The Family Medicine Residency of Idaho, Inc.

Financial Statements and
Independent Auditors' Reports

June 30, 2012 and 2011

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

The Family Medicine Residency of Idaho, Inc.
Table of Contents

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Family Medicine Residency of Idaho, Inc.
Boise, Idaho

We have audited the accompanying statements of financial position of The Family Medicine Residency of Idaho, Inc. (the Residency) (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Residency's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Residency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Residency as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2012, on our consideration of the Residency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Dingus, Zarecor and Associates PLLC

Spokane Valley, Washington
October 8, 2012

The Family Medicine Residency of Idaho, Inc.
Statements of Financial Position
June 30, 2012 and 2011

ASSETS		**2012**		**2011**
Current assets				
Cash and cash equivalents	**$**	**1,712,007**	$	1,591,045
Receivables:				
Patients, net of allowance for doubtful accounts of approximately $405,000 and $400,000, respectively		**1,365,633**		941,001
Grants		**41,450**		160,918
Other		**342,431**		169,755
Estimated third-party payor settlements		**691,919**		1,452,335
Prepaids and other		**120,900**		116,216
Total current assets		**4,274,340**		4,431,270
Other assets				
Resident Educational Stipend Fund		**5,000**		5,000
Beneficial interest in assets held by Idaho Community Foundation		**10,000**		10,000
Total other assets		**15,000**		15,000
Property and equipment, net		**390,013**		362,472
Total assets	**$**	**4,679,353**	$	4,808,742
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	**$**	**332,642**	$	278,224
Accrued compensation and related liabilities		**345,618**		560,242
Accrued vacation		**385,030**		342,594
Current portion of capital lease obligations		**9,473**		13,189
Deferred grant revenue		**100,129**		15,306
Total current liabilities		**1,172,892**		1,209,555
Capital lease obligations, net of current portion		**4,343**		13,816
Total liabilities		**1,177,235**		1,223,371
Net assets				
Unrestricted		**3,481,606**		3,565,024
Temporarily restricted		**5,512**		5,347
Permanently restricted		**15,000**		15,000
Total net assets		**3,502,118**		3,585,371
Total liabilities and net assets	**$**	**4,679,353**	$	4,808,742

See accompanying notes to financial statements.

The Family Medicine Residency of Idaho, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted revenues, gains, and other support		
Net patient services	**$ 9,183,261**	$ 8,869,724
Case management fees	**490,880**	414,759
Contributions for residency program	**5,099,971**	5,122,986
Grants	**2,795,640**	1,888,193
Contributions	**100,268**	188,853
Interest income	**56,805**	765
Other	**132,503**	58,049
Total unrestricted revenues, gains, and other support	**17,859,328**	16,543,329
Expenses		
Salaries and wages	**10,552,587**	9,598,507
Employee benefits	**2,043,804**	1,606,352
Contract services	**1,222,559**	1,154,428
Professional fees	**170,072**	130,435
Medical supplies	**776,309**	718,310
Supplies	**181,715**	248,551
Repairs and maintenance	**76,101**	59,772
Utilities	**150,918**	125,790
Insurance	**235,465**	227,705
Depreciation and amortization	**96,614**	120,509
Rents and leases	**780,436**	749,070
Provision for bad debts	**893,293**	692,947
Grant subrecipient distribution	**44,559**	40,138
Interest	**5,704**	3,389
Other	**712,611**	646,492
Total expenses	**17,942,747**	16,122,395
Change in unrestricted net assets	**(83,419)**	420,934
Change in temporarily restricted net assets		
Interest income	**166**	160
Change in net assets	**(83,253)**	421,094
Net assets, beginning of year	**3,585,371**	3,164,277
Net assets, end of year	**$ 3,502,118**	$ 3,585,371

See accompanying notes to financial statements.

The Family Medicine Residency of Idaho, Inc.
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from patient services	**$ 8,625,752**	$ 7,833,745
Cash received from contributions for residency program	**4,342,586**	4,474,577
Cash received from case management fees	**490,880**	414,759
Cash received from grantors	**2,999,931**	2,000,812
Cash received from contributions	**65,238**	189,254
Cash received from interest	**56,971**	925
Cash received from other revenue	**132,503**	58,049
Cash paid for employee salaries and benefits	**(12,768,579)**	(11,075,985)
Cash paid to subrecipients	**(44,559)**	(40,138)
Cash paid to suppliers and others	**(3,678,439)**	(3,242,996)
Net cash provided by operating activities	**222,284**	613,002
Cash flows from financing activities		
Repayment of capital lease obligation	**(13,189)**	(8,750)
Cash flows from investing activities		
Purchase of property and equipment	**(88,133)**	(120,388)
Net increase in cash and cash equivalents	**120,962**	483,864
Cash and cash equivalents, beginning of year	**1,591,045**	1,107,181
Cash and cash equivalents, end of year	**$ 1,712,007**	$ 1,591,045

See accompanying notes to financial statements.

The Family Medicine Residency of Idaho, Inc.
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	**$ (83,253)**	$ 421,094
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**96,614**	120,509
Provision for bad debts	**893,293**	692,947
Loss on disposal of property	**(36,022)**	-
(Increase) decrease in:		
Receivables:		
Patients	**(1,317,925)**	(456,159)
Grants	**119,468**	101,073
Other	**(172,676)**	(30,354)
Estimated third-party payor settlements	**760,416**	(579,820)
Prepaids and other	**(4,684)**	159,516
Increase (decrease) in:		
Accounts payable	**54,418**	48,776
Accrued compensation and related liabilities	**(214,624)**	88,130
Accrued vacation	**42,436**	40,744
Deferred grant revenue	**84,823**	6,546
Total adjustments	**305,537**	191,908
Net cash provided by operating activities	**$ 222,284**	$ 613,002

Supplemental Disclosures of Cash Flows Information
Noncash items – The Residency received contributed building leases of approximately $562,000 during both 2012 and 2011.

The Residency received contributed employee meals of approximately $57,000 and $51,000 during 2012 and 2011, respectively.

See accompanying notes to financial statements.

1. Organization and Summary of Significant Accounting Policies:

a. Organization

The Family Medicine Residency of Idaho, Inc. (the Residency) was incorporated in Idaho in 2006. Previously, the Residency operated under the name of Family Practice Residency of Idaho, Inc., which was incorporated in 1975. The Residency was approved by the Centers for Medicare and Medicaid Services as a federally-qualified health center look alike facility (FQHC-LA) on June 14, 2007.

The Residency is affiliated with the University of Washington Medical School. The Residency was organized to develop and maintain a program designed to further the education of graduate physicians in the medical specialty of family practice. In fulfilling its charter, the Residency operates the Family Medicine Medical Center at five sites: three sites in Boise, Idaho, one site in Meridian, Idaho, and one site in Garden City, Idaho. The Residency also operates Rural Training Tracks at West Valley Medical Center in Caldwell, Idaho, and with St. Luke's Magic Valley Regional Medical Center, St. Benedict's Family Medical Center, and two family physician clinics in Twin Falls, Idaho, and Jerome, Idaho.

b. Summary of Significant Accounting Policies

Basis of presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. The Residency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

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 certain reported amounts and disclosures. Actual results could materially differ from those estimates.

Cash and cash equivalents – Such assets include money market accounts and highly liquid debt instruments purchased with an original maturity of three months or less.

Patient accounts receivable – Receivables arising from revenue from services to patients are reduced by allowances for uncollectible accounts and contractual adjustments, based on experience, third-party contractual reimbursement agreements, and any unusual circumstances which may affect the ability of patients to meet their obligations. Accounts deemed uncollectible are charged against these allowances.

Prepaid expenses – Prepaid expenses are expenses paid during the fiscal year relating to expenses to be incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

Income tax status – The Residency is qualified as exempt from federal income tax under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income tax is necessary. The Residency evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2012 and 2011, the Residency had no uncertain tax positions requiring accrual.

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Property and equipment – Property and equipment acquisitions in excess of $5,000 have been capitalized and are recorded at cost. Donated capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method over lives ranging from 3 to 12 years.

Gifts of long-lived assets such as land, buildings, or equipment are reported as an increase in unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred grant revenue – The Residency recognizes grant revenue when earned. Amounts received prior to the funds being earned are recorded as deferred grant revenue.

Temporarily and permanently restricted net assets – Temporarily restricted net assets are those whose use by the Residency has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Residency in perpetuity.

Net patient service revenue – The Residency has agreements with third-party payors that provide for payments to the Residency at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined

Contributions – Contributions received are reflected as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of the donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

1. Organization and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Compensated absences – The Residency's policy is to permit employees to accumulate paid personal leave benefits based on the average number of hours worked per week and the number of years of service. The maximum amount an employee may accrue during a one-year period is 248 hours. No paid personal leave benefits are available during the first 90 days of employment, although they are accrued. All paid personal leave benefits are accrued and expensed when earned. The Residency has recorded a liability for amounts payable under this program as of June 30, 2012 and 2011.

Reclassifications – Certain reclassifications have been made to the 2011 financial statements to conform to the classifications used in the 2012 financial statements, with no effect on previously reported change in net assets.

Subsequent events **–** The Residency has evaluated subsequent events through October 8, 2012, the date on which the financial statements were available to be issued.

2. Other Assets:

The Resident Educational Stipend Fund is a nonexpendable trust fund. The principal, in the form of a $5,000 certificate of deposit, is restricted to investment in perpetuity. The income from the fund may only be used for resident financial aid or educational equipment purposes.

On June 29, 2004, the Residency transferred $10,000 to the Idaho Community Foundation to establish the Family Medicine Residency of Idaho Fund (the Fund). The Idaho Community Foundation shall distribute to the Residency, not less than annually, an appropriate percentage of the fair value of the Fund. The amount available for distribution from the Fund will be determined by the Idaho Community Foundation's Board of Directors at its sole discretion. If at any time the Residency becomes dysfunctional, obsolete, ceases to exist, or is no longer a qualified charitable organization recognized by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code, Idaho Community Foundation's Board of Directors, in its sole discretion, may redirect distributions from the Fund to such purposes that will most effectively or closely accomplish the original intent expressed in the agreement.

3. Property and Equipment:

A summary of property and equipment follows:

	June 30,	
	2012	**2011**
Office equipment	**$ 566,346**	$ 466,808
Medical equipment	**229,796**	229,796
Leasehold improvements	**273,545**	255,869
	1,069,687	952,473
Less accumulated depreciation	**(679,674)**	(590,001)
Property and equipment, net	**$ 390,013**	$ 362,472

4. Capital Lease Obligations:

The Residency entered into a capital lease agreement dated October 13, 2008, to finance a colonoscope purchase. The capital lease was made in the original amount of $27,016, due in monthly installments of $694, including interest at 6.75% through December 2012. As of June 30, 2012, accumulated amortization on the related equipment with an original purchase price of $50,091 was $50,091.

The Residency entered into a capital lease agreement dated February 25, 2011, to finance a second colonoscope (used) purchase. The capital lease was made in the original amount of $18,232, due in monthly installments of $555, including interest at 6.10% through February 2014. As of June 30, 2012, accumulated amortization on the related equipment with an original purchase price of $18,232 was $8,103.

The following is a schedule, by year, of future minimum lease payments under the capital lease obligations, together with the present value of the future minimum lease payments as of June 30, 2012:

June 30,	
2013	$ 10,001
2014	4,443
Total future minimum lease payments	14,444
Less amount representing interest	(628)
Present value of future minimum lease payments	13,816
Less current maturities	(9,473)
Total capital lease obligations, net of current maturities	**$ 4,343**

5. Lease Obligations:

Following is a summary of estimated future minimum building and equipment leases under noncancelable operating leases that expire in various years through 2017:

Years Ending June 30,		
2013	$	199,189
2014		156,163
2015		150,769
2016		154,333
2017		57,189
	$	**717,643**

6. Line of Credit:

The Residency has a revolving line of credit with US Bank. The amount available to the Residency is $500,000 which expires April 15, 2013. At June 30, 2012, there were no draws on this line of credit.

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets were available for the following purposes:

	June 30, 2012		June 30, 2011
Resident financial and/or education equipment	**$**	**5,512**	$ 5,347

8. Permanently Restricted Net Assets:

Permanently restricted net assets were as follows:

	June 30, 2012	June 30, 2011
Resident Educational Stipend Fund	**$ 5,000**	$ 5,000
Beneficial interest in assets held by Idaho Community Foundation	**10,000**	10,000
	$ 15,000	$ 15,000

The Resident Educational Stipend Fund is a nonexpendable trust fund. The principal is restricted to investment in perpetuity. The income from the fund may only be used for resident financial aid or educational equipment purchases.

In January 1988, the Board approved the establishment of a separate charitable trust, the principal of which is to be preserved and invested to generate income for budgeted expenses and disbursements necessary or desirable for the Residency to pursue and fulfill its chartered purpose as a charitable, scientific, or educational organization.

9. Net Patient Service Revenue:

The Residency has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – Reimbursement to Medicare program beneficiaries is reimbursed on a cost basis as defined and limited by the Medicare program.
- *Medicaid* – Reimbursement to Medicaid program beneficiaries is reimbursed on a prospective basis as defined by the state of Idaho.
- The Residency also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Residency, under these agreements, is discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 14% and 44%, respectively, of the Residency's net patient service revenue for the year ended June 30, 2012, and 16% and 45%, respectively, for the year ended June 30, 2011.

9. Net Patient Service Revenue (continued):

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately $64,000 and increased approximately $551,000 in 2012 and 2011, respectively, due to differences between the original estimates and revised estimates for final Medicaid settlements.

The changes in estimate are the result of final Medicaid settlements for the fiscal years ended June 30, 2009, 2010, and 2011. The Residency was approved as a FQHC-LA on June 14, 2007. The Medicare cost reports submitted for the fiscal years ended June 30, 2008 and 2009, were used to set the final Medicaid payment rate per encounter for the fiscal years ending June 2008 and forward. Until both the 2008 and 2009 Medicare cost reports were audited by the state of Idaho, the Residency was paid an interim rate per encounter. The state of Idaho completed the audit of the fiscal year ended June 30, 2008, Medicare cost report during the fiscal year ended June 30, 2010, and revised the interim rates. The Residency updated their estimated Medicaid settlements for 2008 through 2010 at this time. The state of Idaho completed the audit of the fiscal year ended June 30, 2009, Medicare cost report during the fiscal year ended June 30, 2011. At this time, final payment rates were determined for 2009 and forward.

The Residency provides care to patients who are financially unable to pay for the healthcare services they receive using a sliding fee schedule without charge or at amounts less than established rates. The Residency's policy is not to pursue collection of amounts determined to qualify for sliding fee discount. Accordingly, the Residency does not report these amounts in net operating revenues or in the allowance for doubtful accounts. The Residency determines the costs associated with providing this care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for patients that qualify for sliding fee discounts for the years ended June 30, 2012 and 2011, were approximately $888,000 and $833,000, respectively.

Funds received from gifts and grants to subsidize sliding fee discounts for the years ended June 30, 2012 and 2011, were $450,000 and $386,328, respectively. The Residency also receives grants that partially help subsidize sliding fee discounts; funds received from those grants for the years ended June 30, 2012 and 2011, were $972,633 and $937,950, respectively.

10. Patient Accounts Receivable:

Patient accounts receivable reported as current assets by the Residency at June 30, 2012, consisted of these amounts:

		2012
Medicare	$	**582,402**
Medicaid		**324,077**
Other Payors		**157,084**
Patients		**708,032**
Total patient accounts receivable		**1,771,595**
Less allowance for uncollectible amounts		**405,962**
Patient accounts receivable, net	**$**	**1,365,633**

11. Contributions for Residency Program:

Sources of contributions were as follows:

	Years Ended June 30,			
		2012		2011
St. Alphonsus Regional Medical Center	**$**	**1,576,980**	$	1,558,827
St. Luke's Regional Medical Center		**1,536,964**		1,516,205
State of Idaho		**1,080,900**		1,106,000
West Valley Medical Center		**417,748**		398,676
St. Luke's Magic Valley Regional Medical Center		**154,000**		229,136
University of Washington		**154,778**		146,571
Veterans Affairs		**178,601**		167,571
	$	**5,099,971**	$	5,122,986

The Residency's governing Board of Directors includes representatives from St. Alphonsus Regional Medical Center and St. Luke's Regional Medical Center, both of which are principal providers of financial support to the Residency.

Noncash support from St. Alphonsus Regional Medical Center includes approximately $400,000 for the lease of the medical center building in both 2012 and 2011, and approximately $46,000 and $41,000 for employee meals in 2012 and 2011, respectively.

Noncash support from St. Luke's Regional Medical Center includes approximately $162,000 for the lease of clinic space in both 2012 and 2011, and approximately $12,000 and $9,000 for employee meals in 2012 and 2011, respectively.

12. Retirement Plan:

The Residency has established a 403(b) defined contribution plan (the Plan) for the benefit of its employees. In a defined contribution plan, benefits depend solely on amounts contributed by the employee and the Residency to the Plan plus investment earnings. All employees who work at least 20 hours per week are eligible to contribute to the Plan upon employment. After three consecutive months of service, the Residency will match employee deferrals to a maximum of 2% of eligible wages. In addition, a discretionary employer annual contribution is determined at December 31 for each class of employee. The Residency contributed approximately $400,000 and $134,000 to the Plan for the years ended June 30, 2012 and 2011, respectively.

13. Functional Expenses:

The Residency provides various programs and other activities to residents within its geographic location. Accordingly, certain costs have been allocated among the programs and supporting services benefited as follows:

	Years Ended June 30, 2012	Years Ended June 30, 2011
Clinic operations	**$ 7,719,093**	$ 9,504,486
Residency program	**6,722,122**	3,652,309
Ryan White Clinic	**1,149,840**	1,094,801
	15,591,055	14,251,596
Management and general	**2,189,439**	1,755,246
Fundraising	**162,253**	115,553
	$ 17,942,747	$ 16,122,395

14. Concentration Risks:

Cash and cash equivalents – The Residency maintains several bank accounts at financial institutions. Interest-bearing accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Dodd-Frank Deposit Insurance Provision provides unlimited coverage for non-interest bearing accounts through December 31, 2012. Approximately $1,350,000 of the Residency's cash was in non-interest bearing accounts at June 30, 2012. At various times during the year and at year end, the Residency had deposits in excess of FDIC coverage.

Patient accounts receivable – The Residency, along with other healthcare providers, grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The majority of these patients are geographically concentrated in southwestern Idaho.

14. Concentration Risks (continued):

The mix of receivables from patients was as follows:

	June 30,	
	2012	**2011**
Medicare	**34 %**	14 %
Medicaid	**19**	34
Other third-party payors	**13**	30
Patients	**34**	22
	100 %	100 %

Grant funding – Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Residency expects such amounts, if any, to be immaterial.

A significant portion of the Residency's funding is derived from grants funded through various federal, state, and private organizations. These programs are funded primarily through Department of Health and Human Services federal contracts and the Idaho Department of Health and Welfare. The Residency is dependent on continued funding.

15. Contingencies:

Medical malpractice claims –The Residency purchases malpractice liability insurance through Lexington Insurance Company (LIC). LIC provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy. If there are unreported incidents which result in a malpractice claim for the current year, these will only be covered in the year the claim is reported to the insurance carrier if the Residency purchases claims-made insurance in that year, or if the Residency purchases extended coverage (tail) insurance to cover claims incurred before, but reported after cancellation or expiration of a claims-made policy.

The current malpractice insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $10,000,000.

No liability has been accrued for future coverage for acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

15. Contingencies (continued):

***Industry regulations* –** The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes the Residency is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the Residency is found in violation of these laws, the Residency could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicaid program.

16. Subsequent Events:

In May 2012, the Residency entered into an operating lease agreement for administrative office space. The agreement is for 5 years commencing September 1, 2012. The Residency will pay approximately $191,000 over the term of the agreement.

In July 2012, the Residency entered into an operating lease agreement for administrative office space. The agreement is for 7 years. The Residency will pay approximately $114,000 for the first year of the lease term. The lease does not commence until a certificate of occupancy is received. Occupancy is expected to occur in December 2012.

The American Recovery and Reinvestment Act of 2009 and corresponding HITECH Act provide for Medicare and Medicaid electronic health records (EHR) incentive programs which grant payments to eligible professionals (EPs) as they demonstrate adoption, implementation, upgrading and meaningful use of certified EHR technology. Those qualifying EPs may elect to participate in either the Medicare or the Medicaid EHR incentive program, with type of provider and encounter demographics in large part determining which program best applies. EPs associated with the Residency qualify for the Medicaid incentive program under a proxy methodology in calculating patient volumes, and which provides a larger financial incentive as compared to the Medicare program. The Idaho State Medicaid agency’s EHR incentive program went live in July 2012, and the Residency is currently working with its EPs to complete the registration and attestation functions necessary to receive payment. Although the incentive payments are directed towards the EPs, they may be voluntarily reassigned to their employer. Since the Residency itself has purchased and maintains the certified EHR, it is currently working with all EPs on this voluntary reassignment and anticipates the majority, if not all EPs, to consent to this arrangement. The initial incentive payment for adopting, implementing, or upgrading to a certified EHR is $21,250 per EP, and the Residency estimates it employs 60 EPs, with a potential total reassignment of incentive payments up to $1,275,000. The Residency anticipates these incentive payments will be disbursed during the later half of 2012.

The EHR incentive payments are provided to incent EPs to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The Residency will recognize the incentive payment on the date that the Residency has successfully complied with the registration and attestation requirements described above and received the reassignment from each EP.

SINGLE AUDIT

AUDITORS' SECTION

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
The Family Medicine Residency of Idaho, Inc.
Boise, Idaho

We have audited the financial statements of The Family Medicine Residency of Idaho, Inc. (the Residency) (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Residency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Residency's internal control over financial reporting as a basis for designing our auditing procedures 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 Residency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Residency's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Residency'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*.

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This report is intended solely for the information and use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dingus, Zarecor, and Associates

Spokane Valley, Washington
October 8, 2012

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
The Family Medicine Residency of Idaho, Inc.
Boise, Idaho

Compliance

We have audited The Family Medicine Residency of Idaho, Inc. (the Residency) (a nonprofit 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 the Residency's major federal programs for the year ended June 30, 2012. The Residency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Residency's management. Our responsibility is to express an opinion on the Residency's compliance based on our audit.

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 Residency'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. Our audit does not provide a legal determination of the Residency's compliance with those requirements.

In our opinion, the Residency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Management of the Residency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Residency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Residency's internal control over compliance.

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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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 8, 2012

The Family Medicine Residency of Idaho, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I – Summary of Auditors' Results

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

Federal Awards:

Internal control over major programs:			
• Material weakness(es) identified?	___ yes	X no	
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	X none reported	
Type of auditors' report issued on compliance for major program:	***Unqualified***		
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	___ yes	X no	

Identification of major program:

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

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

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

Section II – Financial Statement Findings

There are no matters reported for 2012. Therefore, no corrective action plan is necessary, nor has one been prepared.

Section III – Federal Award Findings and Questioned Costs

There are no matters reported for 2012. Therefore, no corrective action plan is necessary, nor has one been prepared.

AUDITEE'S SECTION

The Family Medicine Residency of Idaho, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Award Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Grants to Provide Outpatient Early Intervention			
Services with Respect to HIV Disease	**93.918**	H76HA00205	$ 813,690
		P06HA21179	8,670
Affordable Care Act - Teaching Health Center			
Graduate Medical Education Payments Program	**93.530**	T91HP21544	600,000
Affordable Care Act - Primary Care Residency Expansion Program	**93.510**	T89HP20767	148,517
AIDS Education and Training Centers	**93.145**	H4AHA22760	79,126
Children's Health Insurance Program	**93.767**	Not Available	1,802
Subtotal direct programs			1,651,805
Pass-through program from:			
National Rural Health Association:			
Rural Health Research Centers	**93.155**	Not Available	27,502
Idaho Department of Health and Welfare:			
Centers for Disease Control and Prevention -			
Investigations and Technical Assistance	**93.283**	HC687300	50,115
		HC723800	
HIV Care Formula Grants	**93.917**	HC720900	71,146
State Rural Hospital Flexibility Program	**93.241**	HC637200	36,667
		HC715700	
Project Grants and Cooperative Agreements for	**93.116**	HC713400	17,248
Tuburculosis Control Programs		HC749900	
Refugee and Entrant Assistance - State			
Administered Programs	**93.566**	HC681400	48,124
		HC703200	
Subtotal pass-through programs			250,802
Total U.S. Department of Health and Human Services			1,902,607
Total expenditures of federal awards			**$ 1,902,607**

See accompanying independent auditors' report.

The Family Medicine Residency of Idaho, Inc.
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Note to Schedule of Expenditures of Federal Awards

Basis of presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activity of Family Medicine Residency of Idaho, 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 financial statements.

The Family Medicine Residency of Idaho, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

The single audit for the year ended June 30, 2011, reported no audit findings, nor were there any unresolved findings from periods ended June 30, 2010, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2012.