

Albany Area Primary Health Care, Inc.

Independent Auditor's Reports and Financial Statements

May 31, 2019 and 2018

Albany Area Primary Health Care, Inc.
May 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Albany Area Primary Health Care, Inc.
Albany, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Albany Area Primary Health Care, Inc. (the "Organization"), which comprise the balance sheets as of May 31, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Albany Area Primary Health Care, Inc. as of May 31, 2019 and 2018, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 14* to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as listed in the table of contents, 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 December 6, 2019, on our consideration of Albany Area Primary Health Care, Inc.'s internal control over financial reporting and 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 solely 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 the effectiveness of Albany Area Primary Health Care, Inc.'s 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 Albany Area Primary Health Care, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
December 6, 2019

Albany Area Primary Health Care, Inc.

Balance Sheets

May 31, 2019 and 2018

Assets

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,570,899 | \$ 4,803,216 |
| Patient accounts receivable, net of allowance; 2019 – \$1,847,733, 2018 – \$1,662,140 | 2,645,503 | 2,293,631 |
| Other receivables | 1,557,445 | 1,416,055 |
| Contributions receivable - current | 34,287 | - |
| Estimated amounts due from third-party payers | 49,813 | 203,312 |
| Inventories | 558,831 | 520,131 |
| Prepaid expenses | 90,924 | 95,908 |
| | <u>6,507,702</u> | <u>9,332,253</u> |
| Total current assets | | |
| | <u>3,083,359</u> | <u>3,217,601</u> |
| Assets Limited As To Use | | |
| | | |
| Property and Equipment, At Cost | | |
| Land and land improvements | 824,492 | 658,292 |
| Buildings and building improvements | 11,303,104 | 9,733,937 |
| Equipment | 3,872,037 | 3,485,963 |
| Construction in progress | - | 97,787 |
| | <u>15,999,633</u> | <u>13,975,979</u> |
| Less accumulated depreciation | <u>6,499,321</u> | <u>5,882,059</u> |
| | <u>9,500,312</u> | <u>8,093,920</u> |
| Other Assets | | |
| Contributions receivable | <u>215,439</u> | <u>-</u> |
| Total assets | <u>\$ 19,306,812</u> | <u>\$ 20,643,774</u> |

Liabilities and Net Assets

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|----------------------|----------------------|
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 234,347 | \$ 220,706 |
| Accounts payable | 1,429,078 | 1,329,817 |
| Accrued expenses | 1,576,670 | 1,666,765 |
| Deferred revenue | 35,949 | 100,441 |
| | <u>3,276,044</u> | <u>3,317,729</u> |
| | | |
| Long-Term Debt | 1,716,459 | 1,377,142 |
| | | |
| Deferred Compensation | <u>3,083,359</u> | <u>3,217,601</u> |
| | <u>8,075,862</u> | <u>7,912,472</u> |
| | | |
| Net Assets | | |
| Without donor restrictions | 9,940,567 | 11,798,433 |
| With donor restrictions | 1,290,383 | 932,869 |
| | <u>11,230,950</u> | <u>12,731,302</u> |
| | <u>\$ 19,306,812</u> | <u>\$ 20,643,774</u> |

Albany Area Primary Health Care, Inc.
Statements of Operations
Years Ended May 31, 2019 and 2018

| | 2019 | 2018 |
|---|-----------------------|-------------------|
| Revenues, Gains and Other Support Without Donor Restrictions | | |
| Patient service revenue (net of contractual discounts and allowances) | \$ 22,069,975 | \$ 21,803,623 |
| Pharmacy revenue | 11,342,738 | 10,178,437 |
| Provision for uncollectible accounts | (2,977,192) | (2,998,200) |
| Net patient service revenue less provision for uncollectible accounts | 30,435,521 | 28,983,860 |
| Grant revenue | 6,705,674 | 6,792,980 |
| Contributions | 142,026 | 217,968 |
| Other | 1,957,098 | 1,873,978 |
| Gain (loss) on disposal of property and equipment | (8,374) | 3,607 |
| Net assets released from restriction used for operations | 57,960 | 52,030 |
| Total revenues, gains and other support without donor restrictions | 39,289,905 | 37,924,423 |
| Expenses and Losses | | |
| Salaries and wages | 22,244,881 | 20,602,804 |
| Employee benefits | 3,601,068 | 3,474,070 |
| Travel | 305,961 | 247,524 |
| Contract services – physician | 607,006 | 842,211 |
| Patient care | 388,173 | 465,502 |
| Rent | 164,108 | 131,531 |
| Contract billing and collections | 300,398 | 305,187 |
| Contract pharmacy fees | 1,918,397 | 1,711,495 |
| Other contracted services | 1,650,046 | 1,524,286 |
| Depreciation | 708,949 | 628,743 |
| Interest expense | 83,644 | 65,307 |
| Medical supplies | 805,111 | 865,219 |
| Laboratory supplies | 541,219 | 574,996 |
| Contract pharmacy supplies | 4,358,645 | 3,217,523 |
| Other supplies | 966,458 | 927,295 |
| Other expenses | 2,587,805 | 2,080,350 |
| Total expenses and losses | 41,231,869 | 37,664,043 |
| Operating Income (Loss) | (1,941,964) | 260,380 |
| Other Income | | |
| Investment return, net | 39,098 | 17,190 |
| Excess (Deficiency) of Revenues Over Expenses | (1,902,866) | 277,570 |
| Grants for acquisition of property and equipment | 30,000 | - |
| Contributions for purchase of property and equipment | 15,000 | - |
| Increase (Decrease) in Net Assets Without Donor Restrictions | \$ (1,857,866) | \$ 277,570 |

Albany Area Primary Health Care, Inc.
Statements of Changes in Net Assets
Years Ended May 31, 2019 and 2018

| | 2019 | 2018 |
|---|----------------|---------------|
| Net Assets Without Donor Restrictions | | |
| Excess (deficiency) of revenues over expenses | \$ (1,902,866) | \$ 277,570 |
| Grants for acquisition of property and equipment | 30,000 | - |
| Contributions for purchase of property and equipment | 15,000 | - |
| Increase (decrease) in net assets without donor restrictions | (1,857,866) | 277,570 |
| Net Assets With Donor Restrictions | | |
| Contributions | 415,474 | - |
| Net assets released from restriction | (57,960) | (52,030) |
| Increase (decrease) in net assets with donor restrictions | 357,514 | (52,030) |
| Change in Net Assets | (1,500,352) | 225,540 |
| Net Assets, Beginning of Year | 12,731,302 | 12,505,762 |
| Net Assets, End of Year | \$ 11,230,950 | \$ 12,731,302 |

Albany Area Primary Health Care, Inc.
Statements of Cash Flows
Years Ended May 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Operating Activities | | |
| Change in net assets | \$ (1,500,352) | \$ 225,540 |
| Items not requiring (providing) operating cash flow | | |
| Loss (gain) on disposal of property and equipment | 8,374 | (3,607) |
| Depreciation | 708,949 | 628,743 |
| Contributions for acquisition of property and equipment | (166,462) | - |
| Grant for acquisition of property and equipment | (30,000) | - |
| Changes in | | |
| Patient accounts receivable, net | (351,872) | 189,248 |
| Estimated amounts due from and to third-party payers | 153,499 | (194,276) |
| Inventories | (38,700) | 24,438 |
| Accounts payable and accrued expenses | 7,462 | (376,138) |
| Other current assets and liabilities | (450,624) | 673,659 |
| | <u>(1,659,726)</u> | <u>1,167,607</u> |
| Net cash provided by (used in) operating activities | | |
| Investing Activities | | |
| Proceeds from disposal of property and equipment | 9,707 | 14,508 |
| Purchase of property and equipment | (1,980,256) | (647,767) |
| | <u>(1,970,549)</u> | <u>(633,259)</u> |
| Net cash used in investing activities | | |
| Financing Activities | | |
| Proceeds from contributions for acquisition of property and equipment | 15,000 | - |
| Proceeds from grants for acquisition of property and equipment | 30,000 | - |
| Proceeds from issuance of long-term debt | 587,500 | - |
| Principal payments on long-term debt | (234,542) | (209,396) |
| | <u>397,958</u> | <u>(209,396)</u> |
| Net cash provided by (used in) financing activities | | |
| Increase (Decrease) in Cash and Cash Equivalents | (3,232,317) | 324,952 |
| Cash and Cash Equivalents, Beginning of Year | <u>4,803,216</u> | <u>4,478,264</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,570,899</u> | <u>\$ 4,803,216</u> |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 83,644 | \$ 65,307 |
| Accounts payable incurred for property and equipment | \$ 1,704 | \$ - |
| Property and equipment acquired through noncash contributions | \$ 151,462 | \$ - |

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Albany Area Primary Health Care, Inc. (the "Organization") primarily earns revenues by providing physician and related health care services through clinics located in Albany, Georgia, and surrounding areas.

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.

Cash and Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At May 31, 2019 and 2018, cash equivalents consisted primarily of money market deposit accounts.

At May 31, 2019, the Organization's cash accounts exceeded federally insured limits by approximately \$855,000.

Assets Limited As To Use

Assets limited as to use include deferred compensation plan assets.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at the time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense, and is reported in the statements of operations as a component of net assets without donor restrictions.

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 85 percent of self-pay accounts receivable at May 31, 2018, to 88 percent of self-pay accounts receivable at May 31, 2019. The Organization's write-offs decreased approximately \$552,000 from approximately \$3,344,000 for the year ended May 31, 2018, to approximately \$2,792,000 for the year ended May 31, 2019.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|--|--------------|
| Buildings, building improvements and land improvements | 5 - 40 years |
| Equipment | 3 - 20 years |

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items or a portion thereof may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended May 31, 2019 and 2018.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

340B Revenue

The Organization participates in the 340B Drug Discount Program (340B Program) enabling the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). The Organization benefits under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the Organization.

Government Grant Revenue

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue and net assets without donor restrictions.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the health center continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of approximately \$127,500 and \$140,250 for the years ended May 31, 2019 and 2018, respectively, which is included in other revenue in the statements of operations.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restriction which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

Note 2: Grant Revenue

The Organization is the recipient of a Community Health Center (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of this grant is to provide expanded health care service delivery in Albany, Georgia, and 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. During the years ended May 31, 2019 and 2018, the Organization recognized \$5,181,589 and \$5,026,867 in CHC grant funds, respectively. Funding for the year ending May 31, 2020, is approved at \$5,187,269.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

The Organization is also a recipient of a Ryan White Outpatient Early Intervention Services with Respect to HIV Disease grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded HIV services in Albany, Georgia, and surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. During the years ended May 31, 2019 and 2018, the Organization recognized \$892,623 and \$1,007,787 in grant funds, respectively. Funding for the grant year ending April 30, 2020, has been approved at \$909,839.

In addition to these grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Organization is approved as a Federally Qualified Health Center (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. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid based on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan.

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.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

The Organization has also entered into payment agreements 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 and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts including pharmacy revenue (but before the provision for uncollectible accounts), recognized in the years ended May 31, 2019 and 2018, was approximately:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|----------------------|----------------------|
| Medicare | \$ 6,338,187 | \$ 6,308,146 |
| Medicaid | 9,754,202 | 9,223,656 |
| Other third-party payers | 15,177,576 | 13,855,907 |
| Self-pay | <u>2,142,748</u> | <u>2,594,351</u> |
| Total | <u>\$ 33,412,713</u> | <u>\$ 31,982,060</u> |

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at May 31, 2019 and 2018, was:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------|-------------|
| Medicare | 28% | 23% |
| Medicaid | 40% | 38% |
| Self-pay | 22% | 26% |
| Other third-party payers and patients | <u>10%</u> | <u>13%</u> |
| | <u>100%</u> | <u>100%</u> |

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Note 5: Assets Limited As To Use

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Assets limited as to use include: | | |
| Deferred compensation plan assets | | |
| Mutual funds | <u>\$ 3,083,359</u> | <u>\$ 3,217,601</u> |
| | | |
| Total investment return is comprised of the following: | | |
| | <u>2019</u> | <u>2018</u> |
| Interest income | <u>\$ 39,098</u> | <u>\$ 17,190</u> |

Note 6: Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage and 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.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claims experience, no accrual has been made for medical malpractice costs for the years ended May 31, 2019 and 2018. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Note 7: Long-Term Debt

Long-term debt at May 31, 2019 and 2018, consisted of the following:

| | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Note payable, bank (A) | \$ 198,441 | \$ 249,294 |
| Note payable, bank (B) | 218,894 | 271,083 |
| Note payable, bank (C) | 233,200 | 305,222 |
| Note payable, bank (D) | 711,804 | 741,218 |
| Note payable, bank (E) | 573,666 | - |
| Capital lease obligations (F) | 14,801 | 31,031 |
| | 1,950,806 | 1,597,848 |
| Less current maturities | 234,347 | 220,706 |
| | \$ 1,716,459 | \$ 1,377,142 |

- (A) Due December 19, 2022; payable \$4,936 monthly, including interest at 3.65 percent; secured by certain real property.
- (B) Due March 25, 2023; payable \$5,112 monthly, including interest at 3.65 percent; secured by certain real property.
- (C) Due May 15, 2022; payable \$6,866 monthly, including interest at 3.75 percent; secured by certain real property.
- (D) Due February 28, 2026; payable \$4,850 monthly, including interest at 3.90 percent, with a final payment of remaining unpaid principal due at maturity; secured by certain real property.
- (E) Due July 3, 2028; payable \$4,035 monthly, including interest at 5.40 percent with a final payment of remaining unpaid principal and interest due at maturity; secured by certain real property.
- (F) Capital lease obligations payable through June 2022 at varying rates of interest to 12 percent.

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

Property and equipment include the following property under capital leases for the years ended May 31, 2019 and 2018:

| | 2019 | 2018 |
|-------------------------------|------------------|------------------|
| Equipment | \$ 84,001 | \$ 84,001 |
| Less accumulated depreciation | <u>73,367</u> | <u>54,567</u> |
| | <u>\$ 10,634</u> | <u>\$ 29,434</u> |

Aggregate annual maturities of long-term debt and payments on capital lease obligations at May 31, 2019, are:

| | Long-Term Debt (Excluding Capital Lease Obligations) | Capital Lease Obligation |
|--|---|---|
| 2020 | \$ 229,547 | \$ 4,800 |
| 2021 | 239,141 | 4,800 |
| 2022 | 248,591 | 4,800 |
| 2023 | 138,892 | 401 |
| 2024 | 57,381 | - |
| Thereafter | <u>1,022,453</u> | <u>-</u> |
| | <u>\$ 1,936,005</u> | 14,801 |
| Less amount representing interest | | - |
| Present value of future minimum lease payments | | <u>14,801</u> |
| Less current maturities | | <u>4,800</u> |
| Noncurrent portion | | <u>\$ 10,001</u> |

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

Note 8: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

| | 2019 | 2018 |
|--|---------------------|-------------------|
| Use of Mirian Worthy Women’s Health Building | \$ 932,869 | \$ 932,869 |
| Use of Women's Health Center Building | 357,514 | - |
| | \$ 1,290,383 | \$ 932,869 |

Net Assets Released from Restrictions

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amount of \$57,960 and \$52,030, respectively.

In April 2015, the Organization entered into a 30-year lease with Phoebe Putney Memorial Hospital, Inc. in which the Organization will not pay any value for rent for the use of the medical facility. The title of the asset remains with Phoebe Putney Memorial Hospital, Inc. This transaction is considered to be a contribution of use of a long-lived asset. This contribution is described in the financial statements as a building instead of a contribution receivable. The Organization recorded \$1,039,730 in buildings which represents net assets with donor restriction under this lease agreement. The asset will be amortized over the estimated useful life of 30 years through an annual charge to expense. An equivalent amount is released from restriction and reported in operating revenue. Net assets were released from restriction for operations in the amounts of \$34,658 for both years ended May 31, 2019 and 2018.

In August 2018, the Organization entered into a seven-year lease with Phoebe Putney Memorial Hospital, Inc. in which the Organization will pay rent at a discounted rate for the use of the medical facility. The title of the asset remains with Phoebe Putney Memorial Hospital, Inc. This transaction is considered to be a contribution of use of a long-lived asset. The Organization recorded \$264,012 in contribution receivable which represents net assets with donor restriction under this lease agreement. Phoebe Putney Memorial Hospital, Inc. also funded certain improvements at this location which were considered a donation to the Organization in the amount of \$151,462. These assets will be amortized over the estimated useful life of seven years through an annual charge to expense. An equivalent amount is released from restriction and reported in operating revenue. Net assets were released from restriction for operations in the amounts of \$23,302 for the year ended May 31, 2019.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Note 9: Liquidity and Availability

The Organization's financial assets are available within one year of the balance sheet date for general expenditure are:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------------|-------------------------|
| Financial assets at year end | | |
| Cash and cash equivalents | \$ 1,570,899 | \$ 4,803,216 |
| Patient accounts receivable, net of allowance | 2,645,503 | 2,293,631 |
| Other receivables | 1,557,445 | 1,416,055 |
| Estimated amounts due from third-party payers | 49,813 | 203,312 |
| Assets limited as to use | <u>3,083,359</u> | <u>3,217,601</u> |
| Total financial assets | 8,907,019 | 11,933,815 |
| Less amounts not available to be used within one year | | |
| Assets limited as to use | <u>(3,083,359)</u> | <u>(3,217,601)</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 5,823,660</u> | <u>\$ 8,716,214</u> |

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 10: Functional Expenses

The Organization provides health care services to residents within its service area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative functional expense classifications based on direct assignment, salary allocation and other methods. The following schedule presents the natural classification of expenses by function as follows:

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

| | 2019 | | Total |
|----------------------------------|-------------------------|-------------------------------|----------------------|
| | Health Care Services | General and Administrative | |
| Salaries and wages | \$ 18,222,447 | \$ 4,022,434 | \$ 22,244,881 |
| Employee benefits | 2,988,062 | 613,006 | 3,601,068 |
| Travel | 97,965 | 207,996 | 305,961 |
| Contract services – physician | 607,006 | - | 607,006 |
| Patient care | 388,173 | - | 388,173 |
| Rent | 8,537 | 155,571 | 164,108 |
| Contract billing and collections | 189,464 | 110,934 | 300,398 |
| Contract pharmacy fees | 1,918,397 | - | 1,918,397 |
| Other contracted services | 973,218 | 676,828 | 1,650,046 |
| Depreciation | 253,466 | 455,483 | 708,949 |
| Interest expense | 448 | 83,196 | 83,644 |
| Medical supplies | 805,111 | - | 805,111 |
| Laboratory supplies | 541,219 | - | 541,219 |
| Contract pharmacy supplies | 4,358,645 | - | 4,358,645 |
| Other supplies | 913,180 | 53,278 | 966,458 |
| Other expenses | 847,964 | 1,739,841 | 2,587,805 |
| | <u>\$ 33,113,302</u> | <u>\$ 8,118,567</u> | <u>\$ 41,231,869</u> |

For 2018, the Organization had \$30,964,003 of health care services and \$6,700,040 in general and administrative expenses.

Note 11: Retirement Plans

The Organization has a 403(b) defined contribution plan covering substantially all employees. The Organization contributes for each eligible participant a matching contribution equal to 100 percent of each participant's eligible contributions that do not exceed 3 percent of compensation. During the years ended May 31, 2019 and 2018, the Organization made no additional discretionary contributions to the 403(b) plan. The Organization also has a 457(b) retirement plan that covers select highly compensated employees. Retirement expense was \$417,310 and \$389,444 for the years ended May 31, 2019 and 2018, respectively.

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2019 and 2018:

| | Fair Value | Fair Value Measurements Using | | |
|---------------------|---------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| May 31, 2019 | | | | |
| Mutual funds | | | | |
| Fixed income | \$ 755,730 | \$ - | \$ 755,730 | \$ - |
| Target date fund | 735,636 | - | 735,636 | - |
| Other equity funds | 1,591,993 | - | 1,591,993 | - |
| | <u>\$ 3,083,359</u> | <u>\$ -</u> | <u>\$ 3,083,359</u> | <u>\$ -</u> |
| May 31, 2018 | | | | |
| Mutual funds | | | | |
| Balance | \$ 667,399 | \$ - | \$ 667,399 | \$ - |
| Target date fund | 701,911 | - | 701,911 | - |
| Other equity funds | 1,848,291 | - | 1,848,291 | - |
| | <u>\$ 3,217,601</u> | <u>\$ -</u> | <u>\$ 3,217,601</u> | <u>\$ -</u> |

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2019 and 2018

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended May 31, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and would be classified as Level 2. Level 2 securities include mutual funds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no securities classified as Level 3.

Note 13: Significant Estimates and Concentrations

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

Grant Revenues

A concentration of revenues related to grant awards and other support are described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Malpractice Claims

Estimates related to the accrual for professional liability claims are described in *Note 6*.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Contingencies

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices, performance of contracts or medical malpractice claims not covered under FTCA (*Note 6*). The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Management records an estimate of the amount of ultimate expected loss, if any, for these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

340B Drug Discount Program

The Organization participates in the 340B Drug Discount Program (340B Program) enabling the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Note 14: Change in Accounting Principle

In 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the change is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flow available to meet operating expenses for one year from the date of the balance sheet.
- Expenses are reported by both nature and function in one location.

The 2018 functional expenses (see *Note 10*) have been revised for immaterial classification corrections of certain expenses. As a result of the revisions, the previously reported expenses for health care services increased from \$28,251,001 to \$30,964,003 and the previously reported expenses for general and administrative services decreased from \$9,413,042 to \$6,700,040.

This change in accounting principle and the functional expense revisions had no impact on previously reported total change in net assets.

Note 15: Future Change in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2019 and 2018

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is currently effective for annual periods beginning after December 15, 2019 (2018 for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (2018 for not-for-profits that are conduit debt obligors). The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 16: Subsequent Events

On August 28, 2019, the Organization entered into a \$1,000,000 revolving bank line of credit that matures in August 2020. Any funds drawn on this line of credit will bear interest at the bank's index rate (5.25 percent at August 28, 2019). The line is secured by substantially all the Organization's assets.

Subsequent events have been evaluated through December 6, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

Albany Area Primary Health Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2019

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|------------------------------------|---|--|---------------------------------------|
| U.S. Department of Health and Human Services/Health Centers Program - Health Center Program Cluster | 93.224 | N/A | \$ - | \$ 1,731,642 |
| U.S. Department of Health and Human Services/Grants for New and Expanded Under the Health Center Program - Health Center Program Cluster | 93.527 | N/A | - | <u>3,449,947</u> |
| Total Health Center Program Cluster | | | - | 5,181,589 |
| U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | N/A | - | 892,623 |
| U.S. Department of Health and Human Services/The Family Health Centers of Georgia, Inc./Family Planning Services | 93.217 | None | - | <u>477,262</u> |
| Total federal expenditures | | | <u>\$ -</u> | <u>\$ 6,551,474</u> |

Albany Area Primary Health Care, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended May 31, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Albany Area Primary Health Care, Inc. under programs of the federal government for the year ended May 31, 2019. 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 Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Albany Area Primary Health Care, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of Albany Area Primary Health Care, Inc.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Albany Area Primary Health Care, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Albany Area Primary Health Care, Inc. did not have any federal loan programs during the year ended May 31, 2019.

**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***

Independent Auditor's Report

Board of Directors
Albany Area Primary Health Care, Inc.
Albany, Georgia

We have audited, 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, the financial statements of Albany Area Primary Health Care, Inc. (the "Organization"), which comprise the balance sheet as of May 31, 2019, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2019, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Albany Area Primary Health Care, 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 Albany Area Primary Health Care, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Albany Area Primary Health Care, 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.

Board of Directors
Albany Area Primary Health Care, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Albany Area Primary Health Care, 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 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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
December 6, 2019

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Albany Area Primary Health Care, Inc.
Albany, Georgia

Report on Compliance for the Major Federal Program

We have audited Albany Area Primary Health Care, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Albany Area Primary Health Care, Inc.'s major federal program for the year ended May 31, 2019. Albany Area Primary Health Care, Inc.'s major federal program is 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 Albany Area Primary Health Care, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Albany Area Primary Health Care, 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 the major federal program. However, our audit does not provide a legal determination of Albany Area Primary Health Care, Inc.'s compliance.

Board of Directors
Albany Area Primary Health Care, Inc.

Opinion on the Major Federal Program

In our opinion, Albany Area Primary Health Care, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2019.

Report on Internal Control over Compliance

Management of Albany Area Primary Health Care, 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 Albany Area Primary Health Care, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 Albany Area Primary Health Care, 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.

BKD, LLP

Springfield, Missouri
December 6, 2019

Albany Area Primary Health Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended May 31, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal award programs disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards were:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

Albany Area Primary Health Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended May 31, 2019

7. The Organization's major program was:

| Cluster/Program | CFDA Number |
|-------------------------------|-------------------|
| Health Center Program Cluster | 93.224 and 93.527 |

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Finding |
|------------------|----------------------------|
| | No matters are reportable. |

Findings Required to be Reported by the Uniform Guidance

| Reference Number | Finding |
|------------------|----------------------------|
| | No matters are reportable. |

Albany Area Primary Health Care, Inc.
Summary Schedule of Prior Audit Findings
Year Ended May 31, 2019

| Reference Number | Summary of Finding | Status |
|-----------------------------|----------------------------|---------------|
| | No matters are reportable. | |