

MERCY HEALTH CLINIC, INC.

FINANCIAL REPORT

December 31, 2018

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, 2018, 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 of 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the retrospective application of the adoption of ASU 2016-14.

Other Matter – Effect of Adopting New Accounting Standard

As discussed in Note 1, Mercy Health Clinic, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. Our opinion is not modified with respect to this matter.



Rockville, Maryland
October 31, 2019

MERCY HEALTH CLINIC, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 121,161	\$ 160,198
Accounts receivable, less an allowance for doubtful accounts of \$ 4,983 in 2018 and \$ 0 in 2017	110,518	108,436
Investments	457,174	509,820
Prepaid expenses	<u>17,568</u>	<u>17,635</u>
Total current assets	<u>706,421</u>	<u>796,089</u>
Equipment, Leasehold Improvements and Fixtures		
Equipment	39,954	31,537
Leasehold improvements and fixtures	<u>144,868</u>	<u>144,868</u>
	184,822	176,405
Less: accumulated depreciation and amortization	<u>172,917</u>	<u>168,649</u>
	<u>11,905</u>	<u>7,756</u>
Assets Held in Trust	<u>36,988</u>	<u>28,220</u>
	<u>\$ 755,314</u>	<u>\$ 832,065</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 55,130	\$ 54,853
Deferred revenue	<u>500</u>	<u>-</u>
Total current liabilities	<u>55,630</u>	<u>54,853</u>
Long-Term Liabilities		
Deferred rent	18,014	15,776
Deferred compensation payable	<u>36,988</u>	<u>28,220</u>
Total long-term liabilities	<u>55,002</u>	<u>43,996</u>
Total liabilities	<u>110,632</u>	<u>98,849</u>
Net Assets		
Without donor restrictions	614,682	703,216
With donor restrictions	<u>30,000</u>	<u>30,000</u>
Total net assets	<u>644,682</u>	<u>733,216</u>
	<u>\$ 755,314</u>	<u>\$ 832,065</u>

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

MERCY HEALTH CLINIC, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2018
(With Comparative Totals for 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenue and Support				
Voluntary patient contributions	\$ 78,277	\$ -	\$ 78,277	\$ 66,972
Revenue, contributions, and grants	792,206	30,000	822,206	975,302
Annual Gala (net of related expenses of \$ 28,077 for 2018 and \$ 25,358 for 2017)	102,671	-	102,671	84,875
Golf Classic (net of related expenses of \$ 32,294 for 2018 and \$ 27,117 for 2017)	66,907	-	66,907	49,183
Donated services and materials	2,821,098	-	2,821,098	2,597,315
Investment income (loss)	(22,003)	-	(22,003)	57,130
Other income	3,679	-	3,679	12,064
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>3,872,835</u>	<u>-</u>	<u>3,872,835</u>	<u>3,842,841</u>
Expenses				
Program Services:				
Medical	1,497,278	-	1,497,278	1,650,347
Pharmacy	1,765,013	-	1,765,013	1,352,604
Lifestyle health and education	<u>36,784</u>	<u>-</u>	<u>36,784</u>	<u>37,205</u>
Total program services	<u>3,299,075</u>	<u>-</u>	<u>3,299,075</u>	<u>3,040,156</u>
Support Services:				
General and administrative	480,741	-	480,741	526,518
Fundraising expenses	<u>181,553</u>	<u>-</u>	<u>181,553</u>	<u>177,713</u>
Total support services	<u>662,294</u>	<u>-</u>	<u>662,294</u>	<u>704,231</u>
Total expenses	<u>3,961,369</u>	<u>-</u>	<u>3,961,369</u>	<u>3,744,387</u>
Change in net assets	(88,534)	-	(88,534)	98,454
Net assets - beginning of year	<u>703,216</u>	<u>30,000</u>	<u>733,216</u>	<u>634,762</u>
Net assets - end of year	<u>\$ 614,682</u>	<u>\$ 30,000</u>	<u>\$ 644,682</u>	<u>\$ 733,216</u>

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

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 these financial statements.

MERCY HEALTH CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	<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	\$ 516,585	\$ 66,919	\$ 2,422	\$ 585,926	\$ 55,230	\$ 153,733	\$ 208,963	\$ 794,889
Deferred compensation	-	-	-	-	12,800	-	12,800	12,800
Consultants and contractors	6,829	480	29,943	37,252	45,287	2,737	48,024	85,276
Payroll taxes	37,832	5,685	-	43,517	10,275	8,376	18,651	62,168
Health and benefits	18,920	303	726	19,949	-	40	40	19,989
Bank charges	-	-	-	-	2,831	-	2,831	2,831
Conferences and meetings	102	-	-	102	789	-	789	891
Dues and subscriptions	19,456	-	-	19,456	1,897	390	2,287	21,743
Fundraising events	-	-	-	-	-	1,186	1,186	1,186
Insurance	5,239	156	82	5,477	13,572	45	13,617	19,094
Administrative fees	1,173	-	-	1,173	1,696	1,210	2,906	4,079
Marketing	-	-	-	-	250	1,482	1,732	1,732
Minor equipment	2,650	591	-	3,241	-	591	591	3,832
Miscellaneous	150	-	-	150	235	-	235	385
Postage and delivery	596	333	-	929	322	468	790	1,719
Printing	-	-	-	-	2,438	3,943	6,381	6,381
Professional fees	8,423	-	-	8,423	34,832	-	34,832	43,255
Recruiting	612	-	-	612	675	33	708	1,320
Rent	13,481	2,704	2,748	18,933	6,900	2,244	9,144	28,077
Repairs and maintenance	1,214	304	187	1,705	466	350	816	2,521
Supplies	13,653	5,692	5	19,350	3,739	11	3,750	23,100
Telephone and internet	929	184	187	1,300	596	153	749	2,049
Utilities	1,524	303	308	2,135	719	251	970	3,105
Volunteer and donor recognition	1,163	-	-	1,163	-	119	119	1,282
Depreciation and amortization	671	750	597	2,018	999	351	1,350	3,368
Partner in-kind donations	999,145	1,268,200	-	2,267,345	329,970	-	329,970	2,597,315
	<u>\$ 1,650,347</u>	<u>\$ 1,352,604</u>	<u>\$ 37,205</u>	<u>\$ 3,040,156</u>	<u>\$ 526,518</u>	<u>\$ 177,713</u>	<u>\$ 704,231</u>	<u>\$ 3,744,387</u>

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

MERCY HEALTH CLINIC, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (88,534)	\$ 98,454
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,268	3,368
Net unrealized (gain) on investments	34,687	(47,055)
(Increase) decrease in assets:		
Accounts receivable	(2,082)	(15,005)
Prepaid expenses	67	241
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	277	8,362
Deferred revenue	500	(5,000)
Deferred rent	2,238	15,400
Net cash provided by (used in) operating activities	(48,579)	58,765
Cash flows from investing activities:		
Purchases of equipment	(8,417)	(6,200)
Purchases of investments	(106,707)	(17,217)
Proceeds from sales of investments	124,666	1,278
Net cash provided by (used in) investing activities	9,542	(22,139)
Net increase (decrease) in cash and cash equivalents	(39,037)	36,626
Cash and cash equivalents at beginning of year	160,198	123,572
Cash and cash equivalents at end of year	\$ 121,161	\$ 160,198

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

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 40 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 1,850 (unaudited) low-income, uninsured patients with over 7,200 (unaudited) patient visits in 2018.

Comparative Totals

The financial statements include certain prior-year summarized comparative information. The 2017 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, 2017, 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, 2018 and 2017.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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.

Equipment, Leasehold Improvements and Fixtures

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, 2018 and 2017, was \$ 4,268 and \$ 3,368, 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.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Clinic has adopted this ASU as of and for the year ended December 31, 2018. The adoption of this ASU had no effect on net assets or the change in net assets presented for the year ended December 31, 2018.

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, 2018 and 2017, totaled \$ 2,821,098 and \$ 2,597,315, 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 \$ 51,765 and \$ 63,150 for the years ended December 31, 2018 and 2017, 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).

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1. Summary of Significant Accounting Policies (continued)

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 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 October 31, 2019, 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, 2018 and 2017, the receivable balances were \$ 74,113 and \$ 84,035, respectively.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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:

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, 2018 and 2017.

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.

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 3. Fair Value Measurements (continued)

Corporate Bonds:

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

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, 2018 and 2017:

	<u>Assets at Fair Value as of December 31, 2018</u>			
	<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
Government bond	-	-	-	-
Small company fund	<u>18,746</u>	<u>-</u>	<u>-</u>	<u>18,746</u>
Total exchange traded funds	<u>263,345</u>	<u>-</u>	<u>-</u>	<u>263,345</u>
Mutual funds:				
Bond fund	98,289	-	-	98,289
Foreign market funds	37,777	-	-	37,777
Pacific stock fund	9,471	-	-	9,471
Growth fund	<u>7,844</u>	<u>-</u>	<u>-</u>	<u>7,844</u>
Total mutual funds	<u>153,381</u>	<u>-</u>	<u>-</u>	<u>153,381</u>
Corporate bonds	<u>-</u>	<u>40,448</u>	<u>-</u>	<u>40,448</u>
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>

MERCY HEALTH CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 3. Fair Value Measurements (continued)

Assets at Fair Value as of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds:				
Growth funds	\$ 216,747	\$ -	\$ -	\$ 216,747
Income fund	38,085	-	-	38,085
Government bond	15,359	-	-	15,359
Small company fund	21,344	-	-	21,344
Total exchange traded funds	291,535	-	-	291,535
Mutual funds:				
Bond fund	114,654	-	-	114,654
Foreign market funds	40,658	-	-	40,658
Pacific stock fund	11,165	-	-	11,165
Growth fund	9,520	-	-	9,520
Total mutual funds	175,997	-	-	175,997
Corporate bonds	-	42,288	-	42,288
Total	\$ 467,532	\$ 42,288	\$ -	\$ 509,820
Assets held in trust	\$ -	\$ 28,220	\$ -	\$ 28,220

Investment income (loss) includes:

	<u>2018</u>	<u>2017</u>
Net unrealized and realized gain (loss) on investments	\$ (34,687)	\$ 47,055
Interest and dividend income, net	12,684	10,075
	\$ (22,003)	\$ 57,130

Note 4. Concentration of Revenue

For the years ended December 31, 2018 and 2017, approximately 50% 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 2018 and 2017 was \$ 524,211 and \$ 537,716, 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, 2018 and 2017, was \$ 12,800 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 \$ 36,988 and \$ 28,220 at December 31, 2018 and 2017, 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 \$ 18,014 and \$ 15,776 at December 31, 2018 and 2017, 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,	
2019	\$ 27,797
2020	28,634
2021	29,496
2022	30,382
2023	31,292
Thereafter	<u>34,930</u>
	<u>\$ 182,531</u>

Total rent expense for the years ended December 31, 2018 and 2017, was \$ 27,327 and \$ 28,077, 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, 2018 and 2017, respectively. The donated utilities and other services discussed in Note 1, provided by the landlord for the licensed office space, was \$ 59,790 and \$ 107,592 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

Cash and cash equivalents	\$ 121,161
Accounts receivable	110,518
Investments	457,174
Less:	
Net assets with donor restrictions	<u>(30,000)</u>
	<u>\$ 658,853</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, 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.