

SAN JOSE CLINIC

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(With Independent Auditor's Report Thereon)

Insight. Oversight. Foresight.SM

 **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 statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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
June 26, 2017

SAN JOSE CLINIC

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 229,380	\$ 84,634
Short-term investments (Notes 3 and 7)	137,952	396,410
United Way pledge receivable (Note 5)	741,402	741,402
Pledges receivable, current portion (Note 5)	211,862	430,400
Prepaid expenses	-	5,254
Total current assets	1,320,596	1,658,100
Long-term assets:		
Pledges receivable, net of current portion (Note 5)	45,500	21,000
Property and equipment, net (Note 6)	172,269	206,544
Long-term investments (Notes 4 and 7)	69,867	69,867
Total assets	\$ 1,608,232	\$ 1,955,511
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 38,779	\$ 154,714
Accrued expenses (Note 8)	87,389	79,224
Deferred revenue	30,550	35,200
Note payable - current portion (Note 11)	26,405	26,405
Total current liabilities	183,123	295,543
Long-term liabilities:		
Note payable - net of current portion (Note 11)	12,513	48,462
Total liabilities	195,636	344,005
Net assets:		
Unrestricted	362,918	237,554
Temporarily restricted (Note 13)	979,811	1,304,085
Permanently restricted (Note 15)	69,867	69,867
Total net assets	1,412,596	1,611,506
Total liabilities and net assets	\$ 1,608,232	\$ 1,955,511

See accompanying notes to financial statements.

SAN JOSE CLINIC

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:								
Contributions from United Way	\$ -	\$ 741,402	\$ -	\$ 741,402	\$ -	\$ 801,923	\$ -	\$ 801,923
Other public support	1,504,603	277,172	-	1,781,775	1,776,545	746,772	-	\$ 2,523,317
Contributions in-kind	9,928,008	-	-	9,928,008	6,571,216	-	-	6,571,216
Investment income	1,691	-	-	1,691	1,453	-	-	1,453
Program service contributions	811,335	-	-	811,335	749,081	-	-	749,081
Other income	5,665	-	-	5,665	4,432	-	-	4,432
Net assets released from restrictions (Note 14)	1,342,848	(1,342,848)	-	-	1,496,061	(1,496,061)	-	-
Total public support and revenue	13,594,150	(324,274)	-	13,269,876	10,598,788	52,634	-	10,651,422
Expenses:								
Program services - medical services to indigent persons	12,241,011	-	-	12,241,011	9,214,225	-	-	9,214,225
Support services:								
Management and general	618,204	-	-	618,204	549,855	-	-	549,855
Fund-raising	609,571	-	-	609,571	584,719	-	-	584,719
Total expenses	13,468,786	-	-	13,468,786	10,348,799	-	-	10,348,799
Change in net assets	125,364	(324,274)	-	(198,910)	249,989	52,634	-	302,623
Net assets, beginning of year	237,554	1,304,085	69,867	1,611,506	(12,435)	1,251,451	69,867	1,308,883
Net assets, end of year	<u>\$ 362,918</u>	<u>\$ 979,811</u>	<u>\$ 69,867</u>	<u>\$ 1,412,596</u>	<u>\$ 237,554</u>	<u>\$ 1,304,085</u>	<u>\$ 69,867</u>	<u>\$ 1,611,506</u>

See accompanying notes to financial statements.

SAN JOSE CLINIC

STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	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	\$ 1,606,206	\$ 284,880	\$ 389,686	\$ 2,280,772	\$ 1,648,446	\$ 379,325	\$ 291,317	\$ 2,319,088
Employee benefits	209,603	33,150	34,214	276,967	211,831	36,093	32,954	280,878
Payroll taxes	121,444	21,203	29,397	172,044	124,295	28,395	21,276	173,966
Total personnel costs	1,937,253	339,233	453,297	2,729,783	1,984,572	443,813	345,547	2,773,932
Donated services	1,472,987	98	9,523	1,482,608	1,103,938	6,000	198	1,110,136
Occupancy	777,447	97,181	97,181	971,809	876,343	48,686	48,686	973,715
Supplies	7,616,528	6,664	2,266	7,625,458	4,659,452	3,431	7,658	4,670,541
Professional fees	272,186	133,879	25,823	431,888	426,823	23,054	136,002	585,879
Telephone	16,104	2,299	2,326	20,729	21,489	720	720	22,929
Liability insurance	24,497	-	-	24,497	23,890	-	-	23,890
Local transportation	208	1,022	36	1,266	945	-	1,018	1,963
Miscellaneous	11,696	10,711	2,597	25,004	14,427	3,173	5,934	23,534
Postage and shipping	51	5,659	429	6,139	1,909	225	6,407	8,541
Conference and meetings	11,801	3,736	11,481	27,018	10,795	12,580	5,295	28,670
Equipment rental and maintenance	28,332	922	922	30,176	17,833	-	1,190	19,023
Printing and publications	13,014	13,924	2,905	29,843	13,556	3,944	26,064	43,564
Interest expense	-	2,091	-	2,091	-	4,229	-	4,229
Assistance to individuals	26,202	-	-	26,202	25,014	-	-	25,014
Total expenses before depreciation and amortization	12,208,306	617,419	608,786	13,434,511	9,180,986	549,855	584,719	10,315,560
Depreciation	32,705	785	785	34,275	33,239	-	-	33,239
Total expenses	\$ 12,241,011	\$ 618,204	\$ 609,571	\$ 13,468,786	\$ 9,214,225	\$ 549,855	\$ 584,719	\$ 10,348,799

See accompanying notes to financial statements.

SAN JOSE CLINIC

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (198,910)	\$ 302,623
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation	34,275	33,239
Unrealized gain on investments	(294)	(358)
In-kind contribution of equipment	-	(10,000)
Changes in operating assets and liabilities:		
United Way pledge receivable	-	15,133
Pledges receivable	194,038	(88,391)
Prepaid expenses	5,254	24,419
Accounts payable	(115,935)	(39,896)
Accrued expenses	8,165	9,934
Deferred revenue	(4,650)	(300)
Net cash (used in) provided by operating activities	(78,057)	246,403
Cash flows from investing activities:		
Purchases of property and equipment	-	(75,151)
Proceeds from short-term investments	259,406	499,429
Purchase of short-term investments	(654)	(635,840)
Net cash provided by (used in) investing activities	258,752	(211,562)
Cash flows from financing activities:		
Payments on notes payable	(35,949)	(39,677)
Net cash used in financing activities	(35,949)	(39,677)
Net increase (decrease) in cash and cash equivalents	144,746	(4,836)
Cash and cash equivalents, beginning of year	84,634	89,470
Cash and cash equivalents, end of year	\$ 229,380	\$ 84,634
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 2,091	\$ 4,229
Non-cash contribution of panoramic x-ray machine	\$ -	\$ 10,000

See accompanying notes to financial statements.

SAN JOSE CLINIC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of the Clinic and changes therein are classified and reported as follows:

- Unrestricted - net assets that are not subjected to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- Temporarily restricted - net assets whose use by the Clinic is subject to donor imposed stipulations that can be fulfilled by action of the Clinic pursuant to those stipulations or that expire by the passage of time. Temporarily restricted net assets are available for specific Clinic operations and future Clinic capital improvements.
- Permanently restricted - net assets subject to donor imposed stipulations that assets be maintained permanently by the Clinic. Generally the donor of these assets permits the Clinic to use all or part of the investment income on these assets. The investment income from permanently restricted net assets is available for operations.

Support that is restricted by the donor and is to be used in future periods or for a specific purpose is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions, the restrictions of which are met in the year the contribution is received, are reported as unrestricted support. United Way contributions are recorded as temporarily restricted contributions until the year they are to be utilized for operations. Expenses are generally reported as decreases in unrestricted net assets.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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 unrestricted income unless the donor specifies otherwise.

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 unrestricted net assets 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. Fair values are determined by Clinic personnel familiar with the items donated. Depreciation and amortization is 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.

Program Service Contributions

Program service contributions represent amounts contributed by patients based on services provided and the patients' ability to pay.

SAN JOSE CLINIC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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 2016 and 2015 as a participant of the Trust; however, during 2016 and 2015, 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, 2016, 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.

SAN JOSE CLINIC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Note 3 - Short-Term Investments

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

	<u>2016</u>	<u>2015</u>
Money market fund	\$ <u>137,952</u>	\$ <u>396,410</u>

For the years ended December 31, 2016 and 2015, investment income consisted of the interest income in the amount of \$1,691 and \$1,453, respectively.

Note 4 - Long-Term Investments

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

	<u>2016</u>	<u>2015</u>
Certificate of deposit, coupon rate 1.20%, maturing December 12, 2017	\$ <u>69,867</u>	\$ <u>69,867</u>

Note 5 - Pledges Receivable

Pledges receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Amounts to be collected in one year or less:		
United Way receivable	\$ 741,402	\$ 741,402
Other pledges receivable	211,862	430,400
Amounts to be collected in one to three years	<u>45,500</u>	<u>21,000</u>
Total pledges receivable	\$ <u>998,764</u>	\$ <u>1,192,802</u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 6 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2016	2015
Furniture, fixtures and equipment	\$ 689,863	\$ 689,863
Leasehold improvements	63,500	63,500
Total property and equipment	753,363	753,363
Less: accumulated depreciation and amortization	(581,094)	(546,819)
Property and equipment, net	\$ 172,269	\$ 206,544

Depreciation and amortization expense amounted to \$34,275 and \$33,239 in 2016 and 2015, respectively.

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, 2016 are as follows:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 69,867	\$ -	\$ 69,867
Money market fund	137,952	-	-	137,952
Total assets	\$ 137,952	\$ 69,867	\$ -	\$ 207,819

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 7 - Fair Value of Financial Instruments (Continued)

Financial instruments measured at fair value on a recurring basis at December 31, 2015 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 69,867	\$ -	\$ 69,867
Money market fund	<u>396,410</u>	<u>-</u>	<u>-</u>	<u>396,410</u>
Total assets	<u>\$ 396,410</u>	<u>\$ 69,867</u>	<u>\$ -</u>	<u>\$ 466,277</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, 2016 and 2015.

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. Mutual fund accounts are actively traded and are valued at fair 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.

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 \$44,770 and \$45,580 at December 31, 2016 and 2015, 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 \$969,680 has been recorded as contributions in-kind and as occupancy expense for the years ended December 31, 2016 and 2015.

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, 2016 and 2015, the Clinic received donations of these supplies amounting to \$7,416,802 and \$4,459,800, respectively.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 9 - Contributions In-Kind (Continued)

The Clinic also receives contributed services, which are donations of physician's services and other volunteer services requiring specialized skills. Contributed services of \$1,005,720 and \$670,607 were recorded in 2016 and 2015, respectively.

The Clinic also receives contributed lab services, which are donations of a facility that provides the services. Contributed lab services of \$514,206 and \$439,530 were recorded in 2016 and 2015, 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 2016 and 2015.

Note 10 - Related Party Transactions

Contributions

Support recognized from the Archdiocese in the form of cash contributions were \$177,500 and \$142,500 to the Clinic in 2016 and 2015, respectively, and are included in other public support. As of December 31, 2016 and 2015, the Clinic has a pledge receivable from the Archdiocese for \$100,000 and \$77,500, respectively.

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 15th of each month. The note matures on August 1, 2019. At December 31, 2016, the balanced owed was \$38,918. The Clinic plans to pay it by December 2017.

Note 12 - Commitments and Contingencies

The Clinic leases equipment under various operating lease agreements expiring through 2022. For 2016 and 2015, rental expense amounted to \$9,770 and \$9,148, respectively. Minimum future lease commitments under operating leases at December 31, 2016 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2017	\$ 7,923
2018	7,923
2019	7,923
2020	7,923
2021	7,923
Thereafter	<u>1,985</u>
Total	<u>\$ 41,600</u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 13 - Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Mental health program	\$ 65,292	\$ 133,000
Dental program	60,000	127,104
Primary care physician/nurse	47,353	110,033
Nutrition program	-	50,000
Ultrasound maintenance	24,297	24,849
Radiology program	2,467	2,697
Time restrictions:		
United Way	741,402	741,402
Other	<u>39,000</u>	<u>115,000</u>
Total temporarily restricted net assets	<u>\$ 979,811</u>	<u>\$ 1,304,085</u>

Note 14 - Net Assets Released From Restrictions

During the years ended December 31, 2016 and 2015, temporarily restricted net assets of \$1,342,848 and \$1,496,061, respectively, were released from donor restrictions by satisfying donor restrictions.

Note 15 - Permanently Restricted 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

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Note 15 - Permanently Restricted Endowment Funds (Continued)

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.

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 funds by net asset classification are as follows:

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets	<u>\$69,867</u>	<u>\$69,867</u>

Note 16 - Risk and Concentrations

As of December 31, 2016, the United Way's pledge makes up approximately 74% of total pledges receivable. As of December 31, 2015, the United Way's pledge makes up approximately 64% 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 - Subsequent Events

On May 31, 2017, the Clinic received a letter from one of its major donors, noting that it was terminating its support agreement which was in effect during fiscal year 2016. This agreement provided funding for the medical director position, electronic health record costs, nurse practitioner and support for diabetic education. Transitional funding will be provided to the Clinic. Management has evaluated subsequent events through June 26, 2017, 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 *****