

ARcare

Auditor's Reports and Financial Statements

December 31, 2014 and 2013

ARcare
December 31, 2014 and 2013

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Independent Auditor's Report

Board of Directors
ARcare
Augusta, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of ARcare (the Organization), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations and 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 audit 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 ARcare as of December 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of state awards, 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 March 23, 2015, 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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

ARcare
Balance Sheets
December 31, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 8,906,743	\$ 9,217,286
Restricted cash	55,981	55,841
Patient accounts receivable, net of allowance; 2014 – \$2,361,284; 2013 – \$2,146,122	1,361,501	1,291,177
Grants receivable	743,570	980,021
FQHC cost settlement receivable	167,516	179,905
Other receivable	209,535	127,171
Inventories	853,200	589,181
Prepaid expenses and other	<u>202,074</u>	<u>254,621</u>
Total current assets	<u>12,500,120</u>	<u>12,695,203</u>
Investments - Certificates of Deposit	<u>1,500,004</u>	<u>-</u>
Property and Equipment, at Cost		
Land	2,061,990	953,247
Buildings and leasehold improvements	17,970,251	13,730,251
Construction in progress	170,506	2,785,321
Equipment	<u>4,620,009</u>	<u>3,942,987</u>
	24,822,756	21,411,806
Less accumulated depreciation	<u>5,269,695</u>	<u>4,157,449</u>
	<u>19,553,061</u>	<u>17,254,357</u>
Total assets	<u>\$ 33,553,185</u>	<u>\$ 29,949,560</u>

Liabilities and Unrestricted Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 385,637	\$ 412,612
Deferred grant revenue	113,185	164,781
Accounts payable	735,267	483,645
Accrued liabilities	<u>1,146,653</u>	<u>982,226</u>
Total current liabilities	2,380,742	2,043,264
Long-term Debt	<u>5,987,895</u>	<u>5,421,209</u>
Total liabilities	<u>8,368,637</u>	<u>7,464,473</u>
Net Assets		
Unrestricted	18,888,411	16,863,815
Unrestricted – board designated	<u>6,296,137</u>	<u>5,621,272</u>
Total net assets	<u>25,184,548</u>	<u>22,485,087</u>
Total liabilities and net assets	<u>\$ 33,553,185</u>	<u>\$ 29,949,560</u>

ARcare
Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual allowances and discounts)	\$ 18,114,522	\$ 13,369,200
Provision for uncollectible accounts	(2,346,144)	(2,932,266)
Net patient service revenue less provision for uncollectible accounts	15,768,378	10,436,934
Federal grant funds	11,396,713	9,883,378
State grant funds	1,039,840	1,187,934
Private grant funds	495,101	534,744
Baptist Health grant funds	876,000	876,000
340b revenue (net)	2,155,852	1,357,085
Other revenue (net)	679,784	402,084
In-kind revenue	514,487	1,214,675
 Total unrestricted revenues, gains and other support	 32,926,155	 25,892,834
Expenses		
Salaries and wages	16,111,205	12,999,336
Employee benefits	3,603,604	2,895,746
Contractual services	1,449,115	1,128,136
Depreciation	1,112,246	902,162
Interest	282,464	270,682
Supplies	1,987,804	1,279,637
Facilities rent	700,995	486,333
Travel	754,136	645,090
In-kind expense	514,487	1,214,675
Utilities	1,079,956	955,628
Repairs and maintenance	280,431	232,017
Insurance	312,179	322,243
Other	2,979,497	2,142,244
 Total expenses	 31,168,119	 25,473,929
Excess of Revenues Over Expenses and Changes in Net Assets Before Capital Grants	1,758,036	418,905
 Capital Grants	941,425	2,117,434
 Increase in Unrestricted Net Assets	 2,699,461	 2,536,339
 Unrestricted Net Assets, Beginning of Year	 22,485,087	 19,948,748
 Unrestricted Net Assets, End of Year	 \$ 25,184,548	 \$ 22,485,087

ARcare
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in unrestricted net assets	\$ 2,699,461	\$ 2,536,339
Item not requiring cash		
Depreciation	1,112,246	902,162
Changes in		
Receivables	96,152	637,887
Prepaid expenses	52,547	(117,442)
Inventories	(264,019)	(205,305)
Accounts payable	251,622	172,314
Accrued expenses	164,427	(239,694)
Deferred grant revenues	(51,596)	74,167
	4,060,840	3,760,428
Net cash provided by operating activities		
Investing Activities		
Capital expenditures	(3,434,235)	(4,195,580)
Purchases of investments - certificates of deposits	(1,500,004)	-
Proceeds from sale of capital assets	23,285	-
	(4,910,954)	(4,195,580)
Net cash used in investing activities		
Financing Activities		
Principal payments on debt and capital lease obligations	(985,123)	(995,458)
Proceeds from issuance of long-term debt	1,524,834	1,177,038
	539,711	181,580
Net cash provided by financing activities		
Decrease in Cash and Cash Equivalents	(310,403)	(253,572)
Cash and Cash Equivalents, Beginning of Year	9,273,127	9,526,699
Cash and Cash Equivalents, End of Year	\$ 8,962,724	\$ 9,273,127
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	\$ 8,906,743	\$ 9,217,286
Restricted cash	55,981	55,841
	\$ 8,962,724	\$ 9,273,127
Total cash and cash equivalents		
Supplemental Cash Flows Information		
Interest paid	\$ 291,510	\$ 270,079

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Notes to Financial Statements
December 31, 2014 and 2013

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

Nature of Operations

ARcare (the Organization) was created for nonprofit purposes to promote the general health of citizens in and surrounding communities of:

Augusta	Forrest City	McCrory
Batesville	Fort Smith	Melbourne
Bentonville	Hazen	Mountain Home
Brinkley	Heber Springs	Newport
Cabot	Horseshoe Bend	Parkin
Carlisle	Hot Springs	Rogers
Cherry Valley	Jonesboro	Searcy
Conway	Kensett	Swifton
Cotton Plant	Lake City	Texarkana
Des Arc	Little Rock	West Memphis
El Dorado	Lonoke	Wynne
England	Mayflower	
Fayetteville	Magnolia	

The Organization expanded operations in 2012 into Kentucky. Its principal objectives are to establish and maintain clinic facilities for the care of persons suffering from illness or disabilities, providing comprehensive services, including preventive care, and to carry on educational activities related to rendering care to the sick and promotion of health by educating the public. A significant source of funds for operation are grants from the U.S. Department of Health and Human Services, the acceptance of which requires compliance with prescribed grant conditions and other special requirements, including the receipt of certain amounts of revenues from nonfederal sources. Additional operating funds are realized from a grant received from the Arkansas Department of Health, a grant received through an affiliation with Baptist Health and charges to patients. Under the terms of grant agreements, the Organization is subject to the uniform administrative requirements of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (the Circular). Accordingly, management policies and procedures are designed to be in compliance with the provisions of the Circular.

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Notes to Financial Statements
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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 with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money markets and certificates of deposit.

At December 31, 2014, the Organization's cash deposits exceeded federally insured limits by approximately \$8,100,000.

Restricted Cash

Restricted cash includes cash deposits required as part of the Organization's loan agreements with the United States Department of Agriculture – Rural Development. The loan agreement requires the Organization to fund a cash reserve with \$286 in monthly deposits until the reserve accumulates to a minimum of \$33,720, which has been met since 2006. Under the terms of the agreement, the Organization can use the funds to make payments on the note or, with prior written approval, make improvements to the related real estate.

Investments

Investments consist of certificates of deposit which are carried at cost, which approximates fair value. Interest income is recorded in other revenue in the accompanying statements of operations and changes in net assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful 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 doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

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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 bad debts, 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.

Inventories

Supply inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. As of December 31, 2014 and 2013, inventories consisted of medical, laboratory, x-ray, dental, pharmaceutical and office supplies.

Property and Equipment

Property and equipment are depreciated on a straight-line basis 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.

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

Buildings and leasehold improvements	40 years
Equipment	5 years

Property acquired with federal grant funds is considered owned by the Organization while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased with federal grant funds, as well as any proceeds from its sale, are subject to federal regulation.

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Notes to Financial Statements
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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 December 31, 2014 and 2013.

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 charity care, 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 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 in the period the services are provided. This provision for bad debts is presented on the statements of operations and changes in net assets as a component of net patient service revenue.

In accordance with grant requirements, the Organization provides care at amounts less than its established rates using sliding fee scale adjustments to patients who meet certain criteria. These adjustments are a component of net patient service revenue.

Professional Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

Income Taxes

The Organization is 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.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

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Notes to Financial Statements

December 31, 2014 and 2013

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 federally qualified 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 & Medicaid Services.

Payments under both programs are contingent on the Organization 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 state, fiscal intermediary or Medicare Administrative Contractor. 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.

During the year ended December 31, 2013, the Organization completed the second year requirements under the Medicaid program for certain providers and has recorded revenue of approximately \$187,000, which is included in other revenue in the statements of operations and changes in net assets.

During the year ended December 31, 2014, the Organization completed the third year requirements under the Medicaid program for certain providers and has recorded revenue of approximately \$327,250, which is included in other revenue in the statements of operations and changes in net assets.

Compensated Absences

Employees receive between one and two days of accrued leave per month, which is available to be taken the next month. Any accrued leave not taken by the end of the year is carried forward to the next year.

However, no employee may carry forward more than 20 days of annual leave to the subsequent year. The amount of accrued leave at December 31, 2014 and 2013, was \$537,373 and \$433,571, respectively, and is included in accrued liabilities in the financial statements.

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.

ARcare
Notes to Financial Statements
December 31, 2014 and 2013

Note 2: Investments and Investment Return

Investments and investment return at December 31, 2014 and 2013, consisted of the following:

	2014	2013
Certificates of deposit	\$ 1,500,004	\$ -
Interest income (cash deposits and certificates of deposits)	17,305	22,795

Interest income is included in other revenue in the statements of operations and changes in net assets.

Note 3: 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 initially based on a prospective reimbursement methodology. Throughout the year, the Organization is reimbursed a set encounter rate for all services provided under the plan. After submission of an annual cost report and review by Arkansas Medicaid, a final settlement is received if the actual costs per encounter exceed the set rate.

Approximately 63% and 71% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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.

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Notes to Financial Statements
December 31, 2014 and 2013

Net patient service revenue consists of charges to patients and third-party payers adjusted for contractual adjustments and fee reductions due to the inability of the patient to pay.

Components of net patient service revenue at December 31, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Gross patient fees	\$ 23,482,752	\$ 17,892,008
Adjustments of gross patient fees		
Contractual adjustments	(4,115,587)	(1,506,392)
Sliding fee scale adjustments	(1,252,643)	(3,016,416)
Provision for uncollectible accounts	<u>(2,346,144)</u>	<u>(2,932,266)</u>
	<u>\$ 15,768,378</u>	<u>\$ 10,436,934</u>

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers for the years ended December 31, 2014 and 2013, was as follows:

	<u>2014</u>		<u>2013</u>	
Medicare	14	%	16	%
Medicaid	20		21	
Other third-party payers	14		7	
Patient fees	<u>52</u>		<u>56</u>	
	<u>100</u>	<u>%</u>	<u>100</u>	<u>%</u>

Note 5: Grant and Contract Revenue

Grant revenues are recognized for financial statement purposes to the extent of allowable program expenditures. Grant proceeds were less than grant expenditures for certain grants, resulting in a grant receivable of \$743,570 and \$980,021 at December 31, 2014 and 2013, respectively. Additionally, grant proceeds have exceeded grant expenditures for certain grants, resulting in deferred grant revenue of \$113,185 and \$164,781 at December 31, 2014 and 2013, respectively.

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Notes to Financial Statements
December 31, 2014 and 2013

Note 6: Functional Expenses

Expenses incurred by the Organization, classified by functional categories, for the years ended December 31, 2014 and 2013, were as follows:

	2014	2013
Clinical services and related costs	\$ 22,908,010	\$ 19,931,132
Administrative and general	8,260,109	5,542,797
	\$ 31,168,119	\$ 25,473,929

Note 7: Nonmonetary Transactions

The Organization received in-kind contributions of \$514,487 and \$1,214,675 during the years ended December 31, 2014 and 2013, respectively. It is the policy of the Organization to record the estimated fair value of in-kind donations as an expense in its financial statements, and similarly increase revenue by a like amount. Contributions received in 2014 and 2013 consisted of donated medications through the IndiCare and Care programs.

Note 8: Professional Liability Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating providers covered under the *Federal Torts Claims Act* (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice cost for the years ended December 31, 2014 and 2013. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical claim.

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Notes to Financial Statements
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Note 9: Long-term Debt

Long-term debt at December 31, 2014 and 2013, is summarized below:

	<u>2014</u>	<u>2013</u>
Note payable bank, due May 1, 2024; payable \$1,185 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	\$ 115,024	\$ 125,330
Note payable bank, due January 31, 2019; payable \$939 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	42,947	52,656
Note payable bank, due September 25, 2022; payable \$1,360 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	49,408	63,862
Note payable bank, due September 24, 2022; payable \$1,747 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	63,561	82,130
Note payable bank, due December 17, 2017; payable \$2,732 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	37,392	68,425
Note payable United States Department of Agriculture, due July 5, 2030; payable \$2,810 monthly, including interest at 5%, secured by real estate.	364,090	379,195
Note payable United States Department of Agriculture, due May 1, 2027; payable \$1,596 monthly, including interest at 4.5%, secured by real estate.	177,820	188,703
Note payable bank, due February 28, 2023; payable \$2,364 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	238,154	170,707
Note payable bank, due July 13, 2033; payable \$1,800 monthly, including interest at a variable interest rate (3.25% at December 31, 2014) set to float with the prime rate, secured by real estate.	602,595	311,253
Note payable bank, due May 1, 2017; payable \$991 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	143,965	151,063

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Notes to Financial Statements
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	<u>2014</u>	<u>2013</u>
Note payable bank, due January 17, 2016; payable \$3,348 monthly, including interest at a variable rate (4.89% at December 31, 2014), secured by real estate.	\$ 446,716	\$ 464,576
Note payable bank, due January 10, 2017; payable \$60,000 in five annual payments, including interest at a variable rate (4.89% at December 31, 2014), secured by real estate.	1,380,000	1,440,000
Note payable Success EHS, due January 1, 2015; payable \$13,300 monthly, including interest at a variable rate (3.25% at December 31, 2014), secured by real estate.	38,633	141,654
Note payable bank, due August 8, 2023; payable \$980 monthly, including interest at a variable rate (3.25% at December 31, 2014) set to float with the prime rate, secured by real estate.	-	96,639
Note payable bank, due May 20, 2033; payable \$1,367 monthly; including interest at a variable rate (3.25% at December 31, 2014) set to float with the prime rate, secured by real estate.	226,255	235,006
Note payable bank, due December 9, 2018; payable \$3,110 monthly; including interest at 3.85%, secured by real estate.	502,667	520,000
Note payable bank, due November 11, 2024; payable \$938 monthly; including interest at variable rate set to float with prime (3.25% at December 31, 2014), secured by real estate.	164,144	-
Note payable bank, due March 21, 2019; payable \$1,293 monthly; including interest at variable rate set to float with prime (3.25% at December 31, 2014), secured by real estate.	259,238	-
Note payable, due June 6, 2019; payable \$50,000 annually; including interest at 7%, secured by real estate.	200,000	-
Capital lease obligation on Jonesboro Clinic for approximately 25 years, including interest at 5.875%; expiring November 2034.	1,320,923	1,342,622
	<u>6,373,532</u>	<u>5,833,821</u>
Less current maturities	<u>385,637</u>	<u>412,612</u>
	<u>\$ 5,987,895</u>	<u>\$ 5,421,209</u>

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Notes to Financial Statements
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Aggregate annual maturities of long-term debt and capital lease obligations at December 31, 2014, are as follows:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2015	\$ 351,558	\$ 105,000
2016	701,010	105,000
2017	1,473,471	105,000
2018	614,123	105,000
2019	325,824	105,000
Thereafter	<u>1,586,624</u>	<u>1,737,816</u>
	<u>\$ 5,052,610</u>	2,262,816
Less amount representing interest		941,894
Present value of future minimum lease payments		<u>1,320,922</u>
Less current maturities		<u>34,079</u>
Noncurrent portion		<u>\$ 1,286,843</u>

Property and equipment include the following property under capital leases at December 31:

	2014	2013
Land	\$ 200,000	\$ 200,000
Buildings and leasehold improvements	<u>1,206,806</u>	<u>1,206,806</u>
	1,406,806	1,406,806
Less accumulated depreciation	<u>249,224</u>	<u>192,952</u>
	<u>\$ 1,157,582</u>	<u>\$ 1,213,854</u>

ARcare
Notes to Financial Statements
December 31, 2014 and 2013

Note 10: Operating Leases

The Organization has entered into numerous operating leases for clinic sites, which expire in various years through 2033. These leases generally contain renewal options for up to five years and require the Organization to pay all executory costs (utilities, maintenance and insurance). Rent expenses associated with these leases were \$700,995 and \$486,333 for the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments at December 31, 2014, were:

2015	\$ 577,753
2016	477,692
2017	352,232
2018	296,516
2019	190,500
Thereafter	<u>2,802,816</u>
Future minimum lease payments	<u><u>\$ 4,697,509</u></u>

Note 11: Employee Benefit Plan

The Organization adopted a defined contribution plan in accordance with Internal Revenue Code Section 401(k) and an Employee Retirement Plan and Tax Sheltered Custodial Account. Substantially all salaried employees of the Organization are eligible to participate in the retirement plans. The Organization's board of directors determines the annual contributions to the plans. During 2014 and 2013, \$990,860 and \$802,099, respectively, was contributed by the Organization to the plans. Fiscal years 2014 and 2013 included an 8% contribution approved by the board of directors.

Note 12: 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:

Allowance for Net Patient Service Revenue Adjustments

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

ARcare
Notes to Financial Statements
December 31, 2014 and 2013

Professional Liability Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *8*.

Economic Dependency

The Organization is economically dependent upon revenue provided by the U.S. Department of Health and Human Services and the Arkansas Department of Health. During 2014 and 2013, 40% and 50%, respectively, of the Organization's revenues were provided by the U.S. Department of Health and Human Services and the Arkansas Department of Health.

Note 13: Affiliation With Baptist Health

The Organization is an affiliate of Baptist Health (Baptist). Under the terms of the agreement, Baptist will provide the Organization a yearly grant to assist with the daily operational costs and will provide specialty services to, and on behalf of, the Organization's patients. In return, the Organization will display the Baptist logo at all of its clinics and programs and will assist Baptist in its effort to provide quality health care and education to the rural areas of north central Arkansas. Additionally, at all times, there will be four directors actively serving on the Organization's board of directors who have been nominated by Baptist. During 2014 and 2013, the Organization recognized \$876,000 each year in grant revenue as a result of this affiliation.

Note 14: Related Party Transaction

The Organization leases a medical and dental clinic from a board member for approximately \$40,000 on an annual basis.

The Arkansas Family Health Foundation (the Foundation) was formed in 2009 to provide grants and other resources to not-for-profits focused on health and welfare initiatives within the state of Arkansas. Two officers of the Organization serve in the same capacity for the Foundation. During 2014 and 2013, the Foundation awarded the Organization grants in the amounts of approximately \$112,000 and \$139,000, respectively.

Supplementary Information

ARcare
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant Identifying Number	Amount Expended
Health Center Cluster				
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	2 H80 CS 00207-13	\$ 8,190,359
Affordable Care Act (ACA) Grants for New and Expanded Services Under Health Center Program	U.S. Department of Health and Human Services	93.527	None	<u>224,585</u>
Total Consolidated Health Center Cluster				8,414,944
Child Care and Development Fund				
Child Care and Development Block Grant	U.S. Department of Health and Human Services/Arkansas Department of Human Services	93.575	None	42,235
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	U.S. Department of Health and Human Services/Arkansas Department of Human Services	93.596	None	<u>10,782</u>
Total Child Care and Development Fund				53,017
Child and Adult Care Food Program	U.S. Department of Agriculture/ Arkansas Department of Human Services	10.558	None	54,253
Housing Opportunities for Persons with AIDS	U.S. Department of Housing and Urban Development/ Arkansas Department of Health	14.241	None	62,045
Coordinated Services and Access to Research for Women, Infants, Children and Youth	U.S. Department of Health and Human Services	93.153	4 H12HA24772-03-01	409,145
Affordable Care Act Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	1 C8BCS12973-01-00	941,425
Medical Assistance Program (Medicaid Outstation)	U.S. Department of Health and Human Services/Arkansas Department of Human Services	93.778	None	2,377
Rural Health Outreach and Rural Network Development Program	U.S. Department of Health and Human Services	93.912	6 D06RH21666-01-02 5 D60RH25754-02	443,437

ARcare
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant Identifying Number	Amount Expended
HIV Care Formula Grants	U.S. Department of Health and Human Services/Arkansas Department of Health	93.917	None	\$ 1,603,854
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76HA00711-12-01 6 H76HA00711-10-02	303,109
HIV Prevention Activities	U.S. Department of Health and Human Services/Arkansas Department of Health	93.940	None	16,920
Retired and Senior Volunteer Program	Corporation for National and Community Services	94.002	None	<u>33,612</u>
				<u>\$ 12,338,138</u>

Notes to Schedule

1. This schedule includes the federal awards activity of the Organization 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. Of the federal expenditures presented in this schedule, the Organization provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
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No awards were provided to subrecipients.

ARcare
Schedule of State Awards
Year Ended December 31, 2014

Program	State Agency	State Revenues	State Expenditures
Arkansas Community Health Centers Grant Program	Arkansas Department of Health	\$ 1,022,168	\$ 1,022,168
DCCECE – State Funded Child Care	Arkansas Department of Human Services	3,943	3,943
DDECE – CCDF Match	Arkansas Department of Human Services	7,365	7,365
State RSVP	Arkansas Department of Human Services	5,175	5,175
Medical Assistance Program (Medicaid Outstation)	Arkansas Department of Human Services	<u>1,189</u>	<u>1,189</u>
		<u>\$ 1,039,840</u>	<u>\$ 1,039,840</u>
Program	Pass-Through Entity		
Medicaid Title XIX	Arkansas Department of Human Services	<u>\$ 2,297,794</u> ⁽¹⁾	

⁽¹⁾ Amount represents 27% of total Medicaid eligible services rendered in 2014. Medicaid payments are included in net patient service revenue in the accompanying statements of operations and changes in net assets.

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
ARcare
Augusta, Arkansas

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 basic financial statements of ARcare (the Organization), which comprise the balance sheet as of December 31, 2014, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 23, 2015.

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.

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

Little Rock, Arkansas
March 23, 2015

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

Independent Auditor's Report

Board of Directors
ARcare
Augusta, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of ARcare (the Organization) 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 December 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 the Organization's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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

Little Rock, Arkansas
March 23, 2015

ARcare
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Summary of Auditor's Results

1. The opinions expressed in the independent auditor's report were:
 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

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinions 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 OMB Circular A-133? Yes No

ARcare
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2014

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Health Centers Cluster	93.224 and 93.527
Rural Health Outreach and Rural Network Development Program	93.912
HIV Care Formula Grants	93.917

8. The threshold used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133, was \$370,144.

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
No matters are reportable.	

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
No matters are reportable.		

ARcare
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2014

Reference Number	Finding	Status
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No matters are reportable.