965,225 for the years ended June 30, 2014 and 2013, respectively.

Retirement Plans

The Organization has a defined contribution benefit plan (the "Plan") for all eligible employees. Participants become 100% vested in the Plan after one year of service. The Organization is required to make annual contributions to the Plan equal to 8% of eligible compensation for all non-resident employees. Annual contributions to the Plan equal to 3% are required for residents. The Organization's pension expense was \$187,798 in 2014 and \$233,695 in 2013.

The Organization also maintains an Internal Revenue Code Section 403(b) Deferred Wage Plan funded solely through employee contributions.

8. Concentrations of Credit Risk

The Organization primary operations and service area includes Lackawanna County, Pennsylvania and its surrounding communities. The Organization received approximately 52% and 76% of its revenues from amounts generated under the affiliation agreements mentioned in Note 7 in 2014 and 2013, respectively. The Organization received approximately 47% and 28% of its revenues from amounts generated under federal grants.

The Organization maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured to \$250,000.

The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2014 and 2013

9. Income Taxes

The Organization is a not-for-profit corporation exempt as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code.

The Organization accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2014 and 2013.

The Organization's federal Exempt Organization Income Tax Returns for years ended prior to June 30, 2011 are no longer subject to examination by the Internal Revenue Service.

10. Medical Malpractice Claims Coverage

Primary Coverage

Primary medical and professional liability coverage for the Organization is being provided on a claims-made basis through an unrelated insurance company. The coverage limits for medical malpractice claims are \$500,000 or 1,000,000 per occurrence and either \$1,500,000 for physicians and surgeons or \$3,000,000 for the entity, in the aggregate per year. Based on the Organization's claims experience, no accrual has been made for any reported and unreported incidents. It is reasonably possible that circumstances could change materially in the near term.

MCARE Fund Coverage

The Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund") provides excess coverage per the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred. Increases in annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continue to result in proposals to reform or restructure the MCARE Fund. MCARE Fund coverage is currently scheduled to be reduced in 2015, unless the State Insurance Commissioner determines that additional primary insurance capacity is not available at that time, and eliminated three years after such reduction. The Organization will be required to purchase additional primary insurance to take the place of the MCARE Fund coverage as it phases out. Depending upon the ultimate resolution of this matter, the Organization may incur additional insurance costs.

The Wright Center for Graduate Medical Education

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services,			
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	6 T91HP21546-02-01	\$ 3,665,020
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	6 T91HP25793-01-01	3,300,000
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	1 T91HP25794-01-00	<u>1,193,452</u>
Total Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program			8,158,472
Affordable Care Act - Teaching Health Center Grants for School-Based Health Center Capital Expenditures	93.501	1 C12CS25560-01-00	240,492
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76ZA01699-10-01	<u>272,585</u>
Total expenditures of federal awards			<u>\$ 8,671,549</u>

See note to schedule of expenditures of federal awards

The Wright Center for Graduate Medical Education

Note to Schedule of Expenditures of Federal Awards

June 30, 2014

1. Schedule of Expenditures of Federal Awards - Basis of Accounting and Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Wright Center for Graduate Medical Education (the "Organization") and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the financial statements. Federal expenditures on the accompanying schedule of expenditures of federal awards are included within various functional expense categories in the Organization's financial statements.

The Organization is currently working with the U.S. Department of Health and Human Services to transfer the Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease to their affiliated organization, The Wright Center Medical Group, P.C. The change is expected to be completed in fiscal year 2015.

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**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***

Board of Directors
The Wright Center for Graduate Medical Education

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 The Wright Center for Graduate Medical Education (the "Organization"), which comprise the statement of financial position as of June 30, 2014, 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 January 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's 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 assurance about whether the Organization'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
January 9, 2015



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Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of Directors
The Wright Center for Graduate Medical Education

Report on Compliance for Each Major Federal Program

We have audited The Wright Center for Graduate Medical Education's (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2014. The Organization'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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2014.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with 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 OMB Circular A-133, 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 Organization'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 a 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
January 9, 2015

The Wright Center for Graduate Medical Education

Schedule of Findings and Questioned Costs

June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ 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? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.530	Affordable Care Act -Teaching Health Center Graduate Medical Education Payments Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings

None.

The Wright Center for Graduate Medical Education

Summary Schedule of Prior Year Audit Findings

June 30, 2014

Section IV - Summary Schedule of Prior Year Audit Findings

Finding 2013-01

Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918) (Significant Deficiency)

Condition

In documenting internal controls surrounding the grant to provide outpatient early intervention services with respect to HIV disease, it was noted that an individual who is knowledge of the requirements for determining activities allowed and allowable costs was not reviewing and approving invoices for non-salary costs.

Recommendation

There should be written policies and procedures over grant accounting. Additionally, any individuals involved in the accounting for the grant should be properly trained on the policies and procedures.

Resolution

No similar finding was noted during the performance of the current year audit.

Finding 2013-02

Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918) (Significant Deficiency)

Condition

The current procedures allow management and employees to back date transactions within the general ledger system to any current or prior period. Under various grants received by the entity, there are monthly and quarterly reporting requirements.

Recommendation

The general ledger should be closed on a monthly basis and account reconciliations should be prepared prior to preparing the grant reports to ensure that monthly and quarterly reporting to grant agencies is accurate.

Resolution

No similar finding was noted during the performance of the current year audit.