

SAN JOSE CLINIC

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(With Independent Auditor's Report Thereon)

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 **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, 2019, 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

The Clinic’s accounting records do not permit us to extend our auditing procedures to obtain sufficient appropriate evidence for 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 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, 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Updated Opinion on Prior Year Financial Statements

In our report dated August 21, 2019, we expressed an opinion that the 2018 financial statements were fairly stated in all material respects and the financial position, statements of activities and changes in net assets, functional expenses and cash flows were in conformity with accounting principles generally accepted in the United States of America. As described in Note 19 to the financial statements, the Clinic restated its 2018 financial statements to include an inventory balance that existed but was not previously reported. We did not observe the inventory at December 31, 2018 and were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures. Accordingly, our present opinion on the 2018 financial statements, as presented herein, is qualified which is different from that expressed in our previous report.



Houston, Texas
June 26, 2020

SAN JOSE CLINIC

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2019 AND 2018

<u>Assets</u>	<u>2019</u>	<u>Restated 2018</u>
Current assets:		
Cash and cash equivalents	\$ 462,814	\$ 657,715
Short-term investments (Notes 3 and 7)	394,780	471,522
United Way pledge receivable (Note 5)	690,250	726,572
Pledges receivable, current portion (Note 5)	666,501	365,260
Other receivables	29,405	22,766
Pharmaceutical inventory (Note 1)	2,687,252	2,027,140
Prepaid expenses	9,959	24,098
Total current assets	4,940,961	4,295,073
Non-current assets:		
Pledges receivable, net of current portion (Note 5)	233,229	25,200
Property and equipment, net (Note 6)	505,636	120,168
Long-term investments (Notes 4 and 7)	73,491	68,659
Total assets	\$ 5,753,317	\$ 4,509,100
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 105,476	\$ 18,585
Accrued expenses (Note 8)	130,301	123,149
Total liabilities	235,777	141,734
Net assets:		
Without donor restrictions	3,454,684	3,007,622
With donor restrictions (Note 13)	2,062,856	1,359,744
Total net assets	5,517,540	4,367,366
Total liabilities and net assets	\$ 5,753,317	\$ 4,509,100

See accompanying notes to financial statements.

SAN JOSE CLINIC

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			Restated 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:						
Contributions from United Way	\$ -	\$ 690,252	\$ 690,252	\$ -	\$ 726,572	\$ 726,572
Other public support	808,071	2,114,675	2,922,746	1,380,601	597,125	\$ 1,977,726
Contributions in-kind	6,836,161	-	6,836,161	7,766,631	-	7,766,631
Investment income	13,166	-	13,166	825	-	825
Program service contributions	839,095	-	839,095	795,112	-	795,112
Other income	6,413	-	6,413	11,828	-	11,828
Net assets released from restrictions (Note 14)	2,101,815	(2,101,815)	-	1,033,976	(1,033,976)	-
Total public support and revenue	10,604,721	703,112	11,307,833	10,988,973	289,721	11,278,694
Expenses:						
Program services - medical services to indigent persons	8,987,088	-	8,987,088	8,367,334	-	8,367,334
Support services:						
Management and general	600,592	-	600,592	667,833	-	667,833
Fund-raising	569,979	-	569,979	586,219	-	586,219
Total expenses	10,157,659	-	10,157,659	9,621,386	-	9,621,386
Change in net assets	447,062	703,112	1,150,174	1,367,587	289,721	1,657,308
Net assets, beginning of year, as restated (Note 19)	3,007,622	1,359,744	4,367,366	1,640,035	1,070,023	2,710,058
Net assets, end of year	<u>\$ 3,454,684</u>	<u>\$ 2,062,856</u>	<u>\$ 5,517,540</u>	<u>\$ 3,007,622</u>	<u>\$ 1,359,744</u>	<u>\$ 4,367,366</u>

See accompanying notes to financial statements.

SAN JOSE CLINIC

STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				Restated 2018			
	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	\$ 1,626,254	\$ 417,007	\$ 264,475	\$ 2,307,736	\$ 1,663,879	\$ 373,424	\$ 271,135	\$ 2,308,438
Employee benefits	215,195	44,979	30,212	290,386	190,801	32,812	31,077	254,690
Payroll taxes	122,507	29,597	19,644	171,748	138,042	28,595	20,856	187,493
Total personnel costs	1,963,956	491,583	314,331	2,769,870	1,992,722	434,831	323,068	2,750,621
Donated services	1,150,272	-	5,432	1,155,704	1,171,181	77,304	5,928	1,254,413
Occupancy	760,410	42,245	42,245	844,900	760,410	42,245	42,245	844,900
Supplies	4,418,086	3,302	8,992	4,430,380	3,800,998	2,370	2,997	3,806,365
Professional & Medical Fees	289,039	36,114	82,165	407,318	494,628	81,679	169,810	746,117
Clinical service expense	124,852	999	1,043	126,894	-	-	-	-
Computer	89,133	-	17,657	106,790	-	-	-	-
Building services	40,929	1,086	650	42,665	-	-	-	-
Telephone	12,008	667	667	13,342	19,192	748	665	20,605
Liability insurance	21,600	-	-	21,600	19,440	1,080	1,080	21,600
Auto & Travel	517	2,949	1,631	5,097	518	367	1,302	2,187
Miscellaneous	27,165	771	7,551	35,487	16,755	776	22,369	39,900
Postage and shipping	609	430	3,013	4,052	2,422	355	1,251	4,028
Conference and meetings	16,083	16,818	68,155	101,056	9,681	23,493	1,673	34,847
Purchase of property and equipment	-	-	-	-	1,580	-	-	1,580
Equipment rental and maintenance	27,059	-	-	27,059	29,223	-	-	29,223
Printing and publications	4,567	3,322	16,141	24,030	8,109	2,047	13,293	23,449
Assistance to individuals	12,220	-	-	12,220	9,713	-	-	9,713
Total expenses before depreciation and amortization	8,958,505	600,286	569,673	10,128,464	8,336,572	667,295	585,681	9,589,548
Depreciation	28,583	306	306	29,195	30,762	538	538	31,838
Total expenses	<u>\$ 8,987,088</u>	<u>\$ 600,592</u>	<u>\$ 569,979</u>	<u>\$10,157,659</u>	<u>\$ 8,367,334</u>	<u>\$ 667,833</u>	<u>\$ 586,219</u>	<u>\$ 9,621,386</u>

See accompanying notes to financial statements.

SAN JOSE CLINIC

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	Restated 2018
Cash flows from operating activities:		
Change in net assets	\$ 1,150,174	\$ 1,657,308
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	29,195	31,838
Unrealized gain on investments	(4,832)	1,727
In-kind contribution of pharmaceutical inventory	(660,112)	(2,027,140)
Changes in operating assets and liabilities:		
Decrease in United Way pledge receivable	36,322	14,830
Increase (Decrease) in Pledges receivable	(509,270)	49,608
Increase in Other receivables	(6,639)	(10,871)
Decrease (Increase) in Prepaid expenses	14,141	(4,178)
Increase (Decrease) in Accounts payable	86,889	(5,244)
Increase (Decrease) in Accrued expenses	7,152	(1,948)
Net cash provided by (used in) operating activities	143,020	(294,070)
Cash flows from investing activities:		
Purchases of property and equipment	(414,663)	-
Proceeds from long-term investments	-	574,037
Purchase of short-term investments		(68,659)
Redemption of short-term investments	76,742	-
Net cash (used in) provided by investing activities	(337,921)	505,378
Net (decrease) increase in cash and cash equivalents	(194,901)	209,652
Cash and cash equivalents, beginning of year	657,715	448,063
Cash and cash equivalents, end of year	\$ 462,814	\$ 657,715

See accompanying notes to financial statements.

SAN JOSE CLINIC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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, 2019 AND 2018

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, 2019 and 2018, 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 \$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, 2019 AND 2018

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

Inventory is valued at net realizable value or, at fair market value. Inventory consists primarily of medicines and medical supplies to be used on patients. At December 31, 2019 and 2018, the inventory included donated medicines to be used on patients of \$2,687,252 and \$2,027,140, 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 2019 as a participant of the Trust; however, during 2019, 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, 2019, 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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.

Changes in Accounting Principles

On January 1, 2019, the Clinic adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and all related amendments (collectively, ASC 606) using the modified retrospective method. ASC 606 requires the recognition of revenue when promised goods or services are transferred to customers or clients in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The adoption of ASC 606 resulted in no significant changes to The Home's financial reporting. Accordingly, no adjustment to beginning net assets was necessary.

On January 1, 2019, The Clinic adopted ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* using the modified retrospective method. This ASU improved the clarity on existing guidance for the determination of exchange transactions and distinguishing between conditional and unconditional contributions. The adoption of this ASU had no impact on the clinic's financial statements.

Note 3 - Short-Term Investments

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

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 387,821	\$ -
Money market fund	<u>6,959</u>	<u>471,522</u>
Total short-term investments	<u>\$ 394,780</u>	<u>\$ 471,522</u>

For the years ended December 31, 2019 and 2018, investment income consisted of the interest income in the amount of \$13,166 and \$825, respectively.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 4 - Long-Term Investments

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

	<u>2019</u>	<u>2018</u>
Certificate of deposit, coupon rate 2.70%, maturing February 15, 2023	\$ 73,491	\$ 68,659

For the years ended December 31, 2019 and 2018, unrealized loss on investments was \$4,832 and \$153, respectively.

Note 5 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Amounts to be collected in one year or less:		
United Way receivable	\$ 690,250	\$ 726,572
Other pledges receivable	666,501	365,260
Amounts to be collected in one to five years	<u>256,078</u>	<u>25,200</u>
Less: discount on pledges receivable	<u>(22,849)</u>	<u>-</u>
Total pledges receivable	<u>\$ 1,589,980</u>	<u>\$ 1,117,032</u>

Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Furniture, fixtures and equipment	\$ 546,578	\$ 701,650
Building	335,080	-
Leasehold improvements	<u>63,500</u>	<u>63,500</u>
Total property and equipment	945,158	765,100
Less: accumulated depreciation and amortization	<u>(439,522)</u>	<u>(644,982)</u>
Property and equipment, net	<u>\$ 505,636</u>	<u>\$ 120,168</u>

Depreciation and amortization expenses amounted to \$29,195 and 31,838 in 2019 and 2018, respectively.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 73,491	\$ -	\$ 73,491
Mutual funds	-	\$ 387,821	-	387,821
Money market fund (at cost)	-	-	-	6,959
Total assets	\$ -	\$ 461,312	\$ -	\$ 468,271

Financial instruments measured at fair value on a recurring basis at December 31, 2018 are as follows:

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

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, 2019 and 2018.

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.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 \$42,281 and \$42,281 at December 31, 2019 and 2018, 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 year ended December 31, 2019 and 2018.

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, 2019 and 2018, the Clinic received donations of these supplies amounting to \$4,813,957 and \$5,645,717, respectively.

The Clinic also receives contributed services, which are donations of physician's services and other volunteer services requiring specialized skills. Contributed services of \$729,635 and \$979,107 were recorded in 2019 and 2018, respectively.

The Clinic also receives contributed lab services, which are donations of a facility that provides the services. Contributed lab services of \$426,068 and \$275,307 were recorded in 2019 and 2018, 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 2019 and 2018.

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 \$344,717 and 403,004 to the Clinic in 2019 and are included in other public support. As of December 31, 2019 and 2018, the Clinic has a pledge receivable from the Archdiocese for \$112,500 and \$100,000, respectively.

Note 11 - Note Payable

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, 2019 and 2018, the balance owed was \$-0-.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 12 - Commitments and Contingencies

The Clinic leases equipment under various operating lease agreements expiring through 2022. For 2019 and 2018, rental expense amounted to \$7,923 and \$14,614, respectively. Minimum future lease commitments under operating leases at December 31, 2019 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 7,923
2021	7,923
2022	<u>1,985</u>
Total	<u>\$ 17,831</u>

Note 13 - Net Assets with Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Purpose restrictions:		
Fort Bend location	\$ 409,977	\$ 145,000
Dental program	60,000	78,072
Mental health program	6,261	61,887
Primary care physician/nurse	4,864	122,491
Medical equipment	2,101	-
Diabetic program	-	45,275
Pharmacy	-	38,302
Radiology program	-	29,140
Pediatric program	-	10,000
Ultrasound maintenance	-	3,138
Time restrictions:		
United Way	690,252	726,572
Catholic Charities	350,411	-
George Foundation	200,000	-
Houston Methodist	150,000	-
Archdiocese of Galveston-Houston	112,500	-
Other	<u>-</u>	<u>30,000</u>
Subject to restriction in perpetuity	<u>76,491</u>	<u>69,867</u>
Total net assets with donor restrictions	<u>\$ 2,062,856</u>	<u>\$ 1,359,744</u>

Note 14 - Net Assets Released from Donor Restrictions

During the years ended December 31, 2019 and 2018, net assets were released from donor restrictions in the amount of \$2,101,815 and \$1,033,976, respectively, by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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 2020.

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>2019</u>	<u>2018</u>
Original donor restricted gift amount required to be maintained in perpetuity by donor	<u>\$ 76,491</u>	<u>\$ 68,867</u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 16 - Risk and Concentrations

As of December 31, 2019, the United Way's pledge and two donors' pledges make up approximately 77% of total pledges receivable. As of December 31, 2018, the United Way's pledge makes up approximately 64% of total pledges receivable.

As of December 31, 2019, one vendor represented approximately 14% of total expenses. No vendor concentrations noted in 2018.

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. As of December 31, 2019, the Clinic had uninsured amount of \$218,374.

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 \$54,378 and \$55,707 by the Clinic were charged to expense during the year ended December 31, 2019 and 2018, respectively.

Note 19 - Prior Period Adjustment

The statement of financial position has been restated recognize inventory during 2018. In previously issued financial statements, the Clinic did not recognize inventory in the amount of \$2,027,140. The effect of the restatements was to increase the statement of financial position assets by \$2,027,140.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 20 - Liquidity and Availability of Resources

The following table reflects The Clinic's financial assets at December 31, 2019, 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	\$ 462,814
Short-term investments	394,780
Pledges receivable	1,612,829
Other receivable	<u>29,405</u>
Total financial assets available within one year	2,499,828
Amounts unavailable for general expenditure within one year:	
Restricted by donors with purpose restrictions	<u>(483,203)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,016,625</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 21 - Subsequent Events

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S. and globally, accelerating during the first half of March, as federal, state and local governments reacted to the public health crisis. Management is assessing the impact that COVID-19 may ultimately have on the Clinic's operations and cash flows. Management believes that the extent to which COVID-19 will impact the Clinic's operations will depend on future developments, which are highly uncertain, and for which the ultimate effects are unknown at this time.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Note 21 - Subsequent Events (Continued)

On April 20, 2020, The Clinic obtained a \$560,300 Paycheck Protection Program Loan (PPP Loan) which was established under the CARES Act and is guaranteed by the U.S. Small Business Administration. The PPP Loan is due in seventeen equal principal payments beginning November 20, 2020, with final payment due April 20, 2022. The PPP Loan has a fixed interest rate of 1.00%, with accrued interest payable monthly beginning November 20, 2020. The PPP Loan may be forgiven, in whole or in part, if The Clinic complies with certain requirements of the CARES Act.

Management has evaluated subsequent events through June 26, 2020, 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 *****