

HOPE MEDICAL CLINIC, INC.

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2022

(With Summarized Comparative Information for 2021)

HOPE MEDICAL CLINIC, INC

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Hope Medical Clinic, Inc. (Hope) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Medical Clinic, Inc. as of December 31, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hope's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope's ability to continue as a going concern for a reasonable period of time.

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

Other Information included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statement does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exist between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

We have previously audited Hope Medical Clinic, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Ann Arbor, Michigan
June 9, 2023

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,135,533	\$ 3,447,303
Cash restricted to general endowment	200,000	-
Promises to give - Hope for Tomorrow Campaign	312,039	205,667
Promises to give - others	227,087	65,000
Other receivable	4,113	4,072
Prepaid expenses	18,674	3,665
	<hr/>	<hr/>
Total current assets	3,897,446	3,725,707
PROPERTY AND EQUIPMENT, net	3,031,204	3,073,952
ENDOWMENT INVESTMENTS, at fair value	3,966,871	3,786,834
OTHER ASSETS		
Promises to give - Hope for Tomorrow Campaign, net of current portion	652,400	618,987
Promises to give - others, net of current portion	554,653	9,900
Other receivable, net of current portion	6,548	10,594
Property held for sale	15,000	15,000
	<hr/>	<hr/>
Total assets	\$ 12,124,122	\$ 11,240,974
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 39,876	\$ 27,109
Accrued expenses	132,007	103,014
	<hr/>	<hr/>
Total liabilities	171,883	130,123
NET ASSETS		
Without donor restrictions	4,149,412	4,415,717
With donor restrictions	7,802,827	6,695,134
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Total net assets	11,952,239	11,110,851
	<hr/>	<hr/>
Total liabilities and net assets	\$ 12,124,122	\$ 11,240,974

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF ACTIVITIES

Year Ended December 31, 2022, with Comparative Totals for 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenue				
Grants and contributions	\$ 2,172,274	\$ 52,500	\$ 2,224,774	\$ 3,164,261
Campaign gifts	-	1,205,736	1,205,736	1,597,834
Endowment gifts	-	955,190	955,190	-
Donated services	868,784	-	868,784	801,128
Donated supplies	1,797,444	-	1,797,444	1,536,314
Total revenues	4,838,502	2,213,426	7,051,928	7,099,537
Special event, net	113,854	-	113,854	-
Other revenue				
Investment return, net	-	(742,114)	(742,114)	553,316
Other	6,082	-	6,082	-
Loss on disposal of assets	(5,336)	-	(5,336)	-
Total other revenue	746	(742,114)	(741,368)	553,316
Net assets released from restrictions	363,619	(363,619)	-	-
Total revenue	5,316,721	1,107,693	6,424,414	7,652,853
Expenses				
Program Services				
Medical clinic	1,611,526	-	1,611,526	1,599,386
Dental clinic	815,479	-	815,479	666,895
Basic needs	1,836,271	-	1,836,271	1,448,332
Wayne medical clinic	309,267	-	309,267	283,086
Behavioral health	456,472	-	456,472	350,764
Total program services	5,029,015	-	5,029,015	4,348,463
Supporting Services				
Management and general	281,097	-	281,097	286,347
Fundraising	272,914	-	272,914	279,397
Total support services	554,011	-	554,011	565,744
Total expenses	5,583,026	-	5,583,026	4,914,207
Change in net assets	(266,305)	1,107,693	841,388	2,738,646
Net assets, beginning	4,415,717	6,695,134	11,110,851	8,372,205
Net assets, ending	\$ 4,149,412	\$ 7,802,827	\$ 11,952,239	\$ 11,110,851

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Totals for 2021)

	Program Services					Supporting Services			Total		
	Medical Clinic	Dental Clinic	Basic Needs	Wayne Medical Clinic	Behavioral Health	Subtotal	Management and General	Fund Raising	Subtotal	2022	2021
Salaries	\$ 386,776	\$ 467,698	\$ 239,207	\$ 87,225	\$ 258,169	\$ 1,439,075	\$ 171,273	\$ 169,470	\$ 340,743	\$ 1,779,818	\$ 1,525,147
Payroll taxes	27,527	33,756	16,890	6,390	18,941	103,504	8,278	10,760	19,038	122,542	104,430
Employee benefits	61,693	47,577	37,328	8,783	21,857	177,238	6,396	22,960	29,356	206,594	223,133
Donated services	604,849	107,226	-	71,438	81,596	865,109	3,675	-	3,675	868,784	801,128
Donated supplies	338,285	7,735	1,351,916	61,952	14,098	1,773,986	1,635	-	1,635	1,775,621	1,536,314
Program materials	76,735	45,078	67,898	33,157	39,411	262,279	9,500	-	9,500	271,779	165,887
Insurance	7,947	7,247	6,700	4,005	2,700	28,599	3,947	-	3,947	32,546	27,152
Office	11,800	9,500	14,200	2,400	4,700	42,600	6,058	31,817	37,875	80,475	55,099
Professional fees	14,184	6,400	6,400	1,300	2,600	30,884	2,608	-	2,608	33,492	43,822
Information and technology	17,205	21,832	15,630	4,310	4,800	63,777	9,318	-	9,318	73,095	71,344
Building and utilities	27,000	27,000	43,972	21,043	5,500	124,515	26,637	-	26,637	151,152	147,582
Depreciation and amortization	30,164	26,358	29,996	5,687	-	92,205	25,416	-	25,416	117,621	108,766
Campaign and miscellaneous	7,361	8,072	6,134	1,577	2,100	25,244	6,356	37,907	44,263	69,507	104,403
Total	\$ 1,611,526	\$ 815,479	\$ 1,836,271	\$ 309,267	\$ 456,472	\$ 5,029,015	\$ 281,097	\$ 272,914	\$ 554,011	\$ 5,583,026	\$ 4,914,207

HOPE MEDICAL CLINIC, INC.
STATEMENTS OF CASH FLOWS

	<u>Years ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 841,388	\$ 2,738,646
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	117,621	108,766
Donated securities	(46,165)	(68,950)
Net realized and unrealized gain (loss) on investments	794,013	(511,626)
Loss on disposal of fixed assets	5,336	-
Changes in assets and liabilities:		
Promises to give	(846,625)	(549,554)
Other receivable	4,005	4,033
Prepaid expenses	(15,009)	(3,665)
Accounts payable	12,767	(15,606)
Accrued expenses	28,993	27,345
	<u>896,324</u>	<u>1,729,389</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES		
Purchases of investments	(1,026,549)	(549,988)
Proceeds from sale of investments	98,664	499,928
Purchases of property and equipment	(80,209)	(158,080)
	<u>(1,008,094)</u>	<u>(208,140)</u>
Net cash used in investing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(111,770)	1,521,249
CASH, CASH EQUIVALENT AND RESTRICTED CASH, Beginning	<u>3,447,303</u>	<u>1,926,054</u>
CASH AND CASH EQUIVALENT AND RESTRICTED CASH, Ending	<u>\$ 3,335,533</u>	<u>\$ 3,447,303</u>
NON-CASH INVESTING ACTIVITIES:		
Donated securities	<u>\$ 46,165</u>	<u>\$ 68,950</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Organization

The Hope Medical Clinic, Inc. (“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 (GAAP). 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 reports 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, 2022 and 2021

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 consist 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 during the 2021 reporting period.

Cash, Cash Equivalents, Restricted Cash and Credit Risk

Hope considers all cash and highly liquid investments with original maturities of three months or less to be cash and cash equivalents, except for those amounts that are held in the investment portfolio which are invested for long-term purposes and cash restricted for endowments that are perpetual in nature. 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

This consists of an interest-bearing advance to an officer. It is carried at unpaid principal balances. Interest on the advance is recognized over the term of the advance and is calculated using the simple-interest method on the outstanding principal amount.

Promises to Give and Allowance for Doubtful Pledges

Hope records promises to give as contributions when documentation representing an unconditional promise to give is received. Unconditional promises 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 is required for promises to give for the years ended December 31, 2022 and 2021. The discount for the years ended December 31, 2022 and 2021, amounted to \$92,582 and \$36,100, respectively.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 on 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, 2022 and 2021

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Contributed Non-Financial Assets and Services

Businesses, individuals, and others contribute materials and services toward the fulfillment of programs, fundraising campaigns and general managerial administration. To the extent that contributions of material and services are objectively measurable and represent program or support expenditures that would otherwise be incurred by Hope, they are reflected in program services, management and general, and fundraising expenses in the statement of activities. Donated materials and services are recorded at the fair market value upon receipt. Donations of capital assets or donor restricted assets are reported separately. Contributed assets which Hope does not utilize in its normal course of business are sold at fair market value as determined by appraisal or specialist depending on the type of asset.

Approximately 15,600 and 13,500 volunteer hours were provided by medical, dental, and other professionals for years ended December 31, 2022 and 2021, respectively. The value of these services were estimated to be \$868,784 and \$801,128, respectively, as detailed in Note 9.

There are numerous other individuals who volunteer their time and perform a variety of tasks that assist Hope with programs, fundraising, and administrative support. Estimated hours of service in years 2022 and 2021 were over 24,706 and 16,035, 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). Receivables from contracts with patrons totaled \$-0- at both December 31, 2022 and 2021.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 \$206,260 and \$231,043 for the years ended December 31, 2022 and 2021, respectively. These amounts are not considered contributions to Hope and are not included as support or expense in these financial statements.

Special Events

Hope reports special events revenue at net of direct expenses. For the years ended December 31, 2022 and 2021, direct expense was \$58,195 and \$-0-, respectively.

Expenses Allocation

The cost of providing program and support services are reported on a functional basis in the statement 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 MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

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, 2022 and 2021, there were no uncertain tax positions that require accrual.

Hope for Tomorrow Campaign

Hope has 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. As of December 31, 2022 and 2021, Hope has achieved campaign balances of \$4,767,241 and \$3,561,505, respectively; of which \$ 1,011,761 and \$860,654, respectively, are included in the receivables as promise to give. For the years ended December 31, 2022 and 2021, Hope received campaign gifts amounting to \$1,217,058 and \$1,597,834, 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 GAAP. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2021, from which the summarized information was derived.

COVID-19

In early 2022, Hope returned to regular operations with some continuing COVID restrictions.

During the pandemic, Hope qualified for Employee Retention Credit Program (ERC), which is a business relief provision in the Coronavirus Aid Relief and Economic Securities Act (“CARES Act”). The ERC provides refundable credit to eligible employers, including tax-exempt organizations, that pay qualified wages, including certain health plan expenses, to some or all employees, through October 1, 2021. Hope received approximately \$415,000 in payroll tax credits for the year ended December 31, 2021. The amount is included in grants and contributions on the statement of activities.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021. Hope adopted the ASU 2020-07 effective January 1, 2022. Accordingly, Hope has updated the disclosure as necessary.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangement. The new standard is to be applied retrospectively to annual report periods beginning after December 15, 2021. Hope adopted the ASU 2016-02 effective January 1, 2022. Management performed an assessment of Hope's leases and determined the adoption of the standard had no impact on net assets.

Subsequent Events

Hope has performed a review of events subsequent to December 31, 2022 through June 9, 2023, the date the financial statements were available to be issued.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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>2022</u>	<u>2021</u>
Financial assets		
Cash, cash equivalents and restricted cash	\$ 3,335,533	\$ 3,447,303
Other receivable	10,661	14,666
Promises to give	1,746,179	899,554
Endowment investments	<u>3,966,871</u>	<u>3,786,834</u>
Total financial assets	<u>9,059,244</u>	<u>8,148,357</u>
Amounts not available for general use		
Other receivable to be collected in more than one year	(6,548)	(10,594)
Net asset with donor restrictions	<u>(7,702,827)</u>	<u>(6,545,134)</u>
Total amounts not available for general use	<u>(7,709,375)</u>	<u>(6,555,728)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,349,869</u>	<u>\$ 1,592,629</u>

Hope has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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, 2022 and 2021

NOTE 3 – ENDOWMENT INVESTMENTS

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

	December 31,	
	2022	2021
Cash and equivalents	\$ 290,012	\$ 31,040
Fixed income	1,059,410	1,064,847
Equity securities	2,542,403	2,601,468
Beneficial interest in AAACF Fund	75,046	89,479
	<u>\$ 3,966,871</u>	<u>\$ 3,786,834</u>

Investment return is composed of the following:

	Years ended December 31,	
	2022	2021
Investment income, net	\$ 51,899	\$ 41,690
Net realized gains	5,273	144,909
Unrealized gains (losses)	<u>(799,286)</u>	<u>366,717</u>
	<u>\$ (742,114)</u>	<u>\$ 553,316</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, 2022 and 2021

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").

Beneficial interests in endowment fund: Valued at NAV, based on the fair value of the underlying endowment fund investments held by the community foundation. The fair value of the underlying investments is provided by the community foundation annually. Due to the minimal observable inputs, the beneficial interests are classified as level 3.

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, 2022 and 2021

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

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

<i>December 31, 2022</i>				
Description	Level 1	Level 2	Level 3	Total
Cash Equivalents	\$ 290,012	\$ -	\$ -	\$ 290,012
Exchange Traded Funds				
Equity	1,163,133	-	-	1,163,133
Global International Equity	371,731	-	-	371,731
Fixed Income	1,059,410	-	-	1,059,410
Mutual Funds				
Equity	1,007,539	-	-	1,007,539
Beneficial Interest in Funds - AAACF	-	-	75,046	75,046
Total Assets at Fair Value	<u>\$ 3,891,825</u>	<u>\$ -</u>	<u>\$ 75,046</u>	<u>\$ 3,966,871</u>
<i>December 31, 2021</i>				
Description	Level 1	Level 2	Level 3	Total
Cash Equivalents	\$ 31,040	\$ -	\$ -	\$ 31,040
Exchange Traded Funds				
Equity	1,015,805	-	-	1,015,805
Global International Equity	333,806	-	-	333,806
Fixed Income	1,064,847	-	-	1,064,847
Mutual Funds				
Equity	1,251,857	-	-	1,251,857
Beneficial Interest in Funds - AAACF	-	-	89,479	89,479
Total Assets at Fair Value	<u>\$ 3,697,355</u>	<u>\$ -</u>	<u>\$ 89,479</u>	<u>\$ 3,786,834</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4 – FAIR VALUE MEASUREMENT (Continued)

The following table set forth a summary of changes in the fair value of Hope’s Level 3 asset, beneficial interest in funds held by Ann Arbor Area Community Foundation, measured at fair value on a recurring basis:

	Years ended December 31,	
	<u>2022</u>	<u>2021</u>
Balance of recurring Level 3 assets, beginning of year	\$ 89,479	\$ 77,249
Purchases/contributions of investments	-	-
Investment return, net	(11,584)	14,910
Distributions	<u>(2,849)</u>	<u>(2,680)</u>
Balance of recurring Level 3 assets, end of year	<u>\$ 75,046</u>	<u>\$ 89,479</u>

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, 2022 and 2021, based on management’s predictions of donor behavior relative to economic conditions.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 5 – PROMISES TO GIVE (Continued)

Promises to give consist of the following:

	<i>December 31, 2022</i>		
	<u>Due in 1 Year</u>	<u>Due in 1-5 Years</u>	<u>Total</u>
Hope for Tomorrow Campaign	\$ 312,039	\$ 699,722	\$ 1,011,761
Other	<u>227,087</u>	<u>599,913</u>	<u>827,000</u>
Total	<u>539,126</u>	<u>1,299,635</u>	<u>1,838,761</u>
Less:			
Discount to net present value	<u>-</u>	<u>(92,582)</u>	<u>(92,582)</u>
	<u>\$ 539,126</u>	<u>\$ 1,207,053</u>	<u>\$ 1,746,179</u>

	<i>December 31, 2021</i>		
	<u>Due in 1 Year</u>	<u>Due in 1-5 Years</u>	<u>Total</u>
Hope for Tomorrow Campaign	\$ 205,667	\$ 654,987	\$ 860,654
Other	<u>65,000</u>	<u>10,000</u>	<u>75,000</u>
Total	<u>270,667</u>	<u>664,987</u>	<u>935,654</u>
Less:			
Discount to net present value	<u>-</u>	<u>(36,100)</u>	<u>(36,100)</u>
	<u>\$ 270,667</u>	<u>\$ 628,887</u>	<u>\$ 899,554</u>

Promises to give have been discounted at the Treasury rate for the expected duration of the pledges.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 6 – OTHER RECEIVABLE

At December 31, 2022 and 2021, Hope was owed \$10,661 and \$14,666 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 statement of financial position and is expected to be repaid under normal business terms. For the years ended December 31, 2022 and 2021, interest income was included in miscellaneous income for the amount of \$128 and \$168, respectively.

Maturities of the receivable for each of the next three years after December 31, 2022 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2023	\$ 4,113
2024	4,154
2025	2,394
	<u>\$ 10,661</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Hope's property and equipment are summarized as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Building	\$ 3,243,076	\$ 3,226,761
Building improvements	979,152	979,152
Furniture and equipment	474,860	506,162
Land	<u>310,976</u>	<u>266,976</u>
	5,008,064	4,979,051
Less: Accumulated depreciation and amortization	<u>(1,976,860)</u>	<u>(1,905,099)</u>
	<u>\$ 3,031,204</u>	<u>\$ 3,073,952</u>

Depreciation and amortization expenses for the years ended December 31, 2022 and 2021 related to the above property and equipment were \$117,621 and \$108,766, respectively.

Additionally, Hope holds land classified as property held for sale with asking price of \$15,000 at December 31, 2022 and 2021.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 8 – LINE OF CREDIT

For the year ended December 31, 2021, Hope had an unused line of credit amounting to up to \$300,000 on a revolving basis with interest at the prime rate plus 1% subject to a 4.75% floor. The line of credit was secured by all assets of Hope. At December 31, 2021, Hope elected not to renew the line of credit agreement with the financial institute. In addition, Hope entered into an irrevocable letter of credit with the bank for approximately \$56,000.

NOTE 9 – CONTRIBUTED NON-FINANCIAL ASSETS AND SERVICES

The following table presents the contributed non-financial assets and services measured at fair value for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Food and other basic needs	\$ 1,351,916	\$ 1,022,205
Professional services	868,784	801,128
Prescription drugs	376,476	436,356
Medical and dental supplies	31,496	58,670
Others	<u>37,556</u>	<u>19,083</u>
	<u>\$ 2,666,228</u>	<u>\$ 2,337,442</u>

Hope relies extensively on donated non-cash resources to accomplish its mission of serving the whole person as well as providing the opportunity for donors to actively serve those in need. Contributions of professional services, pharmaceuticals, and supplies are essential for Hope’s medical and dental clinics. In addition, donated professional services and supplies support Hope’s behavioral health programs, social work services, and administration.

Contributed food and other basic needs was utilized in the basic needs program to provide food assistance and laundry services. In valuing the food and other basic needs, Hope estimated the fair value based on the retail value.

Contributed services were utilized in the medical clinics in Ypsilanti and Wayne and the dental clinic programs to provide free medical and dental services for those who were without medical or dental insurance. In addition, contributed services is also utilized in the behavioral programs and social service programs to provide mental services to those who are in need. Contributed services recognized comprise of professional services from medical and dental providers such as physicians, physician assistants, nurse practitioners, dentists, hygienist, therapist, social workers, nurses, data base administrator and others. Contributed services are valued and reported at the estimated fair value in the financial statements based on market rates by specialty.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 9 – CONTRIBUTED NON-FINANCIAL ASSETS AND SERVICES (Continued)

Contributed prescription drugs, medical and dental supplies were utilized in the medical clinics in Ypsilanti and Wayne and the dental clinic programs to provide free prescription drugs for those who were without medical or dental insurance. In valuing contributed prescription drugs Hope use the wholesale pricing. Medical and dental supplies are valued at estimated fair valued based on the retail value.

Other contributed nonfinancial assets consist primarily of auctions items donated from the Evening of Hope special event and used office equipment. Hope values these items at fair value on the date received.

Significant donors of supplies or professional services are asked to provide retail or wholesale valuations based on what they would have otherwise charged for services. For non-third party valuations, where possible Hope uses advertised market values or industry pricing guides. For professional services estimates, Hope uses equivalent values paid to staff or local rates as published by online employment services.

All non-financial assets and services received by Hope for the years ended December 31, 2022 and 2021 were considered without donor restrictions and able to be used by Hope as determined by the board of directors and management.

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, 2022 and 2021, Hope contributed matching contributions to the plan in the amount of \$29,827 and \$22,309, 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.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 11 – ENDOWMENTS (Continued)

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 GAAP, 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 \$42,806 and \$50,984 at December 31, 2022 and 2021, 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 General Endowment Fund (“General Endowment”)

The purpose of the Hope General Endowment is to provide ongoing support to sustain Hope’s ministry through a constant and consistent source of revenue for current operations and new initiatives. Donations are intended to be invested so as to generate funding on perpetual basis in changing economic conditions.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 11 – ENDOWMENTS (Continued)

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

	<u>Year ended December 31, 2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net endowment assets beginning of year	\$ -	3,786,834	\$ 3,786,834
Investment return:			
Investment income, net	-	51,899	51,899
Net realized gain	-	5,273	5,273
Unrealized loss	-	(799,286)	(799,286)
Total investment return	-	(742,114)	(742,114)
Contributions	-	1,125,000	1,125,000
Distribution from endowment pursuant to distribution policy and beneficial interest	-	(2,849)	(2,849)
Net endowment assets end of year	<u>\$ -</u>	<u>\$ 4,166,871</u>	<u>\$ 4,166,871</u>
	<u>Year ended December 31, 2021</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net endowment assets beginning of year	\$ -	3,156,198	\$ 3,156,198
Investment return:			
Investment income, net	-	41,690	41,690
Net realized gain	-	144,909	144,909
Unrealized gain	-	366,717	366,717
Total investment return	-	553,316	553,316
Contributions	-	80,000	80,000
Distribution from endowment pursuant to distribution policy and beneficial interest	-	(2,680)	(2,680)
Net endowment assets end of year	<u>\$ -</u>	<u>\$ 3,786,834</u>	<u>\$ 3,786,834</u>

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 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.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 11 – ENDOWMENTS (Continued)

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 5% of prior year ending principal balance, whichever is greater. Excess return over 5% is reinvested provided it exceeds \$60,000.

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, 2022 and 2021.

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.

Hope General Endowment will follow the current spending policy that permits up to 5% of average principal over a two-year look back period to be distributed in the current year.

HOPE MEDICAL CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 12 – NET ASSETS WITH DONOR RESTRICTION

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

	December	
	2022	2021
Subject to expenditure for specified purpose:		
Ypsilanti medical	\$ 65,019	\$ 151,848
Wayne medical	27,676	59,118
Dental	94,500	84,500
Hope-for-Tomorrow campaign	2,693,571	2,537,834
Promises to give, the proceeds from which have been restricted by donors for:		
General endowment	755,190	-
Dental program	-	25,000
	<u>3,635,956</u>	<u>2,858,300</u>
Subject to passage of time:		
Promises to give, that are not restricted by donors, but which are unavailable for expenditure until due	-	50,000
Endowments:		
Subject to appropriation and expenditure when a specified events occurs:		
Restricted by donors for:		
Available for general use	1,427,356	720,253
Hope-for-Tomorrow campaign	1,023,671	1,023,671
Dental program	1,654,344	1,981,410
	<u>4,105,371</u>	<u>3,725,334</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>4,166,871</u>	<u>3,786,834</u>
	<u>\$ 7,802,827</u>	<u>\$ 6,695,134</u>