

**SAN JOSE CLINIC**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

*(With Independent Auditor's Report Thereon)*

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

 **DoerenMayhew**  
CPAs AND ADVISORS

**SAN JOSE CLINIC**

**TABLE OF CONTENTS**

---

	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	3
Statements of Activities and Changes in Net Assets .....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows.....	6
Notes to Financial Statements .....	7

## **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 statements of financial position as of December 31, 2018 and 2017, 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 audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Clinic as of December 31, 2018 and 2017, 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.

A handwritten signature in cursive script that reads "Doeren Mayhew".

Houston, Texas  
August 21, 2019

# SAN JOSE CLINIC

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 657,715	\$ 448,063
Short-term investments (Notes 3 and 7)	471,522	1,047,286
United Way pledge receivable (Note 5)	726,572	741,402
Pledges receivable, current portion (Note 5)	365,260	403,889
Other receivables	22,766	11,895
Prepaid expenses	24,098	19,920
Total current assets	2,267,933	2,672,455
Non-current assets:		
Pledges receivable, net of current portion (Note 5)	25,200	36,179
Property and equipment, net (Note 6)	120,168	152,006
Long-term investments (Notes 4 and 7)	68,659	-
Total assets	\$ 2,481,960	\$ 2,860,640
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 18,585	\$ 23,829
Accrued expenses (Note 8)	123,149	125,097
Note payable - current portion (Note 11)	-	1,656
Total liabilities	141,734	150,582
Net assets:		
Without donor restrictions	980,482	1,640,035
With donor restrictions (Note 13)	1,359,744	1,070,023
Total net assets	2,340,226	2,710,058
Total liabilities and net assets	\$ 2,481,960	\$ 2,860,640

See accompanying notes to financial statements.

## SAN JOSE CLINIC

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:						
Contributions from United Way	\$ -	\$ 726,572	\$ 726,572	\$ -	\$ 741,402	\$ 741,402
Other public support	1,380,601	597,125	1,977,726	2,898,352	700,155	\$ 3,598,507
Contributions in-kind	7,766,631	-	7,766,631	11,390,129	-	11,390,129
Investment income	825	-	825	1,602	-	1,602
Program service contributions	795,112	-	795,112	736,923	-	736,923
Other income	11,828	-	11,828	10,963	-	10,963
Net assets released from restrictions (Note 14)	1,033,976	(1,033,976)	-	1,421,212	(1,421,212)	-
<b>Total public support and revenue</b>	<b>10,988,973</b>	<b>289,721</b>	<b>11,278,694</b>	<b>16,459,181</b>	<b>20,345</b>	<b>16,479,526</b>
Expenses:						
Program services - medical services to indigent persons	10,394,474	-	10,394,474	13,992,776	-	13,992,776
Support services:						
Management and general	667,833	-	667,833	644,024	-	644,024
Fund-raising	586,219	-	586,219	545,264	-	545,264
<b>Total expenses</b>	<b>11,648,526</b>	<b>-</b>	<b>11,648,526</b>	<b>15,182,064</b>	<b>-</b>	<b>15,182,064</b>
Change in net assets	(659,553)	289,721	(369,832)	1,277,117	20,345	1,297,462
Net assets, beginning of year	1,640,035	1,070,023	2,710,058	362,918	1,049,678	1,412,596
Net assets, end of year	<u>\$ 980,482</u>	<u>\$ 1,359,744</u>	<u>\$ 2,340,226</u>	<u>\$ 1,640,035</u>	<u>\$ 1,070,023</u>	<u>\$ 2,710,058</u>

See accompanying notes to financial statements.

## SAN JOSE CLINIC

### STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	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	\$ 1,663,879	\$ 373,424	\$ 271,135	\$ 2,308,438	\$ 1,656,801	\$ 374,399	\$ 270,729	\$ 2,301,929
Employee benefits	190,801	32,812	31,077	254,690	215,926	48,067	29,442	293,435
Payroll taxes	138,042	28,595	20,856	187,493	127,104	27,401	20,654	175,159
Total personnel costs	1,992,722	434,831	323,068	2,750,621	1,999,831	449,867	320,825	2,770,523
Donated services	1,171,181	77,304	5,928	1,254,413	1,394,686	73,399	4,826	1,472,911
Occupancy	760,410	42,245	42,245	844,900	762,481	42,245	42,245	846,971
Supplies	5,828,138	2,370	2,997	5,833,505	9,188,702	4,228	2,119	9,195,049
Professional fees	494,628	81,679	169,810	746,117	506,477	24,040	127,112	657,629
Telephone	19,192	748	665	20,605	19,668	720	637	21,025
Liability insurance	19,440	1,080	1,080	21,600	19,440	1,080	1,080	21,600
Auto & Travel	518	367	1,302	2,187	134	10	469	613
Miscellaneous	16,755	776	22,369	39,900	12,360	3,632	9,833	25,825
Postage and shipping	2,422	355	1,251	4,028	3,529	340	3,943	7,812
Conference and meetings	9,681	23,493	1,673	34,847	15,521	16,655	17,373	49,549
Purchase of property and equipment	1,580	-	-	1,580	6,426	-	-	6,426
Equipment rental and maintenance	29,223	-	-	29,223	16,603	-	-	16,603
Printing and publications	8,109	2,047	13,293	23,449	10,918	3,546	14,802	29,266
Assistance to individuals	9,713	-	-	9,713	28,212	-	-	28,212
Total expenses before depreciation and amortization	10,363,712	667,295	585,681	11,616,688	13,984,988	619,762	545,264	15,150,014
Depreciation	30,762	538	538	31,838	30,724	663	663	32,050
Total expenses	<u>\$ 10,394,474</u>	<u>\$ 667,833</u>	<u>\$ 586,219</u>	<u>\$ 11,648,526</u>	<u>\$ 14,015,712</u>	<u>\$ 620,425</u>	<u>\$ 545,927</u>	<u>\$ 15,182,064</u>

See accompanying notes to financial statements.

# SAN JOSE CLINIC

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (369,832)	\$ 1,297,462
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	31,838	32,050
Unrealized loss on investments	1,727	153
Changes in operating assets and liabilities:		
United Way pledge receivable	14,830	-
Decrease (increase) in Pledges receivable	49,608	(186,130)
Increase in Other receivables	(10,871)	(8,471)
Increase in Prepaid expenses	(4,178)	(19,920)
Decrease in Accounts payable	(5,244)	(14,950)
(Decrease) increase in Accrued expenses	(1,948)	37,708
Decrease in Deferred revenue	-	(30,550)
	(294,070)	1,107,352
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	-	(11,787)
Proceeds from long-term investments	574,037	69,867
Purchase of short-term investments	(68,659)	(909,487)
	505,378	(851,407)
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Payments on notes payable	(1,656)	(37,262)
	(1,656)	(37,262)
Net cash used in financing activities		
Net increase in cash and cash equivalents	209,652	218,683
Cash and cash equivalents, beginning of year	448,063	229,380
Cash and cash equivalents, end of year	\$ 657,715	\$ 448,063
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ -	\$ 1,107

See accompanying notes to financial statements.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

---

### 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 Home 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, 2018 AND 2017

---

### 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, 2018 and 2017, 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.

#### 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 \$1,000 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, 2018 AND 2017

---

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

#### 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

The Clinic maintains supplies of drugs, which are distributed to patients free of charge. The drug inventory is of nominal value to the Clinic and is, therefore, charged to expense when purchased.

#### 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 both 2018 and 2017 as a participant of the Trust; however, during 2018 and 2017, 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).

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, 2018, 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.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

---

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

#### 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.

#### Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amended the reporting model for nonprofit organizations and enhanced required disclosures. The Clinic adopted ASU 2016-14 during fiscal year 2018, with retrospective application to fiscal year 2017. The changes to the Clinic's financial statements as a result of adopting ASU 2016-14 include (a) the presentation of two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (c) modifying other disclosures intended to increase the usefulness of the financial statements.

#### Reclassification

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Total equity and net income are unchanged due to these reclassifications.

### Note 3 - Short-Term Investments

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

	<u>2018</u>	<u>2017</u>
Money market fund	<u>\$ 471,522</u>	<u>\$ 1,047,286</u>

For the years ended December 31, 2018 and 2017, investment income consisted of the interest income in the amount of \$825 and \$1,602, respectively.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### Note 4 - Long-Term Investments

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

	<u>2018</u>	<u>2017</u>
Certificate of deposit, coupon rate 2.70%, maturing February 15, 2023	\$ 68,659	\$ -

For the years ended December 31, 2018 and 2017, unrealized loss on investments were \$153 and \$1,727, respectively.

### Note 5 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Amounts to be collected in one year or less:		
United Way receivable	\$ 726,572	\$ 741,402
Other pledges receivable	365,260	415,784
Amounts to be collected in one to five years	<u>25,200</u>	<u>36,179</u>
Total pledges receivable	<u>\$ 1,117,032</u>	<u>\$ 1,193,365</u>

### Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Furniture, fixtures and equipment	\$ 701,650	\$ 701,650
Leasehold improvements	<u>63,500</u>	<u>63,500</u>
Total property and equipment	765,150	765,150
Less: accumulated depreciation and amortization	<u>(644,982)</u>	<u>(613,144)</u>
Property and equipment, net	<u>\$ 120,168</u>	<u>\$ 152,006</u>

Depreciation and amortization expense amounted to \$31,838 and \$32,050 in 2018 and 2017, respectively.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### 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, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 68,659	\$ -	\$ 68,659
Money market fund (at cost)	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,522</u>
Total assets	<u>\$ -</u>	<u>\$ 68,659</u>	<u>\$ -</u>	<u>\$ 540,181</u>

Financial instruments measured at fair value on a recurring basis at December 31, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market fund (at cost)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,047,286</u>
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,047,286</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, 2018 and 2017.

Certificates of deposit are stated at their approximate fair value because of the short maturities of those investments. Money market accounts are valued at year end cost which approximates market value.

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.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

---

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

Employees earn annual vacation leave monthly and are allowed to accrue up to 64 vacation hours. Accrued vacation hours are payable upon termination. The Clinic had accrued approximately \$42,281 and \$43,075 at December 31, 2018 and 2017, 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 \$844,900 has been recorded as contributions in-kind and as occupancy expense for the years ended December 31, 2018 and 2017.

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 years ended December 31, 2018 and 2017, the Clinic received donations of these supplies amounting to \$5,645,717 and \$9,047,987, respectively.

The Clinic also receives contributed services, which are donations of physician's services and other volunteer services requiring specialized skills. Contributed services of \$979,107 and \$1,047,776 were recorded in 2018 and 2017, respectively.

The Clinic also receives contributed lab services, which are donations of a facility that provides the services. Contributed lab services of \$275,307 and \$425,135 were recorded in 2018 and 2017, 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 2018 and 2017.

### **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 \$403,004 and \$438,102 to the Clinic in 2018 and 2017, respectively, and are included in other public support. As of December 31, 2018 and 2017, the Clinic has a pledge receivable from the Archdiocese for \$100,000.

### **Note 11 - Note Payable**

On September 1, 2013, the Clinic obtained a term loan for \$202,687 from a bank. The interest rate is 3.50%, payable monthly. Principal and interest payments in the amount of \$3,170 are due on the 15<sup>th</sup> of each month. The note matures on August 1, 2019. The Clinic paid the balance owed in full on January 1, 2018. At December 31, 2018 and 2017, the balanced owed was \$- and \$1,656, respectively.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### Note 12 - Commitments and Contingencies

The Clinic leases equipment under various operating lease agreements expiring through 2022. For 2018 and 2017, rental expense amounted to \$14,614 and \$9,770, respectively. Minimum future lease commitments under operating leases at December 31, 2018 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 7,923
2020	7,923
2021	7,923
2022	<u>1,985</u>
Total	<u>\$ 25,754</u>

### Note 13 - Net Assets with Donor Restrictions

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

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Mental health program	\$ 61,887	\$ 41,290
Dental program	78,072	65,139
Primary care physician/nurse	122,491	23,654
Diabetic program	45,275	20,850
Pharmacy	38,302	-
Nutrition program	-	216
Ultrasound maintenance	3,138	3,637
Radiology program	29,140	2,467
Pediatric program	10,000	-
Fort Bend location	145,000	-
Time restrictions:		
United Way	726,572	741,402
Other	<u>30,000</u>	<u>101,500</u>
Subject to restriction in perpetuity	<u>69,867</u>	<u>69,867</u>
Total net assets with donor restrictions	<u>\$ 1,359,744</u>	<u>\$ 1,070,023</u>

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

---

### Note 14 - Net Assets Released from Donor Restrictions

During the years ended December 31, 2018 and 2017, net assets were released from donor restrictions in the amount of \$1,033,976 and \$1,421,212, respectively, by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors.

### Note 15 - 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.

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 2019.

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.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

---

### Note 15 - Endowment Funds (Continued)

Endowment net assets consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Original donor restricted gift amount required to be maintained in perpetuity by donor	<u>\$ 69,867</u>	<u>\$ 69,867</u>

### Note 16 - Risk and Concentrations

As of December 31, 2018, the United Way's pledge makes up approximately 64% of total pledges receivable. As of December 31, 2017, the United Way's pledge makes up approximately 63% of total pledges receivable.

### Note 17 - 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.

### Note 18 - 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 \$55,707 and \$66,484 by the Clinic were charged to expense during the years ended December 31, 2018 and 2017, respectively.

# SAN JOSE CLINIC

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

---

### Note 19 - Liquidity and Availability of Resources

The following table reflects The Clinic's financial assets at December 31, 2018, 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	\$ 657,715
Short-term investments	470,314
Pledges receivable	1,117,032
Other receivable	<u>22,766</u>
 Total financial assets available within one year	 2,267,827
 Amounts unavailable for general expenditure within one year:	
Restricted by donors with purpose restrictions	<u>(533,305)</u>
 Total financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 1,734,522</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.

### Note 20 - Subsequent Events

On July 12, 2019, the Clinic was approved for a line of credit in the amount of \$250,000. Management has evaluated subsequent events through August 21, 2019 the date which the financial statements were available to be issued. Management has determined that there are no other subsequent events requiring disclosure in the financial statements.

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