

PUEBLO COMMUNITY HEALTH CENTER, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2019 AND 2018

PUEBLO COMMUNITY HEALTH CENTER, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pueblo Community Health Center, Inc.
Pueblo, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Pueblo Community Health Center, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2019 and 2018 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors
Pueblo Community Health Center, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pueblo Community Health Center, Inc. as of December 31, 2019 and 2018, and the 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.

Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 and Note 3 to the financial statements, Pueblo Community Health Center, Inc. adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2014-09, *Revenue from Contracts with Customers*. The new accounting standard clarifies how revenue is to be recognized and requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Our opinion is not modified with respect to that matter.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2020, on our consideration of Pueblo Community Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pueblo Community Health Center, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pueblo Community Health Center, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Denver, Colorado
May 13, 2020

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 18,371,358	\$ 18,573,563
Certificates of Deposit	490,688	1,486,521
Receivables:		
Patient Receivables	2,441,523	3,241,547
Grants Receivable	827,999	761,803
Other Receivables	307,248	482,933
Prepaid Expenses	233,301	199,942
Escrow Deposit	18,747	18,747
Inventory	74,937	65,890
Total Current Assets	22,765,801	24,830,946
PROPERTY AND EQUIPMENT, NET	15,551,349	13,007,378
BENEFICIAL INTEREST IN FOUNDATION	1,159,397	935,247
Total Assets	\$ 39,476,547	\$ 38,773,571
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 248,549	\$ 364,771
Accrued Expenses and Other Liabilities	2,125,326	2,238,010
Total Current Liabilities	2,373,875	2,602,781
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Net Assets without Donor Restrictions	35,943,275	35,235,543
Net Assets with Donor Restrictions	1,159,397	935,247
Total Net Assets	37,102,672	36,170,790
Total Liabilities and Net Assets	\$ 39,476,547	\$ 38,773,571

See accompanying Notes to Financial Statements.

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES AND OTHER SUPPORT		
Patient Service Revenue	\$ 21,183,891	\$ 22,892,742
Pharmacy Revenue	4,205,213	4,088,308
Federal Grant Funds	5,551,243	5,037,735
State and Other Grants	1,868,847	1,798,115
In-Kind Contributions	19,500	18,088
Private Contributions	100	9,100
Other Revenue	178,457	426,245
Interest Income	360,709	277,917
Loss on Disposal of Property and Equipment	(4,340)	-
Total Revenues and Other Support	33,363,620	34,548,250
EXPENSES		
Program Expenses - Health Care Services		
Medical and Nursing	16,937,038	15,017,718
Behavioral Health	1,681,270	1,751,808
Dental	1,772,178	1,694,637
Clinical Support	2,765,208	3,675,740
Pharmacy	2,354,505	2,305,283
Integrated Care	1,061,063	934,312
Supporting Expenses - General and Administrative	6,084,626	5,251,632
Total Expenses	32,655,888	30,631,130
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	707,732	3,917,120
NET ASSETS WITH DONOR RESTRICTIONS		
Change in Beneficial Interest in Foundation	224,150	23,680
Increase in Net Assets with Donor Restrictions	224,150	23,680
INCREASE IN NET ASSETS	931,882	3,940,800
Net Assets - Beginning of Year	36,170,790	32,229,990
NET ASSETS - END OF YEAR	\$ 37,102,672	\$ 36,170,790

See accompanying Notes to Financial Statements.

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Medical and Nursing Services	Behavioral Health Services	Dental Services	Clinical Support	Pharmacy Services	Integrated Care Services	Total Program Expenses	General and Administrative	2019 Total
Salaries and Wages	\$ 11,124,662	\$ 1,250,460	\$ 1,103,018	\$ 1,993,687	\$ 1,038,729	\$ 772,117	\$ 17,282,673	\$ 3,081,670	\$ 20,364,343
Payroll Taxes	813,949	92,017	90,465	154,079	-	59,236	1,209,746	233,388	1,443,134
Employee Benefits	1,331,831	148,588	107,286	284,004	-	118,599	1,990,308	703,376	2,693,684
Total Personnel	13,270,442	1,491,065	1,300,769	2,431,770	1,038,729	949,952	20,482,727	4,018,434	24,501,161
Pharmaceuticals	-	-	-	-	1,000,671	-	1,000,671	-	1,000,671
Supplies and Equipment:									
Clinical Supplies	342,935	4,535	124,789	8,691	15,717	70	496,737	1,086	497,823
Equipment and Maintenance	308,688	22,841	37,377	102,560	4,299	34,213	509,978	127,964	637,942
Office Supplies	15,795	3,215	334	9,909	3,084	1,490	33,827	46,708	80,535
Vaccines/Pharmaceuticals	999,454	-	1,615	-	10	-	1,001,079	-	1,001,079
Postage	6,310	256	147	3,433	8	1,827	11,981	12,387	24,368
Printing	15,257	1,690	128	17,743	-	1,066	35,884	11,746	47,630
In-Kind Subsidy	-	-	-	-	19,500	-	19,500	-	19,500
Purchased Patient Services:									
Contractual Services - Patient Care	417,843	-	969	-	-	-	418,812	-	418,812
Lab Tests	16,321	-	7,303	-	-	-	23,624	4,136	27,760
Radiology	57,203	-	-	-	-	-	57,203	-	57,203
Referrals	31,780	-	138,236	-	-	-	170,016	-	170,016
Translation Services	28,573	8,801	90	-	-	-	37,464	2,131	39,595
Technology:									
Communications	88,112	11,408	3,563	26,057	8,210	9,520	146,870	66,343	213,213
Software Licenses and Maintenance	140,848	1,792	10,418	14	8,709	-	161,781	148,229	310,010
Technology Support	256,637	42,850	27,797	-	11,898	-	339,182	210,909	550,091
Occupancy	331,217	34,186	35,769	27,531	26,101	36,308	491,112	178,368	669,480
Administrative:									
Employee Development and Recognition	47,839	1,398	655	3,288	298	2,139	55,617	76,994	132,611
Recruitment and Screening Costs	33,290	1,962	768	-	-	-	36,020	54,180	90,200
Advertising and Public Relations	-	250	-	35	-	-	285	100,803	101,088
Audit Fees	-	-	-	2,550	550	-	3,100	85,996	89,096
Conferences and Meetings	46,166	9,690	1,948	25,463	-	692	83,959	75,861	159,820
Continuing Education	46,089	9,968	8,523	-	-	-	64,580	1,854	66,434
Contractual Services - Other	-	-	-	36,641	148,939	-	185,580	163,654	349,234
Dues and Licenses	54,690	7,920	7,568	85	2,427	-	72,690	104,539	177,229
Legal Fees	-	-	-	-	-	-	-	48,622	48,622
Liability Insurance	27,868	-	-	-	-	-	27,868	41,477	69,345
Local Mileage	33,217	1,314	-	8,511	-	206	43,248	8,016	51,264
Patient Transport	441	459	-	2,405	-	1,375	4,680	-	4,680
Professional Services	12,282	-	-	1,419	-	-	13,701	78,489	92,190
Other	-	-	-	4,626	5,700	-	10,326	17,631	27,957
Depreciation	307,741	25,670	63,412	52,477	59,655	22,205	531,160	261,693	792,853
Foundation - In-Kind and Donation	-	-	-	-	-	-	-	96,073	96,073
Property and Other Taxes	-	-	-	-	-	-	-	23,487	23,487
Other	-	-	-	-	-	-	-	16,816	16,816
Total Expenses	<u>\$ 16,937,038</u>	<u>\$ 1,681,270</u>	<u>\$ 1,772,178</u>	<u>\$ 2,765,208</u>	<u>\$ 2,354,505</u>	<u>\$ 1,061,063</u>	<u>\$ 26,571,262</u>	<u>\$ 6,084,626</u>	<u>\$ 32,655,888</u>

See accompanying Notes to Financial Statements.

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Medical and Nursing Services	Behavioral Health Services	Dental Services	Clinical Support	Pharmacy Services	Integrated Care Services	Total Program Expenses	General and Administrative	2018 Total
Salaries and Wages	\$ 9,491,460	\$ 1,216,588	\$ 1,058,700	\$ 2,646,941	\$ 950,286	\$ 694,826	\$ 16,058,801	\$ 2,467,237	\$ 18,526,038
Payroll Taxes	699,487	88,891	79,753	196,194	-	55,334	1,119,659	193,303	1,312,962
Employee Benefits	1,304,453	153,775	114,909	448,741	-	117,956	2,139,834	511,683	2,651,517
Total Personnel	11,495,400	1,459,254	1,253,362	3,291,876	950,286	868,116	19,318,294	3,172,223	22,490,517
Pharmaceuticals	-	-	1,025	-	1,003,604	-	1,004,629	-	1,004,629
Supplies and Equipment:									
Clinical Supplies	250,431	2,461	130,811	23,440	11,403	-	418,546	85	418,631
Equipment and Maintenance	205,256	55,768	50,921	42,406	66,855	17,911	439,117	51,131	490,248
Office Supplies	10,710	2,721	347	29,762	7,802	1,533	52,875	35,843	88,718
Vaccines/Pharmaceuticals	975,440	-	-	-	-	-	975,440	-	975,440
Postage	1,158	66	21	6,406	54	245	7,950	13,966	21,916
Printing	8,583	2,113	219	21,651	-	1,410	33,976	11,165	45,141
In-Kind Subsidy	-	-	1,942	-	16,146	-	18,088	-	18,088
Purchased Patient Services:									
Contractual Services - Patient Care	448,214	7,316	1,180	8,173	108	-	464,991	30	465,021
Lab Tests	23,534	-	14,233	-	-	-	37,767	3,200	40,967
Radiology	77,774	-	-	-	-	-	77,774	-	77,774
Referrals	28,545	-	86,025	-	-	-	114,570	-	114,570
Technology:									
Communications	81,335	10,427	9,956	35,612	8,529	9,017	154,876	48,747	203,623
Software Licenses and Maintenance	139,174	51,208	13,943	1,500	2,343	-	208,168	251,912	460,080
Technology Support	384,397	42,517	39,763	26,994	18,703	-	512,374	95,726	608,100
Occupancy	333,724	35,250	11,490	42,187	22,175	32,906	477,732	174,724	652,456
Administrative:									
Employee Development and Recognition	23,435	1,133	567	3,457	391	1,899	30,882	91,692	122,574
Recruitment and Screening Costs	42,567	1,179	1,169	99	-	-	45,014	59,793	104,807
Advertising and Public Relations	-	301	-	260	-	259	820	93,440	94,260
Audit Fees	-	-	-	-	550	-	550	43,406	43,956
Conferences and Meetings	33,479	7,281	2,039	30,915	2,701	646	77,061	73,499	150,560
Continuing Education	36,383	13,882	9,179	-	-	-	59,444	5,782	65,226
Contractual Services - Other	228	-	-	43,196	145,264	-	188,688	168,922	357,610
Dues and Licenses	44,478	4,634	5,249	397	1,925	-	56,683	105,255	161,938
Legal Fees	6,450	-	-	-	-	-	6,450	79,532	85,982
Liability Insurance	35,193	-	-	-	-	-	35,193	41,264	76,457
Local Mileage	30,917	1,163	-	9,673	-	89	41,842	6,021	47,863
Patient Transport	904	75	-	3,419	-	281	4,679	-	4,679
Professional Services	11,761	-	-	-	-	-	11,761	124,559	136,320
Other	-	-	-	63	-	-	63	3,433	3,496
Depreciation	288,127	53,059	61,196	54,254	42,086	-	498,722	397,689	896,411
Foundation - In-Kind and Donation	-	-	-	-	-	-	-	79,739	79,739
Property and Other Taxes	121	-	-	-	-	-	121	1,846	1,967
Other	-	-	-	-	4,358	-	4,358	17,008	21,366
Total Expenses	\$ 15,017,718	\$ 1,751,808	\$ 1,694,637	\$ 3,675,740	\$ 2,305,283	\$ 934,312	\$ 25,379,498	\$ 5,251,632	\$ 30,631,130

See accompanying Notes to Financial Statements.

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 931,882	\$ 3,940,800
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	792,853	896,411
Change in Beneficial Interest in Foundation	(224,150)	(23,680)
Loss on Disposal of Property and Equipment	4,340	-
Changes in Assets and Liabilities:		
Patient Receivables	800,024	(824,511)
Grants Receivable	(66,196)	34,155
Other Receivables	175,685	(218,378)
Prepaid Expenses	(33,359)	(4,593)
Escrow Deposit	-	(7,879)
Inventory	(9,047)	(188)
Accounts Payable	(174,722)	(57,617)
Accrued Expenses and Other Liabilities	(112,684)	280,783
Net Cash Provided by Operating Activities	2,084,626	4,015,303
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(3,282,664)	(661,279)
Purchases (Sales) of Certificates of Deposit	995,833	(72,608)
Net Cash Used by Investing Activities	(2,286,831)	(733,887)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(202,205)	3,281,416
 Cash and Cash Equivalents - Beginning of Year	18,573,563	15,292,147
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 18,371,358	\$ 18,573,563
 SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
In-Kind Contributions	\$ 19,500	\$ 18,088
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Construction in Progress Included in Accounts Payable	\$ 58,500	\$ -

See accompanying Notes to Financial Statements.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pueblo Community Health Center, Inc. (the Organization), is a nonprofit, community-led, Federally Qualified Health Center (FQHC) system dedicated to providing comprehensive, integrated health care for all. The Organization's mission is to provide high quality, integrated primary medical, behavioral, and dental health care in the communities it serves, with special consideration for the medically underserved, regardless of ability to pay.

Sites where services were provided in Pueblo, Colorado include the main clinic at 300 Colorado Avenue; Pharmacy and Registration at 110 E. Routt; Park Hill Clinic and Pharmacy at 1302 E. 5th Street; O'Rourke Dental Clinic at 2030 Lake Avenue; Avondale Clinic at 328 Avondale Boulevard; Grand Avenue Clinic at 1008 Grand Avenue; six school-based wellness centers; and an OB clinic, located in Walsenburg, Colorado.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated endowment or other purposes. At December 31, 2019 and 2018, the governing board has not made this designation.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed 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 donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. At December 31, 2019 and 2018, no donor-imposed restrictions were perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor restriction or by law. Expirations of donor restrictions on assets are reported as transfers between the applicable classes of net assets. Contributions with externally imposed restrictions that are met in the same year as received are reported as revenues and other support of the net asset without donor restriction class.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and short-term investments with an original maturity of three months or less from the date of purchase. The Organization may, from time to time, have deposits in financial institutions that exceed FDIC insurance limits.

Certificates of Deposit

All certificates of deposit with an original maturity over 90 days when purchased are included in certificates of deposit on the statements of financial position.

Patient Accounts Receivable

Patient accounts receivable are uncollateralized patient and third-party obligations. Patient accounts receivable are stated at the estimated transaction price determined by contracted rates and historical collection experience from its patient fees, Medicaid, Medicare, and other insurances. Payments of accounts receivable are applied to the specific invoices identified on the patient's or third-party's remittance advice or, if unspecified, to the earliest unpaid invoices. There is no interest charged on unpaid accounts.

The Organization continuously monitors the expected realization of its billings and estimates contractual adjustments to provide for differences, as well as providing for allowances for uncollectible accounts. If there is a deterioration of a patient's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Organization could be adversely affected. The Organization attempts to collect payment for services at time of service. Third-party and outstanding patient balances are billed no less than monthly and due upon receipt of statement or claim submitted. Patient accounts balances are recorded at the estimated transaction price based on the historical collection experience of the Organization.

Inventory

Inventory is comprised of pharmaceuticals. Inventory is stated at the lower of cost or net realizable value, using the first-in, first-out method.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Land, buildings, furniture, fixtures, and equipment are recorded at cost or, if donated, at the fair market value at the date of donation. Repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized over the shorter of the useful life or lease term. Depreciation is provided using the straight-line method over the following estimated lives:

Buildings	20 - 40 Years
Improvements	5 - 20 Years
Furniture, Fixtures, and Equipment	3 - 7 Years

Individual items of property and equipment with a cost of (or fair value of contributed items) of \$5,000 or more and a useful life of more than a year when purchased are capitalized.

The federal government, through the U.S. Department of Health and Human Services, has granted and recorded a reversionary interest in the Organization's property located at 110 E. Routt Avenue. This reversionary interest establishes certain notification and approval requirements prior to disposal of assets.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets as of December 31, 2019 and 2018.

Beneficial Interest in Foundation

The Organization's beneficial interest in the net assets of the Pueblo Community Health Center Foundation, Inc. (the Foundation) and its share of the change in those net assets are reported in the financial statements as net assets with donor restrictions. There were no donor restrictions that are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity, recorded as of December 31, 2019 and 2018.

Transfers the Organization receives from the Foundation are reported in the financial statements as a reduction in the beneficial interest in the Foundation.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, discounted charges, and enhancements. Patient service revenue is reported at the estimated transaction price from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors as final settlements are determined.

For uninsured patients that do not qualify for charity care, the Organization recognizes patient service revenue on the basis of its standard rates for services provided. A significant portion of the Organization's uninsured patient may be unable or unwilling to pay for the services provided. Thus, the Organization records implicit price concessions related to uninsured patients based on historical payment rates in the period services are provided.

Sliding Fee Adjustments (Charity Care)

The Organization has a policy of providing care to uninsured patients who meet certain criteria under its policy at amounts less than its established rates, or without charge. However, all patients are requested to pay a minimum fee for each visit, although no patient is denied services because of inability to pay. Since management does not expect payment for this care, the services that are discounted from the established rates are excluded from patient service revenue. During the years ended December 31, 2019 and 2018, the Organization provided approximately \$7,431,000 and \$5,069,000, respectively, of discounted services under this policy based on gross charges.

Grant Revenue

The Organization receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. The Organization administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred by not yet reimbursed are reported as grant receivables. Amounts received but not yet earned are reported as deferred revenue.

Contributions

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, then net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

In-Kind Contributions

Donated materials are valued at their estimated fair market value as of the date of the contribution.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pharmacy Services

The Organization's pharmacy is operated under a management agreement with Cardinal Health 109, Inc., and is limited in its use to the Organization's patients with prescriptions written by the Organization's physicians. The pharmacy inventory, accounts receivable, and equipment are owned by the Organization.

In addition, the Organization has contracted with Walgreens to manage and dispense medications pursuant to the Organization's 340B Drug Program.

Patients who meet criteria set by pharmaceutical manufacturers may receive medications through a manufacturer patient assistance program administered for the Organization by the pharmacy department personnel. The value of these free medications has been reflected in the financial statements as In-Kind Contributions.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2019 and 2018 was \$101,088 and \$94,259, respectively.

Performance Indicator

The statements of activities and changes in net assets include an increase in net assets without donor restrictions (the performance indicator) in which the Organization includes all revenues and expenses that are an integral part of its programs and supporting activities. Changes in net assets with donor restrictions such as the change in beneficial interest in the Foundation are excluded from the performance indicator.

Tax Exempt Status

The Organization has previously received notice of exemption of income tax from the Internal Revenue Service under Section 501(c)(3) of the federal Internal Revenue Code (IRC). The Organization is not a private foundation, and contributions to the Organization qualify as charitable tax deductions by the contributor.

The Organization follows the accounting standards regarding the recognition and measurement of uncertain tax provisions. The implementation of the accounting standards regarding uncertain tax provisions had no impact on the Organization's financial statements.

The Organization is not aware of any activities that would jeopardize its tax-exempt status or aware of any activities that are subject to tax on unrelated business income or excise or other taxes.

Expense Allocations

The costs of providing various programs have been summarized on a functional basis in the statements of activities and changes in net assets. Whenever feasible, expenses are charged directly to the appropriate program. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Organization adopted accounting standards regarding the fair value measurement of financial assets and liabilities. Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. The Organization values the beneficial interest in the Foundation using Level 3 inputs.

New Accounting Pronouncements – ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). ASU 2014-09's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Organization adopted ASU 2014-09 on January 1, 2019 as described in Note 3 – Patient Service Revenue.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements – ASU 2014-09 (Continued)

ASU 2014-09 requires organizations to exercise more judgment and recognize revenue using a five-step process. The Organization adopted the requirements of the new guidance as of January 1, 2019, utilizing the full retrospective method of transition. Adoption of the new guidance resulted in changes to the accounting policies for revenue recognition, trade and other receivables, contract costs, contract liabilities, and deferred costs as detailed below. The Organization applied the new guidance using the following practical expedients which are provided in Topic 606: completed contracts that began and ended in the same year were not restated; the actual, rather than estimated, consideration was used to determine the transaction price; and the amount of the transaction price allocated to the remaining performance obligations and details of when the Organization expects to recognize that amount as revenue for 2018 was not disclosed. The effects of applying these shortcuts were not significant to the financial statements.

As a result of certain changes required by ASU 2014-09, the Organization's bad debt expense is recorded as a direct reduction to patient service revenue instead of being presented as a separate line item on the statements of activities and changes in net assets. The adoption of ASU 2014-09 has no impact on the Organization's accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustments. The adoption of ASU 2014-09 did not have a significant impact on the Organization's statements of activities and changes in net assets. The impact of adopting ASU 2014-09 on the statements of activities and changes in net assets for the year ended December 31, 2018 was as follows:

	<u>As Reported</u>	<u>Prior to Adopting ASU 2014-09</u>
Patient Service Revenue	\$ 22,892,742	\$ 23,117,587
Bad Debt Expense	-	(224,845)
Patient Service Revenue	<u>\$ 22,892,742</u>	<u>\$ 22,892,742</u>

The Organization evaluated the nature, amount, timing and uncertainty of revenue and cash flows using the five-step process provided within ASU 2014-09.

Revenue is primarily derived from services rendered to patients for outpatient medical, dental, and behavioral health care visits. The services provided by the Organization have no fixed duration and can be terminated by the patient or the Organization at any time, and therefore, each visit is its own stand-alone contract.

**PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements – ASU 2018-08

In June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The financial statements reflect the application of ASU 2018-08 beginning January 1, 2018. The new guidance does not require prior period results to be restated. The implementation of this standard did not significantly impact the Organization's financial statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through, May 13, 2020, the date the financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

As of December 31, 2019 and 2018, the Organization has a working capital balance of \$20,391,926 and \$22,228,165, respectively. The Organization had days cash on hand (based on normal expenditures) of 216 and 244 as of December 31, 2019 and 2018, respectively.

The following table represents financial assets available for general expenditures within one year on December 31:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 18,371,358	\$ 18,573,563
Certificates of Deposit	490,688	1,486,521
Receivables:		
Patient Receivables	2,441,523	3,241,547
Grants Receivable	827,999	761,803
Other Receivables	307,248	482,933
Total Financial Assets	<u>\$ 22,438,816</u>	<u>\$ 24,546,367</u>

As part of the Organization's liquidity management plan, cash in excess of daily requirements are invested in accounts with federally insured financial institutions, such as certificates of deposit or money market funds, and U.S. federal government backed securities.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 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. Revenue is recognized as performance obligations are satisfied.

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 expected (or 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 our clinic locations. The Organization measures the performance obligation from the commencement of an outpatient 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 outpatient services.

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 policy, and/or implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

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

Services rendered to Medicare program beneficiaries are paid at established federal qualified health center (FQHC) enhancement rates, no matter the level or amount of services provided to the beneficiary. For each visit provided to a Medicare program beneficiary, the Organization is paid 80% of the established FQHC rate, with the beneficiary being responsible for the remaining 20% as co-insurance or, alternatively, the remaining 20% is billed to Medicaid for qualifying patients (dual eligible). The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the CMS Medicare Administration Contractor (MAC).

Medicaid

Services rendered to Medicaid program beneficiaries were reimbursed on the Alternative Payment Methodology.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 PATIENT SERVICE REVIEW (CONTINUED)

Other

The Organization has also entered into payment agreements with other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

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 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 (that is, new information becomes available), 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 2019 or 2018.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, 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, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional patient service revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the years ended December 31, 2019 and 2018.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 PATIENT SERVICE REVIEW (CONTINUED)

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 (for example, 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.

Patients who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as patient service revenue.

The Organization has determined that the nature, amount, timing and uncertainty of patient service revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service
- Method of reimbursement (fee for service or capitation)
- Organization's line of business that provided the service (for example, medical, dental, behavioral health, etc.)

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 that the patient or a third-party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 PROPERTY AND EQUIPMENT, NET

The cost and accumulated depreciation of property and equipment were as follows as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,615,306	\$ 2,095,616
Buildings	8,823,719	9,064,657
Improvements	8,736,213	7,359,007
Furniture, Fixtures, and Equipment	3,488,868	3,467,252
Construction in Progress	565,344	-
Total	<u>25,229,450</u>	<u>21,986,532</u>
Less: Accumulated Depreciation	<u>(9,678,101)</u>	<u>(8,979,154)</u>
Total Property and Equipment, Net	<u>\$ 15,551,349</u>	<u>\$ 13,007,378</u>

Construction in progress at December 31, 2019 consists of costs associated with the future East Side Clinic expansion. The project is currently in the design phase and no agreements have been finalized with a general contractor. The expected cost of the project is currently unknown, but it is expected to be funded through a combination of cash, a potential debt issuance, and a potential capital campaign. The expected completion date for the construction of the East Side Clinic has yet been determined.

NOTE 5 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK

Government Funding

Approximately 76% and 79% of the Organization's total revenues and other support for the years ended December 31, 2019 and 2018, respectively, was generated from either government sponsored health programs or government funded grant programs. The programs are dependent upon continued funding from these government agencies and the legislative acts that impact the programs.

NOTE 5 SIGNIFICANT CONCENTRATIONS AND CREDIT RISK (CONTINUED)

Net Patient Receivables

The Organization also grants credit without collateral to its patients, most of who are local residents and some of who are insured under third-party payor agreements. The mix of patient receivables from patients and third-party payors as of December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicaid	50 %	46 %
Medicare	11	19
Commercial Insurance	27	17
Public Insurance	2	1
Patients	10	17
Total	<u>100 %</u>	<u>100 %</u>

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 RELATED PARTY TRANSACTIONS

During the years ended December 31, 2019 and 2018, the Organization made cash contributions of \$27,000 to the Foundation, which is an IRC 501(c)3 entity. The Foundation was formed to assist in fundraising for the Organization. The Organization also provided in-kind services of \$69,073 and \$52,739 during the years ended December 31, 2019 and 2018, respectively.

Pueblo Community Health Center Foundation, Inc.

The Foundation's net assets without donor restrictions, which represent the Foundation's unrestricted resources, are used for internal operation and administration and to the benefit of the Organization at the discretion of the Foundation's board of directors.

A summary of the Foundation's assets, liabilities, and results of operations and changes in net assets as of December 31 follows:

	2019	2018
Assets	<u>\$ 1,160,811</u>	<u>\$ 936,393</u>
Liabilities	\$ 1,414	\$ 1,146
Net Assets	<u>1,159,397</u>	<u>935,247</u>
Total Liabilities and Net Assets	<u>\$ 1,160,811</u>	<u>\$ 936,393</u>
Revenues	\$ 312,500	\$ 97,098
Expenses	88,350	73,418
Excess of Revenues over Expenses	<u>\$ 224,150</u>	<u>\$ 23,680</u>

NOTE 7 RETIREMENT PLAN

The Organization provides a 403(b) defined contributions plan (the Plan) and is the administrator for the Plan. The Plan's investments are held by TIAA-CREF as the custodian. The Plan requires the Organization to make a nonelective contribution of 3% of eligible participant's annual eligible pre-tax compensation. The Organization may also make discretionary contributions to match deferral contributions made by participants. The amount contributed by the Organization were \$795,970 and \$721,739 for the years ended December 31, 2019 and 2018, respectively.

The Organization maintains a 457(b) deferred compensation plan covering key employees. Under the terms of the plan, each participant is eligible to make elective deferrals up to the maximum amount permitted by law and the Organization may make nonelective contributions as approved by the board of directors. For the years ended December 31, 2019 and 2018 the Organization did not contribute to this plan.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 8 SELF-FUNDED HEALTH INSURANCE PLAN

The Organization's became self-funded for health insurance on January 1, 2019. Under the Plan, the Organization accrues the estimated expense of health care costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on prior experience. An accrual for such costs of approximately \$89,000 is included in the accompanying statements of financial position as of December 31, 2019 in accrued expenses and other liabilities. Claims payments based on actual claims ultimately filed could differ from these estimates. Claims are limited to \$45,000 per individual in a year. Any claims above these amounts are covered by an excess loss insurance policy.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Medical Malpractice Insurance Coverage

The Organization is covered under the provision of the Federal Tort Claims Act (FTCA) for malpractice insurance. The FTCA is a government-funded program which allows community health centers and other qualified providers to be covered for malpractice.

Grants

The Organization has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit by the grantor may become a liability of the Organization. Such amounts will be recognized in the period they become known.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third-parties. This coverage has not changed significantly from the previous year.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and therefore, no estimate of loss, if any, is determinable.

Unemployment Insurance

The Organization uses a reimbursement method of payment for Colorado unemployment insurance. This payment requires the issuance of a letter of credit in the amount of \$93,030 to the Colorado Department of Labor and Employment which expired February 21, 2020. As of December 31, 2019, no funds had been advanced against the letter of credit. The letter of credit was renewed subsequent to year-end in the amount of \$47,551 and has an expiration date of January 27, 2022.

NOTE 10 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following tables present the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Beneficial Interest in Foundation	\$ -	\$ -	\$ 1,159,397	\$ 1,159,397

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Beneficial Interest in Foundation	\$ -	\$ -	\$ 935,247	\$ 935,247

The following table provides a summary of changes to fair value of the Organization's Level 3 financial assets for the years ended December 31:

	2019	2018
Beginning Balance	\$ 935,247	\$ 911,567
Change in Value	224,150	23,680
Ending Balance	\$ 1,159,397	\$ 935,247

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 11 SUBSEQUENT EVENT

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of healthcare personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2019.

On March 19, 2020, the Organization was awarded \$70,588 from the U.S. Department of Health and Human Services to provide supplemental funding related to the Covid-19 pandemic. The Organization can use these funds to support preventing, preparing for, and responding to Covid-19.

On April 3, 2020, the Organization received funding in the amount of \$977,390 from Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Organization can use these funds to support the detection of Covid-19 and/or prevention, diagnosis, and treatment of Covid-19, including maintaining or increasing health center capacity and staffing levels during the Covid-19 public health emergency as outlined in the CARES Act.

On April 10, 2020, the Organization received funding in the amount of \$59,250 from the U.S. Department of Health and Human Services Ryan White HIV/AIDS Program Part C Covid-19 Response program. The Organization can use these funds to prevent, prepare for, and respond to Covid-19.

In April 2020, the Organization received funding in the amount of \$462,277 from CARES Act Provider Relief Fund. The Organization can use these funds to prevent, prepare for, and respond to Covid-19, and shall reimburse the Organization for health care related expenses or lost revenues that are attributable to Covid-19.

On May 6, 2020, the Organization received funding in the amount of \$309,760 from Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Organization can use these funds to support the detection of Covid-19 and/or prevention, diagnosis, and treatment of Covid-19, including maintaining or increasing health center capacity and staffing levels during the Covid-19 public health emergency as outlined in the CARES Act.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Pueblo Community Health Center, Inc.
Pueblo, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pueblo Community Health Center, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Pueblo Community Health Center, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Pueblo Community Health Center, Inc.’s internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pueblo Community Health Center, Inc.’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Denver, Colorado
May 13, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Pueblo Community Health Center, Inc.
Pueblo, Colorado

Report on Compliance for Each Major Federal Program

We have audited Pueblo Community Health Center, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2019. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Pueblo Community Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters

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

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to auditing procedures applied in the audit compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Board of Directors
Pueblo Community Health Center, Inc.

Pueblo Community Health Center, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Pueblo Community Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Denver, Colorado
May 13, 2020

**PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? X yes _____ no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes _____ no

Identification of Major Federal Programs

CFDA Number(s)

93.224
93.527

Name of Federal Program or Cluster

Health Center Program
Grants for New and Expanded Services Under Health Center Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ yes X no

Section II – Financial Statement Findings

There were no findings noted.

**PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs

2019-001: SPECIAL TESTS

Federal Agency: U.S. Department of Health and Human Services
Program Title: Consolidated Health Centers and Affordable Care Act (ACA)
Grants for New and Expanded Services
CFDA Number: 93.224 and 93.527
Award Number: H80CS00692-18-06
Award Period: June 1, 2018 to May 31, 2019 and June 1, 2019 to May 31, 2020
Type of Finding: Material Weakness in Internal Control Over Compliance and Compliance

Condition

During testing, it was noted that the Organization did not have adequate internal controls designed to ensure the proper sliding fee discount was calculated and applied to a patient's account.

Criteria

As required by 42 United States Code (USC) Part 254, the Organization must prepare and maintain a schedule of fees or payments for the program income provision of its services with a discount schedule applied according to the patient's ability to pay as determined by the Department of Health and Human Services official poverty guidelines. The Organization should have internal controls designed to ensure compliance with that provision.

Effect

The Organization's application of the sliding fee discounts could inadvertently under or over charge eligible patients.

Cause

The Organization's processes and policies are inconsistently applied due to human error.

Context

Three of the sixty-eight sliding fee patients selected for testing had a sliding fee that was miscalculated. Also, we noted one of the sixty-eight patients selected for testing was missing the sliding fee application so we were not able to determine that the correct sliding fee discount was applied to the patient's account.

Questioned Costs

None.

Recommendation

We recommend the Organization review policies and processes for providing sliding fee adjustments to patients and provide additional training. We would also recommend the Organization consider the review of patient sliding fee eligibility as part of the Organization's ongoing quality control monitoring.

**PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019-001: SPECIAL TESTS (CONTINUED)

Management's Response

The Organization uses an application document that has input fields for income and household size to automatically calculate the Federal Poverty Level (FPL) and determine the appropriate Sliding Fee Scale (SFS) discount. Two of the errors were due to the Enrollment Representative (ER) documenting the correct FPL but the ER selected an incorrect discount class rating that did not correspond to the FPL. The PCHC Board of Directors recently approved a change to the SFS scale that simplified and reduced the total number of discount classes which should help reduce the administrative complexity. Additionally, the application file was updated to automatically populate the correct classification rating based on the calculated FPL, the field which contains the rating is noneditable. This application file is updated in the form of a template and posted on a shared drive for each ER. The ER is unable to save a copy to their personal computer ensuring current versions are used. The other error was the result of the application not being located.

The Organization employs a robust quality control process which includes internal audits of registration activities for accuracy and completeness. Outreach & Enrollment Management has implemented the reviewing of 100% of the applications. The applications are reviewed for documentation completeness based on the requirements of the program, accuracy of calculations, correct SFS application, and correct entry into the Electronic Payment System. The results of these audits are discussed with the ER and performance improvement plans are developed as appropriate.

Management implemented a new process in which the applications are scanned as soon as the application review is completed. The ER is notified the application has been scanned into the record and the ER verifies the scan. The ER signs off that scan is present and a good scan.

Management will retrain the ERs regarding accurate completion of the applications for eligible SFS discount. Management will train the ERs on the new scanning and verification process.

Section IV – Prior Year Findings

2018-001: SPECIAL TESTS

Federal Agency: U.S. Department of Health and Human Services
Program Title: Consolidated Health Centers and Affordable Care Act (ACA)
Grants for New and Expanded Services
CFDA Number: 93.224 and 93.527
Award Period: June 1, 2017 to May 31, 2018 and June 1, 2018 to May 31, 2019
Type of Finding: Significant Deficiency in Internal Control Over Compliance and Compliance

It was noted during test that the Organization did not have adequate internal controls designed to ensure the proper sliding fee discount was calculated and applied to a patient's account.

Status: Not Implemented. See finding 2019-001

**PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency/ Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Direct Programs:</u>			
Health Center Cluster			
* Health Center Program, Grants for New and Expanded Services	93.224 & 93.527	H08CS00692	\$ 5,397,936
Ryan White Title III Early Intervention Services for HIV Disease	93.918	H76HA00825	<u>133,807</u>
Subtotal of U.S. Department of Health and Human Services Direct Programs			5,531,743
Pass-Through Program From:			
State of Colorado, University of Colorado State Innovation Model	93.624	PO 1000874435	<u>19,500</u>
Subtotal of U.S. Department of Health and Human Services Pass-Through Programs			<u>19,500</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,551,243</u></u>

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

This note is included to meet the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requirement that the schedule of expenditures of federal awards (the Schedule) include notes that describe the significant accounting policies used in preparing the Schedule. The accompanying schedule is prepared on the accrual basis of accounting and includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. The Organization has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

* - Major federal program



Pueblo
Community
Health Center

U.S. Department of Health and Human Services

Pueblo Community Health Center, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2019.

Audit period: January 1, 2019 through December 31, 2019

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

U.S. Department of Health and Human Services

2019-001 Consolidated Health Centers Grant – CFDA No. 93.224 and 93.527

Recommendation: Our auditors recommended the Organization take measures to ensure that appropriate sliding fee rates/categories are used for each sliding fee encounter.

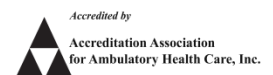
Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: The Organization uses an application document that has input fields for income and household size to automatically calculate the Federal Poverty Level (FPL) and determine the appropriate Sliding Fee Scale (SFS) discount. Two of the errors were due to the Enrollment Representative (ER) documenting the correct FPL but the ER selected an incorrect discount class rating that did not correspond to the FPL. The PCHC Board of Directors recently approved a change to the SFS scale that simplified and reduced the total number of discount classes which should help reduce the administrative complexity. Additionally, the application file was updated to automatically populate the correct classification rating based on the calculated FPL, the field which contains the rating is noneditable. This application file is updated in the form of a template and posted on a shared drive for each ER. The ER is unable to save a copy to their personal computer ensuring current versions are used. The other error was the result of the application not being located.

The Organization employs a robust quality control process which includes internal audits of registration activities for accuracy and completeness. Outreach & Enrollment Management has implemented the reviewing of 100% of the applications. The applications are reviewed for documentation completeness based on the



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requirements of the program, accuracy of calculations, correct SFS application, and correct entry into the Electronic Payment System. The results of these audits are discussed with the ER and performance improvement plans are developed as appropriate.

Management implemented a new process in which the applications are scanned as soon as the application review is completed. The ER is notified the application has been scanned into the record and the ER verifies the scan. The ER signs off that scan is present and a good scan.

Management will retrain the ERs regarding accurate completion of the applications for eligible SFS discount. Management will train the ERs on the new scanning and verification process.

Name of the contact person responsible for corrective action: Cindy Pratt, CFO

Planned completion date for corrective action plan: Fiscal year 2020

If the Department of Health and Human Services has questions regarding this plan, please call Cindy Pratt, CFO, at 719-543-8718.

