

HOPE MEDICAL CLINIC, INC.

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2019

(With Summarized Comparative Information for 2018)

HOPE MEDICAL CLINIC, INC

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statement of Activities (<i>With Comparative Totals for 2018</i>)	4
Statement of Functional Expenses (<i>With Comparative Totals for 2018</i>)	5
Statements of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hope Medical Clinic Hope Medical Clinic, Inc.
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements Hope Medical Clinic, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

To the Board of Directors
Hope Medical Clinic, Inc.
Detroit, Michigan
Page Two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Medical Clinic, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hope Medical Clinic, Inc's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 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 respects, with the audited financial statements from which it has been derived.

UHY LLP

Farmington Hills, Michigan
December 30, 2020

HOPE MEDICAL CLINIC
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 322,789	\$ 201,615
Promises to give	111,512	119,849
Total current assets	434,301	321,464
PROPERTY AND EQUIPMENT, net	3,100,421	3,169,203
ENDOWMENT INVESTMENTS, at fair value	2,830,737	1,461,844
OTHER ASSETS		
Promises to give, net of current portion	150,000	40,000
Property held for sale	15,000	15,000
Total assets	\$ 6,530,459	\$ 5,007,511
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 16,452	\$ 26,853
Accrued expenses	57,986	55,743
Total liabilities	74,438	82,596
NET ASSETS		
Without donor restrictions	3,265,063	3,267,595
With donor restrictions	3,190,958	1,657,320
Total net assets	6,456,021	4,924,915
Total liabilities and net assets	\$ 6,530,459	\$ 5,007,511

**HOPE MEDICAL CLINIC
STATEMENTS OF ACTIVITIES**

Year Ended December 31, 2019, with Comparative Totals for 2018

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenue				
Grants and contributions	\$ 1,425,822	\$ 396,096	\$ 1,821,918	\$ 1,420,377
Campaign gift	-	1,023,671	1,023,671	-
Donated services	826,422	-	826,422	931,585
Donated supplies	1,443,319	-	1,443,319	1,228,566
Miscellaneous	2,189	-	2,189	2,823
Total revenues	3,697,752	1,419,767	5,117,519	3,583,351
Special event revenue, net	134,169	-	134,169	110,087
Other revenue (loss)				
Investment return(loss), net	-	429,839	429,839	(100,753)
Total other revenue (loss)	-	429,839	429,839	(100,753)
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	162,000	(162,000)	-	-
Net assets released from restrictions-other	153,968	(153,968)	-	-
Total revenue	4,147,889	1,533,638	5,681,527	3,592,685
Expenses				
Program Services				
Medical clinic	1,587,786	-	1,587,786	1,328,904
Dental clinic	637,347	-	637,347	662,358
Food and direct assistance	888,017	-	888,017	893,615
Wayne medical clinic	260,691	-	260,691	304,471
Social work	334,699	-	334,699	285,265
Total program services	3,708,540	-	3,708,540	3,474,613
Supporting Services				
Management and general	211,256	-	211,256	230,581
Fund raising	230,625	-	230,625	173,936
Total support services	441,881	-	441,881	404,517
Total expenses	4,150,421	-	4,150,421	3,879,130
Change in net assets	(2,532)	1,533,638	1,531,106	(286,445)
Net assets, beginning	3,267,595	1,657,320	4,924,915	5,211,360
Net assets, ending	\$ 3,265,063	\$ 3,190,958	\$ 6,456,021	\$ 4,924,915

HOPE MEDICAL CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Totals for 2018)

	Program Services					Supporting Services			Total		
	Medical Clinic	Dental Clinic	Food & Direct Assistance	Wayne Medical Clinic	Social Work	Subtotal	Management and General	Fund Raising	Subtotal	2019	2018
Salaries	\$ 258,737	\$ 295,498	\$ 135,088	\$ 73,764	\$ 149,782	\$ 912,869	\$ 94,601	\$ 159,204	\$ 253,805	\$ 1,166,674	\$ 1,035,396
Payroll taxes	18,841	21,460	7,763	5,266	10,787	64,117	2,580	10,700	13,280	77,397	72,163
Employee benefits	46,625	33,050	19,228	5,372	19,586	123,861	32,125	26,578	58,703	182,564	161,861
Donated services	387,266	175,073	2,200	125,094	112,331	801,964	24,458	-	24,458	826,422	931,585
Volunteer services	1,000	900	500	200	200	2,800	430	-	430	3,230	6,107
Donated Supplies	768,328	3,970	620,465	22,864	21,507	1,437,134	6,185	-	6,185	1,443,319	1,228,566
Program materials	10,328	29,309	11,644	1,541	7,124.00	59,946	2,281	-	2,281	62,227	52,767
Insurance	9,170	2,400	3,000	1,800	600	16,970	2,021	-	2,021	18,991	17,725
Interest	300	300	300	200	100	1,200	178	-	178	1,378	3,951
Miscellaneous	2,432	2,963	1,790	1,061	7,182	15,428	3,736	-	3,736	19,164	26,768
Office	6,803	5,000	5,000	2,051	1,000	19,854	3,486	17,533	21,019	40,873	40,025
Professional fees	18,116	5,200	4,100	1,000	1,000	29,416	4,320	16,610	20,930	50,346	26,042
Repairs and maintenance	-	-	4,593	7,724	-	12,317	45,884	-	45,884	58,201	54,268
Information & technology	4,000	4,000	4,800	800	800	14,400	1,839	-	1,839	16,239	18,593
Depreciation and amortization	30,697	28,322	28,616	5,526	-	93,161	15,327	-	15,327	108,488	120,371
Utilities	8,400	8,400	23,218	6,428	2,200	48,646	8,007	-	8,007	56,653	61,192
Building	12,500	12,500	12,500	-	-	37,500	(37,500)	-	(37,500)	-	-
Equipment	4,243	9,002	3,212	-	500	16,957	1,298	-	1,298	18,255	21,750
Total	\$ 1,587,786	\$ 637,347	\$ 888,017	\$ 260,691	\$ 334,699	\$ 3,708,540	\$ 211,256	\$ 230,625	\$ 441,881	\$ 4,150,421	\$ 3,879,130

HOPE MEDICAL CLINIC
STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ 1,531,106	\$ (286,445)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	108,488	120,371
Donated securities	(1,069,244)	(20,887)
Net realized and unrealized (gain) loss on investments	(394,425)	132,052
Changes in assets and liabilities:		
Promises to give	(101,663)	96,412
Accounts payable	(10,401)	5,462
Accrued expenses	2,243	11,961
	<hr/>	<hr/>
Net cash provided by operating activities	66,104	58,926
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Purchases of investments	(3,845,117)	(640,306)
Proceeds from sale of investments	3,775,276	587,895
Distribution from endowment investments	164,617	62,741
Purchases of equipment	(39,706)	(1,900)
	<hr/>	<hr/>
Net cash provided by investing activities	55,070	8,430
	<hr/>	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS	121,174	67,356
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, Beginning	201,615	134,259
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, Ending	\$ 322,789	\$ 201,615
	<hr/> <hr/>	<hr/> <hr/>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Organization

The Hope Medical Clinic (“Hope”) is a non-profit interdenominational Christian medical social service organization that provides compassionate and practical help to those in need, ministering to the whole person. This includes providing comprehensive health care for the medically indigent and a range of other services aimed either at meeting basic needs or equipping people with the tools needed to improve the quality of their lives and/or to become self-sufficient. These services are provided free of charge. Hope’s operations are funded primarily through private grants and contributions. Hope primarily serves residents of Washtenaw County and western Wayne County.

Basis of Presentation

The financial statements of Hope have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”).

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Hope and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Hope. These net assets may be used at the discretion of Hope’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Hope or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Hope report contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consists of those items attributable to Hope's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, and other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 and Credit Risk

Hope considers all highly liquid investments with original maturities of three months or less to be cash equivalents, except for those amounts that are held in the investment portfolio which are invested for long-term purposes. At times, deposits maintained at local financial institutions may exceed the federally insured limits. Hope has not experienced any losses in such accounts. Management has deemed this as a normal business risk.

Promises to Give

Receivables consist of unconditional promises to give that are recognized as contributions when promises are received. Promise to give receivables that are expected to be collected in more than one year are recorded at fair value at the date of the promise. The fair value is computed using the present value technique applied to anticipated cash flows. Amortization of the resulting discount is included in contribution revenue in the statement of activities. The allowance for doubtful accounts is determined based on management's evaluation of the collectability of individual promises. There was no allowance for promise to give receivables for the years ended December 31, 2019 and 2018.

Property and Equipment

Property and equipment are recorded at cost when purchased, or at estimated fair value when received as a donation. Depreciation and amortization of property placed in service is calculated on a straight-line basis over the estimated useful lives of the assets. Property and equipment are capitalized when the cost exceeds \$1,000. Property and equipment not meeting these criteria are expensed in the period of acquisition. Management annually evaluates these assets for impairment.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Assets Held For Sale

Assets held for sale are long-lived assets for which Hope has a concrete plan to dispose of the asset by sale. They are carried on balance sheet at the lower of carrying value or fair value and no depreciation is charged on them.

Investments

Investments include a beneficial interest in funds held by the Ann Arbor Area Community Foundation (the "Foundation or AAACF"). The fair value of the beneficial interest is determined by the Foundation. All other investment securities purchased, which consist of publicly traded equities, corporate bonds, money market funds, exchange traded funds and mutual funds, are initially recorded at cost. Thereafter, the carrying values of such investments are adjusted to fair values which are determined using published exchange market quotations as provided by an external investment manager. Investment income, which consists of interest and dividend income earned, realized gains and losses, and unrealized appreciation (depreciation) in fair value of investments, net of investment management fees, is reported as net investment return/(loss) on the statement of activities. Realized gains or losses on securities sold are determined using the specific identification method.

Revenue and Revenue Recognition

Contributions

All contributions are considered to be for unrestricted use unless specifically restricted by the donor. Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give, that is those with a measurable performance or other barrier, and a right of return or right of release, are not recognized until the conditions to which they depend have been substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Donated Assets

Hope reports gifts and pledges of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Hope reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated investments are recorded at their estimated fair value when received. Hope immediately sells the donated securities. Accordingly, these receipts are reported as cash flows attributable to operations on the statement of cash flows.

Donated Services and Supplies

Services donated by physicians, nurses, and other professionals are recorded as support and expense. The services are valued at the estimated amounts that would be paid if Clinic paid employees for such services. Donated supplies are recorded as support and expense at their estimated fair value when received as a donation.

Approximately 14,692 and 16,147 volunteer hours were provided by medical, dental and other professionals for the year ended December 31, 2019 and 2018, respectively. The value of these services were estimated to be \$826,422 and \$931,585.

There are numerous other individuals who volunteer their time and perform a variety of tasks that assist Hope with program, fundraising and administrative support. These donated services were not recognized in the financial statements because they did not meet the criteria for recognition under ASC topic Contributions.

Revenue Recognition for Contracts with Patrons

Hope's revenue stream under contracts with patrons is comprised of the exchange component of special events revenue transactions in which the donor and Hope receive something of commensurate value from the special event. Hope performs an analysis to determine the performance obligations associated with the exchange transactions, and revenue recognized when the given performance obligation is satisfied.

The revenue is recognized at a given point in time when the control of the goods or service is transferred to the patron and when the patron can direct its use and obtain substantial benefit from the goods. The transaction price is calculated as the amount of consideration to which Hope expects to be entitled (such as the estimated value of the items received by the donor as part of the special event).

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Agency Transactions

Hope participates in a program under which pharmaceutical companies provide free or reduced cost medicines to individual qualifying patients. Hope acts as a facilitator to enroll patients in the program and deliver the medicines to patients. Medicines received by Hope to be distributed to patients under this program amounted to \$100,090 and \$87,228 for the years ended December 31, 2019 and 2018, respectively. These amounts are not considered contributions to Hope and are not included as support or expense in these financial statements.

Expenses Allocation

The cost of providing program and support services are reported on a functional basis in the statements of functional expense. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Indirect costs including salaries and wages, employee benefits, payroll taxes, supplies, insurance, depreciation and occupancy, have been allocated between programs and support services based on the percentage of the program or supportive service salaries as compared to the whole organization. Such allocations are determined by management on an equitable basis.

Reclassifications

Certain 2018 amounts have been reclassified to conform to 2019 presentations. The reclassifications had no effect on previously reported net assets.

Income Tax Status

Hope is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Although Hope has been granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income”. In addition, Hope qualifies for charitable contribution deductions under IRS Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Hope adopted ASC guidance regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

At December 31, 2019 and 2018, there were no uncertain tax positions that require accrual.

Capital Campaign

During 2019 Hope commenced the silent phase of a \$5.5 million campaign to expand both its operations and endowments. In addition to strengthening Hope's current capacity in programs, the intent is to expand the ability of Hope's endowments to provide a consistent source of ongoing revenue for operations. During 2019 Hope received an initial gift of securities valued at \$1,023,671.

Special Events

Hope reports special events revenue at net of direct expenses. For the year ended December 31, 2019 and 2018, the direct expenses were \$76,464 and \$64,291, respectively.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2018, from which the summarized information was derived.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Hope adopted the ASU effective January 1, 2019. Management performed an assessment of Hope's revenue recognition and determined that the adoption of the ASU had no impact on the revenue recognition for the year ended December 31, 2019 and 2018.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)*. The ASU is intended to enhance the reporting model for financial instruments to provide users of financial instruments with more decision-useful information and addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. Hope adopted the ASU effective January 1, 2019. Management performed an assessment of Hope’s equity investments and determined the adoption of the standard had no impact on the fair value measurements for both of the years ended December 31, 2019 and 2018.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchanges (reciprocal transactions) and (2) determining whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. Hope adopted the ASU effective January 1, 2019. Management performed an assessment of Hope’s contributions and determined the adoption of the standard has no impact on the recognition of contributions for both of the years ended December 31, 2019 and 2018.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Hope’s financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 322,789	201,615
Promises to give	71,512	69,849
	<u>\$ 394,301</u>	<u>\$ 271,464</u>

Hope has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In an unanticipated liquidity event, Hope has the availability to draw upon its line of credit as described in Note 7.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 3 – ENDOWMENT INVESTMENT

Long term endowment investments are stated at fair value and consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 249,830	\$ 248,891
Fixed income	712,065	263,508
Equity securities	1,682,209	885,709
Real Estate Investment Trust	114,910	-
Beneficial interest in AAACF Fund	<u>71,723</u>	<u>63,736</u>
	<u>\$ 2,830,737</u>	<u>\$ 1,461,844</u>

Investment return/(loss) is composed of the following for the year ended December 31, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Investment income, net	\$ 35,414	\$ 31,299
Unrealized gains	269,156	61,032
Net realized gains(losses)	<u>125,269</u>	<u>(193,084)</u>
	<u>\$ 429,839</u>	<u>\$ (100,753)</u>

Investment income are reported net of related investment expenses in the statement of activities. The amount of expenses netted with investment income was \$8,091 and \$7,877 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 – FAIR VALUE MEASUREMENT

ASC topic, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

The three levels of the fair value hierarchy under ASC topic, *Fair Value Measurements* 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 Council 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 specific (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. There are no comparable assets or liabilities that Hope has the ability to access.

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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Endowment investments: Recorded at fair value on a recurring basis as determined using published exchange market quotations as provided by external investment managers. All fair value measurements of investment securities are level 1 measurements except the beneficial interest in funds held by the Ann Arbor Area Community Foundation (the "AAACF").

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Hope believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value or certain financial instruments could result in a different fair value measurement at the reporting date.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

The following table presents assets measured at fair value on recurring basis for the years ended December 31:

Assets at Fair Value as of December 31, 2019

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 249,830	\$ -	\$ -	\$ 249,830
Exchange Traded Fund				
Equity	551,128	-	-	551,128
Global International Equity	239,935	-	-	239,935
Fixed income	712,065	-	-	712,065
Real Estate Investment Trust	114,910	-	-	114,910
Mutual Funds				
Equity	891,146	-	-	891,146
Beneficial Interest in funds - AAACF	-	-	71,723	71,723
Total assets at fair value	<u>\$ 2,759,014</u>	<u>\$ -</u>	<u>\$ 71,723</u>	<u>\$ 2,830,737</u>

Assets at Fair Value as of December 31, 2018

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 248,891	\$ -	\$ -	\$ 248,891
Common Stock	10,879	-	-	10,879
Exchange Traded Fund - Equity	37,488	-	-	37,488
Mutual Funds				
Fixed income	263,508	-	-	263,508
Balanced	234,571	-	-	234,571
Large blend	474,662	-	-	474,662
International	128,109	-	-	128,109
Beneficial Interest in funds - AAACF	-	-	63,736	63,736
Total assets at fair value	<u>\$ 1,398,108</u>	<u>\$ -</u>	<u>\$ 63,736</u>	<u>\$ 1,461,844</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

The following tables set forth a summary of changes in the fair value of Hope’s Level 3 assets measured at fair value on a recurring basis for the years ended December 31:

	Beneficial Interest in Funds Held by Ann Arbor Area Community Foundation
2019	
Balance of recurring Level 3 assets at January 1, 2019	\$ 63,736
Purchases/contributions of investments	-
Investment return, net	10,604
Distributions	<u>(2,617)</u>
Balance of recurring Level 3 assets at December 31, 2019	<u>\$ 71,723</u>
2018	
Balance of recurring Level 3 assets at January 1, 2018	\$ 70,284
Purchases/contributions of investments	-
Investment return, net	(3,807)
Distributions	<u>(2,741)</u>
Balance of recurring Level 3 assets at December 31, 2018	<u>\$ 63,736</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 5 – PROMISES TO GIVE

Unconditional promises to give consist of grants receivable, pledges receivable and designations receivable. The amounts are unsecured and are generally due within one year. Management reviews the likelihood of collection of each promise to give and has determined that an allowance is not necessary at December 31, 2019 and 2018, based on management’s predictions of donor behavior relative to economic conditions. A pledge or other receivable is considered to be past due on a donor specific basis.

Expected future collections of promises to give are as follows as of December 31:

	December 31,	
	2019	2018
2019	\$ -	\$ 119,849
2020	111,512	40,000
2021	70,000	-
2022	70,000	-
2023	10,000	-
	<u>\$ 261,512</u>	<u>\$ 159,849</u>

Hope has not provided for a discount on multi-year promises to give as management has determined that the effective discount rate at December 31, 2019 and 2018, would produce a value that is not material to these financial statements.

NOTE 6 – PROPERTY AND EQUIPMENT

Hope’s property and equipment are summarized as follows:

	December 31,	
	2019	2018
Building	\$ 3,086,340	\$ 3,086,340
Building improvements	979,152	979,152
Furniture and equipment	463,635	423,928
Land	266,976	266,976
	<u>4,796,103</u>	<u>4,756,396</u>
Less: Accumulated depreciation and amortization	<u>(1,695,682)</u>	<u>(1,587,193)</u>
	<u>\$ 3,100,421</u>	<u>\$ 3,169,203</u>

Depreciation and amortization expenses for the years ended December 31, 2019 and 2018 related to the above equipment were \$108,488 and \$120,371, respectively.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 6 – PROPERTY AND EQUIPMENT (Continued)

Additionally, Hope holds land classified as property held for sale with asking price of \$15,000 at December 31, 2019 and 2018.

NOTE 7 – LINE OF CREDIT

Hope has an unused line of credit agreement with a financial institution. Under the terms of this agreement, Hope may borrow up to \$300,000 on a revolving basis which bears interest at the prime rate plus 1% subject to a 4.75% floor. The line of credit is secured by all assets of Hope. Interest payments are due monthly on the outstanding balance. The prime rate at December 31, 2019 and 2018 was 3.75% and 5.50%, respectively.

NOTE 8 – OPERATING LEASES

Hope had an operating lease for use of a copy machine with monthly payments of \$127. The lease expires in April 2020. Hope lease expense for the year ended December 31, 2019 was \$1,524.

NOTE 9 – EMPLOYEE BENEFIT PLAN

Hope has established a Savings Incentive Match Plan for employees (the "Plan"). Eligible employees are those that have earned at least \$5,000 of wages in the current year and in either of the two preceding years. Eligible employees can contribute up to \$10,000 of deferred wages in each year. Hope must make matching contributions equal to the amount of the employee's elective deferrals up to 3% of their compensation, but not less than 1% for any year. During the years ended December 31, 2019 and 2018, Hope contributed matching contributions to the plan in the amount of \$22,378 and \$19,008, respectively. Hope pays all administrative fees associated with the plan.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 – ENDOWMENTS

Hope's endowment consists of various funds and investment securities established for various purposes. Its net assets are unrestricted assets and donor-restricted assets. As required by GAAP, net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowments include the following:

Dan and Bev Heffernan Dental Endowment fund (“Dental Endowment”)

This is a donor-restricted endowment fund which is restricted to employ a full-time dentist in Hope's dental clinic. If Hope no longer provides dental care to the community, the Board of Directors of Hope shall have the right to redirect all the capital in the fund at that time to whatever purpose the Board deems appropriate within the mission of Hope. Net assets in the fund become unrestricted as they are distributed for their intended purpose. Assets are held in trust by a bank and invested as described in Note 3.

Hope Clinic Endowment Fund (“Permanent Endowment”)

Hope has established an endowment fund at an area community foundation to provide support for its charitable purposes. Under accounting principles generally accepted in the United States, this endowment fund is treated in two parts.

The portion of the fund contributed by unrelated third-party donors and the earnings thereon is owned and directed by the community foundation. The Foundation's trustees determine the timing and amount of any distributions. The Foundation's trustees are also granted variance power, that is, the unilateral power to redirect the distribution of the funds to another beneficiary under certain conditions. Accordingly, Hope has not recorded an asset in the financial statements to reflect its interest in this portion of the fund. The market value of this portion of the fund was \$39,950 and \$35,094 at December 31, 2019 and 2018, respectively.

The portion of the fund which is contributed to the community foundation directly by Hope is presented as a reciprocal transfer and is recorded as an asset by Hope. The principal is classified as a donor-restricted endowment fund where earnings are also classified as donor restricted until distributed to Hope by the community foundation, at which time they become unrestricted.

AML Endowment Fund (“Quasi Endowment”)

This is a donor-restricted quasi endowment fund which is restricted to provide support for Hope's charitable purposes. After December 1, 2029, the fund becomes unrestricted. Net assets in the fund become unrestricted as they are distributed for their intended purpose.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 – ENDOWMENTS (Continued)

Changes in endowment net asset for the years ended December 31 are summarized as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets beginning of year	\$ -	\$ 1,461,844	\$ 1,461,844
Investment return/(loss):			
Investment income, net	-	35,414	35,414
Net realized gains	-	269,156	269,156
Unrealized gains	-	125,269	125,269
Total investment return/(loss)	-	429,839	429,839
Contributions	-	1,103,671	1,103,671
Distribution from endowment pursuant to distribution policy	-	(164,617)	(164,617)
Net endowment assets end of year	<u>\$ -</u>	<u>\$ 2,830,737</u>	<u>\$ 2,830,737</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets beginning of year	\$ -	\$ 1,583,338	\$ 1,583,338
Investment return/(loss):			
Investment income, net	-	31,299	31,299
Net realized gain	-	61,032	61,032
Unrealized (losses)	-	(193,084)	(193,084)
Total investment return/(loss)	-	(100,753)	(100,753)
Contributions	-	42,000	42,000
Distribution from endowment pursuant to distribution policy	-	(62,741)	(62,741)
Net endowment assets end of year	<u>\$ -</u>	<u>\$ 1,461,844</u>	<u>\$ 1,461,844</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 – ENDOWMENTS (Continued)

Interpretation of Relevant Law

The Board of Directors of Hope has interpreted the State of Michigan Prudent Management of Institutional Funds Act (“SMPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds except when there are explicit donor stipulations to the contrary. In accordance with this determination, Hope has classified as permanently restricted net assets the original value of gifts donated to the permanent endowment. When applicable, Hope will also classify as permanently restricted net assets (a) the original value of subsequent gifts to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SMPMIFA, Hope considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The terms of the endowment agreement, which document the wishes of the contributor
- The purposes of Hope and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Hope
- The investment policies of Hope

Return objective and risk parameters

Hope has adopted a long-term total return (growth plus income) investment approach structured to modestly grow fund principal in real dollars and provide for distributions. Endowment assets are invested in a manner intended, over time, to cover inflation plus a distribution rate of 4%-5% per year. Actual returns in a given year may vary. Hope targets a diversified asset allocation that places a greater emphasis on equity-based investment to achieve its long-term return objectives within prudent risk constraints. Hope has preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management.

How the investment objectives relate to the spending policy

The terms of the Dental Endowment agreement provide for annual distributions in the amount of \$60,000 or 4% of prior year ending principal balance, whichever is greater. Excess return over 4% is reinvested provided it exceeds \$60,000.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 – ENDOWMENTS (Continued)

Annual amounts available for distribution from the permanent endowment are set forth in the community foundation's then current spending policy and are subject to the authority of the community foundation's Board of Trustees. No amounts were appropriated for expenditures from the permanent endowment during the years ended December 31, 2019 and 2018.

The terms of the AML Endowment agreement provide for annual distributions in the amount of up to 10% of the year end principal balance or \$100,000, whichever is greater, beginning in 2019. This restriction is in effect for 10 years at which time any remaining funds become unrestricted and at the discretion of Hope management.

NOTE 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2019</u>	<u>2018</u>
Cash paid during the year for interest	<u>\$ 1,378</u>	<u>\$ 3,951</u>
Non-cash financing activities:		
Donated securities	<u>\$ 1,069,244</u>	<u>\$ 20,887</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 12 – NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions are restricted for the following purposes or periods:

	December	
	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Ypsilanti medical	\$ 22,396	\$ 13,127
Wayne medical	10,938	9,375
Dental	64,125	13,125
Basic needs	1,250	8,221
Promises to give, the proceeds from which have been restricted by donors for:		
Dental program	100,000	60,000
Social work	-	20,000
	<u>198,709</u>	<u>123,848</u>
Subject to passage of time:		
Promises to give, that are not restricted by donors, but which are unavailable for expenditure until due	<u>161,512</u>	<u>71,628</u>
Endowments:		
Subject to appropriation and expenditure when a specified events occurs:		
Restricted by donors for:		
General use	1,195,034	42,236
Dental program	<u>1,574,203</u>	<u>1,358,108</u>
	<u>2,769,237</u>	<u>1,400,344</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
Beneficial interest in asset held by community foundation	<u>61,500</u>	<u>61,500</u>
Total endowments	<u>2,830,737</u>	<u>1,461,844</u>
	<u>\$ 3,190,958</u>	<u>\$ 1,657,320</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 12 – NET ASSETS WITH DONOR RESTRICTION (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2019 and 2018:

	December	
	2019	2018
Expiration of time restrictions - promises to give that are not restricted by donors	\$ 61,628	\$ 121,652
Satisfaction of purpose restrictions		
Ypsilanti medical	13,127	15,016
Wayne medical	9,375	17,950
Dental	39,000	66,625
Basic needs	8,221	12,004
Social work	20,000	20,394
Distributions (proceeds are not restricted by donors)		
Beneficial interes in asset held by community foundation	2,617	2,741
Total net assets released from restriction-others	153,968	256,382
Restricted-purpose pursuant to spending-rate distribution formula		
Dental program	60,000	60,000
General use	102,000	-
Total net assets released from restriction pursuant to endowment spending-rate distribution formula	162,000	60,000
	\$ 315,968	\$ 316,382

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 13 – SUBSEQUENT EVENTS

Hope has performed a review of events subsequent to December 31, 2019 through December 30, 2020, the date the financial statements were available to be issued.

In December 2019, the World Health Organization responded to an outbreak of a respiratory disease caused by a novel (new) coronavirus. First detected in China and named “SARS-CoV-2” or COVID-19, this virus has quickly spread throughout the globe. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. Given the ever-evolving nature of this global emergency, the long-term impact is not yet known. At this time of uncertainty, no adjustments to the 2019 financials are appropriate.

During the pandemic, Hope applied for economic relief in the form of Employee Retention Credit as established by the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). Hope received approximately \$134,000 of retention credit for wages paid after March 12, 2020.