# The Family Medicine Residency of Idaho, Inc.

Financial Statements and
Independent Auditors' Reports

June 30, 2019 and 2018

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**The Family Medicine Residency of Idaho, Inc.**
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# INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Family Medicine Residency of Idaho, Inc. (a nonprofit organization) (the Residency), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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

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

**Auditors' 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 auditors' 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 auditors consider 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.



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**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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2019, the Residency adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

**Other Matters**

*Other Information*

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, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2019, 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 for the year ended June 30, 2019. We issued a similar report for the year ended June 30, 2018, dated December 27, 2018, which has not been included with the 2019 financial and compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Residency's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Residency's internal control over financial reporting and compliance.

*Dingus, Zarecor and Associates PLLC*

Spokane Valley, Washington
December 2, 2019

**The Family Medicine Residency of Idaho, Inc.**
**Statements of Financial Position**
**Years Ended June 30, 2019 and 2018**

| **ASSETS** | **2019** | **2018** |
|---|---|---|
| *Current assets* | | |
| Cash and cash equivalents | **$ 4,350,578** | $ 4,344,628 |
| Receivables: | | |
| Patient accounts | **1,079,463** | 987,693 |
| Pharmacy | **1,537,979** | 1,201,449 |
| Contributions for residency program | **443,959** | 273,478 |
| Estimated third-party payor settlements | **241,780** | 345,446 |
| Electronic health records incentive payments | **17,000** | 8,500 |
| Grants | **283,089** | 144,825 |
| Other | **112,801** | 78,521 |
| Inventories | **573,884** | 577,752 |
| Prepaid electronic health records software and licenses | **99,944** | - |
| Prepaids and other | **524,391** | 478,969 |
| Total current assets | **9,264,868** | 8,441,261 |
| *Other assets* | | |
| Resident Educational Stipend Fund | **5,000** | 5,000 |
| Rural Family Medicine Education endowment held by Idaho Community Foundation | **983,301** | 946,968 |
| Total other assets | **988,301** | 951,968 |
| *Noncurrent assets* | | |
| Prepaid electronic health records software and licenses, less current portion | **649,274** | - |
| Property and equipment, net | **1,076,881** | 1,098,319 |
| Total noncurrent assets | **1,726,155** | 1,098,319 |
| **Total assets** | **$ 11,979,324** | $ 10,491,548 |

*See accompanying notes to financial statements.*

**The Family Medicine Residency of Idaho, Inc.**
**Statements of Financial Position (Continued)**
**Years Ended June 30, 2019 and 2018**

| LIABILITIES AND NET ASSETS | 2019 | 2018 |
|---|---|---|
| *Current liabilities* | | |
| Accounts payable | **$ 1,275,509** | $ 888,202 |
| Accrued compensation and related liabilities | **1,825,275** | 1,074,024 |
| Accrued vacation | **856,062** | 558,386 |
| Deferred grant revenue | **12,330** | 176,174 |
| Total current liabilities | **3,969,176** | 2,696,786 |
| *Net assets* | | |
| Net assets without donor restrictions | **6,900,697** | 5,846,278 |
| Net assets with donor restrictions | **1,109,451** | 1,948,484 |
| Total net assets | **8,010,148** | 7,794,762 |
| **Total liabilities and net assets** | **$ 11,979,324** | $ 10,491,548 |

*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, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| *Revenues without donor restrictions, gains, and other support* | | |
| Net patient service revenue | **$ 16,504,856** | $ 15,023,198 |
| Provision for bad debts | **(960,281)** | (879,303) |
| Net patient service revenue, less provision for bad debts | **15,544,575** | 14,143,895 |
| Pharmacy | **19,346,227** | 18,552,847 |
| Electronic health records incentive payments | **263,500** | 395,699 |
| Case management fees | **1,596,799** | 1,625,435 |
| Contributions for residency program | **7,489,651** | 5,905,772 |
| Grants | **3,556,274** | 3,346,401 |
| Contributions | **60,486** | 43,880 |
| Other | **99,773** | 63,776 |
| Released from restrictions | **909,215** | 89,221 |
| Total revenues without donor restrictions, gains, and other support | **48,866,500** | 44,166,926 |
| *Expenses* | | |
| Salaries and wages | **20,824,668** | 17,889,373 |
| Employee benefits | **4,501,188** | 3,978,165 |
| Contract services | **4,270,859** | 3,942,604 |
| Professional fees | **685,943** | 880,014 |
| Medical supplies | **479,683** | 504,093 |
| Pharmaceuticals | **13,070,251** | 12,252,168 |
| Other supplies | **493,508** | 443,255 |
| Repairs and maintenance | **52,554** | 138,556 |
| Utilities | **185,486** | 181,348 |
| Insurance | **273,931** | 301,628 |
| Depreciation | **245,518** | 300,015 |
| Rents and leases | **1,491,358** | 1,396,303 |
| Grant subrecipient distribution | **-** | 17,498 |
| Other | **1,237,134** | 1,048,568 |
| Total expenses | **47,812,081** | 43,273,588 |
| *Change in net assets without donor restrictions* | **1,054,419** | 893,338 |
| *Net assets with donor restrictions* | | |
| Contributions for Nampa residency program | - | 1,000,000 |
| Contributions | **34,349** | 27,383 |
| Investment return | **35,833** | 80,833 |
| Released from restrictions | **(909,215)** | (89,221) |
| *Change in net assets with donor restrictions* | **(839,033)** | 1,018,995 |
| Change in net assets | **215,386** | 1,912,333 |
| Net assets, beginning of year | **7,794,762** | 5,882,429 |
| **Net assets, end of year** | **$ 8,010,148** | $ 7,794,762 |

*See accompanying notes to financial statements.*

**The Family Medicine Residency of Idaho, Inc.**
**Statements of Cash Flows**
**Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| ***Increase (Decrease) in Cash and Cash Equivalents*** | | |
| *Cash flows from operating activities* | | |
| Cash received from patient services | **$ 15,556,471** | $ 13,656,943 |
| Cash received from pharmacy | **19,009,697** | 18,697,342 |
| Cash received from electronic health records incentive | **255,000** | 1,289,594 |
| Cash received from case management fees | **1,596,799** | 1,625,435 |
| Cash received from contributions for residency program | **6,661,509** | 5,272,758 |
| Cash received from grantors | **3,254,165** | 3,525,010 |
| Cash received from contributions | **94,835** | 1,071,264 |
| Cash received from other revenue | **64,993** | 140,098 |
| Cash paid for employee salaries and benefits | **(24,276,929)** | (22,064,529) |
| Cash paid to subrecipients | **-** | (17,498) |
| Cash paid to suppliers and others | **(21,986,509)** | (20,399,216) |
| Net cash provided by operating activities | **230,031** | 2,797,201 |
| *Cash flows from investing activities* | | |
| Purchase of property and equipment | **(224,081)** | (412,594) |
| Net increase in cash and cash equivalents | **5,950** | 2,384,607 |
| Cash and cash equivalents, beginning of year | **4,344,628** | 1,960,021 |
| **Cash and cash equivalents, end of year** | **$ 4,350,578** | $ 4,344,628 |

*See accompanying notes to financial statements.*

**The Family Medicine Residency of Idaho, Inc.**
**Statements of Cash Flows (Continued)**
**Years Ended June 30, 2019 and 2018**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| ***Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities*** | | | | |
| Change in net assets | **$** | **215,386** | $ | 1,912,333 |
| *Adjustments to reconcile change in net assets to net cash provided by operating activities* | | | | |
| Depreciation | | **245,518** | | 300,015 |
| Provision for bad debts | | **960,281** | | 879,303 |
| Investment return from endowment held by Idaho Community Foundation | | **(36,333)** | | (80,833) |
| (Increase) decrease in: | | | | |
| Receivables: | | | | |
| Patient accounts | | **(1,052,051)** | | (1,020,809) |
| Pharmacy | | **(336,530)** | | 144,495 |
| Contributions for residency program | | **(170,481)** | | 22,849 |
| Estimated third-party payor settlements | | **103,666** | | (345,446) |
| Electronic health records incentive payments | | **(8,500)** | | 893,895 |
| Grants | | **(138,264)** | | 37,028 |
| Other | | **(34,280)** | | 76,322 |
| Inventories | | **3,868** | | (181,000) |
| Prepaid electronic health records software and licenses | | **(749,218)** | | - |
| Prepaids and other | | **(45,422)** | | (9,014) |
| Increase (decrease) in: | | | | |
| Accounts payable | | **387,308** | | 223,472 |
| Accrued compensation and related liabilities | | **751,251** | | (249,239) |
| Accrued vacation | | **297,676** | | 52,248 |
| Deferred grant revenue | | **(163,844)** | | 141,582 |
| **Net cash provided by operating activities** | **$** | **230,031** | $ | 2,797,201 |

*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. In October 2013, the Residency was awarded a Consolidated Health Centers grant from the U.S. Department of Health and Human Services for additional sites and increased capacity. The Residency has operated as a dual status organization, with one site being an FQHC-LA clinic and other sites being Consolidated Health Center grant sites. Effective August 23, 2016, all sites are operating as Consolidated Health Center grant sites.

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 nine sites: four sites in Boise, Idaho, two sites in Meridian, Idaho, one site in Kuna, Idaho, and one site in Nampa, 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, and two family physician clinics in Twin Falls, Idaho, and Jerome, Idaho. The Residency also operates a retail pharmacy as well as various 340B contract pharmacy sites.

In 2018, the Residency began a new Rural Training Track, which began training residents at St. Luke's Nampa Medical Clinic in 2019.

### 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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

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

***Pharmacy receivables*** – Receivables from the retail and contract pharmacies are stated at net realizable value. Management believes the amounts to be fully collectible. The pharmacy receivables are primarily due from Medicare, Medicaid, and other third-party payors.

***Grants receivable*** – Receivables arising from revenue from government agencies are stated at net realizable value. Management believes the amounts to be fully collectible.

***Inventories*** – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical supplies sold to the patients.

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

### b. Summary of Significant Accounting Policies (continued)

***Prepaid electronic health records software and licenses*** – During 2019, the Residency executed a contract for a new electronic health records software system and the related software licenses. The contract states that the vendor retains legal ownership of all software and licenses paid for by the Residency. At June 30, 2019, the total contract amount is reflected in the Residency's statements of financial position as a prepaid electronic health records software and licenses asset (the asset). The asset is expected to be placed into service in January 2020, at which time the asset will be expensed using the straight-line method over an estimated useful life of seven years. Total expense that will be recorded within one year of the statements of financial position date is classified as a current asset, while all remaining amortization is classified as a noncurrent asset in the Residency's statements of financial position at June 30, 2019.

***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.

***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 15 years.

Gifts of long-lived assets such as land, buildings, or equipment are reported as an increase in net assets without donor restrictions 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.

***Compensated absences*** **–** The Residency's employees earn paid time off (PTO) hours at varying rates depending on years of service. Accumulated PTO is limited to a maximum accrual at varying amounts depending on years of service. All PTO benefits are accrued and expensed when earned.

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

***Net assets with donor restrictions*** – Net assets with donor restrictions are those whose use by the Residency has been limited by donors to a specific period of time, purpose, or to be maintained in perpetuity.

***Investment return*** – Investment return includes realized gains and losses on investments, unrealized gains and losses on investments, interest, dividends, and expenses. Investment return restricted by a donor is reported as increases in net assets without donor restrictions if the restrictions are met (by the passage of time or by use) in the reporting period in which the investment return was recognized.

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

### b. Summary of Significant Accounting Policies (continued)

***Contributions*** – Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions depending on the nature of the restrictions. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

***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, 2019 and 2018, the Residency had no uncertain tax positions requiring accrual.

***Sliding fee schedule*** – The Residency provides care to patients who meet certain criteria under its sliding fee schedule without charge or at amounts less than established rates.

***Reclassifications*** – Certain amounts have been reclassified in the 2018 financial statements in order to be consistent with the 2019 financial statements. These reclassifications had no effect on the previously reported change in net assets.

***Subsequent events*** – The Residency has evaluated subsequent events through December 2, 2019, the date on which the financial statements were available to be issued.

***Change in accounting principle*** – The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit principles, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Residency, including required disclosures about the liquidity and availability of resources. The standard impacts the presentation of net assets and to enhance disclosures related to liquidity and availability. This standard is effective for the Residency's year ended June 30, 2019, and was applied on a retrospective basis.

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

**b. Summary of Significant Accounting Policies (continued)**

***Upcoming accounting pronouncements* –** In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Residency's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Residency has not yet determined which application method it will use. The Residency does not expect that this standard will have a significant impact on the Residency's main revenue stream; however, management is still assessing the actual impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Residency's year ending June 30, 2022, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the financial statements as a result of the leases for rented office space and medical equipment being reported as liabilities on the statement of financial position. The effect of applying the new lease guidance on the financial statements will be to increase long-term assets and to increase short-term and long-term lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

## 2. Liquidity and Availability of Financial Assets:

The Residency's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | **$ 4,350,578** | $ 4,344,628 |
| Receivables: | | |
| Patient accounts | **1,079,463** | 987,693 |
| Pharmacy | **1,537,979** | 1,201,449 |
| Contributions for residency program | **443,959** | 273,478 |
| Estimated third-party payor settlements | **241,780** | 345,446 |
| Electronic health records incentive payments | **17,000** | 8,500 |
| Grants | **283,089** | 144,825 |
| Other | **112,801** | 78,521 |
| **Financial assets available to meet cash needs for general expenditures within one year** | **$ 8,066,649** | $ 7,384,540 |

The Residency's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

As a part of the Residency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Residency also could draw upon its $750,000 line of credit (as further discussed in Note 16).

## 3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Residency analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor 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 Residency analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Residency records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

## 3. Patient Accounts Receivable (continued):

The Residency's allowance for uncollectible accounts has not changed significantly from the prior year. The Residency does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Residency consisted of these amounts:

| | **2019** | **2018** |
|---|---|---|
| Receivables from Medicare | **$ 122,025** | $ 206,018 |
| Receivables from Medicaid | **439,872** | 327,075 |
| Receivables from patients and their insurance carriers | **963,258** | 879,883 |
| Total patient accounts receivable | **1,525,155** | 1,412,976 |
| Less allowance for uncollectible accounts | **445,692** | 425,283 |
| **Patient accounts receivable, net** | **$ 1,079,463** | $ 987,693 |

## 4. Resident Educational Stipend Fund:

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.

## 5. Rural Family Medicine Education Endowment:

The Residency has transferred funds to the Idaho Community Foundation (ICF) for the Family Medicine Residency of Idaho's Endowment for Rural Family Medicine Education (the Endowment). The Residency has delegated management and investment authority to ICF.

The Endowment consists solely of donor-restricted funds given for the purpose of continuing the Residency's rural training programs and required to be maintained in perpetuity by the donor. Endowment funds may not be used to support general operations, except in the extremely remote circumstances that, when, in the reasonable judgment of the Board of Directors, the endowment funds are necessary to prevent the ceasing of Residency operations.

In accordance with the State Prudent Management of Institutional Funds Act (SPMIFA), ICF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- ICF's investment policies

**5. Rural Family Medicine Education Endowment (continued):**

ICF shall distribute to the Residency, not less than annually, an appropriate percentage of the fair value of the Endowment. The amount available for distribution from the Endowment will be determined by ICF'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, ICF's Board of Directors, in its sole discretion, may redirect distributions from the Endowment to such purposes that will most effectively or closely accomplish the original intent expressed in the agreement.

Changes in endowment net assets consisted of the following amounts:

| 2019 | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total Net Endowment Assets |
|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ 946,968 | **$ 946,968** |
| Contributions creating perpetual endowment | - | 500 | **500** |
| Investment return, net | - | 35,833 | **35,833** |
| **Endowment net assets, end of year** | **$ -** | **$ 983,301** | **$ 983,301** |

| 2018 | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ 866,135 | **$ 866,135** |
| Investment return, net | - | 80,833 | **80,833** |
| **Endowment net assets, end of year** | **$ -** | **$ 946,968** | **$ 946,968** |

***Funds with deficiencies*** – From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or SPMIFA requires ICF to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported as with donor restrictions. There were no funds with deficiencies as of June 30, 2019 and 2018.

***Return objectives and risk parameters*** – ICF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the Endowment assets. Under this policy, the Endowment assets are invested in a manner that is intended to produce a 5 percent real return (after deducting inflation) on average over time.

## 5. Rural Family Medicine Education Endowment (continued):

***Strategies employed for achieving objectives*** – To satisfy its long-term rate-of-return objectives, ICF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ICF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints. Endowment assets are invested based on the following asset allocation targets: 45 percent domestic equities, 30 percent international equities, 20 percent domestic fixed income securities, and 5 percent real estate securities.

***Spending policy and how the investment objectives relate to spending policy*** – The planned appropriations from the endowed fund are subject to limitations based on available accumulated donor restricted funds. Endowed funds have a spending limit of 4.5 percent of the average endowment balance. Spending above this threshold requires board approval. In establishing this policy, ICF considered the long-term expected return on its endowment. This is consistent with ICF's objective to maintain the purchasing power of the Endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

## 6. Fair Value Hierarchy:

The three levels of the fair value hierarchy are defined as follows:

- ***Level 1*** – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- ***Level 2*** – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- ***Level 3*** – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Residency's assessment of the significance of a particular input to fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The fair value of the Rural Family Medicine Education endowment held by Idaho Community Foundation is based on quoted market values for the underlying marketable investments.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Residency believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## 6. Fair Value Hierarchy (continued):

The following tables disclose, by level within the fair value hierarchy, the Residency's assets measured and reported on the statements of financial position, at fair value on a recurring basis:

| | 2019 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Rural Family Medicine Education endowment held by Idaho Community Foundation | $ - | $ - | $ 983,301 | **$ 983,301** |

| | 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Rural Family Medicine Education endowment held by Idaho Community Foundation | $ - | $ - | $ 946,968 | **$ 946,968** |

The following tables set forth a summary of changes in the fair value of the Residency's Level 3 assets:

| | **Balance June 30, 2018** | **Deposits** | **Investment Gain** | **Balance June 30, 2019** |
|---|---|---|---|---|
| Rural Family Medicine Education endowment held by Idaho Community Foundation | $ 946,968 | $ 500 | $ 35,833 | **$ 983,301** |

| | **Balance June 30, 2017** | **Deposits** | **Investment Gain** | **Balance June 30, 2018** |
|---|---|---|---|---|
| Rural Family Medicine Education endowment held by Idaho Community Foundation | $ 866,135 | $ - | $ 80,833 | **$ 946,968** |

## 7. Property and Equipment:

A summary of property and equipment follows:

| | 2019 | 2018 |
|---|---|---|
| Office equipment | **$ 1,302,802** | $ 1,246,194 |
| Medical equipment | **838,591** | 717,515 |
| Leasehold improvements | **1,067,540** | 1,034,608 |
| | **3,208,933** | 2,998,317 |
| Less accumulated depreciation | **(2,132,052)** | (1,899,998) |
| **Property and equipment, net** | **$ 1,076,881** | $ 1,098,319 |

## 8. Net Assets with Donor Restrictions:

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

| | 2019 | 2018 |
|---|---|---|
| *Subject to expenditure for specified purpose* | | |
| Resident financial and/or education equipment | **$ 5,361** | $ 5,322 |
| Rural Family Medicine Education Endowment Fund | **224,672** | 188,839 |
| Nampa residency program | **-** | 934,404 |
| Patient expenses (medical, housing, food) | **115,789** | 56,790 |
| Total subject to expenditure for specified purpose | **345,822** | 1,185,355 |
| *Subject to the Residency's spending policy and appropriation* | | |
| Investment in perpetuity | | |
| Resident Educational Stipend Fund | **5,000** | 5,000 |
| Rural Family Medicine Education Endowment Fund | **758,629** | 758,129 |
| Total subject to the Residency's spending policy and appropriation | **763,629** | 763,129 |
| **Total net assets with donor restrictions** | **$ 1,109,451** | $ 1,948,484 |

## 9. Net Patient Service Revenue:

The Residency recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for the Residency's sliding fee schedule, the Residency recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Residency's uninsured patients will be unable or unwilling to pay for the services provided. The Residency's provisions for bad debts and writeoffs have not changed significantly from the prior year. The Residency has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018. Thus, the Residency records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | **$ 2,913,415** | $ 2,719,570 |
| Medicaid | **8,530,188** | 8,217,785 |
| Other third-party payors | **3,680,095** | 3,029,989 |
| Patients | **2,969,872** | 2,543,242 |
| | **18,093,570** | 16,510,586 |
| Less: | | |
| Sliding fee discounts | **(1,588,714)** | (1,487,388) |
| Provision for bad debts | **(960,281)** | (879,303) |
| **Net patient service revenue** | **$ 15,544,575** | $ 14,143,895 |

## 9. Net Patient Service Revenue (continued):

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

- *Medicare* – The Residency is paid for services provided to Medicare beneficiaries on a prospective payment per encounter methodology.
- *Medicaid* – Services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology 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 includes prospectively determined rates per visit, fee for service, and discounts from established charges.

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 increased by approximately $66,000 and $338,000 in 2019 and 2018, respectively, due to differences between original estimates and final settlements or revised estimates related to Medicare direct graduate medical education payments.

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 uncollectible accounts. The Residency determines the costs associated with providing this care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for patients who qualify for sliding fee discounts for the years ended June 30, 2019 and 2018, were approximately $1,660,000 and $1,615,000, respectively. The Residency also receives grants that partially help subsidize sliding fee discounts; funds received from those grants for the years ended June 30, 2019 and 2018, were approximately $2,207,000 and $2,106,000, respectively.

## 10. Electronic Health Records Incentive Payments:

The Residency realized $263,500 and $395,699 of meaningful use incentive revenue during the years ended June 30, 2019 and 2018, respectively. The amounts recorded are based on the Residency's eligible providers meeting the meaningful use criteria for the years ended June 30, 2019 and 2018.

## 11. Contributions for Residency Program:

Sources of contributions were as follows:

| | 2019 | 2018 |
|---|---|---|
| St. Alphonsus Regional Medical Center | **$ 1,601,279** | $ 1,555,007 |
| St. Luke's Regional Medical Center | **1,474,346** | 1,383,062 |
| State of Idaho | **3,270,000** | 2,030,000 |
| West Valley Medical Center | **756,608** | 576,333 |
| St. Luke's Magic Valley Regional Medical Center | **233,944** | 209,646 |
| University of Washington | **153,474** | 150,724 |
| Other | **-** | 1,000 |
| | **$ 7,489,651** | $ 5,905,772 |

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 for the years ended June 30, 2019 and 2018, and approximately $26,000 and $24,000 for employee meals for the years ended June 30, 2019 and 2018, respectively.

Noncash support from St. Luke's Regional Medical Center includes approximately $188,000 for the lease of clinic space for the years ended June 30, 2019 and 2018; approximately $22,000 for employee meals for the years ended June 30, 2019 and 2018; and approximately $22,000 for janitorial services for the years ended June 30, 2019 and 2018.

Noncash support from St. Luke's Magic Valley Regional Medical Center includes approximately $67,000 for personnel salaries and wages for the years ended June 30, 2019 and 2018.

## 12. Retirement Plan:

The Residency has established a 403(b) defined contribution plan for the benefit of its employees. The name of the Plan is the Family Medicine Residency of Idaho, Inc. 403(b) Plan (the Plan). 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 eligible employee deferrals to a maximum of two percent of eligible wages. In addition, a discretionary employer annual contribution is determined at December 31 for each class of eligible employees. The Residency contributed approximately $926,000 and $680,000 to the Plan for the years ended June 30, 2019 and 2018, respectively.

## 13. Medical Self-Insurance Plan:

The Residency sponsors a self-insured medical plan. The plan covers substantially all employees and purchases stop-loss coverage to manage its risk. Plan costs, including claims paid, insurance purchase, and administrative costs were approximately $1,900,000 and $1,800,000 for the years ended June 30, 2019 and 2018, respectively.

The accompanying financial statements include a liability of approximately $224,000 and $212,000 at June 30, 2019 and 2018, respectively, which is included in accrued compensation and related liabilities. This liability is estimated based upon a review by the Residency for claims incurred but not reported.

## 14. Functional Expenses:

The Residency provides various programs and other activities to residents within its geographic location. Accordingly, certain costs have been allocated on a reasonable basis that is consistently applied among the programs and supporting services benefited. The expenses that are allocated include salaries and wages, employee benefits, contract services, professional fees, supplies, repairs and maintenance, depreciation, rents and leases, and other expense, which are allocated based on ratio of direct expenses by function. Expenses are allocated functionally as follows:

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Clinics | Pharmacy | Residency Program | Ryan White Clinic | Program Total | Management and General | Fundraising | Total |
| Salaries and wages | $ 7,814,827 | $ 606,532 | $ 7,785,118 | $ 641,803 | $ 16,848,280 | $ 3,976,388 | $ - | **$ 20,824,668** |
| Employee benefits | 1,808,561 | 133,694 | 1,396,979 | 146,818 | 3,486,052 | 1,015,136 | - | **4,501,188** |
| Contract services | 2,953,588 | 58,492 | 696,007 | 258,136 | 3,966,223 | 304,636 | - | **4,270,859** |
| Professional fees | 35,867 | 537,322 | 20,364 | 1,695 | 595,248 | 90,695 | - | **685,943** |
| Medical supplies | 461,940 | 13,796 | - | 3,947 | 479,683 | - | - | **479,683** |
| Pharmaceuticals | 411,968 | 12,632,700 | - | 25,583 | 13,070,251 | - | - | **13,070,251** |
| Other supplies | 330,709 | 30,694 | 76,537 | 6,416 | 444,356 | 49,152 | - | **493,508** |
| Repairs and maintenance | 5,260 | 518 | 78 | 7 | 5,863 | 46,691 | - | **52,554** |
| Utilities | 131,316 | 2,446 | 27,750 | 3,997 | 165,509 | 19,977 | - | **185,486** |
| Insurance | 128,784 | 1,964 | 125,375 | 6,026 | 262,149 | 11,782 | - | **273,931** |
| Depreciation | 190,857 | 4,594 | 30,526 | 2,551 | 228,528 | 16,990 | - | **245,518** |
| Rents and leases | 1,249,425 | 50,588 | 43,793 | 8,422 | 1,352,228 | 139,130 | - | **1,491,358** |
| Other | 423,396 | 56,531 | 413,982 | 75,278 | 969,187 | 265,747 | 2,200 | **1,237,134** |
| | **$ 15,946,498** | **$ 14,129,871** | **$ 10,616,509** | **$ 1,180,679** | **$ 41,873,557** | **$ 5,936,324** | **$ 2,200** | **$ 47,812,081** |

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Clinics | Pharmacy | Residency Program | Ryan White Clinic | Program Total | Management and General | Fundraising | Total |
| Salaries and wages | $ 6,682,930 | $ 601,626 | $ 6,736,499 | $ 777,445 | $ 14,798,500 | $ 3,090,873 | $ - | **$ 17,889,373** |
| Employee benefits | 1,569,648 | 152,416 | 1,212,267 | 231,172 | 3,165,503 | 812,662 | - | **3,978,165** |
| Contract services | 2,504,048 | 58,610 | 717,061 | 378,917 | 3,658,636 | 283,968 | - | **3,942,604** |
| Professional fees | 32,765 | 730,705 | 15,857 | 2,895 | 782,222 | 97,792 | - | **880,014** |
| Medical supplies | 407,776 | 3,514 | - | 92,803 | 504,093 | - | - | **504,093** |
| Pharmaceuticals | 340,479 | 11,886,562 | - | 25,127 | 12,252,168 | - | - | **12,252,168** |
| Other supplies | 237,473 | 29,036 | 76,179 | 13,788 | 356,476 | 86,779 | - | **443,255** |
| Repairs and maintenance | 125,188 | 603 | 26 | 5 | 125,822 | 12,734 | - | **138,556** |
| Utilities | 128,097 | 2,979 | 25,170 | 5,398 | 161,644 | 19,704 | - | **181,348** |
| Insurance | 133,562 | 2,348 | 141,216 | 12,762 | 289,888 | 11,740 | - | **301,628** |
| Depreciation | 192,364 | 8,178 | 53,614 | 10,228 | 264,384 | 35,631 | - | **300,015** |
| Rents and leases | 1,157,139 | 51,070 | 35,142 | 15,280 | 1,258,631 | 137,672 | - | **1,396,303** |
| Grant subrecipient distribution | - | - | 17,498 | - | 17,498 | - | - | **17,498** |
| Other | 313,759 | 46,928 | 337,795 | 74,173 | 772,655 | 272,963 | 2,950 | **1,048,568** |
| | **$ 13,825,228** | **$ 13,574,575** | **$ 9,368,324** | **$ 1,639,993** | **$ 38,408,120** | **$ 4,862,518** | **$ 2,950** | **$ 43,273,588** |

## 15. Commitments Under Noncancellable Operating Leases:

The following is a summary of estimated future minimum building and equipment leases under noncancellable operating leases that expire in various years through December 2027:

| Years Ending June 30, | | |
|---|---|---|
| 2020 | $ | 927,351 |
| 2021 | | 916,260 |
| 2022 | | 739,513 |
| 2023 | | 578,632 |
| 2024 | | 571,881 |
| Thereafter | | 1,351,966 |
| | **$** | **5,085,603** |

## 16. Line of Credit:

The Residency has a revolving line of credit with US Bank. The amount available to the Residency is $750,000, which expires March 25, 2020. At June 30, 2019, there were no draws on this line of credit.

## 17. Concentration of Risks:

***Cash and cash equivalents*** – The Residency maintains several bank accounts at financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At various times during the year and at year end, the Residency had deposits in excess of FDIC coverage.

***Patient accounts receivable*** – The Residency grants credit without collateral to its patients, most of whom are local residents, and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in southwestern Idaho.

The mix of receivables from patients was as follows:

| | **2019** | **2018** |
|---|---|---|
| Medicare | **13 %** | 17 % |
| Medicaid | **27** | 22 |
| Other third-party payors | **17** | 18 |
| Patients | **43** | 43 |
| | **100 %** | 100 % |

## 17. Concentration of Risks (continued):

***Physicians*** – The Residency is dependent on its employed physicians to continue to provide patient care.

***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.

## 18. Contingencies:

***Medical malpractice claims*** – Through January 7, 2018, the Residency purchased malpractice liability insurance through The Medical Protective Company (TMPC). TMPC provided 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.

The Residency has purchased extended coverage (tail) insurance through ProSelect Insurance Company to cover claims incurred before, but not reported until after cancellation of the claims-made policy. The Residency's liability limit is $1,000,000 per claim of primary coverage with an annual aggregate limit of $5,000,000. There is no deductible associated with this policy.

Effective January 8, 2018, the U.S. Department of Health and Human Services deemed the Residency and its practicing medical professionals covered under the Federal Tort Claims Act (FTCA) for damages for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. FTCA coverage is comparable to occurrence coverage without a monetary cap. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Residency's claim experience, no accrual has been made for the Residency's medical malpractice cost for the years ended June 30, 2019 and 2018. However, because of the risk of providing healthcare services, it is possible that an event has occurred which will be the basis of a future medical claim.

***Industry regulations*** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Residency is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, 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.

## 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, in accordance with the 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 The Family Medicine Residency of Idaho, Inc. (a nonprofit organization) (the Residency), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2019.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Residency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Residency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Residency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Residency'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 Residency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dingus, Zarecor, and Associates PLLC*

Spokane Valley, Washington
December 2, 2019

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for the Major Federal Program**

We have audited The Family Medicine Residency of Idaho, Inc.'s (a nonprofit organization) (the Residency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Residency's major federal program for the year ended June 30, 2019. The Residency's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

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

**Opinion on the Major Federal Program**

In our opinion, the Residency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.



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**Report on Internal Control Over Compliance**

Management of the Residency 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 Residency's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Residency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington
December 2, 2019

**The Family Medicine Residency of Idaho, Inc.**
**Schedule of Audit Findings and Questioned Costs**
**Year Ended June 30, 2019**

## Section I – Summary of Auditors' Results

### Financial Statements:

| | | | | |
|---|---|---|---|---|
| Type of auditors' report issued: | ***Unmodified*** | | | |
| Internal control over financial reporting: | | | | |
| • Material weakness(es) identified? | ____ | yes | X | no |
| • Significant deficiency(ies) identified? | ____ | 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? | ____ | yes | X | none reported |
| Type of auditors' report issued on compliance for major federal program: | ***Unmodified*** | | | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | ____ | yes | X | no |

### Identification of major federal program:

| *CFDA Number(s)* | *Name of Federal Program or Cluster* |
|---|---|
| 93.527 | Health Center Program Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | X | yes | ____ | no |

**The Family Medicine Residency of Idaho, Inc.**
**Schedule of Audit Findings and Questioned Costs (Continued)**
**Year Ended June 30, 2019**

## Section II – Financial Statement Findings

There are no matters reported for 2019. 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 2019. 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, 2019**

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identification Number | Total Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Health and Human Services:** | | | |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | **93.918** | | $ 741,224 |
| Health Center Program Cluster: | | | |
| Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program | **93.527** | | 1,352,403 |
| Subtotal direct programs | | | 2,093,627 |
| **Pass-through program from:** | | | |
| State of Idaho Department of Health and Welfare: | | | |
| HIV Prevention Activities Health Department Based | **93.940** | HC975500 | 218,277 |
| Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations | **93.898** | HC954900 | 49,568 |
| HIV Care Formula Grants | **93.917** | HC897000 | 113,181 |
| Refugee and Entrant Assistance - State Administered Programs | **93.566** | HC927600<br>HC925300 | 102,995 |
| Organized Approaches to Increase Colorectal Cancer Screening | **93.800** | HC911800 | 5,033 |
| Briljent, LLC | | | |
| ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance | **93.624** | AC057300 | 15,000 |
| Subtotal pass-through programs | | | 504,054 |
| Total U.S. Department of Health and Human Services | | | 2,597,681 |
| **Total expenditures of federal awards** | | | **$ 2,597,681** |

*See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.*

**The Family Medicine Residency of Idaho, Inc.**
**Notes to Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2019**

1. **Basis of Presentation:**

   The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of The Family Medicine Residency of Idaho, Inc. (the Residency) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Residency, it is not intended to and does not present the financial position, change in net assets or cash flows of the Residency.

2. **Summary of Significant Accounting Policies:**

   Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Residency has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**The Family Medicine Residency of Idaho, Inc.**
**Summary Schedule of Prior Audit Findings**
**Year Ended June 30, 2019**

The single audit for the year ended June 30, 2018, reported no audit findings, nor were there any unresolved findings from the periods ended June 30, 2017, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2019.