

HOPE MEDICAL CLINIC, INC.

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2020

(With Summarized Comparative Information for 2019)

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 2019</i>)	4
Statement of Functional Expenses (<i>With Comparative Totals for 2019</i>)	5
Statements of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

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

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, 2020 and 2019, 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.
Ypsilanti, 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, 2020 and 2019, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

Ann Arbor, Michigan
July 9, 2021

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,926,054	\$ 322,789
Promises to give	170,000	111,512
Other receivable	4,033	-
	<hr/>	<hr/>
Total current assets	2,100,087	434,301
PROPERTY AND EQUIPMENT, net	3,024,638	3,100,421
ENDOWMENT INVESTMENTS, at fair value	3,156,198	2,830,737
OTHER ASSETS		
Promises to give, net of current portion	180,000	150,000
Other receivable, net of current portion	14,666	-
Property held for sale	15,000	15,000
	<hr/>	<hr/>
Total assets	\$ 8,490,589	\$ 6,530,459
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 42,715	\$ 16,452
Accrued expenses	75,669	57,986
	<hr/>	<hr/>
Total liabilities	118,384	74,438
NET ASSETS		
Without donor restrictions	3,883,590	3,015,063
With donor restrictions	4,488,615	3,440,958
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Total net assets	8,372,205	6,456,021
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Total liabilities and net assets	\$ 8,490,589	\$ 6,530,459

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF ACTIVITIES

Year Ended December 31, 2020, with Comparative Totals for 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue				
Grants and contributions	\$ 2,552,287	\$ 251,292	\$ 2,803,579	\$ 1,571,918
Campaign gift	-	690,000	690,000	1,273,671
Donated services	501,617	-	501,617	826,422
Donated supplies	1,692,383	-	1,692,383	1,443,319
Miscellaneous	125,767	-	125,767	2,189
Total revenues	<u>4,872,054</u>	<u>941,292</u>	<u>5,813,346</u>	<u>5,117,519</u>
Special event, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,169</u>
Other revenue				
Investment return, net	-	459,096	459,096	429,839
Total other revenue	<u>-</u>	<u>459,096</u>	<u>459,096</u>	<u>429,839</u>
Net assets released from restrictions	<u>352,731</u>	<u>(352,731)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>5,224,785</u>	<u>1,047,657</u>	<u>6,272,442</u>	<u>5,681,527</u>
Expenses				
Program Services				
Medical clinic	1,526,292	-	1,526,292	1,587,786
Dental clinic	666,574	-	666,574	637,347
Food and direct assistance	1,178,134	-	1,178,134	888,017
Wayne medical clinic	206,725	-	206,725	260,691
Social work	288,675	-	288,675	334,699
Total program services	<u>3,866,400</u>	<u>-</u>	<u>3,866,400</u>	<u>3,708,540</u>
Supporting Services				
Management and general	262,593	-	262,593	211,256
Fundraising	227,265	-	227,265	230,625
Total support services	<u>489,858</u>	<u>-</u>	<u>489,858</u>	<u>441,881</u>
Total expenses	<u>4,356,258</u>	<u>-</u>	<u>4,356,258</u>	<u>4,150,421</u>
Change in net assets	<u>868,527</u>	<u>1,047,657</u>	<u>1,916,184</u>	<u>1,531,106</u>
Net assets, beginning	<u>3,015,063</u>	<u>3,440,958</u>	<u>6,456,021</u>	<u>4,924,915</u>
Net assets, ending	<u>\$ 3,883,590</u>	<u>\$ 4,488,615</u>	<u>\$ 8,372,205</u>	<u>\$ 6,456,021</u>

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
(With Comparative Totals for 2019)

	Program Services					Supporting Services			Total		
	Medical Clinic	Dental Clinic	Food & Direct Assistance	Wayne Medical Clinic	Social Work	Subtotal	Management and General	Fund Raising	Subtotal	2020	2019
Salaries	\$ 273,071	\$ 324,441	\$ 167,690	\$ 100,460	\$ 178,939	\$ 1,044,601	\$ 145,792	\$ 145,002	\$ 290,794	\$ 1,335,395	\$ 1,166,674
Payroll taxes	19,863	23,740	10,814	7,076	12,525	74,018	6,643	9,691	16,334	90,352	77,397
Employee benefits	36,612	28,317	23,871	3,186	6,039	98,025	41,080	17,467	58,547	156,572	182,564
Donated services	271,191	151,386	1,300	50,273	23,158	497,308	4,309	-	4,309	501,617	826,422
Volunteer services	6,100	1,800	900	300	299	9,399	646	-	646	10,045	3,230
Donated Supplies	791,225	4,000	823,751	14,682	53,725	1,687,383	5,000	-	5,000	1,692,383	1,443,319
Program materials	13,567	34,968	33,665	929	876	84,005	-	-	-	84,005	59,946
Insurance	10,222	3,000	3,750	2,250	750	19,972	2,342	-	2,342	22,314	18,991
Interest	-	-	-	-	-	-	-	-	-	-	1,378
Miscellaneous	7,174	7,666	7,497	1,400	5,364	29,101	9,215	4,154	13,369	42,470	21,445
Office	12,317	7,900	7,900	2,539	1,500	32,156	1,916	14,984	16,900	49,056	40,873
Professional fees	19,618	7,700	6,200	1,600	1,600	36,718	6,066	35,967	42,033	78,751	50,346
Repairs and maintenance	15,700	18,022	21,968	7,410	-	63,100	10,671	-	10,671	73,771	58,201
Information & technology amortization	5,600	7,035	6,700	1,730	1,100	22,165	2,407	-	2,407	24,572	16,239
Utilities	30,618	27,298	31,351	5,354	-	94,621	15,664	-	15,664	110,285	108,488
Equipment	8,100	8,100	21,648	6,546	2,000	46,394	8,158	-	8,158	54,552	56,653
Equipment	5,314	11,201	9,129	990	800	27,434	2,684	-	2,684	30,118	18,255
Total	\$ 1,526,292	\$ 666,574	\$ 1,178,134	\$ 206,725	\$ 288,675	\$ 3,866,400	\$ 262,593	\$ 227,265	\$ 489,858	\$ 4,356,258	\$ 4,150,421

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF CASH FLOWS

	<u>Years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,916,184	\$ 1,531,106
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	110,285	108,488
Donated securities	(28,678)	(1,069,244)
Net realized and unrealized gain on investments	(419,447)	(394,425)
Changes in assets and liabilities:		
Promises to give	(88,488)	(101,663)
Other receivable	(18,699)	-
Accounts payable	26,263	(10,401)
Accrued expenses	17,683	2,243
	<u>1,515,103</u>	<u>66,104</u>
INVESTING ACTIVITIES		
Purchases of investments	(130,127)	(3,680,500)
Proceeds from sale of investments	252,791	3,775,276
Purchases of property and equipment	(34,502)	(39,706)
	<u>88,162</u>	<u>55,070</u>
NET CHANGE IN CASH	1,603,265	121,174
CASH, Beginning	322,789	201,615
CASH, Ending	\$ 1,926,054	\$ 322,789

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 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, whereby 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, 2020 and 2019

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, especially with consideration given to the potential impacts of the coronavirus disease ("COVID-19") pandemic.

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. As of December 31, 2020, Hope does not have any cash equivalents. 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.

Other Receivable

Other receivable consists primarily of interest-bearing advance to an officer. Other receivable is carried at unpaid principal balances. Interest on advances is recognized over the term of the advances and is calculated using the simple-interest method on principal amounts outstanding.

Promises to Give and Allowance for Doubtful Pledges

Hope records promises to give as contributions when a pledge representing an unconditional promise to give is received. Unconditional promise to give 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. Management has determined that no valuation allowance or discounts is required for promises to give receivable for the years ended December 31, 2020 and 2019.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

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 \$5,000. Property and equipment not meeting these criteria are expensed in the period of acquisition. Management annually evaluates these assets for impairment.

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

Investment securities purchased are initially recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are stated at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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, 2020 and 2019

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 9,424 and 14,692 volunteer hours were provided by medical, dental and other professionals for the years ended December 31, 2020 and 2019, respectively. The value of these services were estimated to be \$501,617 and \$826,422. The decline in services was primarily a result of limitations imposed by the pandemic.

There are numerous other individuals who volunteer their time and perform a variety of tasks that assist Hope with program, fundraising and administrative support. Estimated hours of service in 2020 and 2019 were over 18,800 and 31,200, respectively. These donated services are not recognized in the financial statements because they do 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, 2020 and 2019

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 \$170,924 and \$100,090 for the years ended December 31, 2020 and 2019, 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.

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 believes that it has been operating within tax exempt status and has no unrelated business income.

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. At December 31, 2020 and 2019, there were no uncertain tax positions that require accrual.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Hope-for-Tomorrow Campaign

During 2019 Hope commenced the silent phase of a \$5.5 million campaign, “Hope for Tomorrow”, 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 the years ended December 31, 2020 and 2019, Hope received campaign gifts amounting to \$690,000 and \$1,273,671, respectively.

Special Events

Hope reports special events revenue at net of direct expenses. For the years ended December 31, 2020 and 2019, the direct expenses were \$-0- and \$76,464, 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, 2019, from which the summarized information was derived.

COVID-19

In response to the pandemic and State of Michigan Executive Orders, Hope altered business operations in 2020 to minimize the spread of the virus. As a direct result of the limits on in-person contact during the majority of 2020, the various programs were continued but with the following adjustments: the Medical Clinics limited in person visits to several days a week and implemented tele-med care, the Dental Clinic only saw emergency visits, behavioral and health and wellness service were moved primarily to virtual or phone contact, laundry services were curtailed to only one person at a time, and all meals and pantry services were on a take-out or delivery basis. Hope has gradually increased inside services in all areas as State of Michigan Executive Orders have allowed. It is anticipated that this trend will continue for the majority of fiscal year 2021.

On March 27, 2020, the Coronavirus Aid Relief and Economic Securities Act (“CARES Act”) was signed into law. The CARES Act contains a business relief provision, known as the employee retention payroll tax credit to encourage businesses to keep employees on their payroll. This refundable tax credit is 50% of up to \$10,000 in wages paid by an eligible employer whose business has been financial impacted by COVID-19. Hope qualified for these credits and earned approximately \$123,000 in payroll tax credits for the year ended December 31, 2020. The amounts are included in miscellaneous on the statement of activities.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Reclassifications

Certain 2019 amounts have been reclassified to conform to 2020 presentations. The reclassifications had no effect on previously reported net assets.

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 years ended December 31, 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019.

Subsequent Events

Hope has performed a review of events subsequent to December 31, 2020 through July 9, 2021, the date the financial statements were available to be issued.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Financial assets		
Cash	\$ 1,926,054	\$ 322,789
Other receivable	18,699	-
Pledges receivable	350,000	261,512
Endowment investments	<u>3,156,198</u>	<u>2,830,737</u>
Total financial assets	<u>5,450,951</u>	<u>3,415,038</u>
Amounts not available for general use		
Other receivable to be collected in more than one year	(14,666)	-
Net asset with donor restrictions	<u>(4,388,615)</u>	<u>(3,340,958)</u>
Total amounts not available for general use	<u>(4,403,281)</u>	<u>(3,340,958)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,047,670</u>	<u>\$ 74,080</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 8.

Hope endowment investments consist of donor-restricted endowment, along with amounts available for general use.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 3 – ENDOWMENT INVESTMENTS

Long term endowment investments are stated at fair value as follows:

	December 31,	
	2020	2019
Cash and equivalents	\$ 77,048	\$ 249,830
Fixed income	800,932	712,065
Equity securities	2,200,969	1,682,209
Real Estate Investment Trust	-	114,910
Beneficial interest in AAACF Fund	<u>77,249</u>	<u>71,723</u>
	<u>\$ 3,156,198</u>	<u>\$ 2,830,737</u>

Investment return is composed of the following:

	Years ended December 31,	
	2020	2019
Investment income, net	\$ 39,649	\$ 35,414
Net realized gains	23,765	269,156
Unrealized gains	<u>395,682</u>	<u>125,269</u>
	<u>\$ 459,096</u>	<u>\$ 429,839</u>

Investment income is reported net of related external and direct internal investment expenses in the statement of activities.

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, 2020 and 2019

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 Hope 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").

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

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.

The following table presents financial assets measured at fair value on recurring basis:

Description	<i>December 31, 2020</i>			Total
	Level 1	Level 2	Level 3	
Cash Equivalents	\$ 77,048	\$ -	\$ -	\$ 77,048
Exchange Traded Funds				
Equity	858,015	-	-	858,015
Global International Equity	278,280	-	-	278,280
Fixed income	800,932	-	-	800,932
Mutual Funds				
Equity	1,064,674	-	-	1,064,674
Beneficial Interest in funds - AAACF	-	-	77,249	77,249
Total assets at fair value	\$ 3,078,949	\$ -	\$ 77,249	\$ 3,156,198

Description	<i>December 31, 2019</i>			Total
	Level 1	Level 2	Level 3	
Cash Equivalents	\$ 249,830	\$ -	\$ -	\$ 249,830
Exchange Traded Funds				
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	\$ 2,759,014	\$ -	\$ 71,723	\$ 2,830,737

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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:

2020	Beneficial Interest in Funds Held by Ann Arbor Area Community Foundation
Balance of recurring Level 3 assets at January 1, 2020	\$ 71,723
Purchases/contributions of investments	-
Investment return, net	8,161
Distributions	<u>(2,635)</u>
Balance of recurring Level 3 assets at December 31, 2020	<u>\$ 77,249</u>
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>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 5 – PROMISES TO GIVE

Unconditional promises to give consist of grants receivable, pledges receivable and designations receivable. Management reviews the likelihood of collection of each promise to give and has determined that an allowance is not necessary at December 31, 2020 and 2019, based on management’s predictions of donor behavior relative to economic conditions.

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

	December 31,	
	<u>2020</u>	<u>2019</u>
2020	\$ -	\$ 111,512
2021	170,000	70,000
2022	95,000	70,000
2023	35,000	10,000
2024	25,000	-
2025	25,000	-
	<u>\$ 350,000</u>	<u>\$ 261,512</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, 2020 and 2019, would produce a value that is not material to these financial statements.

NOTE 6 – OTHER RECEIVABLE

At December 31, 2020 and 2019, Hope was owed \$18,699 and \$-0- from an officer, respectively. The loan bears interest at 1% with required monthly payment of \$342 through August 2025. The amount is presented as a separate line item on the balance sheet and is expected to be repaid under normal business terms. For the years ended December 31, 2020 and 2019, interest income was included in miscellaneous income for the amount of \$65 and \$-0-, respectively.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 6 – OTHER RECEIVABLE (Continued)

Maturities of the receivable for each of the next five years after December 31, 2020 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2021	\$ 4,033
2022	4,072
2023	4,113
2024	4,154
2025	<u>2,327</u>
	<u>\$ 18,699</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Hope's property and equipment are summarized as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Building	\$ 3,098,283	\$ 3,086,340
Building improvements	979,152	979,152
Furniture and equipment	486,194	463,635
Land	<u>266,976</u>	<u>266,976</u>
	4,830,605	4,796,103
Less: Accumulated depreciation and amortization	<u>(1,805,967)</u>	<u>(1,695,682)</u>
	<u>\$ 3,024,638</u>	<u>\$ 3,100,421</u>

Depreciation and amortization expenses for the years ended December 31, 2020 and 2019 related to the above property and equipment were \$110,285 and \$108,488, respectively.

Additionally, Hope holds land classified as property held for sale with asking price of \$15,000 at December 31, 2020 and 2019.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 8 – 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, 2020 and 2019 was 3.75%.

NOTE 9 – OPERATING LEASES

Hope had an operating lease for use of a copy machine with monthly payments of \$127. The lease expired in April 2020. Hope lease expense for the years ended December 31, 2020 and 2019 was \$508 and \$1,524, respectively.

NOTE 10 – 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, 2020 and 2019, Hope contributed matching contributions to the plan in the amount of \$22,755 and \$22,378, respectively. Hope pays all administrative fees associated with the plan.

NOTE 11 – 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 MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 11 – ENDOWMENTS (Continued)

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 \$43,074 and \$39,950 at December 31, 2020 and 2019, 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, 2020 and 2019

NOTE 11 – ENDOWMENTS (Continued)

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets beginning of year	\$ -	2,830,737	\$ 2,830,737
Investment return:			
Investment income, net	-	39,649	39,649
Net realized gain	-	23,765	23,765
Unrealized gain	-	395,682	395,682
Total investment return	-	459,096	459,096
Contributions	-	40,000	40,000
Distribution from endowment pursuant to distribution policy and beneficial interest	-	(173,635)	(173,635)
Net endowment assets end of year	<u>\$ -</u>	<u>\$ 3,156,198</u>	<u>\$ 3,156,198</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets beginning of year	\$ -	1,461,844	\$ 1,461,844
Investment return:			
Investment income, net	-	35,414	35,414
Net realized gain	-	269,156	269,156
Unrealized gain	-	125,269	125,269
Total investment return	-	429,839	429,839
Contributions	-	1,103,671	1,103,671
Distribution from endowment pursuant to distribution policy and beneficial interest	-	(164,617)	(164,617)
Net endowment assets end of year	<u>\$ -</u>	<u>\$ 2,830,737</u>	<u>\$ 2,830,737</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 11 – 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 net assets with donor restrictions the original value of gifts donated to the permanent endowment. When applicable, Hope will also classify as net assets with donor restrictions (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, 2020 and 2019

NOTE 11 – 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, 2020 and 2019.

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 12 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<u>2020</u>	<u>2019</u>
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 1,378</u>
Non-cash financing activities:		
Donated securities	<u>\$ 28,678</u>	<u>\$ 1,069,244</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 13 – NET ASSETS WITH DONOR RESTRICTION

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

	December	
	2020	2019
Subject to expenditure for specified purpose:		
Ypsilanti medical	\$ 66,875	\$ 22,396
Wayne medical	68,750	10,938
Dental	100,500	64,125
Basic needs	6,292	1,250
Hope-for-Tomorrow campaign	940,000	250,000
Promises to give, the proceeds from which have been restricted by donors for:		
Dental program	50,000	100,000
	<u>1,232,417</u>	<u>448,709</u>
Subject to passage of time:		
Promises to give, that are not restricted by donors, but which are unavailable for expenditure until due	100,000	161,512
Endowments:		
Subject to appropriation and expenditure when a specified events occurs:		
Restricted by donors for:		
Available for general use	353,451	171,363
Hope-for-Tomorrow campaign	1,023,671	1,023,671
Dental program	1,717,576	1,574,203
	<u>3,094,698</u>	<u>2,769,237</u>
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
Beneficial interest in asset held by community foundation	61,500	61,500
Total endowments	<u>3,156,198</u>	<u>2,830,737</u>
	<u>\$ 4,488,615</u>	<u>\$ 3,440,958</u>