

People's Community Clinic

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

People's Community Clinic
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
People's Community Clinic
Austin, Texas

We have audited the accompanying financial statements of People's Community Clinic (the "Organization"), which comprise the balance sheets as of December 31, 2017 and 2016, 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. 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 includes 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 the 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 People's Community Clinic as of December 31, 2017 and 2016, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses listed in the table of contents is presented for the purpose 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 audits 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.

BKD, LLP

Springfield, Missouri
June 29, 2018

People's Community Clinic
Balance Sheets
December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 4,630,143	\$ 6,348,201
Short-term investments	1,118	-
Patient accounts receivable, net of allowance; 2017 - \$1,668,327, 2016 - \$1,923,191	3,051,469	1,253,570
Grants and other receivables	157,183	129,327
Contributions receivable - current	1,856,508	1,848,118
Estimated amounts due from third-party payers	1,009,952	831,853
Supplies and inventory	290,959	261,415
Prepaid expenses and other	90,913	180,824
	<u>11,088,245</u>	<u>10,853,308</u>
Long-Term Investments	<u>25,200</u>	<u>26,506</u>
Property and Equipment, At Cost		
Land and land improvements	3,246,867	3,246,867
Buildings and leasehold improvements	13,490,772	13,588,275
Equipment	1,432,776	1,634,757
Construction in progress	-	5,870
	<u>18,170,415</u>	<u>18,475,769</u>
Less accumulated depreciation	<u>3,431,974</u>	<u>2,695,115</u>
	<u>14,738,441</u>	<u>15,780,654</u>
Long-Term Contributions Receivable	<u>132,631</u>	<u>254,237</u>
Total assets	<u>\$ 25,984,517</u>	<u>\$ 26,914,705</u>

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Current maturities of long-term debt	\$ 58,100	\$ 55,537
Accounts payable	324,526	269,110
Accrued expenses	<u>890,892</u>	<u>884,160</u>
Total current liabilities	1,273,518	1,208,807
Long-Term Debt	<u>66,677</u>	<u>114,785</u>
Total liabilities	<u>1,340,195</u>	<u>1,323,592</u>
Net Assets		
Unrestricted	21,358,553	21,940,777
Temporarily restricted	3,260,769	3,625,336
Permanently restricted	<u>25,000</u>	<u>25,000</u>
Total net assets	<u>24,644,322</u>	<u>25,591,113</u>
Total liabilities and net assets	<u>\$ 25,984,517</u>	<u>\$ 26,914,705</u>

People's Community Clinic
Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue (net of contractual discounts and allowances)	\$ 12,551,561	\$ 11,352,238
Provision for uncollectible accounts	2,855,784	2,703,330
Net patient service revenue less provision for uncollectible accounts	9,695,777	8,648,908
Grant revenue	2,834,676	2,850,280
Contributions	1,925,665	2,133,754
Other	307,457	399,919
Net assets released from restrictions used for operations	5,664,140	4,680,818
Total unrestricted revenues, gains and other support	20,427,715	18,713,679
Expenses and Losses		
Salaries and wages	11,930,254	10,621,598
Employee benefits	2,633,284	2,416,273
Purchased services and professional fees	856,993	907,028
Supplies and other	4,646,423	4,506,393
Start-up costs for new clinic location	-	815,197
Rent	10,119	171,465
Depreciation and amortization	1,088,515	909,941
Interest	5,533	7,035
Loss on sale of property and equipment	2,578	-
Total expenses and losses	21,173,699	20,354,930
Operating Loss	(745,984)	(1,641,251)
Other Income		
Investment return	5,217	15,200
Deficiency of Revenues over Expenses	(740,767)	(1,626,051)
Net assets released from restriction used for purchase of property and equipment	158,543	14,054,363
Increase (Decrease) in Unrestricted Net Assets	\$ (582,224)	\$ 12,428,312

People's Community Clinic
Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (740,767)	\$ (1,626,051)
Net assets released from restriction used for purchase of property and equipment	158,543	14,054,363
Increase (decrease) in unrestricted net assets	(582,224)	12,428,312
Temporarily Restricted Net Assets		
Contributions	5,458,116	5,825,356
Net assets released from restriction	(5,822,683)	(18,735,181)
Decrease in temporarily restricted net assets	(364,567)	(12,909,825)
Change in Net Assets	(946,791)	(481,513)
Net Assets, Beginning of Year	25,591,113	26,072,626
Net Assets, End of Year	\$ 24,644,322	\$ 25,591,113

People's Community Clinic
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ (946,791)	\$ (481,513)
Items not requiring (providing) cash		
Loss on sale of property and equipment	2,578	-
Depreciation and amortization	1,088,515	909,941
Contributions of or for acquisition of property and equipment	(8,779)	(656,438)
Changes in		
Patient accounts receivable, net	(1,797,899)	(638,268)
Contributions receivable	(63,804)	(1,133,923)
Estimated amounts due from and to third-party payers	(178,099)	972,632
Inventory and supplies	(29,544)	(115,349)
Accounts payable and accrued expenses	42,546	180,765
Other current assets and liabilities	89,911	(167,489)
	<u>(1,801,366)</u>	<u>(1,129,642)</u>
Net cash used in operating activities		
Investing Activities		
Purchase of investments	-	(50,578)
Proceeds from disposition of investments	188	49,737
Purchase of property and equipment	(18,480)	(4,666,376)
	<u>(18,292)</u>	<u>(4,667,217)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	157,943	3,039,850
Principal payments on long-term debt	(56,343)	(48,990)
	<u>101,600</u>	<u>2,990,860</u>
Net cash provided by financing activities		
Decrease in Cash and Cash Equivalents	(1,718,058)	(2,805,999)
Cash and Cash Equivalents, Beginning of Year	<u>6,348,201</u>	<u>9,154,200</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,630,143</u>	<u>\$ 6,348,201</u>
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 5,533	\$ 7,035
Accounts payable incurred for property and equipment	\$ -	\$ 19,602
Capital lease obligation incurred for property and equipment	\$ 10,798	\$ 76,568

People's Community Clinic
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations

People's Community Clinic (the "Organization") primarily earns revenues by providing physician and related health care services through clinics located in Austin, Texas. The Organization is a federally qualified health center and is supported through public insurance programs such as Medicaid and Medicare, direct federal funding, state and local grants, private grants and contributions.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with initial maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers and 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 \$4,434,000 and \$5,763,000 at December 31, 2017 and 2016, respectively, and are included in cash and cash equivalents. At December 31, 2017, the Organization's cash accounts exceeded federally insured limits by approximately \$30,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost 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. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

People's Community Clinic

Notes to Financial Statements

December 31, 2017 and 2016

The Organization has held an interest of approximately 3% in a limited partnership. This investment was not considered material to the financial statements and, therefore, was not reflected on the Organization's balance sheet. During 2016, the Organization received disbursements following the sale of certain real estate assets held by the partnership. The disbursements were included in investment return on the statements of operations. The partnership was dissolved in 2016 and no revenue was recognized related to this investment in 2017.

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 or 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 91% of self-pay accounts receivable at December 31, 2016, to 79% of self-pay accounts receivable at December 31, 2017. The Organization's write-offs increased approximately \$585,000 from approximately \$2,525,000 for the year ended December 31, 2016, to approximately \$3,110,000 for the year ended December 31, 2017.

Supplies

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

People's Community Clinic
Notes to Financial Statements
December 31, 2017 and 2016

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements and assets under capital lease obligations are depreciated over the shorter of the lease term or their respective useful lives.

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

Buildings, leasehold and land improvements	3 – 40 years
Equipment	3 – 15 years

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the grant's objectives or held for a specific length of time.

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

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 December 31, 2017 and 2016.

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

People's Community Clinic

Notes to Financial Statements

December 31, 2017 and 2016

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.

Pharmacy Revenue

The Organization participates in the 340B “Drug Discount Pricing Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resource and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. Reported pharmacy revenue consists of reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs and is included in net patient service revenue on the accompanying statement of operations and changes in net assets.

Contributions

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

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

Government Grant Revenue

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

People's Community Clinic

Notes to Financial Statements

December 31, 2017 and 2016

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives certain donated professional services and in-kind contributions of supplies, pharmaceuticals and rent. It is the policy of the Organization to record the estimated fair value of these in-kind contributions as an expense in its financial statements and similarly increase contribution revenue by a like amount. In-kind contributions of \$1,085,536 and \$1,178,746 are recorded for the years ended December 31, 2017 and 2016, respectively.

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 federally qualified health centers 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 State, fiscal intermediary or Medicare Administrative Contractor. 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 year.

For the years ended December 31, 2017 and 2016, \$0 and \$127,500, respectively, was recorded as revenue from this program, which is included in other revenue in the statements of operations.

Start-Up Costs for New Clinic Location

In 2016, the Organization completed construction on the Camino la Costa facility and began providing services to patients from this location. As a result, the Organization incurred expenses related to furnishing, stocking and opening the facility. Costs related to placing the facility in service were approximately \$815,000, including equipment purchases below the Organization's capitalization threshold. These expenses are included in operating expenses in the statements of operations. No expenses of this nature were incurred in 2017.

People's Community Clinic
Notes to Financial Statements
December 31, 2017 and 2016

Deficiency of Revenues Over Expenses

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

Subsequent Events

Subsequent events have been evaluated through June 29, 2018, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of a Community Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care services in Austin, Texas. 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 December 31, 2017 and 2016, the Organization recognized \$1,433,923 and \$1,525,804 in CHC grant revenue, respectively. Funding for the grant year ending May 31, 2019, has been authorized at \$1,425,783.

In addition to this grant the Organization receives additional financial support from other state and private sources. Generally such support requires compliance with terms and conditions specified in grant agreements and has been 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.

People's Community Clinic

Notes to Financial Statements

December 31, 2017 and 2016

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

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, 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 prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided under the plan. The encounter rate is updated annually based on the Medicare Economic Index (MEI).

Prior to receiving a final prospective payment system (PPS) rate, the Organization was reimbursed for covered Medicaid services at an interim PPS rate. A rate setting cost report was submitted for the year ended December 31, 2013, and final determination of the PPS rate related to this cost report has been received. An estimated settlement for the difference between the interim and final rates was recorded on the balance sheet as estimated amounts due from third-party payers. The 2017 net patient service revenue decreased approximately \$810,000 which applied to dates of service prior to January 1, 2017, due to a change in estimate which was determined after evaluating the collectability of the remaining portion of this previously recorded settlement.

The Organization received an updated PPS rate for covered Medicaid services in 2017 which was retroactive to January 1, 2016. An estimated settlement of \$1,010,000 for the difference between the former rate and the new rate is recorded on the balance sheet as estimated amounts due from third-party payers. Approximately \$340,000 of this estimated settlement applied to dates of service prior to January 1, 2017. The remaining \$670,000 of this estimated settlement applied to dates of service during 2017.

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 is a partner in the Central Health Unfunded Program with the Travis County Healthcare District (the "District"). Covered primary care services rendered to Central Health Unfunded Program beneficiaries are paid by the District to the extent of the District's contracted maximum obligation. The Organization's current agreement with the District is effective through September 30, 2018.

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.

People's Community Clinic
Notes to Financial Statements
December 31, 2017 and 2016

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2017 and 2016, was approximately:

	2017	2016
Medicare	\$ 243,903	\$ 210,643
Medicaid	7,831,443	6,891,880
Travis County Healthcare District	2,101,188	1,906,694
Other third-party payers	393,215	436,127
Self-pay	1,981,812	1,906,894
Total	<u>\$ 12,551,561</u>	<u>\$ 11,352,238</u>

Note 4: Concentration 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 net receivables from patients and third-party payers at December 31, 2017 and 2016, is:

	2017	2016
Medicare	1%	1%
Medicaid	79%	92%
Travis County Healthcare District	17%	2%
Other third-party payers	1%	3%
Self-pay	2%	2%
	<u>100%</u>	<u>100%</u>

People's Community Clinic
Notes to Financial Statements
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Note 5: Investment and Investment Return

Investments at December 31 consisted of the following:

	2017	2016
Certificates of deposit and equity investments	\$ 25,200	\$ 26,506
Equity investments	1,118	-
	<u>26,318</u>	<u>26,506</u>
Less long-term investments	<u>25,200</u>	<u>26,506</u>
Short-term investments	<u>\$ 1,118</u>	<u>\$ -</u>

Total investment return is comprised of the following:

	2017	2016
Interest income	\$ 5,217	\$ 893
Proceeds from dissolution of limited partnership	-	14,307
	<u>\$ 5,217</u>	<u>\$ 15,200</u>

Note 6: Contributions Receivable

Contributions receivable at December 31, 2017 and 2016, consisted of the following:

	2017	2016
Due within one year	\$ 1,856,508	\$ 1,848,118
Due in one to five years	151,250	269,833
	<u>2,007,758</u>	<u>2,117,951</u>
Less unamortized discount	<u>18,619</u>	<u>15,596</u>
	<u>\$ 1,989,139</u>	<u>\$ 2,102,355</u>

The discount rates for 2017 and 2016 were 2.2% and 1.9%, respectively.

People's Community Clinic
Notes to Financial Statements
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Note 7: Medical Malpractice Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing medical professionals covered under the Federal Tort Claims Act (FTCA) for damage for 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 to be determined without consideration to 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 December 31, 2017 and 2016. 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 material claim.

Note 8: Long-Term Debt

Long-term debt consists of the following at December 31, 2017 and 2016:

	2017	2016
Capital lease obligations (A)	\$ 124,777	\$ 170,322
Less current maturities	58,100	55,537
	\$ 66,677	\$ 114,785

(A) At varying rates of imputed interest from 2.83% to 11.31%, due through October 2022; collateralized by equipment. Equipment includes the following under capital lease:

	2017	2016
Equipment	\$ 259,133	\$ 254,335
Less accumulated depreciation	170,434	122,119
	\$ 88,699	\$ 132,216

People's Community Clinic
Notes to Financial Statements
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Aggregate annual payments on capital lease obligations at December 31, 2017, are:

2018	\$ 61,698
2019	61,988
2020	2,337
2021	2,337
2022	1,770
	<u>130,130</u>
Less amount representing interest	<u>5,353</u>
Present value of future minimum lease payments	124,777
Less current maturities	<u>58,100</u>
Noncurrent portion	<u><u>\$ 66,677</u></u>

Note 9: Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Capital and renovation projects	\$ 233,479	\$ 382,644
Behavioral health	302,790	294,835
Prenatal and parenting	466,134	424,292
Patient education	53,144	91,922
For periods after December 31	1,948,021	2,431,643
FIT tests	22,432	-
Dental services	35,563	-
Community partnerships	192,124	-
Excel training	1,082	-
Family planning	6,000	-
	<u>\$ 3,260,769</u>	<u>\$ 3,625,336</u>

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of capital and renovation projects, behavioral health, prenatal and parenting programs, health care services, patient education, FIT tests, dental services, community partnerships, family planning and excel training in the amounts of \$5,822,683 and \$18,735,181, respectively.

People's Community Clinic
Notes to Financial Statements
December 31, 2017 and 2016

Note 10: Retirement Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees. For each eligible participant, the Organization provides an employer contribution equal to the employee's contribution or 4% of the employee's annual salary, whichever is less. Retirement plan expense for the years ended December 31, 2017 and 2016, was \$273,058 and \$270,909, respectively.

Note 11: Functional Expenses

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

	2017	2016
Health care services	\$ 18,103,798	\$ 17,348,837
General and administrative	2,400,020	2,273,002
Fundraising	669,881	733,091
	\$ 21,173,699	\$ 20,354,930

Note 12: Related Party

People's Community Clinic Foundation (the "Foundation") was formed to assist the Organization with fundraising efforts. The Organization is the sole member of the Foundation. Separate financial statements are not prepared as no activity or account balances are recorded by the Foundation. All funds raised by the Foundation are reflected in the financial statements of the Organization.

Note 13: Significant Estimates and Concentrations

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

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Contribution Revenue

Approximately 60% and 67% of restricted contribution revenue received during the years ended December 31, 2017 and 2016, respectively, was received from one donor.

Grant Revenue

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

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*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 7*.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. Any changes to the *Affordable Care Act*, including the health insurance exchanges and Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Supplementary Information

People's Community Clinic
Schedule of Functional Expenses
Year Ended December 31, 2017

	Adult Health Services	Adolescent Health Services	Pediatric Health Services	Prenatal Health Services	Family Planning
Personnel	\$ 3,281,493	\$ 1,749,730	\$ 3,189,455	\$ 2,748,023	\$ 1,011,781
Staff development and travel	23,479	31,933	22,139	14,095	5,721
Contractual services	120,761	6,863	31,726	60,254	6,235
Laboratory/diagnostic	225,624	35,258	52,117	245,195	81,526
Pharmacy	129,406	1,326	1,519	4,722	386,421
Patient care and records	26,908	10,145	34,805	47,151	15,815
Facility and equipment	181,051	99,887	254,373	200,943	66,454
Administrative	74,808	47,542	79,856	53,671	17,542
Depreciation	199,766	109,918	277,743	162,330	47,923
Fundraising	-	1,289	7,308	-	-
Collaborations	91,569	12,341	31,182	18,225	5,380
In-kind expenses	40,523	250,268	749,393	-	-
(Gain)/loss on disposal	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 4,395,388</u>	<u>\$ 2,356,500</u>	<u>\$ 4,731,616</u>	<u>\$ 3,554,609</u>	<u>\$ 1,644,798</u>

Social Services	Total Program Services	General and Administrative	Fundraising Activities	Total
\$ 868,671	\$ 12,849,153	\$ 1,326,647	\$ 387,738	\$ 14,563,538
21,997	119,364	28,319	8,554	156,237
79,300	305,139	538,403	13,451	856,993
-	639,720	-	-	639,720
-	523,394	-	-	523,394
1,043	135,867	-	-	135,867
82,839	885,547	156,782	39,783	1,082,112
23,177	296,596	164,098	130,889	591,583
89,460	887,140	173,074	28,301	1,088,515
-	8,597	-	52,693	61,290
254,400	413,097	-	-	413,097
-	1,040,184	10,119	8,472	1,058,775
-	-	2,578	-	2,578
<u>\$ 1,420,887</u>	<u>\$ 18,103,798</u>	<u>\$ 2,400,020</u>	<u>\$ 669,881</u>	<u>\$ 21,173,699</u>

People's Community Clinic
Schedule of Functional Expenses
Year Ended December 31, 2016

	Adult Health Services	Adolescent Health Services	Pediatric Health Services	Prenatal Health Services	Family Planning
Personnel	\$ 3,120,629	\$ 1,366,870	\$ 2,798,999	\$ 2,642,449	\$ 959,974
Staff development and travel	20,592	14,241	21,782	13,265	7,871
Contractual services	106,692	19,893	26,757	103,043	9,393
Laboratory/diagnostic	202,037	55,034	50,719	227,676	74,507
Pharmacy	131,861	768	3,507	1,534	340,084
Patient care and records	88,427	23,240	88,180	91,908	30,771
Facility and equipment	317,666	173,148	463,365	265,138	62,708
Administrative	69,446	50,971	96,213	60,682	16,045
Depreciation	171,448	77,700	252,903	147,300	34,846
Fundraising	-	-	-	-	-
Collaborations	157,182	13,675	44,511	25,925	6,133
In-kind expenses	136,730	100,283	510,951	85,427	118,516
	<u>3,120,629</u>	<u>1,366,870</u>	<u>2,798,999</u>	<u>2,642,449</u>	<u>959,974</u>
Total expenses	<u>\$ 4,522,710</u>	<u>\$ 1,895,823</u>	<u>\$ 4,357,887</u>	<u>\$ 3,664,347</u>	<u>\$ 1,660,848</u>

	Social Services	Total Program Services	General and Administrative	Fundraising Activities	Total
\$	728,964	\$ 11,617,885	\$ 1,051,714	\$ 368,272	\$ 13,037,871
	8,604	86,355	26,485	10,821	123,661
	57,599	323,377	567,078	16,573	907,028
	-	609,973	-	-	609,973
	-	477,754	-	-	477,754
	2,625	325,151	-	-	325,151
	143,879	1,425,904	229,813	44,624	1,700,341
	28,106	321,463	154,546	150,549	626,558
	78,970	763,167	127,756	19,018	909,941
	-	-	-	77,236	77,236
	198,475	445,901	-	-	445,901
	-	951,907	115,610	45,998	1,113,515
	<u>\$ 1,247,222</u>	<u>\$ 17,348,837</u>	<u>\$ 2,273,002</u>	<u>\$ 733,091</u>	<u>\$ 20,354,930</u>