

**SAN JOSE CLINIC**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2020 AND 2019**

*(With Independent Auditor's Report Thereon)*

**Insight. Oversight. Foresight.<sup>SM</sup>**

 **DoerenMayhew**  
CPAs AND ADVISORS

# SAN JOSE CLINIC

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
of **San Jose Clinic**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of San Jose Clinic (the Clinic), a nonprofit organization, which comprise the statement of financial position as of December 31, 2020, 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.

### **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. 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 Clinic'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 Clinic'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 qualified audit opinion.

**Basis for Qualified Opinion**

We did not observe inventory (stated at \$2,687,252) taken on December 31, 2019. The Clinic's accounting records do not permit us to extend our auditing procedures to obtain sufficient appropriate evidence for beginning balance of inventory amounts noted in the accompanying statement of financial position. Consequently, we were unable to determine whether any adjustments were necessary in the statements of activities and net assets, and statement of cashflows.

**Qualified Opinion**

In our opinion, except for the possible effects on the statement of activities, net assets and cash flows of the matter discussed in the Basis of Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of San Jose Clinic as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Houston, Texas  
June 16, 2021

# SAN JOSE CLINIC

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2020 AND 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 478,930	\$ 462,814
Short-term investments (Notes 3 and 7)	697,240	394,780
United Way pledge receivable (Note 5)	585,801	690,250
Pledges receivable, current portion (Note 5)	588,791	666,501
Other receivables	46,895	29,405
Pharmaceutical inventory (Note 2)	895,188	2,687,252
Prepaid expenses	6,550	9,959
	3,299,395	4,940,961
Non-current assets:		
Pledges receivable, net of current portion (Note 5)	14,188	233,229
Property and equipment, net (Note 6)	484,273	505,636
Long-term investments (Notes 4 and 7)	80,390	73,491
	\$ 3,878,246	\$ 5,753,317
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 88,499	\$ 105,476
Accrued expenses (Note 8)	164,426	130,301
	252,925	235,777
Non-current liabilities:		
Paycheck Protection Program loan (Note 12)	560,300	-
	813,225	235,777
Net assets:		
Without donor restrictions	1,368,243	3,454,684
With donor restrictions (Note 14)	1,696,778	2,062,856
	3,065,021	5,517,540
	\$ 3,878,246	\$ 5,753,317

See accompanying notes to financial statements.

## SAN JOSE CLINIC

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:						
Contributions from United Way	\$ -	\$ 585,803	\$ 585,803	\$ -	\$ 690,252	\$ 690,252
Other public support	1,430,556	903,267	2,333,823	808,071	2,114,675	\$ 2,922,746
Contributions in-kind	5,056,387	-	5,056,387	6,836,161	-	6,836,161
Investment income	6,409	-	6,409	13,166	-	13,166
Program service contributions	492,379	-	492,379	839,095	-	839,095
Other income	8,979	-	8,979	6,413	-	6,413
Net assets released from restrictions (Note 15)	1,855,148	(1,855,148)	-	2,101,815	(2,101,815)	-
 Total public support and revenue	 8,849,858	 (366,078)	 8,483,780	 10,604,721	 703,112	 11,307,833
Expenses:						
Program services - medical services to indigent persons	9,763,381	-	9,763,381	8,987,088	-	8,987,088
Support services:						
Management and general	623,011	-	623,011	600,592	-	600,592
Fund-raising	549,907	-	549,907	569,979	-	569,979
 Total expenses	 10,936,299	 -	 10,936,299	 10,157,659	 -	 10,157,659
 Change in net assets	 (2,086,441)	 (366,078)	 (2,452,519)	 447,062	 703,112	 1,150,174
 Net assets, beginning of year	 3,454,684	 2,062,856	 5,517,540	 3,007,622	 1,359,744	 4,367,366
 Net assets, end of year	 <u>\$ 1,368,243</u>	 <u>\$ 1,696,778</u>	 <u>\$ 3,065,021</u>	 <u>\$ 3,454,684</u>	 <u>\$ 2,062,856</u>	 <u>\$ 5,517,540</u>

See accompanying notes to financial statements.

# SAN JOSE CLINIC

## STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020				2019			
	Medical Services to Indigent Persons	Management and General	Fund-raising	Total	Medical Services to Indigent Persons	Management and General	Fund-raising	Total
Personnel costs:								
Salaries	\$ 1,708,878	\$ 373,732	\$ 317,286	\$ 2,399,896	\$ 1,626,254	\$ 417,007	\$ 264,475	\$ 2,307,736
Employee benefits	220,905	71,912	28,452	321,269	215,195	44,979	30,212	290,386
Payroll taxes	127,030	27,924	23,806	178,760	122,507	29,597	19,644	171,748
Total personnel costs	2,056,813	473,568	369,544	2,899,925	1,963,956	491,583	314,331	2,769,870
Donated services	867,170	-	60	867,230	1,150,272	-	5,432	1,155,704
Occupancy	757,082	42,060	42,060	841,202	760,410	42,245	42,245	844,900
Supplies	5,286,583	8,146	5,927	5,300,656	4,418,086	3,302	8,992	4,430,380
Professional & Medical Fees	424,219	43,633	30,460	498,312	289,039	36,114	82,165	407,318
Clinical service expense	81,474	311	713	82,498	124,852	999	1,043	126,894
Computer	55,526	4,059	33,500	93,085	89,133	-	17,657	106,790
Building services	52,229	623	-	52,852	40,929	1,086	650	42,665
Telephone	27,300	1,517	1,517	30,334	12,008	667	667	13,342
Liability insurance	21,600	-	-	21,600	21,600	-	-	21,600
Auto & Travel	285	2,488	1,615	4,388	517	2,949	1,631	5,097
Miscellaneous	24,683	25,660	6,475	56,818	27,165	771	7,551	35,487
Postage and shipping	738	433	3,318	4,489	609	430	3,013	4,052
Conference and meetings	12,422	12,139	38,012	62,573	16,083	16,818	68,155	101,056
Equipment rental and maintenance	29,557	-	2,500	32,057	27,059	-	-	27,059
Printing and publications	8,486	7,929	13,761	30,176	4,567	3,322	16,141	24,030
Assistance to individuals	13,625	-	-	13,625	12,220	-	-	12,220
Total expenses before depreciation and amortization	9,719,792	622,566	549,462	10,891,820	8,958,505	600,286	569,673	10,128,464
Depreciation	43,589	445	445	44,479	28,583	306	306	29,195
Total expenses	\$ 9,763,381	\$ 623,011	\$ 549,907	\$ 10,936,299	\$ 8,987,088	\$ 600,592	\$ 569,979	\$ 10,157,659

See accompanying notes to financial statements.

# SAN JOSE CLINIC

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (2,452,519)	\$ 1,150,174
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	44,479	29,195
Unrealized gain on investments	(6,899)	(4,832)
In-kind usage (contribution) of pharmaceutical inventory	1,792,064	(660,112)
Changes in operating assets and liabilities:		
Decrease in United Way pledge receivable	104,449	36,322
Decrease (increase) in pledges receivable	296,751	(509,270)
Increase in other receivables	(17,490)	(6,639)
Decrease in prepaid expenses	3,411	14,141
(Decrease) increase in accounts payable	(16,979)	86,889
Increase in accrued expenses	34,125	7,152
	(218,608)	143,020
 Cash flows from investing activities:		
Purchases of property and equipment	(23,116)	(414,663)
Proceeds from short-term investments	100,540	76,742
Purchase of short-term investments	(403,000)	-
	(325,576)	(337,921)
 Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan	560,300	-
	560,300	-
 Net increase (decrease) in cash and cash equivalents	16,116	(194,901)
 Cash and cash equivalents, beginning of year	462,814	657,715
 Cash and cash equivalents, end of year	\$ 478,930	\$ 462,814

See accompanying notes to financial statements.



# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Note 1 - Description of Organization

San Jose Clinic (the Clinic) is a nonprofit organization rendering medical aid and services to indigent persons, regardless of their ability to pay. The mission of the Clinic is to provide quality healthcare and education to those with limited access to such services in an environment which respects the dignity of each person. The Clinic is an agency of the Archdiocese of Galveston-Houston (the Archdiocese). The Clinic is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

### Note 2 - Summary of Significant Accounting Policies

#### Basis of Presentation

The Clinic's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under generally accepted accounting principles, the Clinic is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, net assets of the Clinic and changes therein are classified and reported as follows:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or Board of Directors (Board) designation.

*Net assets with donor restrictions:* Net assets subject to donor-imposed restrictions. Donor-imposed restrictions may be 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 may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

If donor-imposed restrictions are met in the same reporting period as the contribution was recognized as revenue, the Clinic reports such contributions as an increase in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions and when the restriction expires or is satisfied, these net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. United Way contributions are recorded as with donor restriction contributions until the year they are to be utilized for operations. Expenses are generally reported as decreases in net assets without donor restrictions.

#### Cash and Cash Equivalents

The Clinic considers all demand deposits, certificates of deposit, and highly liquid investments with maturity dates of less than three months at date of purchase, other than those held for long-term investment, to be cash equivalents.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Certificate of Deposit

The Clinic considers highly liquid investments with maturity dates of less than one year but more than three months at date of purchase to be cash held for long-term investments. Income earned on investments is recorded as income without donor restrictions unless the donor specifies otherwise.

#### Allowance for Uncollectible Accounts

An allowance for contributions and pledges receivable is provided when it is believed amounts may not be collected in full. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and account by account analysis of balances each period. Receivables are written off as a charge to the allowance for uncollectible accounts when management determines the receivable will not be collected. It is possible that management's estimates regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables. At December 31, 2020 and 2019, no allowance was established for potentially uncollectible accounts.

#### Investments

Investments are recorded at fair value. Investment income is reported in the statement of activities and changes in net assets as an increase in net assets without donor restrictions unless the use of the income is limited by donor-imposed restrictions. Investment income whose use is restricted by the donor is reported as an increase in net assets with donor restrictions until expended in accordance with donor-imposed restrictions.

#### Contributions and Pledges Receivable

Contributions are recorded as revenue in the year they are received unless they contain a conditional promise to give. Conditional promises to give are recorded as revenue when the conditions on which they depend are substantially met. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Amortization of the discount is included in contribution revenue.

#### Property and Equipment

Property, equipment and leasehold improvements are recorded at cost if purchased or, if donated, at the approximate fair value at the date of donation. Property and Equipment over \$4,000 are capitalized. Fair values are determined by Clinic personnel familiar with the items donated. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets which range from 5 to 20 years or the life of the lease, if shorter. Maintenance and repairs are charged to expense while expenditures for improvements are capitalized.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Paycheck Protection Program (PPP) Loan Accounting - Debt Model

San Jose Clinic elected to account for its PPP funds utilizing the Debt Accounting Model. Under the Debt Model the PPP loan proceeds would be recorded as a liability and interest would also be recorded. Once the entity is legally released as the primary obligor from the creditor, the liability would be derecognized and a gain on “PPP loan extinguishment” would be recorded.

#### Program Service Contributions

Program service contributions represent amounts contributed by patients based on services provided and the patients’ ability to pay and are recorded as revenue at fair value when an unconditional commitment is received from the patient.

#### Contributions In-Kind

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair market value of the services provided. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

#### Pharmaceutical Inventory

Inventory is valued at lower cost or market. Inventory consists primarily of medicines and medical supplies to be used on patients. At December 31, 2020 and 2019, the inventory included donated medicines to be used on patients of \$895,188 and \$2,687,252, respectively.

#### Liability Insurance

The Clinic is a participant of the CHRISTUS Health Group Property and Liability Insurance Trust (the Trust) for professional and comprehensive general liability insurance for any employee or volunteer of the Clinic. The Clinic would have contributed approximately \$21,600 per year for 2020 as a participant of the Trust; however, during 2020, the Trust waived the fee.

#### Income Taxes

The Clinic is a nonprofit corporation and is exempt from Federal income taxes on related income under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Income Taxes (Continued)

Accounting principles generally accepted in the United States of America require the Clinic's management to evaluate tax positions taken by the Clinic and recognize a tax liability (or asset) if the Clinic has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure within the financial statements. The Clinic is subject to audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

#### Functional Allocation of Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. The majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among the program and supporting services benefited based on square footage of office space occupied, salaries and other basis determined by the management of the Clinic.

#### 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 in the Clinic's financial statements and accompanying notes. Actual results could differ from those estimates.

#### Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications have no effect on the reported results of operations.

### Note 3 - Short-Term Investments

Short-term investments consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 688,911	\$ 387,821
Money market fund	<u>8,329</u>	<u>6,959</u>
Total short-term investments	<u>\$ 697,240</u>	<u>\$ 394,780</u>

For the years ended December 31, 2020 and 2019, investment income consisted of the interest income in the amount of \$6,409 and \$13,166, respectively.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### Note 4 - Long-Term Investments

Investments are stated at fair value and consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Certificate of deposit, coupon rate 2.70%, maturing February 15, 2023	\$ 80,390	\$ 73,491

For the years ended December 31, 2020 and 2019, unrealized loss on investments was \$3,899 and \$4,832, respectively.

### Note 5 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Amounts to be collected in one year or less:		
United Way receivable	\$ 585,801	\$ 690,250
Other pledges receivable	588,791	666,501
Amounts to be collected in one to five years	<u>16,000</u>	<u>256,078</u>
 Total pledges receivable	 1,190,592	 1,612,829
 Less: discount on pledges receivable	 <u>(1,812)</u>	 <u>(22,849)</u>
 Total pledges receivable, net	 <u>\$ 1,188,780</u>	 <u>\$ 1,589,980</u>

### Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	\$ 565,693	\$ 546,578
Building	335,080	335,080
Leasehold improvements	<u>67,500</u>	<u>63,500</u>
 Total property and equipment	 968,273	 945,158
 Less: accumulated depreciation and amortization	 <u>(484,000)</u>	 <u>(439,522)</u>
 Total property and equipment, net	 <u>\$ 484,273</u>	 <u>\$ 505,636</u>

Depreciation and amortization expenses amounted to \$44,479 and \$29,195 in 2020 and 2019, respectively.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### Note 7 - Fair Value of Financial Instruments

The Clinic's financial instruments are recorded at fair value. In accordance with accounting principles generally accepted in the United States of America, "fair value" is defined as 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. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical investments.

Level 2 - other significant observable inputs (including quoted prices for similar investments in active markets or in markets not considered to be active).

Level 3 - significant unobservable inputs (including the Clinic's own assumptions in determining fair value of investments).

Financial instruments measured at fair value on a recurring basis at December 31, 2020 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 80,390	\$ -	\$ 80,390
Money market mutual funds	<u>697,240</u>	<u>-</u>	<u>-</u>	<u>697,240</u>
Total assets	<u>\$ 697,240</u>	<u>\$ 80,390</u>	<u>\$ -</u>	<u>\$ 777,630</u>

Financial instruments measured at fair value on a recurring basis at December 31, 2019 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 73,491	\$ -	\$ 73,491
Money market mutual funds	<u>394,780</u>	<u>-</u>	<u>-</u>	<u>394,780</u>
Total assets	<u>\$ 394,780</u>	<u>\$ 73,491</u>	<u>\$ -</u>	<u>\$ 468,271</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

Certificates of deposit are stated at their approximate fair value because of the short maturities of those investments. Mutual funds are valued at the net asset value of shares held at year end as reported on the active market on which the securities are traded. Money market accounts are valued at year end cost which approximates market value.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### **Note 7 - Fair Value of Financial Instruments (Continued)**

The inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security. Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

### **Note 8 - Compensated Absences**

Employees earn annual vacation leave monthly and are allowed to accrue up to 80 vacation hours. Accrued vacation hours are payable upon termination. The Clinic had accrued approximately \$51,038 and \$42,281 at December 31, 2020 and 2019, respectively, related to earned vacation.

### **Note 9 - Contributions In-Kind**

On January 10, 2010, the Clinic moved its operations to a building located at 2615 Fannin Street, Houston, Texas 77002. The building is owned and managed by CHRISTUS Health Group (CHRISTUS). The Clinic signed a lease agreement with CHRISTUS for 15 years with an annual payment of \$1 which includes office space and utilities. The estimated fair rental value of \$841,202 and \$844,900 has been recorded as contributions in-kind and as occupancy expense for the year ended December 31, 2020 and 2019.

The Clinic receives donations of vaccines, medication and other clinical supplies. These items are valued at the estimated fair value as determined by a third-party. For the year ended December 31, 2020 and 2019, the Clinic received donations of these supplies amounting to \$3,326,355 and \$4,813,957 respectively.

The Clinic also receives contributed services, which are donations of physician's services and other volunteer services requiring specialized skills. Contributed services of \$541,203 and \$729,635 were recorded in 2020 and 2019, respectively.

The Clinic also receives contributed lab services, which are donations of a facility that provides the services. Contributed lab services of \$326,028 and \$426,068 were recorded in 2020 and 2019, respectively.

Furthermore, as stated in note 2, the Clinic receives property and liability insurance coverage from the Trust, in the amount of \$21,600 per year for both 2020 and 2019.

### **Note 10 - Related Party Transactions**

#### Contributions

Support recognized from the Archdiocese, a member of the Board of Directors, in the form of cash contributions were \$423,731 and \$344,717 to the Clinic in 2020 and 2019, respectively, and are included in other public support. As of December 31, 2020 and 2019, the Clinic has a pledge receivable from the Archdiocese for \$112,500.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Note 11 - Line-of-Credit

On December 5, 2019, the Clinic obtained a revolving line-of-credit for \$250,000 from a bank. The interest rate is 3.56%, payable annually. Any amount outstanding on the line is due on maturity, December 4, 2021. At December 31, 2020 and 2019, no balance was advanced from the line-of-credit.

### Note 12 - Paycheck Protection Program

On April 20, 2020, San Jose Clinic entered into a Loan Agreements and Promissory Notes (SBA Loan) pursuant to the Paycheck Protection Program (PPP) under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) administered by the U.S. Small Business Administration.

The Clinic received total loan proceeds of \$560,300. The loan is scheduled to mature on April 20, 2022, carries a 1.00% interest rate, and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be prepaid by the Clinic at any time prior to maturity with no prepayment penalties. The loan contains customary events of default relating to, among other things, payment defaults and breaches of representations and warranties. Subject to certain conditions, the loan may be forgiven in whole or in part by applying for forgiveness pursuant to the CARES Act and the PPP. The amount of loan proceeds eligible for forgiveness is determined on a formula based on a number of factors, including the amount of loan proceeds used by the Clinic during the 8 weeks after the loan origination for certain purposes, including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments, provided that, among other matters, at least 85% of the loan amount is used for eligible payroll costs, the maintenance or rehiring of employees, and maintaining salaries at certain levels. In accordance with the requirements of the CARES Act and the PPP, the Clinic used the proceeds from the loan primarily for payroll costs. The Clinic applied for loan forgiveness and was granted forgiveness in full for the loan balance on April 6, 2021.

### Note 13 - Commitments and Contingencies

The Clinic leases equipment under various operating lease agreements expiring through 2022. For 2020 and 2019, rental expense amounted to \$7,925 and \$7,923, respectively. Minimum future lease commitments under operating leases at December 31, 2020 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 7,923
2022	<u>2,641</u>
Total	<u>\$ 10,564</u>



# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### Note 14 - Net Assets with Donor Restrictions

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

	2020	2019
Purpose restrictions:		
Fort Bend location	\$ 428,613	\$ 409,977
Dental program	63,761	60,000
Mental health program	-	6,261
Primary care physician/nurse	-	4,864
Medical equipment	5,000	2,100
100-year anniversary research project	10,000	-
Telehealth	28,602	-
Pharmacy	1,000	-
Time restrictions:		
United Way	585,803	690,252
Catholic Charities	141,109	350,411
George Foundation	100,000	200,000
Houston Methodist	140,000	150,000
Archdiocese of Galveston-Houston	112,500	112,500
Subject to restriction in perpetuity	80,390	76,491
Total net assets with donor restrictions	\$ 1,696,778	\$ 2,062,856

### Note 15 - Net Assets Released from Donor Restrictions

During the years ended December 31, 2020 and 2019, net assets were released from donor restrictions in the amount of \$1,855,148 and \$2,101,815, respectively, by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors.

### Note 16 - Endowment Funds

The Clinic has a donor-restricted endowment fund for operations which is maintained in accordance with explicit donor stipulations. The Board of Directors of the Clinic has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Clinic classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Clinic in a manner consistent with the standard of prudence prescribed by TUPMIFA.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

### Note 16 - Endowment Funds (Continued)

In accordance with TUPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Clinic and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Clinic
- The investment policies of the Clinic

Endowment funds are maintained in an investment account which is managed by an independent financial firm that follows guidance provided in an investment policy approved by the Board of Directors. The Clinic has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment funds have not been spent since inception; no spending policy is currently in place. The Clinic is working on implementing a spending policy in 2021.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Clinic to retain as a fund of perpetual duration.

Endowment net assets consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Original donor restricted gift amount required to be maintained in perpetuity by donor	<u>\$ 80,390</u>	<u>\$ 76,491</u>

### Note 17 - Risk and Concentrations

As of December 31, 2020, the United Way's pledge and two donors' pledges make up approximately 70% of total pledges receivable. As of December 31, 2019, the United Way's pledge and two donors' pledge make up approximately 77% of total pledges receivable.

As of December 31, 2020, two vendors represented approximately 33% of total expenses. As of December 31, 2019, one vendor represented approximately 14% of total expenses.

### Note 18 - Credit Risk

The Clinic maintains its cash balances in a financial institution where at times, the Clinic's bank deposits in the financial institution exceed the prevailing federally insured limit per depositor per banking institution. The risk is mitigated by the financial strength of the financial institution where the deposits are held. As of December 31, 2020, the Clinic had uninsured amount of \$175,523.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Note 19 - Retirement Plan

The Clinic established a defined-contribution benefit plan in July 2011 that provides benefits for all eligible employees. The Clinic provides a 100% match on the first 3% employee contribution and a 50% match on the next 2% employee contribution. The Clinic contributes up to 4% on employee contributions. Contributions of \$55,506 and \$55,707 by the Clinic were charged to expense during the year ended December 31, 2020 and 2019, respectively.

### Note 20 - Liquidity and Availability of Resources

The following table reflects The Clinic's financial assets at December 31, 2020, reduced by amounts not anticipated to be available for general expenditure within one year of the statement of financial position date. Financial assets are considered unavailable when illiquid or they are not convertible to cash within one year. Financial assets are available for general expenditure if they do not have donor or other restrictions limiting their use through purpose restrictions.

Financial assets available within one year:	<u>Amount</u>
Cash and cash equivalents	\$ 478,930
Short-term investments	697,240
Pledges receivable	1,174,592
Other receivable	<u>46,895</u>
Total financial assets available within one year	2,397,657
Amounts unavailable for general expenditure within one year:	
Restricted by donors with purpose restrictions	<u>(536,976)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,860,681</u>

The Clinic regularly monitors liquidity required to meet its operational needs and other contractual commitments. The Clinic has various sources of liquidity, including cash, cash equivalents and investments. Excess funds are invested for long-term appreciation and current income but remain available to be spent at the Board's discretion.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Clinic considers all expenditures related to its ongoing program activities and support services to be general expenditures. The Clinic strives to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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### Note 21 - Subsequent Events

On March 12, 2021, the Clinic obtained a second Paycheck Protection Program Loan (PPP Loan) of \$594,900, which is also guaranteed by the U.S. Small Business Administration. The PPP Loan is due in equal principal payments beginning April 12, 2021, with final payment due March 15, 2026. The PPP Loan has a fixed interest rate of 1.00%, with accrued interest payable monthly beginning April 12, 2021. PPP Loan may be forgiven, in whole or in part, if The Clinic complies with certain requirements of the CARES Act.

On April 6, 2021, The Clinic was approved for the loan forgiveness of the first Paycheck Protection Program Loan (PPP Loan) of \$560,300 in full by the U.S. Small Business Administration.

On May 7, 2021, the Clinic transferred the fair value of the investments held for the endowment fund to the Catholic Endowment Foundation of Galveston-Houston (CEFG). The Clinic transferred the funds after entering into a contract with CEFG to manage the endowment fund.

Management has evaluated subsequent events through June 16, 2021, the date which the financial statements were available to be issued. Management has determined that there are no other subsequent events requiring recognition or disclosure in the financial statements.

**\* \* \* End of Notes \* \* \***