Primary Health Care, Inc.

Independent Auditor's Reports and Financial Statements

June 30, 2019 and 2018

Primary Health Care, Inc.

June 30, 2019 and 2018

Contents

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

Emphasis of Matter

As described in *Note 18* to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated November 20, 2019, on our consideration of Primary Health Care, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Primary Health Care, Inc.'s 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 20, 2019

Primary Health Care, Inc.
Balance Sheets
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 1,320,673	$ 962,974
Short-term investments	200,000	600,000
Patient accounts receivable, net of allowance; 2019 – $1,707,055, 2018 – $1,830,170	2,227,114	2,723,479
Grant and other receivables	1,404,050	2,112,198
Estimated amounts due from third-party payers	2,565,000	3,100,000
Contributions receivable	102,035	100,020
Inventories	11,079	14,045
Prepaid expenses and other	343,701	323,293
Total current assets	8,173,652	9,936,009
Investments		
Long-term investments	1,235,003	2,442,015
Investment in equity investees	159,251	67,099
	1,394,254	2,509,114
Property and Equipment, At Cost		
Land	976,979	560,219
Buildings and improvements	11,893,730	11,287,263
Equipment	3,438,875	3,165,970
Construction in progress	58,536	53,563
	16,368,120	15,067,015
Less accumulated depreciation	7,057,689	6,124,863
	9,310,431	8,942,152
Total assets	$ 18,878,337	$ 21,387,275

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Accounts payable	$ 1,060,064	$ 2,000,804
Accrued expenses	1,916,677	1,906,030
Estimated amounts due to third-party payers	-	20,000
Total current liabilities	2,976,741	3,926,834
Accrued Rent Payable	2,018	9,107
Total liabilities	2,978,759	3,935,941
Net Assets		
Without donor restrictions	15,794,667	17,163,059
With donor restrictions	104,911	288,275
Total net assets	15,899,578	17,451,334
Total liabilities and net assets	$ 18,878,337	$ 21,387,275

Primary Health Care, Inc.
Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	$ 23,674,798	$ 24,381,662
Provision for uncollectible accounts	138,975	1,051,647
Net patient service revenue less provision for uncollectible accounts	23,535,823	23,330,015
Grant revenue	15,559,478	15,769,565
Contribution revenue	376,027	371,443
Other	141,192	193,855
Net assets released from restriction used for operations	2,664,583	2,451,050
Total revenues, gains and other support without donor restrictions	42,277,103	42,115,928
Expenses and Losses		
Salaries and wages	20,197,561	19,006,499
Employee benefits	5,212,258	4,866,436
Purchased services and professional fees	4,660,060	4,197,453
Supplies and other	5,408,834	5,198,397
Pharmacy cost of goods sold	1,388,175	1,278,856
Assistance to clients	1,116,271	899,120
Rent	1,209,873	1,150,237
Depreciation	950,085	886,902
Funds administered by IMEC	3,895,894	3,932,841
Loss on disposal of equipment	-	11,867
Total expenses and losses	44,039,011	41,428,608
Operating Income (Loss)	(1,761,908)	687,320
Other Income		
Investment return, net	61,364	64,140
Gain on investment in equity investee	92,152	44,687
Total other income	153,516	108,827
Excess (Deficiency) of Revenues Over Expenses	(1,608,392)	796,147
Net assets released from restriction for acquisition of property and equipment	240,000	48,990
Increase (Decrease) in Net Assets Without Donor Restrictions	$ (1,368,392)	$ 845,137

Primary Health Care, Inc.

Statements of Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	$ (1,608,392)	$ 796,147
Net assets released from restriction for acquisition of property and equipment	240,000	48,990
Increase (decrease) in net assets without donor restrictions	(1,368,392)	845,137
Net Assets With Donor Restrictions		
Contributions	2,721,219	2,753,462
Net assets released from restriction	(2,904,583)	(2,500,040)
Increase (decrease) in net assets with donor restrictions	(183,364)	253,422
Change in Net Assets	(1,551,756)	1,098,559
Net Assets, Beginning of Year	17,451,334	16,352,775
Net Assets, End of Year	$ 15,899,578	$ 17,451,334

Primary Health Care, Inc.

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (1,551,756)	$ 1,098,559
Items not requiring (providing) operating cash flow		
Depreciation	950,085	886,902
Loss on disposal of property and equipment	-	11,867
Gain in investment in equity investee	(92,152)	(44,687)
Restricted contributions for acquisition of property and equipment	(15,000)	(273,990)
Changes in		
Patient accounts receivable, net	496,365	(718,526)
Grant funds and other receivables	708,148	(448,914)
Contributions receivable	(2,015)	206,765
Estimated amounts due from third-party payers	515,000	(2,022,893)
Inventories	2,966	4,117
Prepaid assets	(20,408)	16,735
Accounts payable, accrued expenses and deferred revenue	(1,000,833)	638,269
Net cash used in operating activities	(9,600)	(645,796)
Investing Activities		
Purchase of investments	-	(642,015)
Proceeds from disposition of investments	1,607,012	600,000
Purchase of property and equipment	(1,254,713)	(2,016,056)
Proceeds from sale of property and equipment	-	9,000
Net cash provided by (used in) investing activities	352,299	(2,049,071)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	15,000	273,990
Net cash provided by financing activities	15,000	273,990
Increase (Decrease) in Cash and Cash Equivalents	357,699	(2,420,877)
Cash and Cash Equivalents, Beginning of Year	962,974	3,383,851
Cash and Cash Equivalents, End of Year	$ 1,320,673	$ 962,974
Supplemental Cash Flows Information		
Accounts payable incurred for property and equipment	$ 86,538	$ 22,887

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

Nature of Operations

Primary Health Care, Inc. (the "Organization") is a community health center that works to improve, promote and maintain the physical and emotional health in the communities it serves. The Organization primarily earns revenues by providing physician and related health care services through clinics located in central Iowa.

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 and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted primarily of securities purchased under agreements to resell. The amounts advanced under these agreements are book-entry securities and are subject to a written custodial agreement that explicitly recognizes the Organization's interest in the securities. Securities purchased under agreements to resell amount to $778,521 and $478,345 at June 30, 2019 and 2018, respectively, and are included in cash and cash equivalents. At June 30, 2019, the Organization's cash accounts exceeded federally insured limits by approximately $819,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Other investments are valued at the lower of cost or fair value at time of donation, if acquired by contribution or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense, and is reported in the statements of operations as a component of net assets without donor restrictions.

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).

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 decreased from 94 percent of self-pay accounts receivable at June 30, 2018, to 87 percent of self-pay accounts receivable at June 30, 2019. The Organization's write-offs decreased approximately $958,000 from $1,220,000 for the year ended June 30, 2018, to approximately $262,000 for the year ended June 30, 2019.

Inventories

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

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.

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

Buildings and improvements	5 – 40 years
Equipment	4 – 20 years

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 net assets without donor restrictions 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 net assets without donor restrictions when the donated asset is placed in service.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

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 Program" which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount 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.

	2019	2018
Gross receipts	$ 3,065,439	$ 3,058,224
Drug replenishment costs	(896,462)	(756,142)
Administrative and filling fees	(522,559)	(522,714)
In-house pharmacy salaries, rent and depreciation	(622,827)	(431,667)
	$ 1,023,591	$ 1,347,701

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

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

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.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue with donor restrictions and then released from restriction.

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.

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 $0 and $127,500 for the years ended June 30, 2019 and 2018, respectively, which is included in other revenue in the statements of operations.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions 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).

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through November 20, 2019, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of a Health Center Program (HCP) 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, 2019 and 2018, the Organization recognized $6,545,028 and $6,559,752 in grant funds, respectively. The Organization’s present HCP grant award covers the grant year ending May 31, 2020 and is authorized at $6,987,046.

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.

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 were paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payment, including patient coinsurance, are paid based on the lesser of the Organization's actual charge or the applicable PPS rate. 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, 2019 and 2018, was approximately:

	2019	2018
Medicare	$ 2,496,451	$ 2,527,368
Medicaid	13,630,167	14,147,400
Other third-party payers	6,387,380	5,978,032
Self-pay	1,160,800	1,728,862
Total	$ 23,674,798	$ 24,381,662

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, 2019 and 2018, is:

	2019	2018
Medicare	20%	17%
Medicaid	58%	59%
Other third-party payers	20%	23%
Self-pay	2%	1%
	100%	100%

Note 5: Investments and Investment Return

Other investments, at June 30, 2019 and 2018, include:

	2019	2018
Certificates of deposit	$ 1,435,003	$ 3,042,015
Less long-term investments	1,235,003	2,442,015
Short-term investments	$ 200,000	$ 600,000

Total investment return at June 30, 2019 and 2018, is comprised of the following:

	2019	2018
Interest and dividend income	$ 61,364	$ 64,140

Note 6: Iowa Health Centers for Accountability – West, LLC

In 2015, the Organization entered into a joint venture with other Iowa FQHCs to purchase membership interests in Iowa Health Centers for Accountability – West, LLC, d/b/a IowaHealth+ (the "LLC") with an initial purchase of $1,000. During 2016, the Organization made additional purchases of interests totaling $13,333. The Organization has an approximately 10 percent ownership in the LLC.

The LLC's financial position and results of operations during the years ended June 30, 2019 and 2018, are summarized below.

	2019	2018
Current assets	$ 2,110,454	$ 904,569
Total assets	2,110,454	904,569
Current liabilities	440,621	169,127
Total liabilities	440,621	169,127
Equity	$ 1,669,833	$ 735,442
Revenues	$ 1,623,294	$ 1,219,722
Net income	$ 934,382	$ 453,106

The Organization's proportionate share of net income in the LLC amounted to $92,152 and $44,687 for the years ended June 30, 2019 and 2018, respectively. The Organization's investment in the LLC is included in investment in equity investee on the balance sheets.

Note 7: 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, 2019 and 2018. 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 8: Mercy Medical Center – Des Moines Community Benefit Grant

In 2014, the Organization entered into an agreement to manage a clinic for Family Practice Resident Training. The agreement provided base funding of $5,028,902 plus up to a 20 percent contingency, from November 2014 through June 2016, to support the Organization's expected losses for the clinic. Of the total amount, $5,274,908 was recognized under the agreement, which included contingency funding of $246,006. The agreement has an automatic annual renewal clause of one year unless the Organization or the donor terminates or agrees to renegotiate the agreement. The annual renewal amount is base funding of $1,915,772 and 20 percent of the total if operational expenses of the family practice residency program exceed program revenue plus the base amount received during the period. Amounts advanced to the Organization not used to satisfy operating losses as defined are returned annually.

The Organization recognized $1,974,284 and $1,925,740, respectively, of net assets released from restriction (NARR) used for operations, which included supplemental funding of $58,512 and $9,968, respectively, for the years ended June 30, 2019 and 2018. Contributions receivable include $58,512 and $95,316 related to this at June 30, 2019 and 2018, respectively.

Note 9: Line of Credit

The Organization had a $1,200,000 revolving line of credit that was closed in June 2018. At June 30, 2018, there was $0 borrowed against this line. The line was 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 3.75 percent. The interest rate was 4.50 percent at the time the line of credit was closed and was payable monthly.

The Organization has a $800,000 revolving line of credit expiring May 23, 2020. At June 30, 2019 and 2018, there was $0 borrowed against this line. The line is collateralized by certain real estate. Interest varies with the prime rate as published by the *Wall Street Journal.* The interest rate was 5.00 percent at June 30, 2019, and was payable monthly.

Note 10: Net Assets With Donor Restrictions

Net Assets with Donor Restrictions

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

	2019	2018
Subject to expenditure for specified purpose		
Health care services	$ 104,911	$ 63,275
Capital projects	-	225,000
	$ 104,911	$ 288,275

Net Assets Released from Restrictions

	2019	2018
Subject to expenditure for specified purpose		
Health care services	$ 2,664,583	$ 2,451,050
Capital projects	240,000	48,990
Total restrictions released	$ 2,904,583	$ 2,500,040

Note 11: Liquidity and Availability

The Organization's financial assets available within one year of the balance sheet date for general expenditure are:

	2019	2018
Financial assets at year end available to meet general expenditures over the next 12 months		
Cash and cash equivalents	$ 1,320,673	$ 962,974
Short-term investments	200,000	600,000
Patient accounts receivable, net	2,227,114	2,723,479
Grants and other receivables	1,404,050	2,112,198
Estimated amounts due from third-party payers	2,565,000	3,100,000
Contributions receivable	102,035	100,020
Financial assets available to meet general expenditures within one year	$ 7,818,872	$ 9,598,671

As part of the Organization'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. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of $800,000 (see *Note 9*) which it could draw upon. In addition, the Organization's long-term investments are certificate of deposits which could be liquidated early with a fine for unanticipated liquidity needs.

Note 12: Functional Expenses

The Organization provides health care services to residents within its service area. Certain costs attributable to more than one function have been allocated among the medical and other, dental, pharmacy and general and administrative functional expense classifications based on direct assignment, salary allocation and other methods. The following schedule presents the natural classification of expenses by function as follows:

	2019						
	Health Care Program Services					Support Services	
	Medical and Other	Dental	Behavior Health	Pharmacy	Total	General and Administrative	Total
Salaries and wages	$ 10,504,445	$ 2,379,793	$ 700,269	$ 451,643	$ 14,036,150	$ 6,161,411	$ 20,197,561
Employee benefits	2,502,227	647,800	160,269	79,032	3,389,328	1,822,930	5,212,258
Purchased services and professional fees	3,489,655	164,568	179,293	17,222	3,850,738	809,322	4,660,060
Supplies and other	2,358,599	614,006	51,996	46,083	3,070,684	2,338,150	5,408,834
Pharmacy cost of goods sold	-	-	-	1,388,175	1,388,175	-	1,388,175
Assistance to clients	65,955	313	6,039	1,304	73,611	1,042,660	1,116,271
Rent	732,052	100,299	-	38,428	870,779	339,094	1,209,873
Depreciation	576,128	188,412	311	19,961	784,812	165,273	950,085
Funds passed through to IMEC	3,895,894	-	-	-	3,895,894	-	3,895,894
Total expenses	$ 24,124,955	$ 4,095,191	$ 1,098,177	$ 2,041,848	$ 31,360,171	$ 12,678,840	$ 44,039,011

For 2018, the Organization had $28,278,003 of health care services and $13,150,605 in general and administrative expenses.

Note 13: Operating Lease

The Organization has a noncancellable operating lease for a medical facility in Marshalltown, Iowa, expiring in 2030. The lease can be renewed for an additional ten-year term. The Organization has various other operating leases that expire in years through 2030 which includes a lease renewed subsequent to year end for an additional term of ten years with four renewal periods available for an additional five-year term.

Future minimum lease payments at June 30, 2019, were:

2020	$ 774,012
2021	790,792
2022	791,775
2023	797,308
2024	802,841
Thereafter	1,539,931
	$ 5,496,659

Note 14: Iowa Medical Education Collaborative

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 (MMC). Within the agreement, 50 percent of the voting rights are assigned to the Organization. Under the agreement, the Organization is able to receive the HRSA Affordable Care Act Teaching Health Center Graduate Medical Education Grant (THCGME) as IMEC services as the sponsoring institution for certain Accreditation Council for Graduate Medical Education (ACGME) certified resident training programs operated collectively by MMC and the Organization.

During the years ended June 30, 2019 and 2018, the Chief Executive Officer (CEO) and Chief Medical Officer (CMO) of the Organization serve on the Board of Directors of IMEC. The Chief Financial Officer (CFO) serves on the Board of Directors in the position of Treasurer of IMEC. During the years ended June 30, 2019 and 2018, the Organization utilized THCGME funding administered by IMEC of which a portion was utilized by the Organization to cover operating costs for the residency program in 2019 and 2018.

Due to the nature of operations being paid by the THCGME program and contributions from the Organization and Mercy, there is no significant financial position information applicable at June 30. The results of operations for the periods then ended for the residency program administered by IMEC are summarized below:

	2019	2018
Revenues		
THCGME Grant revenue	$ 4,350,000	$ 4,361,505
Primary Health Care, Inc. contributions	-	465,475
Mercy Medical Center contributions	-	430,863
	4,350,000	5,257,843
Expenses		
Operating expenses incurred by Mercy Medical Center	3,895,894	4,829,179
Operating expenses incurred by Primary Health Care, Inc.	454,106	428,664
	4,350,000	5,257,843
Net income (loss)	$ -	$ -

Note 15: 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 percent of employees' contributions up to 3 percent of employee compensation and matches 50 percent of employee contributions from 3 percent to 5 percent of employee compensation. Pension expense was $521,540 and $459,374 for the years ended June 30, 2019 and 2018, respectively.

Note 16: 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 7*.

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. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors.

340B Drug Discount Program

The Organization participates in the 340B Drug Discount Program (340B Program) enabling the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to the financial statement amounts related to the 340B Program could occur in the near term. The Organization has identified an issue of noncompliance for the 340B Program and has estimated the potential loss attributable to this incident and recorded the estimated liability. Events could occur during the resolution of this incident that would cause the estimate of ultimate loss to differ materially in the near term.

Note 17: Construction in Progress

The Organization is in the process of a project to update IT equipment. Completed cost of $58,536 was included in construction in progress at June 30, 2019. The project is projected to be completed in March 2020, with additional estimated cost incurred of approximately $159,000. The project is being funded with operating cash flows.

Note 18: Change in Accounting Principle

In 2019, The Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the change is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets – those with donor imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flow available to meet operating expenses for one year from the date of the balance sheet.

- Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total change in net assets.

Note 19: Future Change in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment 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 those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning July 1, 2019, for nonpublic entities, and any interim periods within annual reporting periods that begin after July 1, 2019, for nonpublic entities. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Clarifying Accounting Contributions

The FASB issued ASU 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the recipient organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional. The standard should be applied on a modified prospective basis for the Organization's annual period beginning July 1, 2019, and any interim periods therein. Retrospective application is permitted. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. A Board decision was reached by the FASB at its October 16, 2019, meeting to delay the effective date by one year which is expected to be finalized with the issuance of an ASU later in 2019. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Primary Health Care, 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 Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/Health Center Program – Health Center Program Cluster	93.224	N/A	$ -	$ 1,959,450
U.S. Department of Health and Human Services/Grants for New and Expanded Services under the Health Center Program – Health Center Program Cluster	93.527	N/A	-	4,585,578
Total Health Center Program Cluster			-	6,545,028
U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	400,619
U.S. Department of Housing and Urban Development/City of Des Moines/ Continuum of Care Program	14.267	IA0079L7D021703, IA0089L7D021702 IA0114L7D021700, IA0112L7D021700	-	391,814
U.S. Department of Housing and Urban Development/City of Des Moines/ Emergency Solutions Grant Program	14.231	None	-	71,724
U.S. Department of Health and Human Services/Iowa Department of Human Services/Projects for Assistance in Transition from Homelessness (PATH)	93.150	MHDS 16-008	-	44,307
U.S. Department of Veteran Affairs/ VA Supportive Services for Veteran Families Program	64.033	N/A	-	495,479
Total forward			-	7,948,971

Primary Health Care, 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 Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Total forward			$ -	$ 7,948,971
U.S. Department of Health and Human Services/Iowa Department of Public Health/HIV Care Formula Grants	93.917	5880HC05	-	1,619,590
U.S. Department of Housing and Urban Development/Iowa Finance Authority/Housing Opportunities for Persons with AIDS	14.241	077-2019	-	206,514
U.S. Department of Health and Human Services/Iowa Department of Public Health/HIV Prevention Activities – Health Department Based	93.940	5889AP30	-	141,739
U.S. Department of Health and Human Services/University of Iowa/ Cardiovascular Diseases Research	93.837	W001018601	-	6,065
U.S. Department of Health and Human Services/Family Planning Council of Iowa and Iowa Department of Public Health/Family Planning Services	93.217	941-FY2020/ 5880FP07	-	387,726
U.S. Department of Health and Human Services/Substance Abuse and Mental Health Services – Projects of Regional & National Significance	93.243	None	-	230,511
U.S. Department of Health and Human Services/Iowa Department of Public Health/Substance Abuse and Mental Health Services – Projects of Regional & National Significance	93.243	5889SA126	-	11,912
Total Substance Abuse and Mental Health Services			-	242,423
Total federal expenditures			$ -	$ 10,553,028

Primary Health Care, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Primary Health Care, Inc. 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 Primary Health Care, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of Primary Health Care, Inc.

2. 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. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Primary Health Care, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Primary Health Care, Inc. did not have any federal loan programs during the year ended June 30, 2019.

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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*

Independent Auditor's Report

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, 2019, 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 20, 2019, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Primary Health Care, Inc.'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 Primary Health Care, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Primary Health Care, Inc.'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.

Board of Directors
Primary Health Care, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Primary Health Care, Inc.'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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
November 20, 2019

BKD
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Report on Compliance for the 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 the Major Federal Program

We have audited Primary Health Care, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Primary Health Care, Inc.'s major federal program for the year ended June 30, 2019. Primary Health Care, Inc.'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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Primary Health Care, Inc.'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 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 Primary Health Care, Inc.'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 major federal program. However, our audit does not provide a legal determination of Primary Health Care, Inc.'s compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

Primary Health Care, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Primary Health Care, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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 Primary Health Care, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Primary Health Care, Inc.'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 a 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.

Board of Directors
Primary Health Care, Inc.

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Primary Health Care, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Primary Health Care, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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.

BKD, LLP

Springfield, Missouri
November 20, 2019

Primary Health Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:

   Significant deficiency(ies)? ☒ Yes ☐ None reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal award was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☒ Yes ☐ No

7. The Organization's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

Primary Health Care, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	No matters are reportable.

Primary Health Care, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
2019-001	Health Center Program Cluster – CFDA Nos. 93.224 and 93.527

U.S. Department of Health and Human Services
Award No. 3 H80CS00715-18-04
Program Year 2019

Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g); and 42 CFR sections 56.303 (f))

Condition – Patients received a sliding fee discount that was inconsistent with the Health Center Compliance Manual. The Organization's policy was not in compliance with regulation concerning discounts provided based upon graduations of income for dental services.

Questioned cost – None

Context – A sample of 25 encounters were tested out of the total population of 152,798 encounters. The sampling methodology used is not and is not intended to be statistically valid. Four patients received a sliding fee adjustment that was inconsistent with the approved policy for the proper sliding fee adjustments based on their income documentation. An additional three patients received a sliding fee adjustment consistent with their income documentation, however, the policy was not compliant with the federal program requirements.

Effect – Sliding fee discounts were given to patients that were inconsistent with the Organization's sliding fee discount policy or federal program requirements.

Cause – The Organization did not comply with their sliding fee policy and the sliding fee policy did not comply with Health Center Program Compliance Manual for certain services.

Identification as a repeat finding, if applicable – Is not a repeat finding.

Primary Health Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Reference Number	Finding
2019-001 (Continued)	Recommendation – We recommend management review with all personnel the sliding fee scale policy. Personnel should adhere to the requirements and guidelines set forth in the policy which should be reviewed and updated as necessary to be in accordance with the Health Center Program Compliance Manual. Views of Responsible Officials and Planned Corrective Actions – Management recognizes the importance of having a sliding fee discount program that provides individuals and families with incomes above 100 percent of the current FPG and those at or below 200 percent of the current FPG, with discounts that adjust based on gradations in income levels and include at least three discount pay classes. Furthermore, we understand that the nominal charge of the health center is less than the fee that would be paid by patients in the first sliding fee discount pay class above 100 percent of FPG. In September 2019, Management (CEO and COO) conducted an analysis of most common dental procedures and evaluated compliance of the Organization's sliding fee policy with federal requirements. The analysis was reviewed by dental leaders and a recommendation to update the nominal fee and the flat fee amount for the discount pay classes was approved by the Board of Directors on September 27, 2019. A plan to educate staff on the sliding fee policy change was developed and implemented effective October 15, 2019. Additionally, targeted training was provided to staff at one clinic site on the sliding fee policy.

Primary Health Care, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Reference Number	Finding	Status

No matters are reportable.

PHC
primary health care

November 20, 2019

Views of Responsible Officials and Planned Corrective Actions:

Management recognizes the importance of having a sliding fee discount program that provides individuals and families with incomes above 100 percent of the current FPG and those at or below 200 percent of the current FPG, with discounts that adjust based on gradations in income levels and include at least three discount pay classes. Furthermore, we understand that the nominal charge of the health center is less than the fee that would be paid by patients in the first sliding fee discount pay class above 100% of FPG.

In September 2019, Management (CEO and COO) conducted an analysis of most common dental procedures and evaluated compliance of the Organization's sliding fee policy with federal requirements. The analysis was reviewed by dental leaders and a recommendation to update the nominal fee and the flat fee amount for the discount pay classes was approved by the Board of Directors on 9/27/2019. A plan to educate staff on the sliding fee policy change was developed and implemented effective 10/15/2019. Additionally, targeted training was provided to staff at one clinic site on the sliding fee policy.

Kelly Huntsman

Kelly Huntsman
Chief Executive Officer

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