

**MERCY HEALTH CLINIC, INC.**

**FINANCIAL REPORT**

**December 31, 2019**

**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, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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  
December 7, 2020*

**MERCY HEALTH CLINIC, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2019**  
**(With Comparative Totals for 2018)**

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 163,529	\$ 121,161
Accounts receivable, less an allowance for doubtful accounts of \$ 4,983 in 2019 and \$ 4,983 in 2018	143,245	110,518
Investments, at fair value	492,558	457,174
Prepaid expenses	16,545	17,568
Total current assets	815,877	706,421
<b>Property and Equipment</b>		
Equipment	55,128	39,954
Leasehold improvements and fixtures	144,868	144,868
	199,996	184,822
Less: accumulated depreciation and amortization	175,957	172,917
	24,039	11,905
<b>Assets Held in Trust</b>	55,131	36,988
	\$ 895,047	\$ 755,314
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 54,614	\$ 55,130
Deferred revenue	-	500
Total current liabilities	54,614	55,630
<b>Long-Term Liabilities</b>		
Deferred rent	17,261	18,014
Deferred compensation payable	55,131	36,988
Total long-term liabilities	72,392	55,002
Total liabilities	127,006	110,632
<b>Net Assets</b>		
Without donor restrictions	758,216	614,682
With donor restrictions	9,825	30,000
Total net assets	768,041	644,682
	\$ 895,047	\$ 755,314

*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, 2019**  
**(With Comparative Totals for 2018)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
<b>Revenue and Support</b>				
Voluntary patient contributions	\$ 82,921	\$ -	\$ 82,921	\$ 78,277
Revenue, contributions, and grants	839,448	57,127	896,575	822,206
Annual Gala (net of related expenses of \$ 33,846 for 2019 and \$ 28,077 for 2018)	104,688	-	104,688	102,671
Golf Classic (net of related expenses of \$ 32,280 for 2019 and \$ 32,294 for 2018)	57,392	-	57,392	66,907
Donated services and materials	2,978,757	-	2,978,757	2,821,098
Investment income (loss)	82,210	-	82,210	(22,003)
Other income (loss)	(912)	-	(912)	3,679
Net assets released from restrictions:				
Satisfaction of program restrictions	77,302	(77,302)	-	-
Total revenue and support	<u>4,221,806</u>	<u>(20,175)</u>	<u>4,201,631</u>	<u>3,872,835</u>
<b>Expenses</b>				
Program Services:				
Medical	1,455,382	-	1,455,382	1,497,278
Pharmacy	1,932,974	-	1,932,974	1,765,013
Lifestyle health and education	26,051	-	26,051	36,784
Total program services	<u>3,414,407</u>	<u>-</u>	<u>3,414,407</u>	<u>3,299,075</u>
Support Services:				
General and administrative	466,260	-	466,260	480,741
Fundraising expenses	197,605	-	197,605	181,553
Total support services	<u>663,865</u>	<u>-</u>	<u>663,865</u>	<u>662,294</u>
Total expenses	<u>4,078,272</u>	<u>-</u>	<u>4,078,272</u>	<u>3,961,369</u>
<b>Change in net assets</b>	143,534	(20,175)	123,359	(88,534)
<b>Net assets - beginning of year</b>	<u>614,682</u>	<u>30,000</u>	<u>644,682</u>	<u>733,216</u>
<b>Net assets - end of year</b>	<u>\$ 758,216</u>	<u>\$ 9,825</u>	<u>\$ 768,041</u>	<u>\$ 644,682</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 this financial statement.*

**MERCY HEALTH CLINIC, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2018**

	<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	\$ 476,441	\$ 90,151	\$ 2,404	\$ 568,996	\$ 43,931	\$ 165,477	\$ 209,408	\$ 778,404
Bad debt expense	4,983	-	-	4,983	-	-	-	4,983
Deferred compensation	-	-	-	-	12,800	-	12,800	12,800
Consultants and contractors	5,031	480	30,320	35,831	64,049	96	64,145	99,976
Payroll taxes	36,162	6,882	-	43,044	9,576	8,876	18,452	61,496
Health and benefits	4,954	-	-	4,954	12,848	-	12,848	17,802
Bank charges	-	-	-	-	794	-	794	794
Conferences and meetings	105	-	-	105	497	53	550	655
Dues and subscriptions	858	-	-	858	3,201	660	3,861	4,719
Insurance	4,831	60	48	4,939	19,137	12	19,149	24,088
Administrative fees	8,293	-	-	8,293	1,769	-	1,769	10,062
Maintenance	16,370	-	-	16,370	-	-	-	16,370
Marketing	233	-	-	233	4,733	-	4,733	4,966
Miscellaneous	-	-	-	-	39	-	39	39
Postage and delivery	-	-	-	-	1,105	3,028	4,133	4,133
Printing	-	-	-	-	854	-	854	854
Professional fees	9,037	-	-	9,037	23,349	-	23,349	32,386
Recruiting	-	-	-	-	384	-	384	384
Rent	13,419	2,665	2,708	18,792	6,324	2,211	8,535	27,327
Repairs and maintenance	554	-	-	554	364	-	364	918
Supplies	17,906	3,175	-	21,081	4,873	245	5,118	26,199
Telephone and internet	975	194	197	1,366	459	161	620	1,986
Travel	-	-	-	-	79	60	139	139
Utilities	1,779	353	359	2,491	839	293	1,132	3,623
Training	-	-	350	350	-	-	-	350
Volunteer and donor recognition	450	-	-	450	70	30	100	550
Depreciation and amortization	2,415	437	398	3,250	667	351	1,018	4,268
Partner in-kind donations	892,482	1,660,616	-	2,553,098	268,000	-	268,000	2,821,098
	<u>\$ 1,497,278</u>	<u>\$ 1,765,013</u>	<u>\$ 36,784</u>	<u>\$ 3,299,075</u>	<u>\$ 480,741</u>	<u>\$ 181,553</u>	<u>\$ 662,294</u>	<u>\$ 3,961,369</u>

*The accompanying notes are an integral part of this financial statement.*



**MERCY HEALTH CLINIC, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 123,359	\$ (88,534)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	3,040	4,268
Net unrealized and realized (gain) loss on investments	(69,533)	34,687
(Increase) decrease in assets:		
Accounts receivable	(32,727)	(2,082)
Prepaid expenses	1,023	67
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(516)	277
Deferred revenue	(500)	500
Deferred rent	(753)	2,238
Net cash flows from operating activities	23,393	(48,579)
<b>Cash flows from investing activities:</b>		
Purchases of equipment	(15,174)	(8,417)
Purchases of investments	(18,575)	(106,707)
Proceeds from sales of investments	52,724	124,666
Net cash flows from investing activities	18,975	9,542
<b>Net change in cash and cash equivalents</b>	42,368	(39,037)
<b>Cash and cash equivalents at beginning of year</b>	121,161	160,198
<b>Cash and cash equivalents at end of year</b>	\$ 163,529	\$ 121,161

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

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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 2,040 (unaudited) low-income, uninsured patients with nearly 7,200 (unaudited) patient visits in 2019.

***Comparative Totals***

The financial statements include certain prior-year summarized comparative information. The 2018 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, 2018, 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, 2019 and 2018.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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.

***Investments***

In accordance with the FASB Accounting Standards Codification (FASB ASC) topic on *Investments – Debt and Equity Securities of Not-For-Profits*, investments are reported at their fair value in the statement of financial position.

***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, 2019 and 2018, was \$ 3,040 and \$ 4,268, 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 June 2018, FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as non-exchange (contributions) or exchange transactions and determining whether a contribution is conditional. The Clinic has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (continued)**

***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, 2019 and 2018, totaled \$ 2,978,757 and \$ 2,821,098, 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 \$ 58,380 and \$ 51,765 for the years ended December 31, 2019 and 2018, 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.

***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.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 1. Summary of Significant Accounting Policies (continued)**

*Subsequent Events*

On March 11, 2020, the World Health Organization pronounced the coronavirus (COVID-19) outbreak a pandemic. Citizens and the economies of the United States and other countries have been significantly impacted by the pandemic and the duration and impact are unknown. No pandemic implications are accounted for in these financial statements.

In April 2020, the Clinic received a SBA Loan under the CARES Act, Paycheck Protection Program. The loan is for the amount of \$ 141,926 with an interest rate of 1% and matures in April 2022. Certain principal borrowed on the loan may qualify to be forgiven by the SBA if the qualified costs are incurred in the 24-week period following the first loan disbursement in accordance with the requirements of the Payment Protection Program, including the provisions of Section 1106 of the CARES Act.

In preparing its financial statements, the Clinic has evaluated subsequent events through December 7, 2020, 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 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, 2019 and 2018, the receivable balances were \$ 79,297 and \$ 74,113, 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, 2019 and 2018**

**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, 2019 and 2018.

*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.

*Corporate Bonds:*

Valued as similar assets with comparable interest rates, maturities, and investment grade.

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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, 2019 and 2018:

**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>

**MERCY HEALTH CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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

**Assets at Fair Value as of December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
Growth funds	\$ 215,324	\$ -	\$ -	\$ 215,324
Income fund	29,275	-	-	29,275
Small company fund	18,746	-	-	18,746
Total exchange traded funds	263,345	-	-	263,345
Mutual funds:				
Bond fund	98,289	-	-	98,289
Foreign market funds	37,777	-	-	37,777
Pacific stock fund	9,471	-	-	9,471
Growth fund	7,844	-	-	7,844
Total mutual funds	153,381	-	-	153,381
Corporate bonds	-	40,448	-	40,448
Total	<u>\$ 416,726</u>	<u>\$ 40,448</u>	<u>\$ -</u>	<u>\$ 457,174</u>
Assets held in trust	<u>\$ -</u>	<u>\$ 36,988</u>	<u>\$ -</u>	<u>\$ 36,988</u>

Investment income (loss) includes:

	<u>2019</u>	<u>2018</u>
Net unrealized and realized gain (loss) on investments	\$ 69,533	\$ (34,687)
Interest and dividend income, net	12,677	12,684
	<u>\$ 82,210</u>	<u>\$ (22,003)</u>

**Note 4. Concentration of Revenue**

For the years ended December 31, 2019 and 2018, approximately 46% and 50% 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 2019 and 2018 was \$ 550,751 and \$ 524,211, 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, 2019 and 2018, was \$ 13,201 and \$ 12,800, 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 \$ 55,131 and \$ 36,988 at December 31, 2019 and 2018, 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 \$ 17,261 and \$ 18,014 at December 31, 2019 and 2018, 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,	
2020	\$ 28,634
2021	29,496
2022	30,382
2023	31,292
2024	32,237
Thereafter	<u>2,693</u>
	<u>\$ 154,734</u>

Total rent expense for the years ended December 31, 2019 and 2018, was \$ 27,321 and \$ 27,327, 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, 2019 and 2018, respectively. The donated utilities and other services discussed in Note 1, provided by the landlord for the licensed office space, was \$ 59,104 and \$ 59,790 for the years ended December 31, 2019 and 2018, 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. 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, 2019 and 2018.

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, 2019 and 2018, 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, 2019 and 2018, 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 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.

**Note 9. Liquidity and Availability**

As of December 31, 2019 and 2018, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2019	2018
Cash and cash equivalents	\$ 163,529	\$ 121,161
Accounts receivable	143,245	110,518
Investments	492,558	457,174
Less: net assets with donor restrictions	(9,825)	(30,000)
	\$ 789,507	\$ 658,853

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.