

People's Community Clinic

**Independent Auditor's Report
and Financial Statements**

December 31, 2022 and 2021



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, 2022 and 2021, 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 financial statements present fairly, in all material respects, the financial position of People's Community Clinic as of December 31, 2022 and 2021, 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.

Emphasis of Matters

As described in *Note 1* to the financial statements, in 2022, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

As described in *Note 18* to the financial statements, in 2022, the Organization adopted ASU 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

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
September 8, 2023

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People's Community Clinic
Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash and cash equivalents	\$ 5,885,801	\$ 10,106,510
Short-term investments	1,012,119	-
Patient accounts receivable	2,267,908	1,833,407
Grants and other receivables	692,625	1,116,427
Contributions receivable – current	6,102,665	5,799,676
Supplies and inventory	369,617	349,698
Prepaid expenses and other	396,617	327,096
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Total current assets	16,727,352	19,532,814
	<hr/>	<hr/>
Investments	3,059,923	26,623
	<hr/>	<hr/>
Property and Equipment, At Cost		
Land and land improvements	3,518,970	3,518,970
Buildings and leasehold improvements	14,471,753	13,606,454
Equipment	1,987,801	1,960,156
Construction in progress	15,424	-
	<hr/>	<hr/>
	19,993,948	19,085,580
Less accumulated depreciation	8,506,664	7,448,311
	<hr/>	<hr/>
	11,487,284	11,637,269
	<hr/>	<hr/>
Other Assets		
Right-of-use assets - finance leases	80,365	-
Contributions receivable	187,357	14,622
	<hr/>	<hr/>
	267,722	14,622
	<hr/>	<hr/>
Total assets	<u>\$ 31,542,281</u>	<u>\$ 31,211,328</u>

Liabilities and Net Assets

	2022	2021
Current Liabilities		
Current maturities of long-term debt	\$ -	\$ 84,053
Current lease liabilities - finance leases	84,445	-
Accounts payable	420,752	323,825
Accrued expenses	1,628,960	1,140,172
Refundable advances	-	30,529
	<hr/>	<hr/>
Total current liabilities	2,134,157	1,578,579
Long-Term Debt	<hr/>	<hr/>
	-	84,187
Total liabilities	<hr/>	<hr/>
	2,134,157	1,662,766
Net Assets		
Without donor restrictions	23,338,132	24,196,155
With donor restrictions	6,069,992	5,352,407
	<hr/>	<hr/>
Total net assets	29,408,124	29,548,562
Total liabilities and net assets	<hr/>	<hr/>
	\$ 31,542,281	\$ 31,211,328
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People's Community Clinic
Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021 (Adjusted - Note 1)
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	\$ 19,406,709	\$ 17,560,638
Grant revenue	3,661,779	6,555,570
Contributions of cash and other financial assets	3,201,540	7,633,210
Contributions of nonfinancial assets	1,927,481	1,622,815
Other	11,551	170,736
Net assets released from restrictions used for operations	4,737,644	1,106,041
	32,946,704	34,649,010
Expenses and Losses		
Salaries and wages	19,736,070	18,567,207
Employee benefits	4,489,035	4,024,496
Purchased services and professional fees	1,803,000	1,510,988
Supplies and other	7,566,909	6,985,131
Depreciation	1,069,036	1,115,247
Interest	3,279	5,371
Loss on sale of property and equipment	4,138	50,335
	34,671,467	32,258,775
Operating Income (Loss)	(1,724,763)	2,390,235
Other Income		
Investment return, net	138,471	3,069
	138,471	3,069
Excess (Deficiency) of Revenues over Expenses	(1,586,292)	2,393,304
Grants of or for acquisition of property and equipment	704,000	-
Net assets released from restriction used for purchase of property and equipment	24,269	79,836
	728,269	79,836
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ (858,023)	\$ 2,473,140

People's Community Clinic
Statements of Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ (1,586,292)	\$ 2,393,304
Grant of or for acquisition of property and equipment	704,000	-
Net assets released from restriction used for purchase of property and equipment	24,269	79,836
Increase (decrease) in net assets without donor restrictions	(858,023)	2,473,140
Net Assets With Donor Restrictions		
Contributions received	5,479,498	5,200,140
Net assets released from restriction	(4,761,913)	(1,185,877)
Increase in net assets with donor restrictions	717,585	4,014,263
Change in Net Assets	(140,438)	6,487,403
Net Assets, Beginning of Year	29,548,562	23,061,159
Net Assets, End of Year	\$ 29,408,124	\$ 29,548,562

People's Community Clinic
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ (140,438)	\$ 6,487,403
Items not requiring (providing) operating cash flow		
Loss on sale of property and equipment	4,138	50,335
Depreciation	1,069,036	1,115,247
Forgiveness of Paycheck Protection Program loan	-	(2,891,700)
Proceeds from insurance recoveries	-	(127,504)
Contributions of or for acquisition of property and equipment	(575,000)	-
Grants of or for acquisition of property and equipment	(704,000)	-
Net realized and unrealized gains on held-to-maturity securities	(45,419)	-
Changes in		
Patient accounts receivable	(434,501)	14,152
Contributions receivable	24,276	(5,318,920)
Grants and other receivables	456,169	(176,990)
Inventory and supplies	(19,919)	10,497
Accounts payable and accrued expenses	515,166	(10,855)
Refundable advances	(30,529)	(273,938)
Other current assets and liabilities	(69,521)	(63,845)
Net cash provided by (used in) operating activities	49,458	(1,186,118)
Investing Activities		
Purchase of investments	(4,000,000)	(5,967)
Proceeds from insurance recoveries for property and equipment	-	102,896
Purchase of property and equipment	(933,005)	(168,609)
Proceeds from disposition of investments	-	7,042
Net cash used in investing activities	(4,933,005)	(64,638)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	75,000	8,584
Proceeds from grants for acquisition of property and equipment	671,633	-
Principal payments on long-term debt	-	(82,557)
Principal payments on finance lease liabilities	(83,795)	-
Net cash provided by (used in) financing activities	662,838	(73,973)
Decrease in Cash and Cash Equivalents	(4,220,709)	(1,324,729)
Cash and Cash Equivalents, Beginning of Year	10,106,510	11,431,239
Cash and Cash Equivalents, End of Year	\$ 5,885,801	\$ 10,106,510
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 3,279	\$ 5,371
Accounts payable incurred for property and equipment	\$ 70,549	\$ -

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

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. The Organization considers uninvested cash in investment accounts to cash and cash equivalents. At December 31, 2022 and 2021, 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 \$5,150,000 and \$10,000,000 at December 31, 2022 and 2021, respectively, and are included in cash and cash equivalents. At December 31, 2022, the Organization’s cash accounts exceeded federally insured limits by approximately \$10,000.

Debt Investments

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

Classified as	Description	Recorded at
Held to maturity (HTM)	Certain debt securities that management has the positive intent and ability to hold to maturity	Amortized cost
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

People's Community Clinic
Notes to Financial Statements
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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.

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, 2022 and 2021.

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 finance 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

People's Community Clinic
Notes to Financial Statements
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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, 2022 and 2021.

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.

People's Community Clinic

Notes to Financial Statements

December 31, 2022 and 2021

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.

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.

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, 2022 and 2021, the Organization had contract pharmacy receivables of \$67,667 and \$32,697, 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, 2022 and 2021

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, 2022 and 2021

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*.

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).

Change in Accounting Principle

In 2022, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* on a retroactive basis. ASU 2020-07 requires contributed financial assets to be presented separately from contributions of cash or other financial assets in the statements of operations and disclosures within the notes to the financial statements about the valuation methodology for, use of, and donor-imposed restrictions associated with contributed nonfinancial assets. Adoption of ASU 2020-07 had no impact on the previously reported total changes in net assets.

The changes made to our statements of operations for the adoption of this standard were as follows:

	December 31, 2021		
	As		
	As Adjusted	Previously Reported	Effect of Change
Statements of Operations			
Contributions	\$ -	\$ 9,256,025	\$ (9,256,025)
Contributions of cash and other financial assets	7,633,210	-	7,633,210
Contributed nonfinancial assets	1,622,815	-	1,622,815

People's Community Clinic

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021, the Organization recognized \$1,842,479 and \$1,917,424 in HCP grant revenue, respectively. Funding for the grant years ending May 31, 2024 and 2023, has been authorized at \$1,879,156 and \$1,614,083, 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 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.

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.

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.

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, 2022.

People's Community Clinic

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021, the Organization recognized \$0 and \$557,226 in CARES Act grant funds, respectively. As of December 31, 2021, this entire award has been recognized.

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. In April 2023, the Organization was granted a one-year extension to the period of performance, through March 2024. 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, 2022 and 2021, the Organization recognized \$1,711,608 and \$915,279 in ARPA revenue, respectively. Additional funding on this award of \$65,500 was received during the year ended December 31, 2022.

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, 2022 and 2021, the Organization recognized \$704,000 and \$0 in ARPCAP revenue, respectively.

Expanding COVID-19 Vaccination Award

In December 2022, as part of the *Paycheck Protection Program and Health Care Enhancement Act, Public Health and Social Services Fund (P.L. 116-139)*, the Organization was awarded a federal grant award for the purpose of expanding COVID-19 vaccination (ECV) for \$229,063 for a budget period of December 2022 through May 2023. The 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 agreement which required incurring qualifying expenditures over the grant period. During the years ended December 31, 2022 and 2021, the Organization did not recognize ECV revenue.

People's Community Clinic

Notes to Financial Statements

December 31, 2022 and 2021

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.

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.

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Notes to Financial Statements

December 31, 2022 and 2021

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.

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 2022 and 2021.

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, 2022 and 2021, the Organization has a liability for refunds to third-party payors and patients recorded of approximately \$455,000 and \$55,000, respectively, which is included in accrued expenses on the balance sheets.

People's Community Clinic

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021, patient service revenue decreased by approximately \$80,000 and \$90,000, respectively, due 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, 2022 and 2021, the Organization recognized patient service revenue of \$19,108,386 and \$17,319,978, respectively, from services that transfer to the customer over time and \$298,323 and \$240,660, respectively, from goods and services that transfer to the customer at a point in time.

People's Community Clinic
Notes to Financial Statements
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Contract Balances

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

	2022	2021
Accounts receivable, beginning of year	\$ 1,833,407	\$ 1,847,559
Accounts receivable, end of year	\$ 2,267,908	\$ 1,833,407

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.

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, 2022 and 2021, is:

	2022	2021
Medicare	3%	2%
Medicaid	56%	63%
Travis County Healthcare District	35%	28%
Other third-party payors	5%	6%
Patient responsibility	1%	1%
	100%	100%

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

Note 6: Contributions Receivable

Contributions receivable at December 31, 2022 and 2021, consisted of the following:

	Without Donor Restrictions	2022 With Donor Restrictions	Total
Due within one year	\$ 250,000	\$ 5,852,665	\$ 6,102,665
Due in one to five years	-	187,357	187,357
	<u>\$ 250,000</u>	<u>\$ 6,040,022</u>	<u>\$ 6,290,022</u>
	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
	<u>250,000</u>	<u>5,564,676</u>	<u>5,814,676</u>
Less unamortized discount	-	378	378
	<u>\$ 250,000</u>	<u>\$ 5,564,298</u>	<u>\$ 5,814,298</u>

The discount rate for 2021 was 1.26 percent. The 2022 receivable was not discounted.

Note 7: Conditional Grants and Contributions

The Organization has received the following conditional promises to give at December 31, 2022 and 2021, that are not recognized in the financial statements:

	2022	2021
Given upon incurring allowable expenditures under the agreement	\$ 5,331,449	\$ 7,927,902
Given upon meeting level of service requirements	995,244	193,787
	<u>\$ 6,326,693</u>	<u>\$ 8,121,689</u>

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

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, 2022 and 2021. 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: Investments and Investment Return

Other Investments

Other investments, at December 31, 2022 and 2021, include:

	2022	2021
Certificates of deposit	\$ 24,317	\$ 26,623
U.S. Treasury obligations	4,047,725	-
	4,072,042	26,623
Less long-term investments	3,059,923	26,623
Short-term investments	\$ 1,012,119	\$ -

Debt securities are classified as held-to-maturity based on the Organization's positive intent to hold the underlying securities to maturity. As a result, these securities are measured at amortized cost.

People's Community Clinic
Notes to Financial Statements
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Investment Return

Total investment return comprised of the following:

	2022	2021
Interest and dividend income	\$ 93,052	\$ 3,069
Net realized and unrealized gains on held-to-maturity securities	45,419	-
	\$ 138,471	\$ 3,069

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 percent of the employee's annual salary, whichever is less. Retirement plan expense for the years ended December 31, 2022 and 2021, was \$582,022 and \$545,224, respectively.

Note 11: Long-Term Debt

	2022	2021
Capital lease obligations (A)	\$ -	\$ 168,240
Less current maturities	-	84,053
	\$ -	\$ 84,187

(A) At varying rates from 2.51 percent to 3.70 percent, due through December 2023; collateralized by equipment. These capital lease obligations, as of January 1, 2022, were reclassified to finance lease liabilities (*Note 18*).

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

Note 12: 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:

	2022	2021
Subject to expenditure for specified purpose		
Capital and renovation projects	\$ 510,020	\$ 34,290
At home visiting	405,288	222,079
Telehealth	-	20,134
Patient education	4,735	6,872
Dental services	301,262	381,877
Community centered health home	98,867	298,076
Prenatal, pediatric, and adolescent services	977,485	371,102
Early childhood development	435,823	440,889
Value based care	-	9,689
Social determinants of health	-	57,536
Other health and wellness initiatives	693,512	436,885
Safety net grant	2,543,356	2,968,356
Community housing and population health	60,000	60,000
	<u>6,030,348</u>	<u>5,307,785</u>
Subject to the passage of time		
For periods after December 31	14,644	19,622
Not subject to appropriation or expenditure	<u>25,000</u>	<u>25,000</u>
	<u><u>\$ 6,069,992</u></u>	<u><u>\$ 5,352,407</u></u>

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

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.

	2022	2021
Purpose restrictions accomplished		
Capital and renovation projects	\$ 24,269	\$ 79,836
Telehealth	20,134	-
COVID-19	-	148,473
Parenting and prenatal	301,958	-
Patient education	164	-
FIT tests and cancer screening	-	10,483
Dental services	225,872	14,180
Community centered health home	199,209	127,162
Prenatal, pediatric, and adolescent services	-	267,763
At home visiting	143,329	-
Early childhood development	392,817	82,866
Value based care	9,689	142,167
Social determinants of health	57,536	108,069
Safety net grant	2,968,356	-
Other health and wellness initiatives	413,580	153,648
	<u>4,756,913</u>	<u>1,134,647</u>
Expiration of time restrictions	<u>5,000</u>	<u>51,230</u>
Total restrictions released	<u>\$ 4,761,913</u>	<u>\$ 1,185,877</u>

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

Note 13: 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, 2022 and 2021, comprise the following:

	2022	2021
Financial assets at year-end		
Cash and cash equivalents	\$ 5,885,801	\$ 10,106,510
Investments	4,072,042	26,623
Patient accounts receivable	2,267,908	1,833,407
Grants and other receivables	692,625	1,116,427
Contributions receivable	6,290,022	5,814,298
Total financial assets	19,208,398	18,897,265
Less amounts not available to be used within one year		
Long-term investments	3,059,923	26,623
Contributions receivable	187,357	14,622
Financial assets not available to be used within one year	3,247,280	41,245
Financial assets available to meet general expenditures within one year	\$ 15,961,118	\$ 18,856,020

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.

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

Note 14: 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:

	2022										Total
	Health Care Program Services						Support Services				
	Adult Health Services	Adolescent Health Services	Pediatric Health Services	Prenatal Health Services	Family Planning	OB Delivery Group	Social Services	General and Administrative	Fundraising Activities		
Personnel	\$ 6,822,964	\$ 3,033,245	\$ 4,622,729	\$ 3,823,838	\$ 1,273,489	\$ 592,704	\$ 250,832	\$ 1,613,611	\$ 1,609,085	\$ 582,608	\$ 24,225,105
Staff development and travel	47,209	20,528	27,389	27,684	8,384	2,462	-	40,024	43,853	6,358	223,891
Contractual services	270,675	36,240	6,625	89,748	8,309	74	-	115,827	1,185,591	89,911	1,803,000
Laboratory/diagnostic	292,196	125,813	157,864	169,789	56,260	-	-	-	-	-	801,922
Pharmacy	337,180	47,677	85,628	64,184	357,512	-	-	-	-	-	892,181
Patient care and records	136,876	43,307	97,900	94,226	31,926	80,819	18	2,781	-	-	487,853
Facility and equipment	338,247	154,684	258,959	354,022	121,089	76,737	-	77,169	454,734	37,606	1,873,247
Administrative	87,159	43,061	83,550	68,518	23,363	20,286	503	17,989	229,097	89,123	662,649
Depreciation	212,214	103,766	171,621	233,821	77,579	114,903	-	52,227	76,276	26,629	1,069,036
Fundraising	37,079	15,662	176,492	11,194	3,782	868	596	9,499	-	23,322	278,494
Collaborations	14,081	13,450	42,350	19,169	6,551	1,468	1,110	372,777	-	-	470,956
In-kind expenses	228,776	133,400	1,421,173	15,895	18,260	61,491	-	-	-	-	1,878,995
Loss on disposal	1,282	570	868	718	239	111	47	303	-	-	4,138
Total expenses	\$ 8,825,938	\$ 3,771,403	\$ 7,153,148	\$ 4,972,806	\$ 1,986,743	\$ 951,923	\$ 253,106	\$ 2,302,207	\$ 3,598,636	\$ 855,557	\$ 34,671,467

	2021										Total
	Health Care Program Services						Support Services				
	Adult Health Services	Adolescent Health Services	Pediatric Health Services	Prenatal Health Services	Family Planning	OB Delivery Group	Social Services	General and Administrative	Fundraising Activities		
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
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

People's Community Clinic
Notes to Financial Statements
December 31, 2022 and 2021

Note 15: 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 16: Contributed Nonfinancial Assets

For the years ending December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statement of operations included:

	2022	2021
Design services	\$ 61,491	\$ 1,974
Medical supplies	7,417	10,045
Miscellaneous goods and services	10,143	6,664
Vaccines	1,848,430	1,604,132
	\$ 1,927,481	\$ 1,622,815

The nonfinancial assets listed above were recognized within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed vaccines, pharmaceuticals, and supplies were restricted by donors to use on patients. The Organization used the donors' pricing to approximate wholesale prices in the United States when determining the basis for valuing contributed vaccines, pharmaceuticals, and supplies.

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

Note 17: 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:

People's Community Clinic

Notes to Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021, 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 18: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Organization adopted ASC 842 on January 1, 2022 (the effective date), using the comparatives approach under ASC 840 transition method, which applies ASC 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Organization elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. The Organization has lease agreements with nonlease components that relate to the lease component. The Organization has not elected the practical expedient that allows for the calculation of right-of-use assets and lease liabilities to include both lease and non-lease components. Also, the Organization has elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Organization did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

People's Community Clinic

Notes to Financial Statements

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The Organization had no operating leases in place during 2022 or 2021. Accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect our statements of operations or cash flows.

The effect of the changes made to our balance sheets for the adoption of this standard was as follows:

	December 31, 2021 As Reported	Adjustment on January 1, 2022	January 1, 2022 As Adjusted
Assets			
Net property and equipment (A)	\$ 11,637,269	\$ (162,440)	\$ 11,474,829
Right-of-use assets - finance leases (A)	-	162,440	162,440
Liabilities			
Current portion of finance lease liabilities (B)	-	84,053	84,053
Current maturities of long-term debt (B)	84,053	(84,053)	(168,106)
Long-term finance lease liabilities (B)	-	84,187	84,187
Long-term debt (B)	84,187	(84,187)	(168,374)

(A) The adjustment represents the reclassification of capital lease equipment to right-of-use assets – finance leases.

(B) The adjustment represents the reclassification of finance lease liabilities out of long-term debt for current and long-term liabilities.

Accounting Policies

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date. Incremental borrowing rates used to determine the present value of lease payments are derived by reference to the Organization's expected rate to debt finance a comparable asset acquisition.

The Organization does not combine lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments.

People's Community Clinic
Notes to Financial Statements
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The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Organization has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of equipment. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

All Leases

The Organization has no material related-party leases. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended December 31, 2022 is as follows:

Lease cost

Finance lease cost	
Amortization of right-of-use assets	\$ 82,075
Interest on lease liabilities	3,279
	\$ 85,354
Total lease cost	\$ 85,354

Other information

Cash paid for amount included in the measurement of lease liabilities

Operating cash flows from finance leases	\$ 85,354
Financing cash flows from financing leases	83,795
Weighted average remaining lease term	
Finance leases	1 year
Weighted average discount rate	
Finance leases	2.51%

People's Community Clinic
Notes to Financial Statements
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Future minimum lease payments and reconciliation to the balance sheet at December 31, 2022, are as follows:

	Finance Leases
2023	\$ 85,596
Total future undiscounted lease payments	85,596
Less imputed interest	1,151
Lease liabilities	\$ 84,445

Note 19: Subsequent Events

The Organization entered into a master services agreement as of January 2023, to implement a new practice management system. The Organization estimates implementation costs to be approximately \$1,500,000 and the implementation project began in January 2023 with an expected completion date of January 2024. The commitment will be met using grant funding and cash on hand.

In July 2023, the Organization was awarded a federal Community Project Funding grant. This award includes a grant budget period from July 2023 through July 2024 and provides funding of \$850,000. The grant award has specific terms and conditions that must be followed when utilizing the funding.

Subsequent events have been evaluated through September 8, 2023, which is the date the financial statements were available to be issued.