

**MERCY HEALTH CLINIC, INC.**

**FINANCIAL REPORT**

**December 31, 2021**

**MERCY HEALTH CLINIC, INC.**

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## **Independent Auditors' Report**

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

### **Opinion**

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, 2021, and the related statement of activities, statement of functional expenses, and statement of cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mercy Health Clinic, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Health Clinic, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mercy Health Clinic, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Health Clinic, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Report on Summarized Comparative Information**

We have previously audited Mercy Health Clinic, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material aspects, with the audited financial statements from which it has been derived.



*North Bethesda, Maryland  
November 30, 2022*

**MERCY HEALTH CLINIC, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2021**  
**(With Comparative Totals for 2020)**

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| <b>Current Assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ 439,546          | \$ 362,467          |
| Accounts receivable, less an allowance for doubtful<br>accounts of \$ 0 in 2021 and 2020 | 207,693             | 121,226             |
| Investments, at fair value   | 687,200             | 601,120             |
| Prepaid expenses   | <u>19,776</u>       | <u>15,266</u>       |
| Total current assets   | 1,354,215           | 1,100,079           |
| <b>Property and Equipment</b>  |                     |                     |
| Equipment  | 61,621              | 67,045              |
| Leasehold improvements and fixtures  | <u>-</u>            | <u>144,868</u>      |
|  | 61,621              | 211,913             |
| Less: accumulated depreciation and amortization  | <u>33,449</u>       | <u>181,003</u>      |
|  | <u>28,172</u>       | <u>30,910</u>       |
| <b>Assets Held in Trust</b>  | <u>60,480</u>       | <u>76,001</u>       |
|  | <u>\$ 1,442,867</u> | <u>\$ 1,206,990</u> |
| <b>Liabilities and Net Assets</b>  |                     |                     |
| <b>Current Liabilities</b>   |                     |                     |
| Accounts payable and accrued expenses  | \$ 36,872           | \$ 37,963           |
| Note payable, current portion  | <u>-</u>            | <u>110,036</u>      |
| Total current liabilities  | 36,872              | 147,999             |
| <b>Long-Term Liabilities</b>   |                     |                     |
| Note payable, noncurrent portion   | -                   | 31,890              |
| Deferred rent  | 13,103              | 15,671              |
| Deferred compensation payable  | <u>60,480</u>       | <u>76,001</u>       |
| Total long-term liabilities  | <u>73,583</u>       | <u>123,562</u>      |
| Total liabilities  | <u>110,455</u>      | <u>271,561</u>      |
| <b>Net Assets</b>  |                     |                     |
| Without donor restrictions   | 1,332,412           | 935,429             |
| With donor restrictions  | <u>-</u>            | <u>-</u>            |
| Total net assets   | <u>1,332,412</u>    | <u>935,429</u>      |
|  | <u>\$ 1,442,867</u> | <u>\$ 1,206,990</u> |

*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, 2021**  
**(With Comparative Totals for 2020)**

|  | <u>Without<br/>Donor<br/>Restrictions</u> | <u>With<br/>Donor<br/>Restrictions</u> | <u>2021<br/>Total</u> | <u>2020<br/>Total</u> |
|--|---|--|-----------------------|-----------------------|
| <b>Revenue and Support</b>   |   |  |                       |                       |
| Contributions:   |   |  |                       |                       |
| Voluntary patient contributions  | \$ 29,457                                 | \$ -                                   | \$ 29,457             | \$ 30,402             |
| Revenue, contributions, and grants   | 983,261                                   | 140,000                                | 1,123,261             | 1,113,284             |
| Annual Gala (net of direct benefits to<br>of \$ 594 (2020 - \$ 0))                 | 120,531                                   | -                                      | 120,531               | -                     |
| Golf Classic (net of direct benefits to<br>donors of \$ 23,762 (2020 - \$ 20,719)) | 56,953                                    | -                                      | 56,953                | 50,042                |
| Donated services and materials   | 2,701,776                                 | -                                      | 2,701,776             | 2,604,282             |
| Investment income  | 81,605                                    | -                                      | 81,605                | 57,180                |
| Other income   | 143,364                                   | -                                      | 143,364               | -                     |
| Net assets released from restrictions:   |   |  |                       |                       |
| Satisfaction of program restrictions   | 140,000                                   | (140,000)                              | -                     | -                     |
| Total revenue and support  | <u>4,256,947</u>                          | <u>-</u>                               | <u>4,256,947</u>      | <u>3,855,190</u>      |
| <b>Expenses</b>  |   |  |                       |                       |
| Program Services:  |   |  |                       |                       |
| Medical  | 1,106,838                                 | -                                      | 1,106,838             | 897,417               |
| Pharmacy   | 2,063,849                                 | -                                      | 2,063,849             | 2,119,637             |
| Lifestyle health and education   | 5,717                                     | -                                      | 5,717                 | 8,797                 |
| Total program services   | <u>3,176,404</u>                          | <u>-</u>                               | <u>3,176,404</u>      | <u>3,025,851</u>      |
| Support Services:  |   |  |                       |                       |
| General and administrative   | 466,890                                   | -                                      | 466,890               | 462,494               |
| Fundraising expenses   | 216,670                                   | -                                      | 216,670               | 199,457               |
| Total support services   | <u>683,560</u>                            | <u>-</u>                               | <u>683,560</u>        | <u>661,951</u>        |
| Total expenses   | <u>3,859,964</u>                          | <u>-</u>                               | <u>3,859,964</u>      | <u>3,687,802</u>      |
| <b>Change in net assets</b>  | 396,983                                   | -                                      | 396,983               | 167,388               |
| <b>Net assets - beginning of year</b>  | <u>935,429</u>                            | <u>-</u>                               | <u>935,429</u>        | <u>768,041</u>        |
| <b>Net assets - end of year</b>  | <u>\$ 1,332,412</u>                       | <u>\$ -</u>                            | <u>\$ 1,332,412</u>   | <u>\$ 935,429</u>     |

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

**MERCY HEALTH CLINIC, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2021**

|   | <u>Medical</u>      | <u>Pharmacy</u>     | <u>Lifestyle<br/>Health and<br/>Education</u> | <u>Total<br/>Program<br/>Services</u> | <u>General and<br/>Administrative</u> | <u>Fundraising</u> | <u>Total<br/>Support<br/>Services</u> | <u>Total</u>        |
|---|---------------------|---------------------|---|---------------------------------------|---------------------------------------|--------------------|---------------------------------------|---------------------|
| Compensation  | \$ 436,913          | \$ 98,990           | \$ 2,383                                      | \$ 538,286                            | \$ 92,300                             | \$ 186,891         | \$ 279,191                            | \$ 817,477          |
| Deferred compensation   | -                   | -                   | -   | -                                     | 11,800                                | -                  | 11,800                                | 11,800              |
| Consultants and contractors   | 1,261               | -                   | -   | 1,261                                 | 71,003                                | -                  | 71,003                                | 72,264              |
| Payroll taxes   | 36,445              | 8,385               | -   | 44,830                                | 14,144                                | 10,387             | 24,531                                | 69,361              |
| Health and benefits   | 5,771               | -                   | -   | 5,771                                 | 633                                   | 198                | 831                                   | 6,602               |
| Bank charges  | -                   | -                   | -   | -                                     | 984                                   | -                  | 984                                   | 984                 |
| Conferences and meetings  | -                   | -                   | -   | -                                     | 1,244                                 | -                  | 1,244                                 | 1,244               |
| Dues and subscriptions  | 5,032               | -                   | -   | 5,032                                 | 6,146                                 | 3,220              | 9,366                                 | 14,398              |
| Insurance   | 23,801              | 1,817               | 127   | 25,745                                | 1,250                                 | 426                | 1,676                                 | 27,421              |
| Interest  | -                   | -                   | -   | -                                     | 171                                   | -                  | 171                                   | 171                 |
| Administrative fees   | 480                 | -                   | -   | 480                                   | -                                     | -                  | -                                     | 480                 |
| Maintenance   | 14,126              | -                   | -   | 14,126                                | -                                     | -                  | -                                     | 14,126              |
| Marketing   | -                   | -                   | -   | -                                     | 430                                   | 426                | 856                                   | 856                 |
| Miscellaneous   | 1,405               | 58                  | -   | 1,463                                 | 2,053                                 | -                  | 2,053                                 | 3,516               |
| Postage and delivery  | -                   | -                   | -   | -                                     | 5,496                                 | -                  | 5,496                                 | 5,496               |
| Printing  | -                   | -                   | -   | -                                     | 702                                   | -                  | 702                                   | 702                 |
| Professional fees   | 11,660              | -                   | -   | 11,660                                | 18,757                                | 2,000              | 20,757                                | 32,417              |
| Recruiting  | -                   | -                   | -   | -                                     | 1,855                                 | -                  | 1,855                                 | 1,855               |
| Rent  | 13,368              | 2,654               | 2,697   | 18,719                                | 6,301                                 | 2,202              | 8,503                                 | 27,222              |
| Repairs and maintenance   | 750                 | 25                  | -   | 775                                   | 433                                   | -                  | 433                                   | 1,208               |
| Supplies  | 12,069              | 552                 | -   | 12,621                                | 9,821                                 | -                  | 9,821                                 | 22,442              |
| Telephone and internet  | 1,357               | 269                 | 273   | 1,899                                 | 638                                   | 223                | 861                                   | 2,760               |
| Fundraising event expenses  | -                   | -                   | -   | -                                     | -                                     | 34,859             | 34,859                                | 34,859              |
| Utilities   | 1,175               | 233                 | 237   | 1,645                                 | 553                                   | 194                | 747                                   | 2,392               |
| Volunteer and donor recognition   | -                   | -                   | -   | -                                     | 3,296                                 | -                  | 3,296                                 | 3,296               |
| Depreciation and amortization   | -                   | -                   | -   | -                                     | 7,195                                 | -                  | 7,195                                 | 7,195               |
| Partner in-kind donations   | 541,225             | 1,950,866           | -   | 2,492,091                             | 209,685                               | -                  | 209,685                               | 2,701,776           |
| Total expenses by function  | 1,106,838           | 2,063,849           | 5,717   | 3,176,404                             | 466,890                               | 241,026            | 707,916                               | 3,884,320           |
| Less: Items included within revenue and support:                                    |                     |                     |   |                                       |                                       |                    |                                       |                     |
| Cost of direct benefits to donors   | -                   | -                   | -   | -                                     | -                                     | (24,356)           | (24,356)                              | (24,356)            |
| Total expenses included in the functional categories on the statement of activities | <u>\$ 1,106,838</u> | <u>\$ 2,063,849</u> | <u>\$ 5,717</u>                               | <u>\$ 3,176,404</u>                   | <u>\$ 466,890</u>                     | <u>\$ 216,670</u>  | <u>\$ 683,560</u>                     | <u>\$ 3,859,964</u> |

*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<br/>Health and<br/>Education</u> | <u>Total<br/>Program<br/>Services</u> | <u>General and<br/>Administrative</u> | <u>Fundraising</u> | <u>Total<br/>Support<br/>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               |
| Fundraising event expenses  | -                 | -                   | -   | -                                     | -                                     | 20,719             | 20,719                                | 20,719              |
| 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           |
| Total expenses by function  | 897,417           | 2,119,637           | 8,797   | 3,025,851                             | 462,494                               | 220,176            | 682,670                               | 3,708,521           |
| Less: Items included within revenue and support:                                    |                   |                     |   |                                       |                                       |                    |                                       |                     |
| Cost of direct benefits to donors   | -                 | -                   | -   | -                                     | -                                     | (20,719)           | (20,719)                              | (20,719)            |
| Total expenses included in the functional categories on the statement of activities | <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.**  
**STATEMENTS OF CASH FLOWS**  
**Year Ended December 31, 2021**  
**(With Comparative Totals for 2020)**

|   | <u>2021</u>              | <u>2020</u>              |
|---|--------------------------|--------------------------|
| <b>Cash flows from operating activities:</b>  |                          |                          |
| Change in net assets  | \$ 396,983               | \$ 167,388               |
| Adjustments to reconcile change in net assets to<br>net cash flows from operating activities: |                          |                          |
| Depreciation and amortization   | 7,195                    | 5,046                    |
| Net unrealized and realized gain on investments   | (71,045)                 | (46,330)                 |
| Donated investments   | (5,071)                  | (10,169)                 |
| Paycheck Protection Program loan forgiveness  | (141,926)                | -                        |
| (Increase) decrease in assets:  |                          |                          |
| Accounts receivable   | (86,467)                 | 22,019                   |
| Prepaid expenses  | (4,510)                  | 1,279                    |
| Increase (decrease) in liabilities:   |                          |                          |
| Accounts payable and accrued expenses   | (1,091)                  | (16,651)                 |
| Deferred rent   | (2,568)                  | (1,590)                  |
| Net cash flows from operating activities  | <u>91,500</u>            | <u>120,992</u>           |
| <b>Cash flows from investing activities:</b>  |                          |                          |
| Purchases of equipment  | (4,457)                  | (11,917)                 |
| Purchases of investments  | (155,046)                | (216,910)                |
| Proceeds from sales of investments  | <u>145,082</u>           | <u>164,847</u>           |
| Net cash flows from investing activities  | <u>(14,421)</u>          | <u>(63,980)</u>          |
| <b>Cash flows from financing activities:</b>  |                          |                          |
| Proceeds from PPP note payable  | <u>-</u>                 | <u>141,926</u>           |
| Net cash flows from financing activities  | <u>-</u>                 | <u>141,926</u>           |
| <b>Net change in cash and cash equivalents</b>  | 77,079                   | 198,938                  |
| <b>Cash and cash equivalents at beginning of year</b>   | <u>362,467</u>           | <u>163,529</u>           |
| <b>Cash and cash equivalents at end of year</b>   | <u><u>\$ 439,546</u></u> | <u><u>\$ 362,467</u></u> |

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

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**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, Medical Director, and Clinical Director. The Clinic has more than 120 volunteer medical, clerical, and administrative staff, including approximately 30 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 2021.

***Comparative Totals***

The financial statements include certain prior-year summarized comparative information. The 2020 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, 2020, 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.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**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, 2021 and 2020, was \$ 7,195 and \$ 5,046, 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. As of December 31, 2021 and 2020, the Clinic had no net assets with donor restrictions.

***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, 2021 and 2020**

**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, 2021 and 2020, totaled \$ 2,701,776 and \$ 2,604,282, respectively, which are reported as partner in-kind donations in the accompanying statements 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 \$ 14,418 and \$ 13,716 for the years ended December 31, 2021 and 2020, 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 and changes in net assets. 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, 2021 and 2020**

**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 30, 2022, which is the date the financial statements were available to be issued.

***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 conditions are met 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, 2021 and 2020, the receivable balances were \$ 173,175 and \$ 86,773, respectively, and are expected to be collected within one year of the statement of financial position date.

**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.**  
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**December 31, 2021 and 2020**

**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, 2021 and 2020.

***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, 2021 and 2020**

**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, 2021 and 2020:

**Assets at Fair Value as of December 31, 2021**

|                                 | <u>Level 1</u>    | <u>Level 2</u>   | <u>Level 3</u> | <u>Total</u>      |
|---------------------------------|-------------------|------------------|----------------|-------------------|
| Exchange traded funds:          |                   |                  |                |                   |
| Growth funds                    | \$ 419,131        | \$ -             | \$ -           | \$ 419,131        |
| Income fund                     | 31,179            | -                | -              | 31,179            |
| Diversified Emerging Markets    | 14,003            | -                | -              | 14,003            |
| Small company fund              | <u>15,163</u>     | <u>-</u>         | <u>-</u>       | <u>15,163</u>     |
| Total exchange traded funds     | <u>479,476</u>    | <u>-</u>         | <u>-</u>       | <u>479,476</u>    |
| Mutual funds:                   |                   |                  |                |                   |
| Bond fund                       | 131,019           | -                | -              | 131,019           |
| Foreign market funds            | 23,991            | -                | -              | 23,991            |
| Growth fund                     | <u>10,714</u>     | <u>-</u>         | <u>-</u>       | <u>10,714</u>     |
| Total mutual funds              | <u>165,724</u>    | <u>-</u>         | <u>-</u>       | <u>165,724</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>\$ 645,200</u> | <u>\$ 42,000</u> | <u>\$ -</u>    | <u>\$ 687,200</u> |
| Assets held in trust            | <u>\$ -</u>       | <u>\$ 60,480</u> | <u>\$ -</u>    | <u>\$ 60,480</u>  |

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 3. Fair Value Measurements (continued)**

| <b><u>Assets at Fair Value as of December 31, 2020</u></b> |                   |                  |                  |                   |
|--|-------------------|------------------|------------------|-------------------|
|  | <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   | 8,823             | -                | -                | 8,823             |
| 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  | 10,586            | -                | -                | 10,586            |
| Total mutual funds   | <u>159,204</u>    | <u>-</u>         | <u>-</u>         | <u>159,204</u>    |
| Money market:  |                   |                  |                  |                   |
| Schwab Treasury Oblig Money                                | -                 | 42,000           | -                | 42,000            |
| 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>  |
| Investment income includes:                                |                   |                  |                  |                   |
|  |                   | <u>2021</u>      | <u>2020</u>      |                   |
| Net unrealized and realized gain on investments            |                   | \$ 71,045        | \$ 46,330        |                   |
| Interest and dividend income                               |                   | 14,149           | 13,778           |                   |
| Investment fees  |                   | (3,589)          | (2,928)          |                   |
|  |                   | <u>\$ 81,605</u> | <u>\$ 57,180</u> |                   |

**Note 4. Concentration of Revenue**

For the years ended December 31, 2021 and 2020, approximately 39% and 44% 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 2021 and 2020, was \$ 532,268 and \$ 535,013, respectively.



**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**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, 2021 and 2020, was \$ 11,800 and \$ 13,600, 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 \$ 60,480 and \$ 76,001 at December 31, 2021 and 2020, 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 \$ 13,103 and \$ 15,671 at December 31, 2021 and 2020, 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, |                  |
|--------------------------|------------------|
| 2022                     | \$ 30,382        |
| 2023                     | 31,292           |
| 2024                     | 32,237           |
| 2025                     | 2,693            |
| 2026                     | -                |
|                          | <u>\$ 90,604</u> |

Total rent expense for the years ended December 31, 2021 and 2020, was \$ 27,222 and \$ 27,330, 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, 2021 and 2020, respectively. The donated utilities and other services discussed in Note 1, provided by the landlord for the licensed office space, was \$ 58,360 and \$ 52,151 for the years ended December 31, 2021 and 2020, respectively. The donated rent, utilities, and other services is included in partner in-kind donation on the statement of functional expenses.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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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 was subject to a note dated April 23, 2020 but 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 loan forgiveness is included in other income in the statement of activities and changes in net assets for the year ended December 31, 2021. 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.

**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, 2021 and 2020.

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, 2021 and 2020, 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, 2021 and 2020, 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.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 10. Concentration of Credit Risk**

The Clinic maintains its cash in bank deposits with balances that may exceed \$ 250,000 from time to time, which is the amount insured by the Federal Deposit Insurance Corporation. The Clinic has not experienced any losses in such accounts and monitors the credit worthiness of the financial institutions with which it conducts business. Management believes that the Clinic is not exposed to any significant credit risk with respect to its cash balances at December 31, 2021 and 2020.

**Note 11. Liquidity and Availability**

As of December 31, 2021 and 2020, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| Cash and cash equivalents                | \$ 439,546          | \$ 362,467          |
| Accounts receivable                      | 207,693             | 121,226             |
| Investments                              | 687,200             | 601,120             |
| Less: net assets with donor restrictions | <u>-</u>            | <u>-</u>            |
|  | <u>\$ 1,334,439</u> | <u>\$ 1,084,813</u> |

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, and bonds. 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.