

Albany Area Primary Health Care, Inc.

Independent Auditor's Reports and Financial Statements

May 31, 2014 and 2013

Albany Area Primary Health Care, Inc.
May 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, and the results of its operations, 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.

Emphasis of Matter

As discussed in *Note 15* to the financial statements, the 2013 financial statements have been restated to correct a misstatement. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 September 22, 2014, on our consideration of the Organization'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 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 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

Albany Area Primary Health Care, Inc.

Balance Sheets

May 31, 2014 and 2013

Assets

	2014	2013 (Restated - Note 15)
Current Assets		
Cash and cash equivalents	\$ 3,956,019	\$ 2,371,029
Short-term investments	18,287	271,943
Patient accounts receivable, net of allowance; 2014 - \$1,237,866, 2013 - \$1,295,760	1,720,550	2,538,356
Other receivables	1,433,876	784,387
Inventories	282,621	347,520
Prepaid expenses	113,647	136,875
Total current assets	7,525,000	6,450,110
Assets Limited As To Use		
Deferred compensation plan assets	2,066,011	1,702,299
Long-Term Investments		
	-	291,763
Property and Equipment, At Cost		
Land and land improvements	438,292	438,292
Buildings and building improvements	6,661,893	6,346,490
Equipment	2,862,661	2,762,493
Construction in progress	-	199,185
	9,962,846	9,746,460
Less accumulated depreciation	4,045,654	3,482,999
	5,917,192	6,263,461
Total assets	\$ 15,508,203	\$ 14,707,633

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 160,366	\$ 145,235
Accounts payable	849,233	666,672
Accrued expenses	1,559,252	1,408,288
Deferred revenue	30,777	44,467
Total current liabilities	2,599,628	2,264,662
Long-Term Debt		
	1,361,250	1,463,843
Deferred Compensation		
Total liabilities	2,066,011	1,702,299
	6,026,889	5,430,804
Net Assets		
Unrestricted	9,431,314	9,276,829
Temporarily restricted	50,000	-
Total net assets	9,481,314	9,276,829
Total liabilities and net assets	\$ 15,508,203	\$ 14,707,633

Albany Area Primary Health Care, Inc.
Statements of Operations
Years Ended May 31, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 14,850,105	\$ 14,617,552
Provision for uncollectible accounts	(1,769,084)	(1,830,143)
Net patient service revenue less provision for uncollectible accounts	13,081,021	12,787,409
Pharmacy revenue	7,292,035	5,267,922
Grant revenue	4,596,869	4,351,572
Contributions	60,050	117,497
Other	1,388,893	1,512,460
Total unrestricted revenues, gains and other support	26,418,868	24,036,860
Expenses and Losses		
Salaries and wages	14,171,503	14,005,149
Employee benefits	2,371,219	2,095,319
Travel	128,381	116,540
Contract services - physician	243,442	111,732
Patient care	182,805	139,459
Rent	133,600	145,186
Contract transcriptionist	3,247	5,386
Contract billing and collections	192,849	85,397
Contract pharmacy fees	1,414,820	1,164,048
Other contracted services	1,028,286	1,094,512
Depreciation	562,654	490,762
Interest expense	59,502	47,000
Medical supplies	334,738	419,556
Laboratory supplies	463,695	413,993
Contract pharmacy supplies	2,939,473	2,458,110
Other supplies	558,692	499,921
Other expenses	1,493,888	1,673,682
Loss on disposal of property and equipment	1,200	3,980
Total expenses and losses	26,283,994	24,969,732
Operating Income (Loss)	134,874	(932,872)
Other Income		
Investment return	19,611	26,104
Excess (Deficiency) of Revenues Over Expenses	154,485	(906,768)
Grant for acquisition of property and equipment	-	487,236
Contributions of property and equipment	-	287,000
Increase (Decrease) in Unrestricted Net Assets	\$ 154,485	\$ (132,532)

Albany Area Primary Health Care, Inc.
Statements of Changes in Net Assets
Years Ended May 31, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 154,485	\$ (906,768)
Grant for acquisition of property and equipment	-	487,236
Contributions of property and equipment	-	287,000
Increase (decrease) in unrestricted net assets	154,485	(132,532)
Temporarily Restricted Net Assets		
Contributions	50,000	-
Increase in temporarily restricted net assets	50,000	-
Change in Net Assets	204,485	(132,532)
Net Assets, Beginning of Year	9,276,829	9,409,361
Net Assets, End of Year	\$ 9,481,314	\$ 9,276,829

Albany Area Primary Health Care, Inc.
Statements of Cash Flows
Years Ended May 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 204,485	\$ (132,532)
Items not requiring (providing) cash		
Loss on disposal of property and equipment	1,200	3,980
Depreciation	562,654	490,762
Contributions of property and equipment	-	(287,000)
Grant for acquisition of property and equipment	-	(487,236)
Changes in		
Patient accounts receivable, net	817,806	(890,716)
Inventories	64,899	74,957
Accounts payable and accrued expenses	343,112	(101,576)
Other current assets and liabilities	(639,951)	333,091
	<u>1,354,205</u>	<u>(996,270)</u>
Investing Activities		
Proceeds from investments	545,419	239,538
Purchase of property and equipment	(167,172)	(1,677,215)
	<u>378,247</u>	<u>(1,437,677)</u>
Financing Activities		
Proceeds from grants for acquisition of property and equipment	-	487,236
Proceeds from issuance of long-term debt	-	1,005,699
Principal payments on long-term debt	(147,462)	(81,959)
Principal payments on notes payable to bank	-	(733,278)
	<u>(147,462)</u>	<u>677,698</u>
Increase (Decrease) in Cash and Cash Equivalents	1,584,990	(1,756,249)
Cash and Cash Equivalents, Beginning of Year	2,371,029	4,127,278
Cash and Cash Equivalents, End of Year	\$ 3,956,019	\$ 2,371,029
Supplemental Cash Flows Information		
Interest paid	\$ 59,502	\$ 47,000
Accounts payable incurred for property and equipment	\$ -	\$ 9,587
Property and equipment acquired through noncash contributions	\$ -	\$ 287,000
Capital lease obligation incurred for property and equipment	\$ 60,000	\$ -

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2014 and 2013

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, 2014 and 2013, cash equivalents consisted primarily of money market deposit accounts and money market accounts with brokers.

At May 31, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$2,873,000.

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. Investment return is reported in the statements of operations as a component of unrestricted net assets.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2014 and 2013

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility 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 doubtful 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 doubtful 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 doubtful 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 doubtful accounts.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 75% of self-pay accounts receivable at May 31, 2013, to 83% of self-pay accounts receivable at May 31, 2014. In addition, the Organization's write-offs increased approximately \$302,000 from approximately \$1,525,000 for the year ended May 31, 2013, to approximately \$1,827,000 for the year ended May 31, 2014. This is the result of continuing claims experience in the collections from self-pay patients in fiscal year 2014.

Inventories

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

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

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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 unrestricted net assets 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 unrestricted net assets 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 estimate 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, 2014 and 2013.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

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.

Contributions

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.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2014 and 2013

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

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.

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 \$408,000 and \$786,250 for the years ended May 31, 2014 and 2013, respectively, which is included in other revenue in the statement of operations.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets 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).

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2014 and 2013

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statements presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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, 2014 and 2013, the Organization received \$3,549,217 and \$3,402,500 in CHC grant funds, respectively. Funding for the year ending May 31, 2015, is approved at \$3,923,358.

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, 2014 and 2013, the Organization received \$909,262 and \$881,991 in grant funds, respectively. Funding for the grant year ending April 30, 2015, has been approved at \$944,652.

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

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2014 and 2013

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 based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. 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.

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 (but before the provision for uncollectible accounts), recognized in the years ended May 31, 2014 and 2013, was approximately:

	2014	2013
Medicare	\$ 4,676,344	\$ 4,047,283
Medicaid	5,895,476	6,274,710
Other third-party payers	2,426,113	2,167,221
Self-pay	1,852,172	2,128,338
Total	<u>\$ 14,850,105</u>	<u>\$ 14,617,552</u>

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

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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, 2014 and 2013, was:

	2014	2013
Medicare	27%	19%
Medicaid	41%	50%
Self Pay	17%	17%
Other third-party payers and patients	15%	14%
	100%	100%

Note 5: Assets Limited As To Use

Assets limited as to use include the following deferred compensation plan assets:

	2014	2013 (Restated - Note 15)
Mutual funds	\$ 2,066,011	\$ 1,702,299

Note 6: Investments and Investment Return

Short-Term Investments

Short-term investments include:

	2014	2013
Certificates of deposits	\$ -	\$ 253,886
Mutual funds	18,287	18,057
	\$ 18,287	\$ 271,943

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

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Long-Term Investments

Long-term investments include:

	2014	2013
Certificates of deposit	\$ -	\$ 291,763

Investment Return

Total investment return is comprised of the following:

	2014	2013
Interest income	\$ 19,643	\$ 26,751
Unrealized gain (loss) on securities	(32)	(647)
	<u>\$ 19,611</u>	<u>\$ 26,104</u>

Note 7: 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, 2014 and 2013. 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.

Note 8: Line of Credit

In March 2014, the Organization increased its \$750,000 bank line of credit to \$1,000,000. The line of credit bears interest at 4% and matures on March 17, 2015. The line is collateralized by the Organization's accounts receivable. The Organization did not have a principal balance outstanding on the line of credit at May 31, 2014 or May 31, 2013.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

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Note 9: Long-Term Debt

Long-term debt at May 31, 2014 and 2013, consisted of the following:

	2014	2013
Note payable, bank (A)	\$ 434,881	\$ 477,157
Note payable, bank (B)	461,545	504,932
Note payable, bank (C)	567,417	626,989
Capital lease obligation (D)	57,773	-
	1,521,616	1,609,078
Less current maturities	160,366	145,235
	\$ 1,361,250	\$ 1,463,843

- (A) Due December 19, 2022; payable \$4,936 monthly, including interest at 3.65%; secured by certain real property.
- (B) Due March 25, 2023; payable \$5,112 monthly, including interest at 3.65%; secured by certain real property.
- (C) Due May 15, 2022; payable \$6,866 monthly, including interest at 3.75%; secured by certain real property.
- (D) Capital lease obligation for medical equipment payable monthly through February 2019 in the amount of \$1,334 including interest at 12%. Property and equipment include the following property under capital lease:

	2014	2013
Equipment	\$ 60,000	\$ -
Less accumulated depreciation	900	-
	\$ 59,100	\$ -

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Aggregate annual maturities of long-term debt and payments on capital lease obligations at May 31, 2014, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligation
2015	\$ 151,412	\$ 16,011
2016	157,096	16,011
2017	162,994	16,011
2018	169,113	16,011
2019	175,462	12,008
Thereafter	647,766	-
	\$ 1,463,843	76,052
Less amount representing interest		18,279
Present value of future minimum lease payments		57,773
Less current maturities		8,954
Noncurrent portion		\$ 48,819

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	2014	2013
Health care services	\$ 50,000	\$ -

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Notes to Financial Statements
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Note 11: Functional Expenses

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

	2014	2013
Health care services	\$ 19,625,062	\$ 18,142,998
General and administrative	6,658,932	6,826,734
	\$ 26,283,994	\$ 24,969,732

Note 12: 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% of each participant's eligible contributions that do not exceed 3% of compensation. No additional discretionary contributions were made for the years ended May 31, 2014 and 2013. The Organization also has a 457(b) retirement plan that covers select highly compensated employees. Retirement expense was \$248,716 and \$166,640 for the years ended May 31, 2014 and 2013, respectively.

Note 13: 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.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

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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, 2014 and 2013:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
May 31, 2014				
Mutual funds				
Balance	\$ 612,924	\$ 612,924	\$ -	\$ -
Fixed income	328,306	328,306	-	-
Money market	190,643	190,643	-	-
Other equity funds	952,425	952,425	-	-
	<u>\$ 2,084,298</u>	<u>\$ 2,084,298</u>	<u>\$ -</u>	<u>\$ -</u>
May 31, 2013				
(Restated - Note 15)				
Mutual funds				
Balance	\$ 476,283	\$ 476,283	\$ -	\$ -
Fixed income	344,590	344,590	-	-
Money market	154,413	154,413	-	-
Other equity funds	745,070	745,070	-	-
	<u>\$ 1,720,356</u>	<u>\$ 1,720,356</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2014.

Albany Area Primary Health Care, Inc.
Notes to Financial Statements
May 31, 2014 and 2013

Investments and Cash Equivalents

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. 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 2 or 3.

Note 14: 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 7*.

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 7*). 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.

Albany Area Primary Health Care, Inc.

Notes to Financial Statements

May 31, 2014 and 2013

340B Drug Pricing Program

The Organization participates in the 340B Drug Pricing 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.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The continuing implementation of the *Affordable Care Act*, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Note 15: Restatement of Prior Years' Financial Statements

In prior years, the Organization did not record the fair value of its 457(b) retirement plan assets and the related deferred compensation liability. During 2014, the Organization retroactively changed its accounting method to reflect the fair value of plan assets on its financial statements. The following financial statement line items for fiscal year 2013 were affected by this correction:

	As Restated	As Previously Reported	Effect of Change
Balance Sheet			
Deferred compensation plan assets	\$ 1,702,299	\$ -	\$ 1,702,299
Total assets	14,707,633	13,005,334	1,702,299
Deferred compensation liability	1,702,299	-	1,702,299
Total liabilities	5,430,804	3,728,505	1,702,299
Total liabilities and net assets	14,707,633	13,005,334	1,702,299

Supplementary Information

Albany Area Primary Health Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 00763-12-06	\$ 1,296,049
Affordable Care Act (ACA) for New and Expanded Services Under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80 CS 00763-12-06	<u>2,253,168</u>
Total Health Centers Cluster				3,549,217
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	2 H76 HA 00083-25-00	<u>909,262</u>
Total expenditures of federal awards				<u>\$ 4,458,479</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Albany Area Primary Health Care, Inc. and is presented on 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 presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Albany Area Primary Health Care, Inc. did not provide a federal award to a subrecipient during the year ended May 31, 2014.

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

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, 2014, 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 September 22, 2014, which contained an “Emphasis of Matter” paragraph regarding a restatement of prior years’ financial statements.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization’s 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 Organization’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. 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 Organization's financial statements are free of 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
September 22, 2014

Report on Compliance for Each 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 Each Major Federal Program

We have audited the compliance of Albany Area Primary Health Care, Inc. 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 its major federal programs for the year ended May 31, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Albany Area Primary Health Care, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on the Organization's compliance.

Board of Directors
Albany Area Primary Health Care, Inc.

Opinion on Each 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 each of its major federal programs for the year ended May 31, 2014.

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 the Organization's internal control over compliance with the 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 our opinion on compliance for the 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 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. 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.

BKD, LLP

Springfield, Missouri
September 22, 2014

Albany Area Primary Health Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended May 31, 2014

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Albany Area Primary Health Care, Inc.
Summary Schedule of Prior Audit Findings
Year Ended May 31, 2014

Reference Number	Summary of Findings	Status
	No matters are reportable.	