

**THE WALLACE MEDICAL CONCERN
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

**THE WALLACE MEDICAL CONCERN
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	19
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	21
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	22
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	23
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	25



INDEPENDENT AUDITORS' REPORT

Board of Directors
The Wallace Medical Concern
Portland, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of The Wallace Medical Concern, a nonprofit organization, which comprise the statements of financial position as of June 30, 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 audits 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.

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 The Wallace Medical Concern as of June 30, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020, on our consideration of The Wallace Medical Concern'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 result of that testing, and not to provide an opinion on the effectiveness of The Wallace Medical Concern'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 Wallace Medical Concern's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
February 25, 2020

**THE WALLACE MEDICAL CONCERN
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,021,047	\$ 1,337,780
Patient Service Fees Receivable, Net	325,553	224,749
Grants, Contributions, and Other Receivables	89,784	145,621
Prepaid Expenses	57,918	75,767
Total Current Assets	2,494,302	1,783,917
FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, NET		
	622,550	803,458
Total Assets	\$ 3,116,852	\$ 2,587,375
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 90,078	\$ 51,708
Accrued Payroll Liabilities	164,313	204,773
Deferred Rent	23,901	21,539
Total Current Liabilities	278,292	278,020
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Net Assets Without Donor Restrictions	2,538,678	2,028,085
Net Assets With Donor Restrictions	299,882	281,270
Total Net Assets	2,838,560	2,309,355
Total Liabilities and Net Assets	\$ 3,116,852	\$ 2,587,375

See accompanying Notes to Financial Statements.

**THE WALLACE MEDICAL CONCERN
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019 AND 2018**

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES, GAINS, AND OTHER SUPPORT		
Patient Service Fees	\$ 3,591,242	\$ 3,581,623
Federal Grants	2,415,003	2,476,817
Other Grants and Contributions	68,178	207,520
Other	358,650	527,519
Total Revenues and Gains	6,433,073	6,793,479
Net Assets Released from Restrictions	103,328	30,784
Subtotal	6,536,401	6,824,263
EXPENSES		
Program Services	4,339,591	4,668,382
Management and General	1,511,896	1,266,682
Fundraising	174,321	109,075
Total Expenses	6,025,808	6,044,139
EXCESS OF REVENUES OVER EXPENSES AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	510,593	780,124
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	121,940	229,660
Net Assets Released From Restriction	(103,328)	(30,784)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	18,612	198,876
CHANGES IN NET ASSETS	529,205	979,000
Net Assets - Beginning of Year	2,309,355	1,330,355
NET ASSETS - END OF YEAR	\$ 2,838,560	\$ 2,309,355

See accompanying Notes to Financial Statements.

**THE WALLACE MEDICAL CONCERN
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Expenses	\$ 3,250,784	\$ 751,803	\$ 126,891	\$ 4,129,478
Professional Service Fees	329,517	275,269	29,030	633,816
Bad Debt Expense	86,510	-	-	86,510
Volunteer Management	11,792	-	-	11,792
Clinical and Pharmaceutical Supplies	283,713	24	-	283,737
Occupancy	219,464	114,016	9,144	342,624
Office Supplies	2,022	27,475	-	29,497
Postage and Delivery	97	7,291	8	7,396
Printing and Copying	658	1,486	1,185	3,329
Community Education Materials	7,019	151	-	7,170
Training and Meetings	19,190	19,916	64	39,170
Telecommunications	2,917	74,047	-	76,964
Travel Expenses	3,667	1,301	-	4,968
Event Expenses	8,560	17,750	6,792	33,102
Small Equipment	15,955	37,693	-	53,648
Insurance	-	44,855	-	44,855
Recruitment	3,884	5,031	-	8,915
Depreciation and Amortization	75,519	95,785	457	171,761
Other	18,323	38,003	750	57,076
	<u>\$ 4,339,591</u>	<u>\$ 1,511,896</u>	<u>\$ 174,321</u>	<u>\$ 6,025,808</u>
Total Expenses				

See accompanying Notes to Financial Statements.

**THE WALLACE MEDICAL CONCERN
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses	\$ 2,535,423	\$ 835,103	\$ 89,752	\$ 3,460,278
Professional Service Fees	537,332	156,469	12,043	705,844
Bad Debt Expense	906,682	-	-	906,682
Volunteer Management	10,753	128	-	10,881
Clinical and Pharmaceutical Supplies	184,702	130	-	184,832
Occupancy	235,211	97,340	-	332,551
Office Supplies	23,619	8,886	-	32,505
Postage and Delivery	1,749	1,671	343	3,763
Printing and Copying	3,831	649	1,110	5,590
Community Education Materials	7,036	1,374	-	8,410
Training and Meetings	20,621	20,968	318	41,907
Telecommunications	34,110	13,470	-	47,580
Travel Expenses	3,424	5,573	-	8,997
Event Expenses	191	4,092	2,453	6,736
Small Equipment	18,675	3,183	-	21,858
Insurance	100	38,536	-	38,636
Recruitment	1,091	8,945	-	10,036
Depreciation and Amortization	138,946	42,535	457	181,938
Other	4,886	27,630	2,599	35,115
	<u>\$ 4,668,382</u>	<u>\$ 1,266,682</u>	<u>\$ 109,075</u>	<u>\$ 6,044,139</u>
Total Expenses				

See accompanying Notes to Financial Statements.

**THE WALLACE MEDICAL CONCERN
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receivable from Contributors, Clients, and Others	\$ 6,094,023	\$ 6,653,845
Cash Paid to Employees and Suppliers	(5,409,515)	(5,421,934)
Interest Received	1,536	605
Net Cash Provided by Operating Activities	686,044	1,232,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Furniture, Equipment, and Leasehold Improvements	(2,777)	(16,020)
NET INCREASE IN CASH AND CASH EQUIVALENTS	683,267	1,216,496
Cash and Cash Equivalents - Beginning of Year	1,337,780	121,284
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,021,047	\$ 1,337,780
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ 529,205	\$ 979,000
Adjustments to Reconcile Changes in Net Assets		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	171,761	181,938
Bad Debt Expense	86,509	906,681
Loss on Disposal of Fixed Assets	11,924	-
(Increase) Decrease in Assets:		
Grants, Contributions, and Other Receivables	55,837	14,201
Patient Service Fees Receivable	(187,313)	(747,851)
Prepaid Expenses	17,849	(10,427)
Increase (Decrease) in Liabilities:		
Accounts Payable	38,370	(82,754)
Deferred Rent	2,362	7,454
Accrued Payroll Liabilities	(40,460)	(15,726)
Total Adjustments	156,839	253,516
Net Cash Provided by Operating Activities	\$ 686,044	\$ 1,232,516

See accompanying Notes to Financial Statements.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mission

The Wallace Medical Concern (WMC), an Oregon nonprofit corporation, provides an open door to exceptional health services and connections that support individuals and their families in healthy living.

Who We Serve

WMC serves individuals and families who face barriers to care throughout the Portland and Gresham metropolitan area.

History of Success

WMC has a 34-year record of providing medical services and has distinguished itself as a patient focused innovative health care organization. WMC became a federally qualified health center in June of 2012, allowing for expansion of services and implementation of primary care that offers a comprehensive medical home and continuity of care for patients and their families. WMC's increasing capacity to provide high-quality health services is the result of its success with attracting and maintaining skilled and committed medical professionals, its innovative partnerships, and the hiring of bilingual, bicultural care providers and clinic staff. WMC has provided health care services since 1984, and now provides urgent care at two clinic locations and a mobile medical clinic, as well as primary care at its main clinic in Rockwood. In 2016, WMC expanded its services to include dental at the main clinic in Rockwood. WMC also operates podiatric, dermatologic, and chiropractic clinics, and has developed collaborative agreements with other providers and major health systems for referrals to other needed specialty care.

With bilingual staff, professional interpreter volunteers, and an emphasis on health literacy, health education, and prevention, WMC is able to provide culturally appropriate care to non-English speaking patients. The health access window at the Mexican consulate offers health promotion and disease prevention assistance. The mobile medical clinic and the new Rockwood Clinic located off the MAX line offer accessibility to those with limited transportation options.

The significant accounting policies followed by WMC are described below to enhance the usefulness of the financial statements to the reader.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets 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.

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 June 30, 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.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as an increase in net assets without donor restrictions. Income earned on net assets with donor restrictions, including capital appreciation, is recognized in the period earned.

Excess of Revenues over Expenses

The statements of activities and changes in net assets include excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, restricted contributions, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets and the related releases.

Financial Statement Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Cash Equivalents

For purposes of the financial statements, WMC considers all liquid investments having initial maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, \$1,085,658 and \$485,159, respectively, of the organization's cash balances were held in money market funds.

Concentrations of Credit Risk

WMC's financial instruments consist primarily of cash and cash equivalents, which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to \$250,000 for each depositor, for each insured bank, for each account ownership category.

Certain receivables may also, from time to time, subject the organization to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the organization's management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Accounts Receivable

Accounts receivable are stated at net realizable value. Third-party contractual adjustments are made based on past experience. Receivables are reduced by an allowance for estimated uncollectible amounts and accounts deemed uncollectible are charged against this allowance.

Furniture, Equipment, and Leasehold Improvements

Furniture and equipment with a carrying value of \$1,000 or more for the furniture and leasehold improvements of \$2,000 or more are capitalized and reported at cost, and at fair value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally three to five years. Leasehold improvements are generally amortized over the lesser of ten years or the term of the lease. WMC reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Patient Service Fees

WMC has agreements with third-party payors that provide for payment at prospectively determined rates for office visits and the other services provided, which are often different rates from WMC's established rates. Patient service fees are reported at the estimated net realizable amount to be received from third-party payors, including estimated retroactive adjustments under reimbursement and other agreements. Retroactive adjustments are made on an estimated basis in the period the related services have been rendered, and are adjusted in future periods as final settlements are determined.

WMC has a policy of providing care to uninsured self-pay 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 nominal fee for each visit, although no patient is denied services because of an inability to pay. Since management does not expect payment for this care, the services that are discounted from the established rates are excluded from revenue.

For uninsured patients that do not qualify for discount WMC recognizes revenue on the basis of its standard rates for services provided. A significant portion of WMC's uninsured patients will be unable to pay for the services provided. Thus, WMC records a significant provision for bad debts related to uninsured patients in the period the services are provided. WMC also records a provision for doubtful accounts related to third-party payors for services provided.

Revenues from third-party payor agreements are subject to audit and retroactive adjustments. Retroactive adjustments are recorded at the time that such amounts can first be reasonably determined, which is normally upon notification by the paying entity. The WMC receives reimbursements from several sources including Medicaid, Medicare, and private insurers. Payments include reimbursed costs and fees for service charges at discounted rates.

A significant percentage of patient service revenue was for services provided to Medicaid participants. Medicaid revenue represented approximately 70% and 52% of patient service revenue for the years ended June 30, 2019 and 2018, respectively. Medicaid receivables represented approximately 41% and 45% of gross patient receivables at June 30, 2019 and 2018, respectively.

Grant Revenue

WMC 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. WMC administers these funds in accordance with the grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grant receivables.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Grants and Contributions

Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the commitment is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. All grants and contributions are considered available for unrestricted use unless specifically restricted by the donor.

Functional Expense Allocation

Wallace identifies costs as either direct or indirect. Direct costs are those that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Identification with the federal award, rather than the nature of the goods and services involved, is the determining factor in distinguishing direct from indirect costs of federal awards. Typical costs charged directly to a federal award are the compensation of employees who work on that award (note: timecards are utilized for allocation), their related fringe benefit costs, the costs of materials and other items of expense incurred for the federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations. If an expense benefits more than one project, it will be allocated to the programs/projects appropriately and proportionately and are not accounted for more than once.

Advertising and Marketing Expenses

Advertising and marketing costs are charged to expense as they are incurred.

Income Taxes

WMC is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law. In addition, WMC has been recognized as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1) of the IRC. Accordingly, no provision for income taxes is shown in the financial statements. Management evaluated WMC's tax positions and concluded that WMC had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

New Accounting Pronouncement – ASU 2016-14

During the year ended June 30, 2019, WMC adopted a provision of FASB Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions). The adoption of this accounting standard did not have an impact on the WMC's financial position or changes in net assets.

New Accounting Pronouncement – ASU 2014-09

In May 2014, FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Management is currently evaluating the impact of the amended revenue recognition guidance on WMC's financial statements.

New Accounting Pronouncement – ASU 2016-02

FASB issued ASU 2016-02 in February of 2016 pertaining to recording of leases. The standard will not be effective for WMC until the year ending June 30, 2022. Implementation of the new standard can result in changes to the reporting and disclosure of leases. Management is in the process of evaluating the impact on WMC.

Subsequent Events

Subsequent events have been evaluated by management through February 25, 2020, which is the date the financial statements were available to be issued.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 LIQUIDITY AND AVAILABILITY

As of June 30, 2019 and 2018, WMC had days cash on hand (based on normal expenditures) of 148 and 103, respectively. As part of WMC's liquidity management plan, cash in excess of daily requirements are invested in money market funds.

Financial assets available for general expenditure within one year of the statement of financial position date consist of the following:

	2019	2018
Cash and Cash Equivalents	\$ 2,021,047	\$ 1,337,780
Patient Service Fees Receivable, Net	325,553	224,749
Grants, Contributions, and Other Receivables	89,784	145,621
Total Financial Assets	\$ 2,436,384	\$ 1,708,150

Additionally, WMC maintains a \$300,000 line of credit, as discussed in more detail in Note 7. As of June 30, 2019, \$300,000 remained available on WMC's line of credit.

NOTE 3 PATIENT SERVICE FEES RECEIVABLE

WMC reported patient service fees receivable as of June 30 as follows:

	2019	2018
Private Pay and Insurance Receivables	\$ 419,111	\$ 339,505
Less: Allowance for Uncollectible Receivables	308,242	247,381
Subtotal	110,869	92,124
PPS Wrap, NET	214,684	132,625
Total	\$ 325,553	\$ 224,749

NOTE 4 FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

A summary of furniture, equipment, and leasehold improvements as of June 30 as follows:

	2019	2018
Leasehold Improvements	\$ 670,634	\$ 669,242
Furniture and Equipment	664,418	700,197
Subtotal	1,335,052	1,369,439
Less: Accumulated Depreciation and Amortization	712,502	565,981
Furniture, Equipment, and Leasehold Improvements, Net	\$ 622,550	\$ 803,458

Total depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$171,761 and \$181,938, respectively.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at June 30, 2019:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Patient Engagement	\$ 21,990	\$ 27,910
Dental Health and Education	26,084	29,627
Seeing Clearly	2,455	3,155
Patient Support Fund	22,087	10,625
Healthwork Base Camp	2,228	2,228
Outreach Expansion	113,052	82,725
Homeless Patient Support	111,986	125,000
Total	<u>\$ 299,882</u>	<u>\$ 281,270</u>

NOTE 6 OPERATING LEASES

WMC leases certain office space and equipment under noncancelable lease agreements expiring on various dates through April of 2024. At June 30, 2019, WMC's approximate minimum rental commitments under these leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 236,599
2021	128,668
2022	101,833
2023	104,888
2024	88,698
Total	<u>\$ 660,686</u>

Lease expense for these leases totaled \$304,811 and \$290,496 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 LINE OF CREDIT

WMC maintains a line of credit for up to \$300,000, bearing interest at 1.5% over the prime rate as quoted in *The Wall Street Journal*, then rounded to the nearest .125%, but no more than the maximum rate allowed by applicable law. The line matures on February 5, 2020, and is secured by all organizational inventory, chattel paper, accounts, equipment, and general intangible assets. At June 30, 2019 and 2018, the outstanding balance was \$-0-. Interest expense from the line of credit that was incurred during the fiscal years ended June 30, 2019 and 2018 was \$-0-.

**THE WALLACE MEDICAL CONCERN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 8 RETIREMENT PLAN

WMC sponsors a defined contribution retirement savings plan established under Section 401(k) of the IRC. Eligible employees may make voluntary contributions to the plan on a pre-tax basis up to the maximum amount allowed by law. Employee contributions to the plan vest as accrued. WMC may make discretionary contributions to the plan. During the years ended June 30, 2019 and 2018, WMC elected to match employee contributions to the plan up to 2% of gross wages; such contributions totaled \$99,014 and \$81,949, respectively.

NOTE 9 CONTINGENCIES

Certain amounts received or receivable under WMC's contracts with the U.S. Department of Health and Human Services and Multnomah County, Oregon are subject to audit and adjustment by the contracting agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of the organization's general operating funds. In the opinion of WMC's management, any adjustments that might result from such audits would not be material to the organization's overall financial statements.



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
The Wallace Medical Concern
Portland, Oregon

We have audited, in accordance with the 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 The Wallace Medical Concern, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Wallace Medical Concern'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 Wallace Medical Concern's internal control. Accordingly, we do not express an opinion on the effectiveness of The Wallace Medical Concern'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.

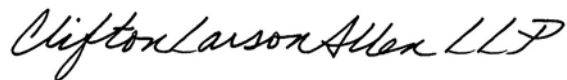
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Wallace Medical Concern’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*.

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 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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Bellevue, Washington
February 25, 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
The Wallace Medical Concern
Portland, Oregon

Report on Compliance for Each Major Federal Program

We have audited The Wallace Medical Concern's 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 Wallace Medical Concern's major federal programs for the year ended June 30, 2019. The Wallace Medical Concern'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 Wallace Medical Concern'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 Wallace Medical Concern'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 Wallace Medical Concern's compliance.

Opinion on Each Major Federal Program

In our opinion, The Wallace Medical Concern 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 June 30, 2019.

Report on Internal Control over Compliance

Management of The Wallace Medical Concern 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 Wallace Medical Concern'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 Wallace Medical Concern'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



CliftonLarsonAllen LLP

Bellevue, Washington
February 25, 2020

**THE WALLACE MEDICAL CONCERN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Health Centers Cluster:				
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program	93.527		\$ -	\$ 2,075,960
Community Health Centers	93.224		-	339,043
			<u>\$ -</u>	<u>\$ 2,415,003</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 2,415,003</u>

**THE WALLACE MEDICAL CONCERN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Wallace Medical Concern under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of 2 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 Wallace Medical Concern, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Wallace Medical Concern.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

NOTE 3 INDIRECT COST RATE

The Wallace Medical Concern has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**THE WALLACE MEDICAL CONCERN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? _____ yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Programs

CFDA Numbers

93.224

93.527

Name of Federal Program or Cluster

Community Health Centers

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

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**THE WALLACE MEDICAL CONCERN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**THE WALLACE MEDICAL CONCERN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

U.S. Department of Health and Human Services

The Wallace Medical Concern respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2018 .

Audit period: June 30, 2017 through June 30, 2018.

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

2018-001 Application of Sliding Fee Discount

Condition: During our testing of 25 sliding fee discounts for health center patients qualifying for discount and adjustment we identified an instance where a patient received a discount and an adjustment without support that the patient had been approved for a discount within the clinic's system for eligibility determination.

Status: Corrected.

Finding 2018-002 Suspension and Debarment

Condition: Internal control over procurement, suspension, and debarment includes procedures that require SAM.gov be checked and a copy of the print out of the System for Award Management shows that the contractor was not suspended or debarred. There were no checks prior to payments.

Status: Corrected.