

MERCY HEALTH CLINIC, INC.

FINANCIAL REPORT

December 31, 2020

MERCY HEALTH CLINIC, INC.

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Independent Auditors' Report

To the Board of Directors
Mercy Health Clinic, Inc.
Gaithersburg, Maryland

We have audited the accompanying financial statements of Mercy Health Clinic, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statement of activities and changes in net assets, statement of functional expenses, and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy Health Clinic, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Mercy Health Clinic, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Dembo Jones, P.C." with a period at the end.

*North Bethesda, Maryland
November 15, 2021*

MERCY HEALTH CLINIC, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 362,467	\$ 163,529
Accounts receivable, less an allowance for doubtful accounts of \$ 0 in 2020 and \$ 4,983 in 2019	121,226	143,245
Investments, at fair value	601,120	492,558
Prepaid expenses	15,266	16,545
Total current assets	1,100,079	815,877
Property and Equipment		
Equipment	67,045	55,128
Leasehold improvements and fixtures	144,868	144,868
	211,913	199,996
Less: accumulated depreciation and amortization	181,003	175,957
	30,910	24,039
Assets Held in Trust		
	76,001	55,131
	\$ 1,206,990	\$ 895,047
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 37,963	\$ 54,614
Note payable, current portion	110,036	-
Total current liabilities	147,999	54,614
Long-Term Liabilities		
Note payable, noncurrent portion	31,890	-
Deferred rent	15,671	17,261
Deferred compensation payable	76,001	55,131
Total long-term liabilities	123,562	72,392
Total liabilities	271,561	127,006
Net Assets		
Without donor restrictions	935,429	758,216
With donor restrictions	-	9,825
Total net assets	935,429	768,041
	\$ 1,206,990	\$ 895,047

The accompanying notes are an integral part of these financial statements.

MERCY HEALTH CLINIC, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue and Support				
Contributions:				
Voluntary patient contributions	\$ 30,402	\$ -	\$ 30,402	\$ 82,921
Revenue, contributions, and grants	983,284	130,000	1,113,284	896,575
Annual Gala (net of related expenses of \$ 0 for 2020 and \$ 33,846 for 2019)	-	-	-	104,688
Golf Classic (net of related expenses of \$ 20,719 for 2020 and \$ 32,280 for 2019)	50,042	-	50,042	57,392
Donated services and materials	2,604,282	-	2,604,282	2,978,757
Investment income	57,180	-	57,180	82,210
Other income (loss)	-	-	-	(912)
Net assets released from restrictions:				
Satisfaction of program restrictions	139,825	(139,825)	-	-
Total revenue and support	3,865,015	(9,825)	3,855,190	4,201,631
Expenses				
Program Services:				
Medical	897,417	-	897,417	1,455,382
Pharmacy	2,119,637	-	2,119,637	1,932,974
Lifestyle health and education	8,797	-	8,797	26,051
Total program services	3,025,851	-	3,025,851	3,414,407
Support Services:				
General and administrative	462,494	-	462,494	466,260
Fundraising expenses	199,457	-	199,457	197,605
Total support services	661,951	-	661,951	663,865
Total expenses	3,687,802	-	3,687,802	4,078,272
Change in net assets	177,213	(9,825)	167,388	123,359
Net assets - beginning of year	758,216	9,825	768,041	644,682
Net assets - end of year	\$ 935,429	\$ -	\$ 935,429	\$ 768,041

The accompanying notes are an integral part of these financial statements.

MERCY HEALTH CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

	<u>Medical</u>	<u>Pharmacy</u>	<u>Lifestyle Health and Education</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total</u>
Compensation	\$ 416,317	\$ 87,681	\$ 2,410	\$ 506,408	\$ 68,904	\$ 182,975	\$ 251,879	\$ 758,287
Deferred compensation	4,380	-	-	4,380	9,220	-	9,220	13,600
Consultants and contractors	-	-	3,075	3,075	70,867	-	70,867	73,942
Payroll taxes	31,409	6,651	-	38,060	11,486	9,962	21,448	59,508
Health and benefits	9,739	-	-	9,739	1,168	365	1,533	11,272
Bank charges	-	-	-	-	55	-	55	55
Conferences and meetings	57	-	-	57	1,994	-	1,994	2,051
Dues and subscriptions	5,066	-	-	5,066	3,338	948	4,286	9,352
Insurance	22,401	1,276	134	23,811	5,560	446	6,006	29,817
Interest	-	-	-	-	976	-	976	976
Administrative fees	480	-	-	480	-	-	-	480
Maintenance	14,471	-	-	14,471	-	-	-	14,471
Marketing	-	-	-	-	4,900	-	4,900	4,900
Miscellaneous	17	-	-	17	3,362	-	3,362	3,379
Postage and delivery	-	-	-	-	1,017	-	1,017	1,017
Printing	-	-	-	-	4,307	1,667	5,974	5,974
Professional fees	11,569	-	-	11,569	17,378	500	17,878	29,447
Recruiting	-	-	-	-	1,386	-	1,386	1,386
Rent	13,419	2,665	2,708	18,792	6,327	2,211	8,538	27,330
Repairs and maintenance	145	-	-	145	649	-	649	794
Supplies	12,700	3,307	-	16,007	7,739	-	7,739	23,746
Telephone and internet	1,063	211	215	1,489	501	175	676	2,165
Travel	-	-	-	-	8	-	8	8
Utilities	1,265	251	255	1,771	596	208	804	2,575
Volunteer and donor recognition	280	-	-	280	1,662	-	1,662	1,942
Depreciation and amortization	-	-	-	-	5,046	-	5,046	5,046
Partner in-kind donations	352,639	2,017,595	-	2,370,234	234,048	-	234,048	2,604,282
	<u>\$ 897,417</u>	<u>\$ 2,119,637</u>	<u>\$ 8,797</u>	<u>\$ 3,025,851</u>	<u>\$ 462,494</u>	<u>\$ 199,457</u>	<u>\$ 661,951</u>	<u>\$ 3,687,802</u>

The accompanying notes are an integral part of these financial statements.

MERCY HEALTH CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019

	<u>Medical</u>	<u>Pharmacy</u>	<u>Lifestyle Health and Education</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total</u>
Compensation	\$ 454,723	\$ 83,120	\$ 2,365	\$ 540,208	\$ 51,235	\$ 182,115	\$ 233,350	\$ 773,558
Deferred compensation	4,000	-	-	4,000	9,201	-	9,201	13,201
Consultants and contractors	900	120	20,485	21,505	69,033	24	69,057	90,562
Payroll taxes	34,198	6,452	-	40,650	9,839	9,993	19,832	60,482
Health and benefits	4,095	-	-	4,095	10,269	-	10,269	14,364
Bank charges	-	-	-	-	591	-	591	591
Conferences and meetings	-	-	-	-	1,669	-	1,669	1,669
Dues and subscriptions	6,483	-	-	6,483	1,617	1,990	3,607	10,090
Insurance	18,592	-	-	18,592	7,974	-	7,974	26,566
Administrative fees	440	-	-	440	408	-	408	848
Maintenance	16,965	-	-	16,965	-	-	-	16,965
Miscellaneous	-	-	-	-	760	-	760	760
Postage and delivery	189	-	-	189	543	-	543	732
Printing	-	-	-	-	1,934	380	2,314	2,314
Professional fees	9,464	-	-	9,464	16,913	373	17,286	26,750
Recruiting	-	-	-	-	82	-	82	82
Rent	13,415	2,664	2,708	18,787	6,324	2,210	8,534	27,321
Repairs and maintenance	1,989	-	-	1,989	100	-	100	2,089
Supplies	12,327	2,086	-	14,413	7,469	-	7,469	21,882
Telephone and internet	990	197	200	1,387	467	163	630	2,017
Travel	-	-	-	-	98	-	98	98
Utilities	1,454	289	293	2,036	686	240	926	2,962
Volunteer and donor recognition	572	-	-	572	-	-	-	572
Depreciation and amortization	2,923	-	-	2,923	-	117	117	3,040
Partner in-kind donations	871,663	1,838,046	-	2,709,709	269,048	-	269,048	2,978,757
	<u>\$ 1,455,382</u>	<u>\$ 1,932,974</u>	<u>\$ 26,051</u>	<u>\$ 3,414,407</u>	<u>\$ 466,260</u>	<u>\$ 197,605</u>	<u>\$ 663,865</u>	<u>\$ 4,078,272</u>

The accompanying notes are an integral part of these financial statements.

MERCY HEALTH CLINIC, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 167,388	\$ 123,359
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	5,046	3,040
Net unrealized and realized gain on investments	(46,330)	(69,533)
Donated investments	(10,169)	-
(Increase) decrease in assets:		
Accounts receivable	22,019	(32,727)
Prepaid expenses	1,279	1,023
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(16,651)	(516)
Deferred revenue	-	(500)
Deferred rent	(1,590)	(753)
Net cash flows from operating activities	120,992	23,393
Cash flows from investing activities:		
Purchases of equipment	(11,917)	(15,174)
Purchases of investments	(216,910)	(18,575)
Proceeds from sales of investments	164,847	52,724
Net cash flows from investing activities	(63,980)	18,975
Cash flows from financing activities:		
Proceeds from PPP note payable	141,926	-
Net cash flows from financing activities	141,926	-
Net change in cash and cash equivalents	198,938	42,368
Cash and cash equivalents at beginning of year	163,529	121,161
Cash and cash equivalents at end of year	\$ 362,467	\$ 163,529

The accompanying notes are an integral part of these financial statements.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies

Organization

Mercy Health Clinic, Inc. (the Clinic) is a not-for-profit, non-sectarian organization staffed largely by volunteers with the support of a small cadre of full-time and part-time medical and office staff. All of its officers and directors are volunteers, except for the Executive Director and Medical Director. The Clinic has more than 120 volunteer medical, clerical, and administrative staff, including approximately 46 providers (physicians, nurse practitioners, physician assistants) who practice on-site or who see patients in their offices. The volunteer staff is supported by an Executive Director, Medical Director, Clinic Manager, full-time and part-time nurses, medical assistants, and office support staff.

The Clinic collaborates with the Primary Care Coalition of Montgomery County (PCC) and participates in the Montgomery Cares program of Montgomery County. The Clinic leveraged the generosity of health care professionals and health service organizations, as well as funding from Montgomery County, to care for nearly 2,200 (unaudited) low-income, uninsured patients with nearly 6,200 (unaudited) patient visits in 2020.

Comparative Totals

The financial statements include certain prior-year summarized comparative information. The 2019 information does not show a breakout of net assets without donor restrictions and net assets with donor restrictions, just net assets in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Clinic's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held on hand and in checking and money market accounts. The Clinic had no deposits in excess of the Federal Deposit Insurance Corporation insurance limits at December 31, 2020 and 2019.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consist of grants and interest receivable. Receivables are recorded net of an allowance for doubtful accounts when necessary. The allowance is determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines the amount to be uncollectible.

Property and Equipment

Equipment, leasehold improvements, and fixtures are capitalized at cost. Equipment is depreciated over its useful life of 36 to 60 months on a straight-line basis. Leasehold improvements and fixtures are amortized over the non-cancelable lease terms on a straight-line basis. The Clinic has established a policy to capitalize any furnishings and equipment with a cost of \$ 1,500 or more and a useful life of greater than one year. Depreciation and amortization expense for the years ended December 31, 2020 and 2019, was \$ 5,046 and \$ 3,040, respectively.

Basis of Presentation

The Clinic is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represent the expendable net assets that are available for support of the Clinic. Net assets with donor restrictions are subject to donor-imposed stipulations that may or will be met by actions of the Clinic and/or the passage of time and those that are subject to donor-imposed stipulations that the Clinic maintain them permanently.

Recent Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Clinic adopted the new standard effective January 1, 2020, the first day of the Clinic's fiscal year, using the full retrospective method.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements Adopted (continued)

The adoption of this ASU did not have a significant impact on the Clinic's financial statements. Based on the Clinic's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenue as a result of the adoption.

Donated Services and Materials

Donations of services and materials which either create or enhance non-financial assets or require specialized skills are recorded at their fair value. Such donations are recorded both as support and as assets or expenses in the period when donated. These services and materials primarily include medical and radiological tests, office rent, and professional services donated by doctors, nurses, and other non-medical professionals. In addition, the Clinic's landlord provides donated space and utilities. The value of these donated services and materials recorded for the years ended December 31, 2020 and 2019, totaled \$ 2,604,282 and \$ 2,978,757, respectively, which are reported as partner in-kind donations in the accompanying statement of functional expenses.

The building in which the Clinic is located is licensed from Montgomery County, Maryland at the rate of \$ 1 per year. The license expires at the end of the annual grant received from the PCC of Montgomery County. An estimate of the fair value of office rent is disclosed in Note 6. In addition, donated administrative services with an estimated value of \$ 13,716 and \$ 58,380 for the years ended December 31, 2020 and 2019, respectively, were not recognized in the financial statements because they did not require specialized skills, and, therefore, did not meet the criteria for recognition under generally accepted accounting principles (GAAP).

Functional Allocation of Expenses

The costs of providing various program and administrative services have been summarized on a functional basis in the statements of activities. Expenses are directly charged to the appropriate program activity, where feasible. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, rent, insurance, travel, personnel costs and benefits, technology costs, and miscellaneous administrative costs, which are allocated on the basis of estimates of time and effort.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions and grants received are recorded as “without donor restrictions” or “with donor restrictions” depending on the existence or nature of any donor restrictions. Donor-restricted revenue is reported as an increase in net assets with donor restrictions. When a restriction expires (i.e., when a purpose restriction is accomplished or a time restriction is met), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restriction. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Subsequent Events

In preparing its financial statements, the Clinic has evaluated subsequent events through November 15, 2021, which is the date the financial statements were available to be issued. As further discussed in Note 7., the Clinic was notified that the SBA had forgiven the entire Paycheck Protection Program loan balance.

Reclassifications

Certain reclassifications to prior year balances have been made in the accompanying financial statements to make disclosures consistent with those of the current year.

Note 2. Primary Care Coalition of Montgomery County Receivable

Revenues received from the PCC of Montgomery County are generated under a contract which is subject to annual renewal. Revenues are recognized when the related services are performed and are recorded as revenue, contributions, and grants on the statement of activities and changes in net assets. Revenue received in excess of the related PCC of Montgomery County expenses is recorded as deferred revenue. Services performed before the related revenue is received are reported as a receivable on the accompanying statement of financial position. At December 31, 2020 and 2019, the receivable balances were \$ 86,773 and \$ 79,297, respectively.

Note 3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 3. Fair Value Measurements (continued)

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Clinic has the ability to access.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Mutual Funds and Exchange Traded Funds:

Valued at the daily closing price as reported by the fund. Mutual funds held by the Clinic are open-ended mutual funds and are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Clinic are deemed to be actively traded.

Money Market Fund:

Valued at the daily closing price as reported by the fund. The fund is required to publish its daily net asset value (NAV). This fund generally transacts at a \$1.00 stable NAV. However, on a daily basis the fund NAV is calculated using the amortized cost (not market value) of the securities held in the fund.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 3. Fair Value Measurements (continued)

Assets Held in Trust:

These investments are pooled separate accounts with an insurance company valued at the “accumulation unit value” (AUV). The separate account is valued daily as the number of accumulation units held multiplied by the AUV. The AUV is first established when a new fund starts and is then determined daily based on the net asset value of shares of the underlying fund, the fund’s dividends and the contract’s separate account charges. The fund NAV’s are available from the custodian or, in some cases, from national exchanges. The contract’s daily asset charge (separate account charge) is communicated to plan management in the contract and applicable notice of change.

The following tables set forth by level, within the fair value hierarchy, the Clinic’s investments measured at fair value on a recurring basis as of December 31, 2020 and 2019:

Assets at Fair Value as of December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
Growth funds	\$ 345,392	\$ -	\$ -	\$ 345,392
Income fund	31,326	-	-	31,326
Pacific stock	7,234	-	-	7,234
Diversified Emerging Markets	7,141	-	-	7,141
Small company fund	<u>8,823</u>	<u>-</u>	<u>-</u>	<u>8,823</u>
Total exchange traded funds	<u>399,916</u>	<u>-</u>	<u>-</u>	<u>399,916</u>
Mutual funds:				
Bond fund	125,331	-	-	125,331
Foreign market funds	23,287	-	-	23,287
Growth fund	<u>10,586</u>	<u>-</u>	<u>-</u>	<u>10,586</u>
Total mutual funds	<u>159,204</u>	<u>-</u>	<u>-</u>	<u>159,204</u>
Money market:				
Schwab Treasury Oblig Money	<u>-</u>	<u>42,000</u>	<u>-</u>	<u>42,000</u>
Total money market funds	<u>-</u>	<u>42,000</u>	<u>-</u>	<u>42,000</u>
Total investments at fair value	<u>\$ 559,120</u>	<u>\$ 42,000</u>	<u>\$ -</u>	<u>\$ 601,120</u>
Assets held in trust	<u>\$ -</u>	<u>\$ 76,001</u>	<u>\$ -</u>	<u>\$ 76,001</u>

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

Note 3. Fair Value Measurements (continued)

Assets at Fair Value as of December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
Growth funds	\$ 287,293	\$ -	\$ -	\$ 287,293
Income fund	31,188	-	-	31,188
Small company fund	<u>23,194</u>	-	-	<u>23,194</u>
Total exchange traded funds	<u>341,675</u>	-	-	<u>341,675</u>
Mutual funds:				
Bond fund	100,585	-	-	100,585
Foreign market funds	30,402	-	-	30,402
Pacific stock fund	10,134	-	-	10,134
Growth fund	<u>9,762</u>	-	-	<u>9,762</u>
Total mutual funds	<u>150,833</u>	-	-	<u>150,833</u>
Total	<u>\$ 492,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 492,558</u>
Assets held in trust	<u>\$ -</u>	<u>\$ 55,131</u>	<u>\$ -</u>	<u>\$ 55,131</u>

Investment income includes:

	<u>2020</u>	<u>2019</u>
Net unrealized and realized gain on investments	\$ 46,330	\$ 69,533
Interest and dividend income	13,778	14,822
Investment fees	<u>(2,928)</u>	<u>(2,145)</u>
	<u>\$ 57,180</u>	<u>\$ 82,210</u>

Note 4. Concentration of Revenue

For the years ended December 31, 2020 and 2019, approximately 44% and 46% percent of the Clinic's total revenue and support, excluding donated services and materials, was furnished by the PCC of Montgomery County under the contract described in Note 2. Total funding reported as revenue from PCC of Montgomery County during 2020 and 2019, was \$ 535,013 and \$ 550,751, respectively.

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Note 5. Deferred Compensation Plan

The Clinic maintains a 457(b) Plan for the Executive Director and Medical Director. The Clinic makes an 8% contribution of earnings into the Plan for these participants. Total expense for the years ending December 31, 2020 and 2019, was \$ 13,600 and \$ 13,201, respectively. The Clinic is a member of the National Association of Free and Charitable Clinics, therefore it does not incur any expenses to administer this plan. The fair value of the assets held in trust was \$ 76,001 and \$ 55,131 at December 31, 2020 and 2019, respectively.

Note 6. Leases

As further discussed in Note 1 under donated services and materials, the Clinic occupies office space donated by Montgomery County, Maryland under a license agreement. The license agreement is coterminous with the expiration of the PCC of Montgomery County contract (Note 2). In July 2010, the Clinic signed an agreement with Montgomery County, Maryland to lease an additional 1,800 square feet of space immediately adjacent to its office in Gaithersburg, Maryland provided under the license agreement. In September 2017, the Clinic signed an amendment to extend the lease for seven years and four months.

The lease amendment term is 88 months and initial base monthly rental payments of \$ 2,255 will increase by approximately 3 percent per year. The Clinic received four months of abated rent and will record the lease on the straight-line basis in conformity with GAAP. The Clinic recognizes rent on a straight-line basis resulting in a deferred rent liability totaling \$ 15,671 and \$ 17,261 at December 31, 2020 and 2019, respectively. In addition to base rent, the Clinic will also pay all tenant improvements, utilities, taxes, insurance, custodial services and operating expenses related to the expansion space.

Future minimum payments under the lease are:

Year Ending December 31,	
2021	\$ 29,496
2022	30,382
2023	31,292
2024	32,237
2025	2,693
Thereafter	<u>-</u>
	<u>\$ 126,100</u>

Total rent expense for the years ended December 31, 2020 and 2019, was \$ 27,330 and \$ 27,321, respectively. The estimated fair value of donated rent under the license agreement discussed in Note 1 was \$ 151,325 for the years ended December 31, 2020 and 2019, respectively. The donated utilities and other services discussed in Note 1, provided by the landlord for the licensed office space, was \$ 52,151 and \$ 59,104 for the years ended December 31, 2020 and 2019, respectively. The donated rent, utilities, and other services is included in partner in-kind donation on the statement of functional expenses.

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Note 7. Paycheck Protection Program (PPP) Note Payable

The Clinic received a loan from a bank in the amount of \$ 141,926 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 23, 2020 and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan bears interest at a rate of 1% and is payable in monthly installments of interest over 17 months beginning 7 months from the date of the note and one principal and interest payment 24 months from the date of note. On February 12, 2021, the Clinic was notified that the SBA had forgiven the entire loan balance. The Clinic's PPP loan is subject to an examination by the Small Business Administration or its authorized representatives for four years following the submission of the loan forgiveness application.

Notes payable at December 31, 2020 and 2019 consist of the following:

	2020	2019
Paycheck Protection Program note payable due April 2022.	\$ 141,926	\$ -
	141,926	-
Less current maturities	110,036	-
	\$ 31,890	\$ -

The aggregate annual maturities of long-term debt over the next five years are as follows:

Year Ending December 31,	
2021	\$ 110,036
2022	31,890
	\$ 141,926

Note 8. Risk and Uncertainties

The Clinic invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, 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 activities and changes in net assets.

Note 9. Income Taxes

The Clinic is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Clinic has been classified as a public charity under Section 509(a)(1) of the Internal Revenue Code. The Clinic pays taxes on the receipt of unrelated business income. There has been no unrelated business income received, and accordingly, no income tax expense for the years ended December 31, 2020 and 2019.

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Note 9. Income Taxes (continued)

Accounting principles generally accepted in the United States of America require the Clinic to evaluate tax positions taken and recognize a tax liability if it is more likely than not that uncertain tax positions taken would not be sustained upon examination by taxing authorities. The Clinic has analyzed tax positions taken and has concluded that, as of December 31, 2020 and 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. For the years ended December 31, 2020 and 2019, the Clinic had no interest and penalties related to income taxes. The Clinic is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Clinic's returns are subject to examination by taxing authorities, generally for a period of three years after the returns are filed.

Note 10. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2020 and 2019, were subject to purpose restrictions as follows:

	2020	2019
Computer/video equipment	\$ -	\$ 9,825

Note 11. Liquidity and Availability

As of December 31, 2020 and 2019, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2020	2019
Cash and cash equivalents	\$ 362,467	\$ 163,529
Accounts receivable	121,226	143,245
Investments	601,120	492,558
Less: net assets with donor restrictions	-	(9,825)
	\$ 1,084,813	\$ 789,507

As part of the Clinic's liquidity management, it invests cash in various short-term investments, including money market funds, mutual funds, exchange traded funds, stocks, bonds, and certificates of deposit. The Clinic manages its liquid resources by focusing on investing excess cash in investments that maximize earnings potential balanced with the amount of risk the Clinic has decided can be tolerated.