

# Primary Health Care, Inc.

**Independent Auditor's Reports and Financial Statements**

**June 30, 2014 and 2013**

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**Primary Health Care, Inc.**  
**June 30, 2014 and 2013**

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## Independent Auditor's Report

Board of Directors  
Primary Health Care, Inc.  
Des Moines, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Primary Health Care, Inc. (the "Organization"), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Primary Health Care, Inc. as of June 30, 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 schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Primary Health Care, Inc.'s internal control over financial reporting and compliance.

**BKD, LLP**

Springfield, Missouri  
November 17, 2014

**Primary Health Care, Inc.**  
**Balance Sheets**  
**June 30, 2014 and 2013**

**Assets**

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash	\$ 1,663,225	\$ 879,153
Investments	-	42,764
Patient accounts receivable, net of allowance; 2014 - \$3,702,498, 2013 - \$3,546,000	1,201,234	1,054,936
Grant and other receivables	1,053,895	636,020
Estimated amounts due from third-party payers	460,000	325,000
Contributions receivable	10,000	9
Inventories	23,536	48,041
Prepaid expenses and other	236,037	181,390
Total current assets	<u>4,647,927</u>	<u>3,167,313</u>
 <b>Property and Equipment, At Cost</b>		
Land	554,419	554,419
Buildings and improvements	7,653,343	7,324,121
Equipment	1,424,571	1,239,616
Construction in progress	27,602	170,996
	<u>9,659,935</u>	<u>9,289,152</u>
Less accumulated depreciation	3,353,331	2,846,224
	<u>6,306,604</u>	<u>6,442,928</u>
Total assets	<u>\$ 10,954,531</u>	<u>\$ 9,610,241</u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 41,621	\$ 38,494
Accounts payable	774,767	471,649
Accrued expenses	866,825	792,795
Total current liabilities	<u>1,683,213</u>	<u>1,302,938</u>
 <b>Accrued Rent Payable</b>	56,535	73,162
 <b>Long-Term Debt</b>	197,016	238,352
Total liabilities	<u>1,936,764</u>	<u>1,614,452</u>
 <b>Net Assets</b>		
Unrestricted	8,007,704	7,848,925
Temporarily restricted	1,010,063	146,864
Total net assets	<u>9,017,767</u>	<u>7,995,789</u>
Total liabilities and net assets	<u>\$ 10,954,531</u>	<u>\$ 9,610,241</u>

**Primary Health Care, Inc.**  
**Statements of Operations**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 10,947,288	\$ 9,315,263
Provision for uncollectible accounts	1,265,244	945,135
Net patient service revenue less provision for uncollectible accounts	9,682,044	8,370,128
Capitation received	318,925	317,305
Grant revenue	8,293,016	5,571,517
Contribution revenue	466,279	450,132
Other	633,470	64,371
Net assets released from restriction used for operations	1,167,391	230,884
Total unrestricted revenues, gains and other support	20,561,125	15,004,337
<b>Expenses and Losses</b>		
Salaries and wages	10,025,294	8,649,949
Employee benefits	2,426,336	2,183,791
Supplies and other	5,069,532	3,047,368
Pharmacy cost of goods sold	642,704	586,117
Rent	628,541	376,047
Depreciation	526,547	522,232
Interest	19,236	24,081
Federal grant passed through to IMEC	1,308,565	-
Federal grant passed through to House of Mercy	-	19,968
Loss (gain) on disposal of equipment	(100)	8,564
Total expenses and losses	20,646,655	15,418,117
<b>Operating Loss</b>	(85,530)	(413,780)
<b>Other Income</b>		
Investment return	5,798	3,702
<b>Deficiency of Revenues Over Expenses</b>	(79,732)	(410,078)
Contributions for acquisition of property and equipment	-	18,699
Grants for acquisition of property and equipment	238,511	170,996
<b>Increase (Decrease) in Unrestricted Net Assets</b>	\$ 158,779	\$ (220,383)

**Primary Health Care, Inc.**  
**Statements of Changes in Net Assets**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Unrestricted Net Assets</b>		
Deficiency of revenues over expenses	\$ (79,732)	\$ (410,078)
Contributions for acquisition of property and equipment	-	18,699
Grants for acquisition of property and equipment	<u>238,511</u>	<u>170,996</u>
Increase (decrease) in unrestricted net assets	<u>158,779</u>	<u>(220,383)</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions received	2,030,590	182,177
Net assets released from restriction	<u>(1,167,391)</u>	<u>(230,884)</u>
Increase (decrease) in temporarily restricted net assets	<u>863,199</u>	<u>(48,707)</u>
<b>Change in Net Assets</b>	1,021,978	(269,090)
<b>Net Assets, Beginning of Year</b>	<u>7,995,789</u>	<u>8,264,879</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 9,017,767</u></u>	<u><u>\$ 7,995,789</u></u>

**Primary Health Care, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Activities</b>		
Change in net assets	\$ 1,021,978	\$ (269,090)
Items not requiring (providing) operating cash		
Depreciation	526,547	522,232
Loss (gain) on disposal of property and equipment	(100)	8,564
Contributions for acquisition of property and equipment	-	(18,699)
Restricted contributions for acquisition of property and equipment	(348,085)	-
Grants for acquisition of property and equipment	(238,511)	(170,996)
Changes in		
Patient accounts receivable, net	(146,298)	470,834
Grant funds and other receivables	(453,003)	(144,409)
Contributions receivable	(9,991)	251
Estimated amounts due from third-party payers	(135,000)	(125,000)
Inventories	24,505	20,876
Prepaid assets	(54,647)	6,541
Accounts payable, accrued expenses and deferred revenue	397,967	171,185
Net cash provided by operating activities	<u>585,362</u>	<u>472,289</u>
<b>Investing Activities</b>		
Purchase of investments	-	(3,238)
Proceeds from disposition of investments	42,764	-
Purchase of property and equipment	(427,569)	(102,957)
Net cash used in investing activities	<u>(384,805)</u>	<u>(106,195)</u>
<b>Financing Activities</b>		
Proceeds from contributions for acquisition of property and equipment	348,085	-
Proceeds from grant for acquisition of property and equipment	273,639	170,996
Proceeds from line of credit	-	150,000
Principal payments on line of credit	-	(150,000)
Principal payments on long-term debt	(38,209)	(35,593)
Net cash provided by financing activities	<u>583,515</u>	<u>135,403</u>
<b>Increase in Cash</b>	784,072	501,497
<b>Cash, Beginning of Year</b>	<u>879,153</u>	<u>377,656</u>
<b>Cash, End of Year</b>	<u>\$ 1,663,225</u>	<u>\$ 879,153</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 19,236	\$ 24,081
Accounts payable incurred for property and equipment	\$ 80,387	\$ 117,833
Property acquired through noncash contributions	\$ -	\$ 18,699

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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

***Nature of Operations***

Primary Health Care, Inc. (the “Organization”) primarily earns revenues by providing physician and related health care services through clinics located in central Iowa. On January 1, 2013, the Organization transferred the grants from the AIDS Project of Des Moines and expanded its AIDS services in Des Moines.

***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, expenses, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash***

At June 30, 2014, the Organization’s cash accounts exceeded federally insured limits by approximately \$1,400,000.

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return is comprised of interest income, dividends and realized and unrealized gains and losses on investments carried at fair value.

***Patient Accounts Receivable***

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

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

# **Primary Health Care, Inc.**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

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 services 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 the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 97% of self-pay accounts receivable at June 30, 2013, to 99% of self-pay accounts receivable at June 30, 2014. The Organization's write-offs increased approximately \$850,000 from \$260,000 for the year ended June 30, 2013, to approximately \$1,110,000 for the year ended June 30, 2014.

#### ***Inventories***

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

#### ***Property and Equipment***

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

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

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

#### ***Temporarily Restricted Net Assets***

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

#### ***Capitation Revenue***

The Organization has agreements with various managed care organizations to provide medical services to participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each managed care plan participants, regardless of the services actually performed by the Organization. In addition, the managed care organizations make fee-for-service payments to the Organization for certain covered services based upon discounted fee schedules or based on the Medicare or Iowa Medicaid federally qualified health center reimbursement arrangements.

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Net Patient Service Revenue**

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

**340B Revenue**

The Organization participates in the 340B “Drug Discount Pricing Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has an in-house pharmacy and a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. Reported 340B revenue consists of the in-house pharmacy sales and reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs.

	<b>2014</b>	<b>2013</b>
Gross receipts	\$ 686,102	\$ 673,237
Drug replenishment costs	(260,524)	(250,813)
Administrative and filling fees	(98,471)	(101,660)
	\$ 327,107	\$ 320,764

The 340B gross receipts are included in net patient service revenue on the statement of operations. The drug replenishment costs and administrative and filling fees are included in pharmacy cost of goods sold expense on the statement of operations. The net 340B revenue from this program is used in furtherance of the Organization’s mission.

**Contributions**

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

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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

**Government Grant Revenue**

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

**Deferred Revenue**

Revenue from grants to provide health care services is deferred and recognized over the periods to which the eligibility requirements are met.

**Income Taxes**

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

**Electronic Health Records Incentive Program**

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

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

The Organization has recorded revenue of approximately \$276,000 and \$0 for the years ended June 30, 2014 and 2013, respectively, which is included in other revenue in the statements of operations.

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

***Excess (Deficiency) of Revenues Over Expenses***

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

***Subsequent Events***

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

**Note 2: Grant Revenue**

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the "granting agency"). The general purpose of the grant is to provide expanded health care service delivery for residents of central Iowa. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2014 and 2013, the Organization received \$4,486,263 and \$3,627,718 in grant funds, respectively. The Organization's present CHC grant award covers the grant year ending May 31, 2015, and is approved at \$4,659,147. Future funding will be determined by the granting agency based on an application to be submitted by the Organization prior to expiration of the present grant award.

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

**Note 3: Net Patient Service Revenue**

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

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

*Medicare.* Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid.* Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a 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 Medicaid fiscal intermediary.

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 per unit of service and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2014 and 2013, was approximately:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 793,542	\$ 690,930
Medicaid	5,537,736	4,986,121
Other third-party payers	2,730,531	2,159,589
Self-pay	1,885,479	1,478,623
	<hr/>	<hr/>
Total	<u>\$ 10,947,288</u>	<u>\$ 9,315,263</u>

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 4: Concentrations of Credit Risk**

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2014 and 2013, is:

	<b>2014</b>	<b>2013</b>
Medicare	11%	12%
Medicaid	58%	45%
Other third-party payers	31%	43%
	<u>100%</u>	<u>100%</u>

**Note 5: Investments and Investment Return**

Investments at June 30 include:

	<b>2014</b>	<b>2013</b>
Trading		
Corporate bonds	\$ -	\$ 7,963
Income builder mutual funds	-	34,801
	<u>-</u>	<u>42,764</u>
Short-term investments	\$ -	\$ 42,764
	<u>-</u>	<u>42,764</u>

***Investment Income***

Investment income for the years ended June 30, 2014 and 2013, consisted of:

	<b>2014</b>	<b>2013</b>
Interest and dividend income	\$ 3,179	\$ 2,015
Realized and unrealized gains on trading securities	2,619	1,687
	<u>5,798</u>	<u>3,702</u>

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 6: Malpractice 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 and personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no such accrual has been made for the Organization's medical malpractice costs for the years ended June 30, 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.

**Note 7: Conditional Gift**

In 2014, the Organization received a conditional promise to give of \$5,747,316 over the course of three years. The funds are to be used in support of the family practice residency program. Of the full award amount, \$1,436,829 has been recorded on the financial statements following payment received from the donor. This amount is shown on the financial statements as temporarily restricted contributions received, with \$854,967 in net assets released from restriction and \$581,862 remaining in temporarily restricted net assets at June 30, 2014. The remaining \$4,310,487 has not been recorded on the financial statements due to the contingent nature of the arrangement. Revenue recognition is contingent on financial need for the family practice residency program.

**Note 8: Line of Credit**

The Organization has a \$500,000 revolving line of credit expiring March 10, 2015. At June 30, 2014 and 2013, there was \$0 borrowings against this line. The line is collateralized by certain real estate. Interest varies with the prime rate as published by the Wall Street Journal, but at no point shall be less than 5%. The interest rate was 5% at June 30, 2014 and 2013, and is payable monthly.

**Note 9: Long-Term Debt**

	<b>2014</b>	<b>2013</b>
Note payable (A)	\$ 182,457	\$ 203,610
Capital lease obligation (B)	56,180	73,236
	238,637	276,846
Less current maturities	41,621	38,494
	\$ 197,016	\$ 238,352

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

- (A) Note payable to First American Bank in the original amount of \$250,000; due in monthly installments of \$2,845 beginning on February 10, 2011, through January 10, 2016, including interest at 6.46%, secured by property.
- (B) Capital lease payable at 9.5% imputed interest, due through March 2017; collateralized by equipment. Equipment included the following under capital leases:

	<b>2014</b>	<b>2013</b>
Equipment	\$ 92,399	\$ 92,399
Less accumulated depreciation	26,400	13,200
	\$ 65,999	\$ 79,199

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2014, are:

	<b>Long-Term Debt (Excluding Capital Lease Obligations)</b>	<b>Capital Lease Obligations</b>
2015	\$ 22,867	\$ 23,305
2016	24,410	23,304
2017	26,058	17,479
2018	27,817	-
2019	29,694	-
Thereafter	51,611	-
	\$ 182,457	64,088
Less amount representing interest		7,908
Present value of future minimum lease payments		56,180
Less current maturities		18,754
Noncurrent portion		\$ 37,426

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 10: Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>2014</b>	<b>2013</b>
Health care services	\$ 28,356	\$ 28,484
Dental services	-	724
HIV services	5,130	-
Diabetes collaborative	8,840	89,111
Capital projects	345,875	19,378
Residency program	581,862	-
Call center	40,000	-
Homelessness projects	-	9,167
	<u>\$ 1,010,063</u>	<u>\$ 146,864</u>

During the years ended June 30, 2014 and 2013, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amount of \$1,167,391 and \$230,884, respectively.

**Note 11: Functional Expenses**

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

	<b>2014</b>	<b>2013</b>
Health care services	\$ 15,249,181	\$ 10,859,818
General and administrative	5,374,731	4,551,207
Fundraising	22,743	7,092
	<u>\$ 20,646,655</u>	<u>\$ 15,418,117</u>

**Note 12: Operating Lease**

The Organization has a noncancellable operating lease for a medical facility in Marshalltown, Iowa, expiring in 2020. The lease can be renewed for two additional ten-year terms. The Organization has various other operating leases that expire in years through 2020.

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

Future minimum lease payments at June 30, 2014, were:

2015	\$ 395,723
2016	365,021
2017	338,017
2018	338,017
2019	338,017
Thereafter	<u>156,122</u>
	<u>\$ 1,930,917</u>

**Note 13: Related Party Transactions**

The Organization is party to a master participation agreement in the Iowa Medical Education Collaborative (IMEC) for the purpose of facilitating a residency program through the Organization and Mercy Medical Center - Des Moines. Under the agreement, the Organization is able to receive the HRSA Affordable Care Act Teaching Health Center Graduate Medical Education Grant. Those funds are then passed through to IMEC to help fund the costs of the program, primarily resident salaries. A portion of the grant funds are returned to the Organization to cover administrative costs of the residency program.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the Organization serve on the Board of Directors of IMEC. The CFO is also the Treasurer of IMEC. During the years ended June 30, 2014 and 2013, the Organization passed \$1,308,565 and \$0, respectively, of the Affordable Care Act Teaching Health Center Graduate Medical Education Grant funding through to IMEC, respectively. Of that amount, \$47,690 and \$0, respectively, was returned to the Organization to cover administrative costs for the residency program, respectively.

**Note 14: Retirement Plan**

The Organization has a 401(k) defined contribution retirement plan covering all employees who have been employed for 60 days. The Organization's contributions to the plan are required by the plan documents. The Organization matches 100% of employees' contributions up to 3% of employee compensation and matches 50% of employee contributions from 3% to 5% of employee compensation. Pension expense was \$216,131 and \$199,082 for the years ended June 30, 2014 and 2013, respectively.

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 15: Significant Estimates and Concentrations**

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

***Allowance for Net Patient Service Revenue Adjustments***

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

***Grant Revenues***

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

***Malpractice Claims***

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

***Self-Insurance***

The Organization is self-insured for employee group dental care. Liabilities include an accrual for dental claims that have been incurred and an estimate of claims incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors.

***Investments***

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

***Current Economic Conditions***

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

**Primary Health Care, Inc.**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 16: Construction in Progress**

The Organization is in the process of establishing a facility in Ames, Iowa. The project is expected to be completed in December 2014, with a remaining cost to complete of approximately \$615,000. As of June 30, 2014, approximately \$25,000 of the work had been completed and is classified as construction in progress on the Organization's balance sheet. This project is being funded by support from contributions from not-for-profit foundations, corporations, private individuals and others.

## **Supplementary Information**

**Primary Health Care, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Amount Expended</b>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 00715-12-08	\$ 1,602,838
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80 CS 00715-12-08	<u>2,883,425</u>
				4,486,263
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76 HA 00141-19-02	399,005
Teaching Health Center Graduate Medical Education	U.S. Department of Health and Human Services	93.530	6 T91 HP 25789-01-02	1,308,565
Affordable Care Act Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	6 C8B CS 23911-01-02	238,511
HIV Care Formula Grants	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.917	5883HC05	391,994
Epidemiologic Research Studies of AIDS and HIV in Selected Population Groups	U.S. Department of Health and Human Services	93.943	5U65PS002472-04	291,732
Projects for Assistance in Transition from Homelessness (PATH)	U.S. Department of Health and Human Services/Iowa Department of Public Health/ City of Des Moines, Iowa	93.150	MHDS-042	<u>55,672</u>
Total forward				7,171,742

**Primary Health Care, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Amount Expended</b>
Total forward				\$ 7,171,742
HIV Prevention Activities - Health Department Based	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.940	5883AP30	26,098
Substance Abuse and Mental Health Services - Projects of Regional & National Significance	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.243	5883SA03	141,885
National Center for Advancing Translational Sciences	U.S. Department of Health and Human Services/National Institute of Health/University of Iowa	93.350	1001110545	5,000
VA Supportive Services for Veteran Families Program	U.S. Department of Veteran Affairs	64.033	14-IA-103	511,005
Housing Opportunities for Persons with AIDS	U.S. Department of Housing and Urban Development/ Iowa Finance Authority	14.241		142,322
Family Planning Services	U.S. Department of Health and Human Services	93.217		35,000
Supportive Housing Program: Street Outreach and Enhancement Project	U.S. Department of Housing and Urban Development/City of Des Moines, Iowa	14.235		<u>324,070</u>
Total expenditures of federal awards				<u>\$ 8,357,122</u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of Primary Health Care, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Primary Health Care, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

2. Of the federal expenditures presented in this schedule, Primary Health Care, Inc. provided federal awards to subrecipients as follows:

<b>Program</b>	<b>CFDA Number</b>	<b>Subrecipient</b>	<b>Amount Provided</b>
Teaching Health Center Graduate Medical Education	93.530	Iowa Medical Education Collaborative	<u>\$ 1,308,565</u>

## **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  
Primary Health Care, Inc.  
Des Moines, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Primary Health Care, Inc. (the "Organization"), which comprise the balance sheet as of June 30, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2014.

### ***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 would not necessarily identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors  
Primary Health Care, Inc.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Organization's management in a separate letter dated November 17, 2014.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Springfield, Missouri  
November 17, 2014

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

### Independent Auditor's Report

Board of Directors  
Primary Health Care, Inc.  
Des Moines, Iowa

#### Report on Compliance for Each Major Federal Program

We have audited the compliance of Primary Health Care, Inc. (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 June 30, 2014. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

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

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

Board of Directors  
Primary Health Care, Inc.

### ***Opinion on Each Major Federal Program***

In our opinion, Primary Health Care, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of Primary Health Care, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the 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*

Springfield, Missouri  
November 17, 2014

**Primary Health Care, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

**Summary of Auditor's Results**

1. The opinion expressed in the independent auditor's report was:  
 Unmodified       Qualified       Adverse       Disclaimer
  
2. The independent auditor's report on internal control over financial reporting disclosed:  
 Significant deficiency(ies)?       Yes       None reported  
 Material weakness(es)?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:  
 Significant deficiency(ies)?       Yes       None reported  
 Material weakness(es)?       Yes       No
  
5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on each of its major federal awards were:  
 Unmodified       Qualified       Adverse       Disclaimer
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Consolidated Health Centers Cluster	93.224 and 93.527
ACA Teaching Health Center Graduate Medical Education	93.530
VA Supportive Services for Veteran Families Program	64.033
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 \$300,000.
  
9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?       Yes       No

**Primary Health Care, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Primary Health Care, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2014**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
	No matters are reportable.	