

People's Community Clinic

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020



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Independent Auditor's Report

Board of Directors
People's Community Clinic
Austin, Texas

Opinion

We have audited the financial statements of People's Community Clinic (the "Organization"), which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of People's Community Clinic as of December 31, 2021 and 2020, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

FORVIS,LLP

Springfield, Missouri
August 23, 2022

People's Community Clinic
Balance Sheets
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 10,106,510	\$ 11,431,239
Patient accounts receivable	1,833,407	1,847,559
Grants and other receivables	1,116,427	914,829
Contributions receivable – current	5,799,676	481,236
Supplies and inventory	349,698	360,195
Prepaid expenses and other	327,096	263,251
Total current assets	19,532,814	15,298,309
Investments	26,623	27,698
Property and Equipment, At Cost		
Land and land improvements	3,518,970	3,504,470
Buildings and leasehold improvements	13,606,454	13,506,968
Equipment	1,960,156	2,056,383
Construction in progress	-	25,250
	19,085,580	19,093,071
Less accumulated depreciation	7,448,311	6,458,829
	11,637,269	12,634,242
Contributions Receivable	14,622	22,726
Total assets	\$ 31,211,328	\$ 27,982,975

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current maturities of long-term debt	\$ 84,053	\$ 82,547
Accounts payable	323,825	460,660
Accrued expenses	1,140,172	1,014,192
Refundable advances	30,529	304,467
Deferred grant revenue	-	2,891,700
	<u>1,578,579</u>	<u>4,753,566</u>
Long-Term Debt	<u>84,187</u>	<u>168,250</u>
Total liabilities	<u>1,662,766</u>	<u>4,921,816</u>
Net Assets		
Without donor restrictions	24,196,155	21,723,015
With donor restrictions	<u>5,352,407</u>	<u>1,338,144</u>
	<u>29,548,562</u>	<u>23,061,159</u>
Total liabilities and net assets	<u>\$ 31,211,328</u>	<u>\$ 27,982,975</u>

People's Community Clinic
Statements of Operations
Years Ended December 31, 2021 and 2020

	2021	2020
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	\$ 17,560,638	\$ 14,391,186
Grant revenue	6,555,570	2,826,314
Contributions	9,256,025	7,200,193
Capitation revenue	-	136,512
Other	170,736	13,979
Net assets released from restrictions used for operations	1,106,041	3,565,239
Total revenues, gains, and other support without donor restrictions	34,649,010	28,133,423
Expenses and Losses		
Salaries and wages	18,567,207	17,690,413
Employee benefits	4,024,496	3,711,736
Purchased services and professional fees	1,510,988	1,204,558
Supplies and other	6,985,131	5,902,582
Depreciation	1,115,247	1,182,312
Interest	5,371	7,359
Loss on sale of property and equipment	50,335	-
Total expenses and losses	32,258,775	29,698,960
Operating Income (Loss)	2,390,235	(1,565,537)
Other Income		
Investment return, net	3,069	23,594
Total other income	3,069	23,594
Excess (Deficiency) of Revenues over Expenses	2,393,304	(1,541,943)
Net assets released from restriction used for purchase of property and equipment	79,836	63,594
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 2,473,140	\$ (1,478,349)

People's Community Clinic
Statements of Changes in Net Assets
Years Ended December 31, 2021 and 2020

	2021	2020
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ 2,393,304	\$ (1,541,943)
Net assets released from restriction used for purchase of property and equipment	79,836	63,594
Increase (decrease) in net assets without donor restrictions	2,473,140	(1,478,349)
Net Assets With Donor Restrictions		
Contributions received	5,200,140	707,394
Net assets released from restriction	(1,185,877)	(3,628,833)
Increase (decrease) in net assets with donor restrictions	4,014,263	(2,921,439)
Change in Net Assets	6,487,403	(4,399,788)
Net Assets, Beginning of Year	23,061,159	27,460,947
Net Assets, End of Year	\$ 29,548,562	\$ 23,061,159

People's Community Clinic
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 6,487,403	\$ (4,399,788)
Items not requiring (providing) operating cash flow		
Loss on sale of property and equipment	50,335	-
Depreciation	1,115,247	1,182,312
Forgiveness of Paycheck Protection Program loan	(2,891,700)	-
Proceeds from insurance recoveries	(127,504)	-
Changes in		
Patient accounts receivable	14,152	19,469
Contributions receivable	(5,318,920)	3,273,617
Grants and other receivables	(176,990)	(467,121)
Inventory and supplies	10,497	(67,329)
Accounts payable and accrued expenses	(10,855)	450,890
Refundable advances	(273,938)	304,467
Other current assets and liabilities	(63,845)	(53,057)
Proceeds from issuance of Paycheck Protection Program loan	-	2,891,700
	<u>(1,186,118)</u>	<u>3,135,160</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of investments	(5,967)	(64)
Proceeds from insurance recoveries for property and equipment	102,896	-
Purchase of property and equipment	(168,609)	(265,137)
Proceeds from disposition of investments	7,042	-
	<u>(64,638)</u>	<u>(265,201)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	8,584	4,333
Principal payments on long-term debt	(82,557)	(80,760)
	<u>(73,973)</u>	<u>(76,427)</u>
Net cash used in financing activities		
Increase (Decrease) in Cash and Cash Equivalents	(1,324,729)	2,793,532
Cash and Cash Equivalents, Beginning of Year	<u>11,431,239</u>	<u>8,637,707</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,106,510</u>	<u>\$ 11,431,239</u>
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 5,371	\$ 9,419

People's Community Clinic
Notes to Financial Statements
December 31, 2021 and 2020

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 original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted primarily of money market accounts with brokers under a sweep account agreement. The amounts advanced under these agreements are based on a minimum sweep point of \$250,000 and are subject to a written custodial agreement that explicitly recognizes the Organization’s interest. Amounts advanced under these agreements were approximately \$10,000,000 and \$11,600,000 at December 31, 2021 and 2020, respectively, and are included in cash and cash equivalents. At December 31, 2021, the Organization’s cash accounts exceeded federally insured limits by approximately \$70,000.

Debt Investments

Debt securities held by the Organization generally are classified and recorded in the financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

People's Community Clinic
Notes to Financial Statements
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Net Investment Return

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 expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable is due in full when billed.

No material bad debt expense has been recognized for the years ended December 31, 2021 and 2020.

Supplies

Supply 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 of \$5,000 or more are recorded at cost, less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated 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

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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 net assets without donor restrictions unless the 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.

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, 2021 and 2020.

Refund Liabilities

The consideration the Organization has received from patients for which it does not expect to be entitled to is recorded as a refund liability.

Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Patient Service Revenue

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policies, and implicit price concessions provided to uninsured patients.

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The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies, and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations by third-party payors.

Capitation Revenue

The Organization has agreements with another Texas not-for-profit organization to provide medical services to eligible participants. Under these agreements, the Organization receives monthly capitation payments based on the number of participants, regardless of the services actually performed by the Organization.

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 Resources 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.

Pharmacy revenue is recognized when prescriptions are provided to the patient. Reported pharmacy revenue consists of reimbursements from the network of participating pharmacies and is included in patient service revenue on the accompanying statement of operations. The drug replenishment costs and administrative and filling fees are included in supplies and other expense on the statement of operations. The net pharmacy revenue from this program is used in furtherance of the Organization’s mission. At December 31, 2021 and 2020, the Organization had contract pharmacy receivables of \$32,697 and \$78,826, respectively, which were included in grants and other receivables on the accompanying balance sheets.

Government Grants

Support funded by grants is generally considered a conditional contribution and recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreement. Grant agreements which are reimbursement for services provided are considered exchange transactions and recognized as patient service revenue which is recognized as the service is performed. 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, 2021 and 2020

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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 statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions. Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

People's Community Clinic

Notes to Financial Statements

December 31, 2021 and 2020

Professional Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are more fully described in *Note 8*.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives certain donated professional services and in-kind contributions of supplies and pharmaceuticals. 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 \$1,622,815 and \$1,306,274 are recorded for the years ended December 31, 2021 and 2020, respectively.

Income Taxes

The Organization is 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. The Organization files tax returns in the U.S. federal jurisdiction.

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).

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 general purpose of the grant is to provide expanded health care services in the Austin, Texas area. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as the Organization meets the conditions prescribed by the grant agreement, which requires incurring qualifying expenditures over the grant period. During the years ended December 31, 2021 and 2020, the Organization recognized \$1,917,424 and \$1,760,647 in HCP grant revenue, respectively. Funding for the grant year ending May 31, 2023, has been authorized at \$1,614,083.

People's Community Clinic

Notes to Financial Statements

December 31, 2021 and 2020

In July 2018, the Organization was awarded a \$337,400 grant from the U.S. Department of Health and Human Services under the Capital Assistance for Hurricane Response and Recovery Efforts. The grant is subject to specific terms and conditions that must be followed when utilizing the funding. Grant revenue was recognized, and grant funds were drawn down, as the Organization met the conditions prescribed by the grant agreement which required incurring qualifying expenditures over the grant period. During the years ended December 31, 2021 and 2020, the Organization recognized \$0 and \$137,486 in Capital Assistance for Hurricane Response and Recovery Efforts grant funds, respectively.

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 grant agreements and has been renewed on an annual basis.

Note 3: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased, some restrictions remain in place, and some state and local governments are reimposing certain restrictions due to increasing rates of COVID-19 cases.

The extent of the COVID-19 pandemic's adverse effect on the Organization's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Organization's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Organization cannot estimate the length or severity of the effect of the pandemic on the Organization's business.

People's Community Clinic

Notes to Financial Statements

December 31, 2021 and 2020

Provider Relief Fund

During the year ended December 31, 2021 and 2020, the Organization received \$0 and \$304,467, respectively, of distributions from the CARES Act Provider Relief Fund (collectively, the “Provider Relief Fund”). These distributions from the Provider Relief Fund are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Organization has elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as grant revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Organization’s revenues and expenses through year-end, the Organization recognized \$273,938 during the year ended December 31, 2021, related to the distributions from the Provider Relief Fund and these payments are recorded as grant revenue in the accompanying statement of operations. The Organization did not recognize any revenue during the year ended December 31, 2020. The unrecognized amount of distributions from the Provider Relief Fund is recorded as refundable advances in the accompanying balance sheets.

The Organization will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Organization’s revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Organization is unable to attest to or comply with current or future terms and conditions, the Organization’s ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Organization’s Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Paycheck Protection Program (PPP) Loan

The Organization received a PPP loan established by the CARES Act and has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605 – *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting full-time employee and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue.

In June 2021, the Organization received legal notice that the PPP loan was forgiven in its entirety. The Organization recognized revenue totaling \$2,891,700 for the year ended December 31, 2021, which is reported in grant revenue in the accompanying statements of operations. The Organization did not recognize revenue related to this program for the year ended December 31, 2020.

People's Community Clinic

Notes to Financial Statements

December 31, 2021 and 2020

Supplementary CARES Act and American Rescue Plan Act Grants

In the spring of 2020, the Organization was awarded three additional federal grant awards with various budget periods through April 2022 from the *Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act* totaling \$1,456,783. Each grant award contains specific terms and conditions that must be followed when utilizing this funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period. During the years ended December 31, 2021 and 2020, the Organization recognized \$557,226 and \$899,557 in CARES Act grant funds, respectively.

In March 2021, as part of the *American Rescue Plan Act (ARPA)*, the Organization was awarded a federal Health Center Program grant. This award includes a grant budget period from April 2021 through March 2023 and provides funding of \$5,086,500. The grant award has specific terms and conditions that must be followed when utilizing the funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period. Grant revenue related to capital expenditures charged to the grant is recorded as the asset is placed in service. During the year ended December 31, 2021, the Organization recognized \$915,279 in ARPA revenue. The Organization did not recognize any ARPA revenue during the year ended December 31, 2020.

In August 2021, as part of the *American Rescue Plan Act*, the Organization was awarded a federal capital infrastructure (ARPCAP) award. This award includes a grant budget period from September 2021 through September 2024 and provides funding of \$704,000. The grant award has specific terms and conditions that must be followed when utilizing the funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period. Grant revenue related to capital expenditures charged to the grant is recorded as the asset is placed in service. During the years ended December 31, 2021 and 2020, the Organization did not recognize ARPCAP revenue.

Note 4: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

People's Community Clinic

Notes to Financial Statements

December 31, 2021 and 2020

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in its clinics. The Organization measures the performance obligation from commencement of a service to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals) and the Organization does not believe it is required to provide additional goods related to the patient.

Transaction Price

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors and discounts provided to uninsured patients in accordance with the Organization's sliding fee discount program policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its sliding fee discount program policy, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients.

Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. Covered Federally Qualified Health Center (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 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. The encounter rate is updated annually based on the Medicare Economic Index (MEI).

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates and discounts from established charges.

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Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2021 and 2020.

Refund Liabilities

From time to time the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2021 and 2020, the Organization has a liability for refunds to third-party payors and patients recorded of approximately \$55,000 and \$120,000, respectively, which is included in accounts payable on the balance sheets.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the Public Health Service Act (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, sliding fee discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, patient service revenue decreased by approximately \$90,000 and \$175,000, respectively, due

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to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Revenue Composition

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines, and method of reimbursement.

For the years ended December 31, 2021 and 2020, the Organization recognized patient service revenue of \$17,319,978 and \$13,979,448, respectively, from services that transfer to the customer over time and \$240,660 and \$411,738, respectively, from goods and services that transfer to the customer at a point in time.

Contract Balances

The following table provides information about the Organization's receivables from contracts with customers:

	2021	2020
Accounts receivable, beginning of year	\$ 1,847,559	\$ 1,867,028
Accounts receivable, end of year	\$ 1,833,407	\$ 1,847,559

Financing Component

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payor pays for that service will be one year or less.

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Contract Costs

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

Note 5: 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 payor agreements. The mix of receivables from patients and third-party payors at December 31, 2021 and 2020, is:

	2021	2020
Medicare	2%	2%
Medicaid	63%	54%
Travis County Healthcare District	28%	35%
Other third-party payors	6%	5%
Patient responsibility	1%	4%
	100%	100%

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Note 6: Contributions Receivable

Contributions receivable at December 31, 2021 and 2020, consisted of the following:

	Without Donor Restrictions	2021 With Donor Restrictions	Total
Due within one year	\$ 250,000	\$ 5,549,676	\$ 5,799,676
Due in one to five years	-	15,000	15,000
	250,000	5,564,676	5,814,676
Less unamortized discount	-	378	378
	\$ 250,000	\$ 5,564,298	\$ 5,814,298
	Without Donor Restrictions	2020 With Donor Restrictions	Total
Due within one year	\$ 452,762	\$ 28,474	\$ 481,236
Due in one to five years	-	22,917	22,917
	452,762	51,391	504,153
Less unamortized discount	-	191	191
	\$ 452,762	\$ 51,200	\$ 503,962

The discount rate for 2021 and 2020 was 1.26 percent and 0.36 percent, respectively.

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Note 7: Conditional Grants and Contributions

The Organization has received the following conditional promises to give at December 31, 2021 and 2020, that are not recognized in the financial statements:

	2021	2020
Given upon incurring allowable expenditures under the agreement	\$ 7,927,902	\$ 4,825,302
Given upon meeting level of service requirements	193,787	-
	\$ 8,121,689	\$ 4,825,302

Note 8: 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 accrual has been made for medical malpractice costs for the years ended December 31, 2021 and 2020. 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 9: 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 percent of the employee's annual salary, whichever is less. Retirement plan expense for the years ended December 31, 2021 and 2020, was \$545,224 and \$509,529, respectively.

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Note 10: Long-Term Debt

	2021	2020
Capital lease obligations (A)	\$ 168,240	\$ 250,797
Less current maturities	84,053	82,547
	\$ 84,187	\$ 168,250

(A) At varying rates from 2.51 percent to 3.70 percent, due through December 2023; collateralized by equipment.

Equipment includes the following under capital lease:

	2021	2020
Equipment	\$ 412,622	\$ 412,622
Less accumulated depreciation	250,183	167,658
	\$ 162,439	\$ 244,964

Aggregate annual payments on capital lease obligations at December 31, 2021, are:

2022	\$ 87,330
2023	85,337
	172,667
Less amount representing interest	4,427
Present value of future minimum lease payments	168,240
Less current maturities	84,053
Noncurrent portion	\$ 84,187

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Note 11: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

	2021	2020
Subject to expenditure for specified purpose		
Capital and renovation projects	\$ 34,290	\$ 115,365
At home visiting	222,079	-
Telehealth	20,134	-
Patient education	6,872	4,772
FIT tests and cancer screening	-	10,483
Dental services	381,877	14,180
Community centered health home	298,076	127,162
Prenatal, pediatric, and adolescent services	371,102	268,689
Early childhood development	440,889	82,866
Value based care	9,689	151,856
Social determinants of health	57,536	108,069
COVID-19	-	148,473
Other health and wellness initiatives	436,885	210,377
Safety net grant	2,968,356	-
Community housing and population health	60,000	-
	<u>5,307,785</u>	<u>1,242,292</u>
Subject to the passage of time		
For periods after December 31	19,622	70,852
Not subject to appropriation or expenditure	<u>25,000</u>	<u>25,000</u>
	<u><u>\$ 5,352,407</u></u>	<u><u>\$ 1,338,144</u></u>

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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors.

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished		
Capital and renovation projects	\$ 79,836	\$ 63,594
Behavioral health	-	13,604
COVID-19	148,473	-
Prenatal and parenting	-	302,492
Patient education	-	3,862
FIT tests and cancer screening	10,483	12,356
Dental services	14,180	371,093
Community centered health home	127,162	155,146
Prenatal, pediatric, and adolescent services	267,763	-
Early childhood development	82,866	284,223
Value based care	142,167	320,975
Social determinants of health	108,069	95,487
Safety net grant	-	1,684,637
Other health and wellness initiatives	153,648	263,864
	<u>1,134,647</u>	<u>3,571,333</u>
Expiration of time restrictions	<u>51,230</u>	<u>57,500</u>
Total restrictions released	<u>\$ 1,185,877</u>	<u>\$ 3,628,833</u>

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Note 12: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2021 and 2020, comprise the following:

	2021	2020
Financial assets		
Cash and cash equivalents	\$ 10,106,510	\$ 11,431,239
Investments	26,623	27,698
Patient accounts receivable	1,833,407	1,847,559
Grants and other receivables	1,116,427	914,829
Contributions receivable	5,814,298	503,962
	<u>18,897,265</u>	<u>14,725,287</u>
Less amounts not available to be used within one year		
Long-term investments	26,623	27,698
Contributions receivable	14,622	22,726
	<u>41,245</u>	<u>50,424</u>
Financial assets not available to be used within one year		
	<u>41,245</u>	<u>50,424</u>
Financial assets available to meet general expenditures within one year	<u>\$ 18,856,020</u>	<u>\$ 14,674,863</u>

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.

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Note 13: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative, and fundraising functional expense classifications based on various methods. The following schedules present the natural classification of expenses by function as follows:

	2021								Support Services		Total
	Health Care Program Services								General and Administrative	Fundraising Activities	
	Adult Health Services	Adolescent Health Services	Pediatric Health Services	Prenatal Health Services	Family Planning	Dental	OB Delivery Group	Social Services			
Personnel	\$6,008,484	\$ 2,922,126	\$4,299,584	\$3,724,899	\$ 1,192,964	\$ 423,800	\$ 247,847	\$1,475,155	\$ 1,800,332	\$ 496,512	\$22,591,703
Staff development and travel	35,888	6,572	11,163	11,206	4,239	2,151	-	37,194	20,488	2,578	131,479
Contractual services	150,353	5,103	89,272	85,893	1,801	-	-	91,054	992,386	95,126	1,510,988
Laboratory/diagnostic	282,961	114,336	149,506	186,984	61,848	-	-	(12)	-	-	795,623
Pharmacy	373,748	904	1,353	4,915	360,624	9	6	33	-	-	741,592
Patient care and records	94,622	30,173	77,537	70,197	24,798	46,328	293	4,842	-	964	349,754
Facility and equipment	307,196	149,883	239,091	266,447	86,411	30,345	4,365	76,747	871,286	33,127	2,064,898
Administrative	76,840	40,538	60,770	45,963	15,415	7,612	1,059	16,571	233,128	50,149	548,045
Depreciation	298,704	145,066	213,438	184,890	59,214	21,036	12,302	73,244	79,573	27,780	1,115,247
Fundraising	22,905	12,168	189,614	14,034	4,495	1,597	934	25,559	32	30,315	301,653
Collaborations	29,547	14,350	21,113	18,289	5,857	2,907	1,217	341,263	-	-	434,543
In-kind expenses	116,670	182,349	1,305,506	9,569	475	-	-	-	7,220	1,126	1,622,915
(Gain)/loss on disposal	8,184	3,974	5,847	19,199	6,149	576	1,277	2,006	2,448	675	50,335
Total expenses	\$7,806,102	\$ 3,627,542	\$6,663,794	\$4,642,485	\$ 1,824,290	\$ 536,361	\$ 269,300	\$2,143,656	\$ 4,006,893	\$ 738,352	\$32,258,775

	2020								Support Services		Total
	Health Care Program Services								General and Administrative	Fundraising Activities	
	Adult Health Services	Adolescent Health Services	Pediatric Health Services	Prenatal Health Services	Family Planning	Dental	OB Delivery Group	Social Services			
Personnel	\$5,557,523	\$ 2,757,932	\$4,094,747	\$3,511,088	\$ 1,137,867	\$ 422,891	\$ 96,330	\$1,313,831	\$ 2,041,224	\$ 468,716	\$21,402,149
Staff development and travel	24,873	10,970	12,434	19,510	6,718	2,778	-	7,552	29,040	7,963	121,838
Contractual services	100,647	11,560	42,789	92,752	4,980	1,125	254	76,325	800,081	74,045	1,204,558
Laboratory/diagnostic	230,134	65,536	78,469	214,312	70,552	1	(1)	(2)	-	(5)	658,996
Pharmacy	182,432	1,504	22,548	3,624	305,199	36	8	113	-	-	515,464
Patient care and records	81,605	22,753	79,970	39,848	12,724	54,561	19	1,307	95	(681)	292,201
Facility and equipment	256,948	144,774	202,741	215,525	71,383	44,685	1,519	69,204	623,451	35,943	1,666,173
Administrative	69,176	37,337	52,603	45,336	14,562	5,600	520	12,515	178,973	45,789	462,411
Depreciation	309,511	152,911	225,510	195,258	62,867	23,283	5,304	72,335	106,088	29,245	1,182,312
Fundraising	10,223	5,025	182,033	2,077	670	222	51	691	-	28,214	229,206
Collaborations	98,284	48,556	71,609	62,003	19,963	7,393	1,684	349,720	-	14	659,226
In-kind expenses	151,375	149,468	955,316	9,636	1,569	-	-	-	25,062	12,000	1,304,426
(Gain)/loss on disposal	-	-	-	-	-	-	-	-	-	-	-
Total expenses	\$7,072,731	\$ 3,408,326	\$6,020,769	\$4,410,969	\$ 1,709,054	\$ 562,575	\$ 105,688	\$1,903,591	\$ 3,804,014	\$ 701,243	\$29,698,960

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Note 14: 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 are reflected in the financial statements of the Organization.

Note 15: 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:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 1 and 4*.

Contribution Revenue

Approximately 52 percent of contribution revenue received during the years ended December 31, 2021 and 2020, was received from one donor.

Grant Revenue

Concentration of revenues related to grant awards and other support is described in *Notes 2 and 3*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 8*.

Note 16: Subsequent Events

In 2022, the Organization began a dental expansion project with an estimated cost of approximately \$1,000,000. The project is being funded in part by approximately \$700,000 from the ARPCAP grant with the remaining balance being funded through a capital campaign and cash on hand. The project is expected to be completed in November 2022.

Subsequent events have been evaluated through August 23, 2022, which is the date the financial statements were available to be issued.

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Note 17: Future Change in Accounting Principle

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, 2021. 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.