

**Kansas City CARE Clinic
d/b/a KC CARE Health Center**

Independent Auditor's Report and Financial Statements

March 31, 2019 and 2018



**Kansas City CARE Clinic
d/b/a KC CARE Health Center
March 31, 2019 and 2018**

Contents

Independent Auditor’s Report	1
Financial Statements	
Statements of Financial Position	4
Statements of Activities.....	5
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information	
Schedule of Expenditures of Federal Awards	29
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 - Independent Auditor’s Report	31
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor’s Report	33
Schedule of Findings and Questioned Costs	36
Summary Schedule of Prior Audit Findings	40

Independent Auditor's Report

Board of Directors
Kansas City CARE Clinic d/b/a KC CARE Health Center
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Kansas City CARE Clinic d/b/a KC CARE Health Center (the Health Center), which comprise the statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas City CARE Clinic d/b/a KC CARE Health Center as of March 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

As described in Note 2 to the financial statements, in 2019, the Health Center adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the 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*, as listed in the table of contents, 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 July 24, 2019, on our consideration of the Health Center'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 the Health Center'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 the Health Center's internal control over financial reporting and compliance.

BKD, LLP

Kansas City, Missouri
July 24, 2019

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Statements of Financial Position
March 31, 2019 and 2018**

Assets

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 151,260	\$ 191,248
Cash and cash equivalents - restricted	538,244	333,155
Grants and contracts receivable	933,445	805,750
Patient accounts receivable, net of allowance; 2019 - \$602,821, 2018 - \$419,372	334,128	228,802
Other receivables	341,073	147,478
Contributions receivable	1,138,167	597,664
Estimated amounts due from third-party payers	47,187	38,393
Medication inventory	68,191	54,418
Prepaid expenses and other	305,188	281,179
Investments	177,143	271,766
Property and equipment, net of accumulated depreciation; 2019 - \$2,617,212, 2018 - \$2,453,546	<u>1,756,868</u>	<u>1,909,791</u>
Total assets	<u>\$ 5,790,894</u>	<u>\$ 4,859,644</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 515,585	\$ 329,816
Accrued expenses	743,723	917,777
Deferred revenue	21,139	249,416
Estimated amounts due to third-party payers	94,788	-
Long-term debt	<u>42,908</u>	<u>69,860</u>
Total liabilities	<u>1,418,143</u>	<u>1,566,869</u>

Net Assets

Without donor restrictions	2,519,199	2,210,006
With donor restrictions	<u>1,853,552</u>	<u>1,082,769</u>
Total net assets	<u>4,372,751</u>	<u>3,292,775</u>
Total liabilities and net assets	<u>\$ 5,790,894</u>	<u>\$ 4,859,644</u>

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Statement of Activities
Year Ended March 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains and Other Support			
Government financial assistance and contracted services	\$ 7,391,641		\$ 7,391,641
Contributions	1,062,124	\$ 1,544,033	2,606,157
Contributed goods and services	2,344,218		2,344,218
Patient revenue, net of adjustments	2,594,862		2,594,862
Pharmaceutical sales	4,775,946		4,775,946
Special events, net of direct expenses of \$96,883	159,586		159,586
Net investment return	128	6,300	6,428
Other	445,319		445,319
Net assets released from restriction	779,550	(779,550)	-
	<u>19,553,374</u>	<u>770,783</u>	<u>20,324,157</u>
Expenses and Losses			
Program services			
Medical, dental and behavioral health	11,038,757		11,038,757
HIV	3,775,040		3,775,040
	<u>14,813,797</u>		<u>14,813,797</u>
Supporting services			
Management and general	3,895,025		3,895,025
Fundraising	535,359		535,359
	<u>4,430,384</u>		<u>4,430,384</u>
Total expenses and losses	<u>19,244,181</u>		<u>19,244,181</u>
Change in Net Assets	309,193	770,783	1,079,976
Net Assets, Beginning of Year	<u>2,210,006</u>	<u>1,082,769</u>	<u>3,292,775</u>
Net Assets, End of Year	<u>\$ 2,519,199</u>	<u>\$ 1,853,552</u>	<u>\$ 4,372,751</u>

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Statement of Activities
Year Ended March 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Government financial assistance and contracted services	\$ 6,873,412		\$ 6,873,412
Contributions	1,305,344	\$ 810,651	2,115,995
Contributed goods and services	2,618,707		2,618,707
Patient revenue, net of adjustments	1,270,466		1,270,466
Pharmaceutical sales	3,095,319		3,095,319
Special events, net of direct expenses of \$95,633	305,730		305,730
Net investment return	217	15,723	15,940
Other	521,364		521,364
Net assets released from restriction	1,219,568	(1,219,568)	-
	<u>17,210,127</u>	<u>(393,194)</u>	<u>16,816,933</u>
Total revenues, gains and other support			
Expenses and Losses			
Program services			
Medical, dental and behavioral health	10,325,883		10,325,883
HIV	3,655,664		3,655,664
	<u>13,981,547</u>		<u>13,981,547</u>
Total program services			
Supporting services			
Management and general	3,648,826		3,648,826
Fundraising	561,042		561,042
	<u>4,209,868</u>		<u>4,209,868</u>
Total supporting services			
	<u>18,191,415</u>		<u>18,191,415</u>
Total expenses and losses			
Change in Net Assets	(981,288)	(393,194)	(1,374,482)
Net Assets, Beginning of Year	<u>3,191,294</u>	<u>1,475,963</u>	<u>4,667,257</u>
Net Assets, End of Year	<u>\$ 2,210,006</u>	<u>\$ 1,082,769</u>	<u>\$ 3,292,775</u>

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Statement of Functional Expenses
Year Ended March 31, 2019**

	Program Services			Supporting Services			Special Event Expenses	Total Expenses
	Medical, Dental and Behavioral Health	HIV	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 4,120,348	\$ 2,304,284	\$ 6,424,632	\$ 1,809,671	\$ 331,051	\$ 2,140,722		\$ 8,565,354
Benefits and taxes	779,151	453,107	1,232,258	400,868	65,345	466,213		1,698,471
Contributed goods and services	2,053,723	136,245	2,189,968	153,270	980	154,250		2,344,218
Professional fees	378,475	54,821	433,296	584,781	25,139	609,920		1,043,216
Supplies	2,676,641	210,881	2,887,522	55,672	10,242	65,914		2,953,436
Telephone	9,688	13,269	22,957	43,565	-	43,565		66,522
Postage and shipping	2,560	4,293	6,853	(2,064)	2,499	435		7,288
Occupancy	561	563	1,124	251,319	29	251,348	\$ 26,521	278,993
Equipment rental and maintenance	92,851	413	93,264	337,471	1,219	338,690		431,954
Printing and publications	6,652	34,150	40,802	8,822	87,859	96,681		137,483
Travel and meals	49,863	86,244	136,107	16,273	89	16,362		152,469
Training	13,950	16,139	30,089	6,310	-	6,310		36,399
Assistance to individuals	4,432	8,354	12,786	1,613	-	1,613		14,399
Membership dues	30,463	2,962	33,425	27,888	5,242	33,130		66,555
Interest expense	2,593	-	2,593	179	-	179		2,772
Recognition awards	-	344	344	6,794	-	6,794		7,138
Insurance	9,489	4,366	13,855	42,776	1,255	44,031		57,886
Payments to contractors and subrecipients	70	284,945	285,015	-	-	-		285,015
Meals and entertainment	-	-	-	-	-	-	70,362	70,362
Miscellaneous	98,667	-	98,667	25,846	4,410	30,256		128,923
Provision for bad debts	681,158	147,042	828,200	344	-	344		828,544
Depreciation and amortization	27,422	12,618	40,040	123,627	-	123,627		163,667
Total	\$ 11,038,757	\$ 3,775,040	\$ 14,813,797	\$ 3,895,025	\$ 535,359	\$ 4,430,384	\$ 96,883	19,341,064
Less expenses included with revenues on the statement of activities								
Special event expenses								96,883
Total expenses included in the expense section on the statement of activities								<u>\$ 19,244,181</u>

See Notes to Financial Statements

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Statement of Functional Expenses
Year Ended March 31, 2018**

	Program Services			Supporting Services			Special Event Expenses	Total Expenses
	Medical, Dental and Behavioral Health	HIV	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 3,806,406	\$ 2,250,594	\$ 6,057,000	\$ 1,976,274	\$ 348,275	\$ 2,324,549		\$ 8,381,549
Benefits and taxes	710,364	406,938	1,117,302	400,186	67,437	467,623		1,584,925
Contributed goods and services	2,356,198	209,695	2,565,893	47,926	4,888	52,814		2,618,707
Professional fees	435,702	53,005	488,707	302,860	31,922	334,782		823,489
Supplies	2,024,300	159,649	2,183,949	63,836	23,163	86,999		2,270,948
Telephone	15,573	17,591	33,164	42,363	-	42,363		75,527
Postage and shipping	3,445	2,953	6,398	6,009	2,354	8,363		14,761
Occupancy	27,919	19,581	47,500	224,537	-	224,537	\$ 23,382	295,419
Equipment rental and maintenance	105,048	20,716	125,764	264,666	4,550	269,216		394,980
Printing and publications	11,405	12,404	23,809	13,521	65,542	79,063		102,872
Travel and meals	43,158	133,972	177,130	17,382	554	17,936		195,066
Training	14,873	9,848	24,721	22,486	949	23,435		48,156
Assistance to individuals	2,181	8,165	10,346	959	-	959		11,305
Membership dues	34,052	2,881	36,933	39,022	5,997	45,019		81,952
Interest expense	3,776	-	3,776	94	-	94		3,870
Recognition awards	387	2,088	2,475	18,180	120	18,300		20,775
Insurance	6,654	7,674	14,328	56,287	865	57,152		71,480
Payments to contractors and subrecipients	-	266,281	266,281	268	-	268		266,549
Meals and entertainment	-	-	-	-	-	-	72,251	72,251
Miscellaneous	62,391	-	62,391	18,144	4,426	22,570		84,961
Provision for bad debts	641,119	57,510	698,629	(12,250)	-	(12,250)		686,379
Depreciation and amortization	20,932	14,119	35,051	146,076	-	146,076		181,127
Total	\$ 10,325,883	\$ 3,655,664	\$ 13,981,547	\$ 3,648,826	\$ 561,042	\$ 4,209,868	\$ 95,633	18,287,048
Less expenses included with revenues on the statement of activities								
Special event expenses								<u>95,633</u>
Total expenses included in the expense section on the statement of activities								<u>\$ 18,191,415</u>

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 1,079,976	\$ (1,374,482)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	163,667	181,127
Provision for bad debts	828,544	686,379
Net realized and unrealized gain on investments	(3,790)	(15,723)
Changes in		
Grants, contracts and other receivable	(321,290)	430,391
Patient accounts receivable	(933,870)	(714,880)
Contributions receivable	(540,503)	647,793
Estimated amounts due from and to third-party payers	85,994	(38,393)
Prepaid expenses and other	(24,009)	3,443
Medication inventory	(13,773)	7,332
Accounts payable	185,769	11,776
Accrued expenses	(174,054)	337,254
Deferred revenue	(228,277)	(213,753)
	<u>104,384</u>	<u>(51,736)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of investments	(41,792)	(32,156)
Proceeds from the disposition of investments	140,205	32,040
Purchase of property and equipment	(10,744)	(127,689)
	<u>87,669</u>	<u>(127,805)</u>
Net cash provided by (used in) investing activities		
Financing Activities		
Principal payment on capital lease	(26,952)	(25,768)
	<u>(26,952)</u>	<u>(25,768)</u>
Net cash used in financing activities		
Change in Cash and Cash Equivalents	165,101	(205,309)
Cash and Cash Equivalents, Beginning of Year	<u>524,403</u>	<u>729,712</u>
Cash and Cash Equivalents, End of Year	<u>\$ 689,504</u>	<u>\$ 524,403</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position		
Cash and equivalents	\$ 151,260	\$ 191,248
Donor restricted cash	538,244	333,155
	<u>\$ 689,504</u>	<u>\$ 524,403</u>
Supplemental Cash Flows Information		
Interest paid	\$ 2,772	\$ 3,870

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

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

Nature of Operations

Kansas City CARE Clinic d/b/a KC CARE Health Center (the “Health Center”) is a not-for-profit Health Center formed in 1971 whose mission and principal activities are to provide quality health care to those who might not otherwise have had access to such care. The Clinic’s revenues and other support are derived principally from contributions, federal and state grants and patient revenue. Its activities are conducted principally in the Kansas City area.

Under the direction of the Board, the Health Center is completing a multi-year transition to a new hybrid business model that will allow the Clinic to continue to provide charitable care for patients without insurance while allowing the Health Center to bill for services for those with insurance. In response to implementation of the *Affordable Care Act*, the Health Center adopted a new name (Kansas City CARE Clinic), implemented a patient billing system effective September 2014 and is entering into agreements with third-party payers. In August 2015, the Health Center was designated by the Department of Health and Human Services as a Federally Qualified Health Center (FQHC). The FQHC designation qualifies the Health Center for enhanced reimbursement from Medicare and Medicaid as well as other benefits. The Health Center continues to pursue grant and philanthropic funding to support uncompensated Health Center programs and provision of services to the uninsured.

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, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Significant estimates are described in this note and include contributed goods and services, depreciation expense, allowance for uncollectible receivables and the functional allocation of expenses.

Cash Equivalents

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

At March 31, 2019, the Health Center’s cash accounts exceeded federally insured limits by \$337,445.

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

Grants and Contracts Receivable

Support funded by grants and contracts is recognized as the Health Center performs the contracted services or incurs outlays eligible for reimbursement under the agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. Grants and contracts receivable are ordinarily due 30 days after the issuance of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Patient Accounts Receivable

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Health Center bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Medication Inventory

Inventories consisted primarily of purchased medication and are stated at the lower of cost or net realizable value, determined using the average cost based on the first-in, first-out (FIFO) method.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value are carried at fair value. Investment return includes interest and realized and unrealized gains and losses on investments carried at fair value.

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 activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

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

Land and building	5 - 40 years
Building improvements	5 - 40 years
Equipment	2 - 10 years
Software	3 years

Long-lived Asset Impairment

The Health Center 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 March 31, 2019 and 2018.

Deferred Revenue

Revenue from grants and contracts and ticket sales for fundraising events is deferred and recognized over the periods to which the revenues relate.

Net Assets

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

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

Net assets with donor restrictions are subject to donor or certain grantor 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 or grantor stipulates that resources be maintained in perpetuity.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Contributions and Contributions Receivable

Gifts of cash and other assets received without donor stipulations are reported as without donor restricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as with donor restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified and reported as an increase in without donor restricted net assets. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

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

Contributed Goods and Services

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. Contributed services consist primarily of professional medical services for which there is a determinable value.

Contributed goods consist principally of lab services. It is the policy of the Health Center to record the estimated fair value of contributed goods and services as an expense or addition to property and equipment, and similarly increase contribution revenue by a like amount. Approximately 69 percent and 75 percent of contributed goods and services were received from one donor during 2019 and 2018, respectively.

The following is a breakdown of contributed goods and services received during 2019 and 2018:

	2019	2018
Medical, dental and behavioral health program	\$ 2,053,723	\$ 2,356,198
HIV program	136,245	209,695
Management and general	153,270	47,926
Fundraising	980	4,888
	\$ 2,344,218	\$ 2,618,707

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

Government Grants

Support funded by government grants is recognized as the Health Center performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. The grants are renewed annually and the activities and outlays are subject to audit and acceptance by the granting agency. As a result of such audit, adjustments could be required. Government grants accounted for 36 percent and 41 percent of the Health Center's total revenues for the years ended March 31, 2019 and 2018, respectively.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Pharmaceutical Sales

Revenue is recognized upon the sale and transfer of medication to patients. As part of the pharmacy operations, the Health Center participates in the 340B Drug Pricing Program (the Program).

Other Revenue

The Health Center participates and performs clinical trials. Clinical trials are considered an exchange transaction as the resource provider generally designates the specific research plan and retains the rights to any results of the trials. Support may be received either on a fee-for-service or cost reimbursement basis. Revenue is recognized as the services are performed under the agreements.

Income Taxes

The Health Center is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Health Center is subject to federal income tax on any unrelated business taxable income. The Health Center files tax returns in the U.S. federal jurisdiction.

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on the direct cost method and other methods. The Health Center is allowed under the grant agreements to allocate management and general expenses to its program services; however, such allocations are not reflected in the statements of functional expenses.

Note 2: Change in Accounting Principle

In 2019, the Health Center, adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Note 3: Contributions Receivable

Contributions receivable consisted of the following:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 1,103,167	\$ 597,664
Due in one to five years	35,000	-
	<u>\$ 1,138,167</u>	<u>\$ 597,664</u>

Note 4: Property and Equipment

Property and equipment at March 31 consisted of:

	<u>2019</u>	<u>2018</u>
Land, building and improvements	\$ 2,974,480	\$ 2,973,114
Equipment and software	1,399,600	1,390,223
	<u>4,374,080</u>	<u>4,363,337</u>
Accumulated depreciation and amortization	2,617,212	2,453,546
	<u>\$ 1,756,868</u>	<u>\$ 1,909,791</u>

Note 5: Line of Credit

During the year ended March 31, 2018, the Health Center obtained a \$500,000 revolving line of credit which expired in January 2019. At March 31, 2018, there were no outstanding borrowings against the line. The line was collateralized by certain property and equipment. Interest varied with the bank's prime rate, which was 4.5 percent on March 31, 2018 and was payable monthly.

Note 6: Long-term Debt

The Health Center maintained a capital lease for equipment with an outstanding balance of \$42,908 and \$69,860 as of March 31, 2019 and 2018, respectively. Interest expense on the capital lease amounted to \$2,592 and \$3,776 for the years ended March 31, 2019 and 2018, respectively.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Payments on the capital lease obligation at March 31, 2019 are:

2020	\$ 29,544
2021	14,774
	<u>44,318</u>
Less amounts representing interest	<u>1,410</u>
Present value of future minimum lease payments	<u><u>\$ 42,908</u></u>

Property and equipment include the following property under the capital lease at March 31:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 118,198	\$ 118,198
Less accumulated depreciation	<u>79,665</u>	<u>48,821</u>
	<u><u>\$ 38,533</u></u>	<u><u>\$ 69,377</u></u>

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Note 7: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

New assets with donor restrictions at March 31 are available for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Medical, dental and behavioral health program activities	\$ 525,940	\$ 320,851
Promises to give, the proceeds from which have been restricted by donors for	-	-
Medical, dental and behavioral health program activities	1,138,167	578,773
	1,664,107	899,624
Endowments		
Subject to endowment spending policy and appropriation		
General use	12,304	12,304
Education, staff development and fundraising	177,141	170,841
Total endowments	189,445	183,145
	\$ 1,853,552	\$ 1,082,769

Net Assets Released from Restrictions

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

	2019	2018
Purpose restrictions accomplished for medical, dental and behavioral health program expenses	\$ 779,550	\$ 1,219,568

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Note 8: Endowment

The Health Center’s governing body is subject to the *State of Missouri Prudent Management of Institutional Funds Act* (SPMIFA). As a result, the Health Center classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with SPMIFA, the Health Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Health Center and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Health Center
7. Investment policies of the Health Center

The Health Center’s endowment consists of two individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets with donor restrictions by type of endowment fund at March 31 was:

	2019	2018
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 114,804	\$ 114,804
Accumulated investment gains	74,641	68,341
	\$ 189,445	\$ 183,145

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Changes in donor restricted endowment net assets for the years ended March 31, 2019 and 2018 were:

	With Donor Restrictions
Endowment net assets, April 1, 2017	\$ 167,422
Investment return, net	15,723
Endowment net assets, March 31, 2018	183,145
Investment return, net	6,300
Endowment net assets, March 31, 2019	\$ 189,445

The Polsky endowment was established in 2010 with an initial gift of \$50,000 from the Norman and Elaine Polsky Family Supporting Foundation and a matching contribution from the Health Center of \$50,000, both of which are to be held in perpetuity, as required by the endowment agreement (the “agreement”). The agreement specifies investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by the endowment while seeking to maintain the purchasing power of the endowment. The Health Center expects its endowment funds to provide an aggregate rate of return that is consistent with average U.S. equity security returns. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Health Center relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Health Center targets a diversified asset allocation that places a greater emphasis on USA diversified equity-based mutual funds to achieve its long-term return objectives within prudent risk constraints.

The agreement requires all earnings on endowment assets to be accumulated in the fund for an initial five year period and then may be appropriated for expenditure for specific projects or programs as specified in the endowment agreement.

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

The governing body of the Health Center has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Health Center considers a fund to be underwater if the fair value of the fund is less than the sum of:

- a. the original value of initial and subsequent gift amounts donated to the fund and
- b. any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Health Center did not have any deficiencies of this nature at March 31, 2019 and 2018.

Note 9: Employee Benefit Plans

Defined Contribution Plan

The Health Center has a defined contribution 403(b) employee benefit plan covering substantially all employees. The Clinic contributed up to a 3 percent match of each employee's contribution percentage during 2019 and 2018. Pension expense was \$165,853 and \$136,607 for 2019 and 2018, respectively.

Deferred Compensation Plan

On April 1, 2013, the Health Center created a defined contribution 457(b) executive benefit plan covering key members of management. The Health Center's contributions to the plan are determined annually by the Board of Directors. Contributions to the plan were \$25,717 and \$26,911 for 2019 and 2018, respectively. An asset (within prepaid expenses and other) and corresponding liability (within accrued expenses) are recorded in the statements of financial position for \$172,526 and \$249,939 as of March 31, 2019 and 2018, respectively, representing the amounts held in the plan which have been contributed by the employer or plan participants and the funds owed to the participants.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Note 10: Liquidity and Availability

The following table reflects the Health Center’s financial assets as of March 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures, that is, without donor or other restrictions limiting their use, within one year of March 31, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 689,504	\$ 524,403
Investments	177,143	271,766
Grants and contracts receivable	933,445	805,750
Patient accounts receivable, net	334,128	228,802
Other receivables	341,073	147,478
Contributions receivable	1,138,167	597,664
Estimated amounts due from third-party payer	47,187	38,393
Total financial assets	<u>3,660,647</u>	<u>2,614,256</u>
Less: Donor imposed restrictions		
Cash and cash equivalents	538,244	333,155
Investments	177,141	170,841
Contributions receivable	1,138,167	578,773
	<u>1,853,552</u>	<u>1,082,769</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,807,095</u>	<u>\$ 1,531,487</u>

Amounts not available include endowment funds that are not considered in the annual operating budget. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

The Health Center strives to maintain the short term goal of liquid financial assets sufficient to cover 30 days of general expenditures and long term goals of 90 days. Financial assets in excess of daily cash requirements are placed in money market funds and other short-term investments.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Note 11: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2019 and 2018:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2019				
Investments				
Money market fund	\$ 4,593	\$ 4,593	\$ -	\$ -
Fixed income mutual funds	44,050	44,050	-	-
Equity mutual funds	128,500	128,500	-	-
	177,143	177,143	-	-
Prepaid expenses and other pooled separate accounts	172,526	-	172,526	-
	<u>\$ 349,669</u>	<u>\$ 177,143</u>	<u>\$ 172,526</u>	<u>\$ -</u>

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2018			
Investments			
Money market fund	\$ 3,829	\$ 3,829	\$ -
Fixed income mutual funds	44,092	44,092	-
Equity mutual funds	122,996	122,996	-
	170,917	170,917	-
Prepaid expenses and other equity mutual funds	249,939	249,939	-
	<u>\$ 420,856</u>	<u>\$ 420,856</u>	<u>\$ -</u>

Investments included in the fair value hierarchy above reconcile to the statements of financial position as follows:

	2019	2018
Investments recorded at		
Fair value and included above	\$ 177,143	\$ 170,917
Cost	-	100,849
	<u>\$ 177,143</u>	<u>\$ 271,766</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in valuation techniques during the year ended March 31, 2019.

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

Investments and Prepaid Expenses and Other

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Health Center did not have any Level 3 securities at March 31, 2019 and 2018.

Note 12: Professional Liability Claims

Effective November 3, 2017, the Health Center was issued medical malpractice coverage under the *Federal Tort Claims Act* (FTCA). Under such policy, coverage is comparable to an “occurrence” policy without a monetary cap.

Based upon the Health Center’s claims experience, no accrual had been made for the Health Center’s estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy. It is reasonably possible that this estimate could change materially in the near term.

Note 13: 340B Drug Pricing Program

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Clinic recorded revenues of \$4,145,420 and \$2,532,334 for the years ended March 31, 2019 and 2018, respectively. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Note 14: Significant Concentrations and Uncertainties

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

Concentration of Credit Risk

The Health Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at March 31, 2019 and 2018, is:

	2019	2018
Medicaid	27%	32%
Medicare	14%	15%
Private pay	14%	8%
Other third-party payers	45%	45%
	100%	100%

Net Patient Service Revenue

Approximately 24 percent and 31 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended March 31, 2019 and 2018, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Contributions

Approximately 51 percent and 52 percent of contribution revenue was received from one and two donors in 2019 and 2018, respectively.

Investments

The Health Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018

General Litigation

The Health Center is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Health Center. Events could occur that would change this estimate materially in the near term.

Note 15: Subsequent Events

Subsequent events have been evaluated through July 24, 2019, which is the date the financial statements were available to be issued.

The Health Center entered into a new lease in May 2019 with a five year term expiring in July 2024. Lease payments due under the lease range from \$70,625 to \$76,260 per year.

Note 16: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018 (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019 (December 15, 2018, for not-for-profits that are conduit debt obligors). The Health Center is in the process of evaluating the effect the amendment will have on the financial statements.

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Notes to Financial Statements
March 31, 2019 and 2018**

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Health Center is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct program				
Outpatient Early Intervention Services with Respect to HIV Disease Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.918		\$ 64,150	\$ 884,434
Health Center Program Cluster	93.153		191,509	549,555
HIV Prevention Activities - Non-Governmental Organization Based	93.224			1,628,301
	93.939			387,883
Passed through the Mid America Regional Council				
Aging Cluster	93.044	16AAMOT3SS; 17AAMOT3SS		54,060
National Family Caregiver Support, Title III, Part E	93.052	17AAMOT3FC; 18AAMOT3FC		54,060
Passed through the University of Illinois at Chicago/Midwest AIDS Training and Education Center				
AIDS Education and Training Centers Program	93.145	U1OHA2923		298,004
Passed through Kansas City, Missouri Health Department				
HIV Emergency Relief Project Grant - Case Management EIS LTC	93.914	5003163251		261,582
HIV Emergency Relief Project Grant - Oral Health Care	93.914	5003163193		93,912
HIV Emergency Relief Project Grant - Primary Medical Care	93.914	5003163185		221,897
HIV Emergency Relief Project Grant - Medical Case Management	93.914	5003163241		386,700
HIV Emergency Relief Project Grant - Medical Case Management MOE	93.914	5000006303		54,168
HIV Emergency Relief Project Grant - Mental Health Services	93.914	5003163191		33,061
HIV Emergency Relief Project Grant - Substance Abuse Services Outpatient	93.914	5003163181		57,631
HIV Emergency Relief Project Grant - Treatment Adherence	93.914	5003163182		54,388
HIV Emergency Relief Project Grant - Treatment Adherence	93.914	5003170382		4,799
HIV Emergency Relief Project Grant - Youth Case Management MAI	93.914	5003163241		34,557
HIV Emergency Relief Project Grant - Health Education Risk Reduction/ Prevention for Positives	93.914	5003183351		10,152
HIV Emergency Relief Project Grant - Health Education Risk Reduction/ Prevention for Positives	93.914	5003183351		3,411
				<u>1,216,258</u>
Passed through Kansas City, Missouri Department of Health and Senior Services				
HIV Prevention Activities Health Department Based - Retention in Care & Lost to Care Nav	93.917	DH1706A0001		244,897
HIV Education and Training Program	93.917	DH1602A0001		44,973
Part B Case Management EIS LTC	93.917	5404163054		64,017
Part B HIV Resource & Referral Case Management	93.917	5404163052		92,321
				<u>446,208</u>

**Kansas City CARE Clinic
d/b/a KC CARE Health Center
Schedule of Expenditures of Federal Awards (Continued)
Year Ended March 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
HIV Prevention Activities Health Department Based - Retention in Care and Lost to Care Navigation	93.940	5413163482		\$ 43,900
HIV Prevention Activities Health Department Based - Retention in Care and Lost to Care Navigation	93.940	5413163483		49,589
HIV Prevention Activities Health Department Based - Retention in Care and Lost to Care Navigation	93.940	#5413163481		<u>39,030</u>
				<u>132,519</u>
HIV Prevention Activities Health Department Based - Expanded HIV Testing	93.943	CS170449001	\$ -	<u>85,807</u>
			<u>\$ 255,659</u>	<u>\$ 5,737,089</u>

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Kansas City CARE Clinic d/b/a KC CARE Health Center ("Health Center") under programs of the federal government for the year ended March 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Health Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Health Center.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Health Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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**

Independent Auditor's Report

Board of Directors
Kansas City CARE Clinic d/b/a KC CARE Health Center
Kansas City, Missouri

We have audited, 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, the financial statements of Kansas City CARE Clinic d/b/a KC CARE Health Center (the Health Center), which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, 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 July 24, 2019, which contained an “Emphasis of Matter” paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free from 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 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*.

Health Center's Response to Findings

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

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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Kansas City, Missouri
July 24, 2019

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Kansas City CARE Clinic d/b/a KC CARE Health Center
Kansas City, Missouri

Report on Compliance for Each Major Federal Program

We have audited Kansas City CARE Clinic d/b/a KC CARE Health Center's (the Health Center) 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 Health Center's major federal programs for the year ended March 31, 2019. The Health Center's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Health Center'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 Health Center'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 Health Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Health Center 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 March 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Health Center 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 Health Center'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 Health Center'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 a 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 in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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 certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

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

Board of Directors
Kansas City CARE Clinic d/b/a KC CARE Health Center
Page 3

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.

BKD, LLP

Kansas City, Missouri
July 24, 2019

Kansas City CARE Clinic d/b/a KC CARE Health Center
Schedule of Findings and Questioned Costs (Continued)
Year Ended March 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

**Reference
Number**

Finding

2019-001 **Criteria or Specific Requirement** – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – The allowance on patient accounts receivable was adjusted to estimate and account for a portion of certain payer types not expected to be collected.

Context – During review of the allowance for patient accounts receivable, it was noted no allowance was estimated and recorded for receivables owed from commercial payers. After analysis of historical collection rates and review of current gross collection percentages, an adjustment was posted to increase the allowance on patient accounts receivable for \$172,000.

Effect – Potentially material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause – The Health Center was aware of certain commercial accounts which were on hold and being investigated with the payer and were waiting for resolution prior to posting an estimate for doubtful accounts. However, the resolution was not reached as quickly as expected and was still pending; however, management did not go back and assess an allowance on the commercial payer receivables.

Recommendation – The Health Center should implement formal review and approval procedures over the methodology and final calculations for allowance by payer class.

View of Responsible Official and Planned Corrective Actions –

A more conservative approach to only include estimates for accounts not expected to be collected and not consider recoupment projects with third party payer's that short paid their bills.

Kansas City CARE Clinic d/b/a KC CARE Health Center
Schedule of Findings and Questioned Costs (Continued)
Year Ended March 31, 2019

Findings Required to be Reported by Uniform Guidance

Reference Number	Finding
2019-002	<p>Department of Health and Human Services Direct Program: Health Center Program Cluster - 93.224</p> <p>Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(E), (F) and (G); 42 CFR sections 51c.303(e), (f) and (g); and 42 CFR sections 56.303(e),(f) and (g)).</p> <p>Health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient’s ability to pay.</p> <p>Condition – Patients who were eligible for sliding fee discounts under the Health Center’s policy were given incorrect sliding fee discounts, were not given sliding fee discounts for eligible visits or lacked documentation on sliding fee discount eligibility under the Health Center’s policy.</p> <p>Questioned Costs – None noted.</p> <p>Context – A sample of 40 patient encounters were tested out of the population of 13,876 sliding fee discount transactions. The sample was not, and is not intended to be, statistically valid. Of the 40 patient encounters tested, 12 were determined to have resulted in an improper sliding fee adjustment based on the Health Center’s policy and screening of patient eligibility. Of the 12 improper handlings, five did not show any proof of income resulting in the inability to determine which discount bucket the patient fell under, and seven patient income verification amounts did not match the income assigned to the patient account resulting in incorrect sliding fees being applied for these patients.</p> <p>Effect – Patients eligible for sliding fee discounts were not given discounts or were given improper sliding fee discounts.</p>

Kansas City CARE Clinic d/b/a KC CARE Health Center
Schedule of Findings and Questioned Costs (Continued)
Year Ended March 31, 2019

Findings Required to be Reported by Uniform Guidance (Continued)

Reference Number	Finding
2019-002	<p>Cause – The Health Center did not comply with its sliding fee policy and there were inconsistent internal reviews of sliding fees performed during the year.</p> <p>Identification as a Repeat Finding – Not applicable.</p> <p>Recommendation – The Health Center should review the existing sliding fee discount policy to ensure it is consistent with the intended function, while also maintaining compliance with the Health Center Program Compliance Manual if any changes are made. All personnel involved in the sliding fee discount program should demonstrate their understanding of sliding fee scale policy in order to improve application of the sliding fee discount program. Additionally, the Health Center should work to apply the sliding fee discount transaction code to only those transactions that are subject to its sliding fee discount program.</p> <p>View of Responsible Official and Planned Corrective Actions – Additional front office staff was hired for a total of three additional FTE since May 2018. Open financial counselor position was filled in June 2019. Monthly audits were initiated by Finance in May of 2019. The updated procedure for collecting accurate information for POI and POR was developed in May 2019. Additional training was provided to schedulers and front office in May 2019. Leadership has devised work around for Success calculation issue July 2019. New staff training in the updated process and individual one to one existing staff training will be completed by the Office managers at each location by August 5, 2019. A new audit tool is being developed (see above) with 5 charts per week audited by supervisor and every employee provided supervisory feedback weekly. New audit process will start following completion of re-training.</p>

Reference Number	Corrective Action Plan
2019-001	<p>The allowance on patient accounts receivable was adjusted to estimate and account for a portion of certain payer types not expected to be collected.</p> <p>During review of the allowance for patient accounts receivable, it was noted no allowance was estimated and recorded for receivables owed from commercial payers. After analysis of historical collection rates and review of current gross collection percentages, an adjustment was posted to increase the allowance on patient accounts receivable for \$172,000</p> <p>Personnel Responsible for Corrective Action: George Barreto, Chief Financial Officer</p> <p>Anticipated Completion Date: Change in process has been adopted as of June of 2019 financial statement preparation.</p> <p>Corrective Action Plan: A more conservative approach to only include estimates for accounts not expected to be collected and not consider recoupment projects with third party payer's that short paid their bills.</p>
2019-002	<p>Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(E), (F) and (G); 42 CFR sections 51c.303(e), (f) and (g); and 42 CFR sections 56.303(e),(f) and (g)).</p> <p>Health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.</p> <p>Patients who were eligible for sliding fee discounts under the Health Center's policy were given incorrect sliding fee discounts, were not given sliding fee discounts for eligible visits or lacked documentation on sliding fee discount eligibility under the Health Center's policy.</p> <p>Personnel Responsible for Corrective Action: Lisa Woodring, Director of Clinical and Practice Services</p> <p>Anticipated Completion Date: Improvement expected to be incremental but goal is for all employees to achieve at least 95% accuracy by 4/1/2020.</p>

**Reference
Number**

Corrective Action Plan

2019-002

Corrective Action Plan:

- Additional front office staff was hired for a total of 3 additional FTE since May 2018. Open financial counselor position was filled in June 2019.
- Monthly audits were initiated by Finance in May of 2019.
- The updated procedure for collecting accurate information for POI and POR was developed in May 2019.
- Additional training was provided to schedulers and front office in May 2019.
- Leadership has devised work around for Success calculation issue July 2019.
- New staff training in the updated process and individual one to one existing staff training will be completed by the Office managers at each location by 8/5/19.
- A new audit tool is being developed (see above) with 5 charts per week audited by supervisor and every employee provided supervisory feedback weekly.
- New audit process will start following completion of re-training.

Summary Schedule of Prior Audit Findings Year Ended March 31, 2019

Reference Number	Summary of Finding	Status
2018-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The financial statements for the year ended March 31, 2017, were restated and adjustments were made to the financial statements for the year ended March 31, 2018, to properly recognize grant and contribution revenue.</p> <p>Context – The determination of exchange transactions versus contributions and proper revenue recognition under Accounting Standards Codification Topic 985-605 - <i>Not-For-Profit Revenue Recognition</i> can be subject to interpretation. Upon review of significant contract and grant agreements, it was determined adjustments to revenue recognition needed to be made to align with the revenue recognition guidance. This ultimately led to a restatement of the financial statements for the year ended March 31, 2017.</p> <p>For contribution revenue, four gifts were recognized on the cash basis and recognized as revenue for the year ended March 31, 2018. However, per review of the funding notification and gift agreement, the award was signed and agreed to for the year ended March 31, 2017. This resulted in an adjustment to beginning net assets for \$550,000 and restatement of the financial statements for the year end March 31, 2017 to properly recognize the revenue in the previous fiscal year.</p> <p>For a significant grant agreement, revenue was recognized on the cash basis as opposed to evaluating the recognition criteria as an exchange transaction and recognizing the revenue as earned. As a result, an adjustment was posted to beginning net assets for approximately \$211,000 for funds earned during the year ended March 31, 2018; however, recognized during the year ended March 31, 2017 and restatement of the financial statements for the year ended March 31, 2017.</p> <p>During review of grants and contributions, it was also noted revenue for certain exchange transactions and contributions were coded to the same account within the general ledger system and improperly reported as an exchange transaction within the financial statements or vice versa and improperly reported as a contribution. This resulted in various reclassification adjustments to both the fiscal year 2018 and 2017 financial statements.</p> <p>Finally, for new gift agreements awarded in the current fiscal year, improper cut-off was made and adjustments were posted to the financial statements to properly recognize revenue in the correct fiscal year.</p>	Resolved

Reference Number	Summary of Finding	Status
2018-001	<p>Effect – Potentially material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – A formal policy and review procedure is not in place to evaluate funding agreements for proper treatment as an exchange transaction or contribution. Additionally, private awards, whether they be exchange transactions or contributions, are coded within a single general ledger account.</p>	Resolved
2018-002	<p>Department of Health and Human Services Direct Program: Health Center Program Cluster – 93.224</p> <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over purchases directly charged to federal awards to ensure purchases are obtained in an effective manner and in compliance with provisions of applicable Federal statutes and executive orders.</p> <p>Condition – The Clinic has a policy governing its procurement requirements for the purchase of goods or services charged to federal awards and requires annual training over the policy. The Clinic; however, did not maintain documentation of its procurement decisions or training provided to employees.</p> <p>Questioned Costs – None noted.</p> <p>Context – Out of a population of \$124,580 in procurement purchases, a key item for \$26,797 was selected for testing procurement requirements. Upon discussion with management, the process for determining which vendor to purchase supplies from was described, including which vendors were reviewed for pricing options; however, no documentation of this review was maintained.</p> <p>Additionally, the Clinic provided training to its employees on its procurement requirements; however, documentation of the training was not completed or which employees attended is not maintained.</p> <p>Effect – Purchases may not follow the Clinic's procurement policies and not be detected and/or corrected in a timely manner.</p> <p>Cause – The Clinic's policy does not explicitly require documentation for procurement decisions nor proof of training to be maintained.</p>	Resolved