



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
People's Community Clinic

COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of People's Community Clinic (Clinic) for the year ended December 31, 2009, and have issued our report thereon dated May 20, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated information related to the planned scope and timing of our audit in our engagement letter dated January 29, 2010. Professional standards also require that we communicate to you the following related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. We are responsible for communicating significant matters related to the audit that are, in our professional judgment relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by the audit and does not extend to any later period for which we were not engaged as auditor.



Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Clinic are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009 expect for the change in fixed asset capitalization policy. We noted no transactions entered into by the Clinic during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

1. Management's estimate of the estimated useful lives of fixed assets is based on general knowledge of the assets involved and customary lives used by other organizations for similar assets. We evaluated the key factors and assumptions used to develop the estimated useful lives of fixed assets (and related accumulated depreciation) in determining that they are reasonable in relation to the financial statements taken as a whole.
2. Management's estimate of the functional allocation of expenses is based on estimates of time spent by staff on various functional activities and estimates of square footage occupied by functions. We evaluated the key factors and assumptions used to develop the allocation of functional expenses in determining that they are reasonable in relation to the financial statements taken as a whole.
3. Management's estimate of the allowance for doubtful accounts is based on historical knowledge of the programs under which claims originate and an estimate of the likelihood of collection.
4. Management's estimate of the value of contributed goods, services and space is based on general knowledge of the market value for comparable goods, services and space in the same local area.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



People's Community Clinic
Communications with Those Charged with Governance
Page 3

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected misstatements of the financial statements provided by and corrected by management. Additionally, the attached schedule summarized uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 20, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Clinic's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Clinic's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Clinic and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Montemayor Hill + Company, P.C.

20 May 2010
Austin, Texas

PEOPLE'S COMMUNITY CLINIC
CORRECTED MISSTATEMENTS
12/31/2009

<u>Account Names</u>	<u>Stmt. of Fin. Position</u>		<u>Stmt. of Activity</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
1 Prior Years Recoveries			\$37,000	
Other Patient Revenue			\$16,101	
Accounts Payable - Miscellaneous		\$53,101		
<i>To accrue estimated Medicaid payable (adjusted was prepared by PCC).</i>				

PEOPLE'S COMMUNITY CLINIC
UNCORRECTED MISSTATEMENTS
12/31/2009

<u>Account Names</u>	<u>Stmt. of Fin. Position</u>		<u>Stmt. of Activity</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
A Computers	\$5,000			
Depreciation Expense			\$1,000	
Accumulated Depreciation		\$2,000		
Beginning Net Asset		\$4,000		
<i>To capitalize 2008 purchase of equipment and record related depreciation</i>				

PEOPLE'S COMMUNITY CLINIC
INDEPENDENT AUDITORS' REPORTS
AND
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009



Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
People's Community Clinic
Austin, Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of People's Community Clinic (Clinic) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Clinic's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clinic at December 31, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Montemayor Hill & Company, P.C.

20 May 2010
Austin, Texas

3001 SOUTH LAMAR BOULEVARD
SUITE 320
AUSTIN, TEXAS 78704
PHONE: 512.442.0380
FAX: 512.442.0817
www.montemayorhill.com

PEOPLE'S COMMUNITY CLINIC

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

ASSETS

Cash and cash equivalents	\$3,114,279
Receivables, net of allowance for doubtful accounts	391,972
Inventories	64,485
Prepaid and other	17,940
Fixed assets, net	<u>1,416,528</u>
	<u>\$5,005,204</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$194,060
Accrued expenses	<u>400,829</u>
	<u>594,889</u>

NET ASSETS

Unrestricted	4,024,565
Temporarily restricted	<u>385,750</u>
	<u>4,410,315</u>

TOTAL LIABILITIES AND NET ASSETS

\$5,005,204

The accompanying notes are an integral part of this financial statement presentation.

PEOPLE'S COMMUNITY CLINIC

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts	\$4,720,345	\$1,011,542	\$5,731,887
Patient fees	445,790	0	445,790
Contributions and fundraising	685,495	54,245	739,740
Contributed services, materials, and facilities	187,254	0	187,254
Other	75,922	0	75,922
Net assets released from restrictions	<u>1,068,527</u>	<u>(1,068,527)</u>	<u>0</u>
	<u>7,183,333</u>	<u>(2,740)</u>	<u>7,180,593</u>
EXPENSES			
Salaries	3,710,135	0	3,710,135
Physicians and sonographer	827,854	0	827,854
Benefits	581,433	0	581,433
Payroll taxes	290,371	0	290,371
Pharmaceuticals	191,903	0	191,903
In-kind donations	187,254	0	187,254
Outside lab services	148,572	0	148,572
Professional fees	135,108	0	135,108
Depreciation	134,886	0	134,886
Tandem services	116,198	0	116,198
Other	111,999	0	111,999
Software purchase	99,874	0	99,874
Computer equipment	92,638	0	92,638
Janitorial service	70,832	0	70,832
Equipment lease	65,954	0	65,954
Bad debt	62,845	0	62,845
Patient care and records	50,384	0	50,384
Fundraising	48,653	0	48,653
Office equipment	47,127	0	47,127
Telephone equipment	38,578	0	38,578
Electricity	34,014	0	34,014
Laboratory supplies	31,993	0	31,993
Office supplies	31,289	0	31,289
Printing	27,901	0	27,901
Postage	27,819	0	27,819
Food and beverage supplies	27,398	0	27,398
Storage	26,162	0	26,162
Facility maintenance	<u>20,621</u>	<u>0</u>	<u>20,621</u>
	<u>7,239,795</u>	<u>0</u>	<u>7,239,795</u>
CHANGE IN NET ASSETS	(56,462)	(2,740)	(59,202)
BEGINNING NET ASSETS	<u>4,081,027</u>	<u>388,490</u>	<u>4,469,517</u>
ENDING NET ASSETS	<u>\$4,024,565</u>	<u>\$385,750</u>	<u>\$4,410,315</u>

The accompanying notes are an integral part of this financial statement presentation.

PEOPLE'S COMMUNITY CLINIC

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	(\$59,202)
Adjustments to reconcile change in net assets to net cash provided by operations:	
Depreciation	134,886
Gain on replacement of assets	(54,998)
Contributed fixed assets	(175,885)
Bad debt expense	62,845
(Increase) decrease in assets:	
Receivables	(109,968)
Prepaid and other	54,040
Inventories	1,724
Increase (decrease) in liabilities:	
Accounts payable	91,729
Accrued expenses	<u>26,600</u>
	<u>(28,229)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(111,203)
Proceeds from insurance for hail damage	<u>90,304</u>
	<u>(20,899)</u>
NET DECREASE IN CASH	(49,128)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,163,407</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$3,114,279</u>

The accompanying notes are an integral part of this financial statement presentation.

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

ORGANIZATION AND NATURE OF ACTIVITIES

People's Community Clinic (Clinic) is a corporation organized under the Nonprofit Corporation Act of the State of Texas. The Clinic provides high quality medical and health education services to individuals in the Austin area. The Clinic is dedicated to responding to community needs, particularly those of limited income patients. The Clinic promotes community involvement in the provision of health care and emphasizes health maintenance and disease prevention in all treatment programs. The Clinic receives funding from federal, state, county and city grants and contracts in addition to individual and corporate contributions. The Clinic also receives fees from patients for services rendered.

The Clinic's major programs consist of the following:

Family Planning

The Family Planning program provides comprehensive reproductive health care to men and women aged 14 through 44. The typical patient is seen two to four times per year for a complete annual exam and episodic care for common genitourinary tract problems and for contraceptive counseling and supplies.

General Medicine

The General Medicine program provides comprehensive primary care to persons of all ages and an array of services ranging from well-child checks to chronic disease management.

Social Services

The Clinic serves as the lead agency for the multi-agency Tandem Project which addresses the medical, educational and psychosocial needs of pregnant and parenting teens during pregnancy and the first three years of the baby's life. The goal is to equip young mothers with the education, skills, and resources necessary for self-sufficiency so that they can transition successfully into responsible young adulthood. Tandem is a community collaboration of the Clinic, Any Baby Can, Austin Child Guidance Center, and LifeWorks.

Additionally, the Clinic's Integrated Behavioral Health (IBH) project provides effective, evidenced-based behavioral health services to the Clinic's adult patients with mental health issues, while also increasing the expertise and comfort-level of primary care providers in addressing mental health concerns. The IBH project utilizes a team-based approach in which the primary care provider, the behavioral health specialist, the consulting psychiatrist, and the patient establish an individualized care plan for each patient.

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION

Prenatal

The Prenatal program provides comprehensive healthcare to pregnant women. The typical patient has nine to twelve visits with a healthcare provider and also receives health education, on-site lab tests and ultrasounds and assistance to pre-register for birth at St. David's Hospital.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENT PRESENTATION

The Clinic reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2009, the Clinic had no permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets result from operating revenues, unrestricted contributions, unrestricted dividend and interest income, less expenses incurred in operations, to raise contributions and for administrative functions.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent resources currently available for use, but expendable for those operating purposes specified by the donor.

BASIS OF ACCOUNTING

The Clinic uses the accrual basis method of accounting, in which funding contracts and grants are recorded as support as the funds are considered earned. Cost reimbursement contracts are recorded as support when the costs are incurred, and unrestricted grants are recorded as support when the grant is awarded.

Unconditional promises to give are recorded when received. Unconditional promises to give due in the next year are recorded at their net realized value. Unconditional promises to give due in subsequent years are recorded at the net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. Conditional promises to give are recognized when received if the possibility that the condition will not be met is remote; otherwise, it is recorded when the condition is substantially met.

Expenses are recorded using the accrual basis method of accounting; therefore, expenses are recorded when incurred regardless of when paid.

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all money in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

INVESTMENTS

Investments are stated at fair value. Additionally, investments in marketable securities with readily determinable fair values and all debt securities are valued at their fair value in the statement of financial position with any realized or unrealized gains and losses reported in the statement of activities.

RECEIVABLES

The Clinic provides for uncollectible accounts receivable and promises to give through the allowance method of accounting. Under this method, a provision for uncollectible accounts is charged to bad debt expense, and the allowance account is increased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the account.

INVENTORIES

Inventories include exam room consumables, testing supplies, and pharmaceuticals. Inventories are stated at the lower of cost (first-in, first-out) or market.

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FIXED ASSETS

Property and equipment acquisitions of items costing greater than \$2,000 and with one or more years of useful service life are capitalized at cost, or estimated fair value for donated assets. Prior to January 1, 2009, acquisitions of items valued at greater than \$1,000 and with one or more years of useful service life were capitalized. Donated assets are considered unrestricted unless restricted by donor. Fixed assets may be purchased with funds from funding sources that retain a reversionary interest in the property, and any proceeds from the sale of this property and equipment are considered income to the funding source that originally purchased the asset.

Depreciation and amortization are computed using the straight-line method and are based on estimated useful lives as follows:

Furniture and equipment	3-10 years
Building and building improvements	5-40 years

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a time or program restriction expires, temporarily restricted net assets are released to unrestricted net assets.

CONTRIBUTED SERVICES, MATERIALS, AND FACILITIES

Contributed services that create or enhance non-financial assets or that require specialized skills, which are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed goods and facilities are recorded at their fair value in the period received.

TAX STATUS

The Clinic is exempt from Federal income taxes under IRS Code Section 501(c)(3). Therefore, no provision has been made for Federal income taxes in the accompanying financial statements.

SUBSEQUENT EVENTS

The Clinic has evaluated subsequent events as of May 20, 2010, the date the financials statements were issued.

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 3: RECEIVABLES

	<u>Receivable</u>	<u>Allowance</u>	Net <u>Receivable</u>
Accounts receivable	\$421,278	\$(241,242)	\$180,036
Grants receivable	<u>217,881</u>	<u>(5,945)</u>	<u>211,936</u>
	<u>\$639,159</u>	<u>(\$247,187)</u>	<u>\$391,972</u>

NOTE 4: FIXED ASSETS

Fixed assets included in the financial statements consist of:

Land	\$152,250
Building	1,329,117
Building improvements	351,877
Furniture and equipment	609,581
Accumulated depreciation and amortization	<u>(1,026,297)</u>
	<u>\$1,416,528</u>

Depreciation expense for the year ended December 31, 2009, was \$134,886.

NOTE 5: COMPENSATED ABSENCES

The Clinic provides its employees with paid time off based on length of service with the Clinic. Unused paid time off is paid to employees upon termination based on their current rate of pay. At December 31, 2009, the Clinic has accrued approximately \$105,000 in paid time off. This amount is included in accrued expenses in the financial statements.

NOTE 6: CONCENTRATIONS

The Clinic's net accounts receivable balance includes 41% due from two government agencies as of December 31, 2009.

46% of the Clinic's total revenue is derived from three funding sources.

NOTE 7: LEASES

OPERATING LEASES

The Clinic is also obligated under various leases, which are considered operating leases for accounting purposes. The minimum future lease payments under operating leases are as follows:

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 7: LEASES

<u>Years Ended December 31,</u>	
2010	\$64,284
2011	53,940
2012	48,138
2013	29,338
2014	<u>3,212</u>
Total	<u>\$198,912</u>

Rental expense for operating leases for the year ended 2009 was approximately \$66,000.

NOTE 8: DEFINED CONTRIBUTION PLAN

The Clinic's Flexplus 403(b) Annuity Plan began January 1, 1994. All employees are eligible to participate upon the attainment of age 21. Entry dates are the first business day of each quarter. Employees may contribute amounts up to the statutory federal limitation. The employers' matching contribution is 50% of employee contributions or 3% of their compensation, whichever is less. The employer match vests as follows:

<u>Years of Service</u>	<u>Vested %</u>
0-1	0%
2	20%
3	40%
4	60%
5	80%
6	100%

The pension cost to the Clinic in 2009 was approximately \$45,000.

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or future periods:

Adult medicine	\$52,083
Adolescent medicine	57,500
Immunizations	10,000
Integrated behavioral health	99,917
Pediatrics	106,250
Prenatal	20,000
Development	<u>40,000</u>
Total	<u>\$385,750</u>

PEOPLE'S COMMUNITY CLINIC

NOTES TO FINANCIAL STATEMENTS

NOTE 10: CONTRIBUTED SERVICES, MATERIALS AND FACILITIES

The Clinic receives donated services from a variety of unpaid volunteers assisting the Clinic in maintaining medical records and assisting medical personnel. During 2009, donated services were recognized for \$18,700 in the accompanying statement of activities because the criteria for recognition of such volunteer efforts have been satisfied. The majority of volunteers assist the Clinic in activities related to the Prenatal, General Medicine and Family Planning programs.

The Clinic also received various donated professional services during 2009 of \$63,894 were recognized in the statement of activities.

During 2009, the Clinic received donated space and materials of \$72,382 and \$32,278, respectively, were recognized in the statement of activities.

NOTE 11: FUNCTIONAL EXPENSES

Program	
Family planning	\$651,928
General medicine	3,653,037
Social services	567,944
Prenatal	<u>940,762</u>
	5,813,671
Fundraising	501,928
Administrative	<u>924,196</u>
	<u>\$7,239,795</u>

NOTE 12: COMMITMENTS

On December 15, 2008 the Clinic entered into an agreement with NextGen Healthcare Information Systems, Inc. (NextGen) for software licenses and services related to the design and development of software for the Clinic's billing and records management system. This is a fixed rate agreement for approximately \$280,000, which includes \$173,000 for licenses, report and third-party software, and an additional \$107,000 for a two-year contract to provide monthly hosting services. As of December 31, 2009, approximately \$72,000 remained outstanding under this agreement. The Clinic has an additional commitment to NextGen for software maintenance for approximately \$34,000.