

# **HOPE MEDICAL CLINIC, INC.**

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

# HOPE MEDICAL CLINIC, INC

## TABLE OF CONTENTS

	<b>Page</b>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hope Medical Clinic, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Medical Clinic, Inc. as of December 31, 2018 and 2017, and the results of its operations 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**

In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*UHY LLP*

Farmington Hills, Michigan  
October 21, 2019

**HOPE MEDICAL CLINIC**  
**STATEMENTS OF FINANCIAL POSITION**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 201,615	\$ 134,259
Promises to give	<u>119,849</u>	<u>146,261</u>
Total current assets	321,464	280,520
<b>PROPERTY AND EQUIPMENT, net</b>	<b>3,169,203</b>	3,287,674
<b>ENDOWMENT INVESTMENTS, at fair value</b>	<b>1,461,844</b>	1,583,338
<b>OTHER ASSETS</b>		
Promises to give, net of current portion	40,000	110,000
Property held for sale, net	<u>15,000</u>	<u>15,000</u>
Total assets	<u><b>\$ 5,007,511</b></u>	<u><b>\$ 5,276,532</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 26,853	\$ 21,391
Accrued expenses	<u>55,743</u>	<u>43,781</u>
Total liabilities	<u>82,596</u>	<u>65,172</u>
<b>NET ASSETS</b>		
Without donor restrictions	3,339,223	3,436,031
With donor restrictions	<u>1,585,692</u>	<u>1,775,329</u>
Total net assets	<u><b>4,924,915</b></u>	<u>5,211,360</u>
Total liabilities and net assets	<u><b>\$ 5,007,511</b></u>	<u><b>\$ 5,276,532</b></u>

**HOPE MEDICAL CLINIC  
STATEMENTS OF ACTIVITIES**

**Year Ended December 31, 2018, with Comparative Totals for 2017**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>2018 Total</b>	<b>2017 Total</b>
<b>Revenue</b>				
Grants and contributions	\$ 1,298,443	\$ 122,014	\$ 1,420,457	\$ 1,502,935
Donated services	931,585	-	931,585	836,309
Donated supplies	1,228,566	-	1,228,566	1,522,653
Miscellaneous	2,743	-	2,743	8,109
Total revenues	<u>3,461,337</u>	<u>122,014</u>	<u>3,583,351</u>	<u>3,870,006</u>
<b>Special event revenue, net</b>	<u>110,087</u>	<u>-</u>	<u>110,087</u>	<u>91,863</u>
<b>Other revenue (loss)</b>				
Investment gain (loss)	-	(100,753)	(100,753)	206,560
Loss on sale of assets	-	-	-	(3,166)
Total other revenue (loss)	<u>-</u>	<u>(100,753)</u>	<u>(100,753)</u>	<u>203,394</u>
Net assets released from restrictions	<u>210,898</u>	<u>(210,898)</u>	<u>-</u>	
<b>Total revenue</b>	<u>3,782,322</u>	<u>(189,637)</u>	<u>3,592,685</u>	<u>4,165,263</u>
<b>Expenses</b>				
Program Services				
Medical clinic	1,328,904	-	1,328,904	1,649,879
Dental clinic	662,358	-	662,358	756,673
Food and direct assistance	893,615	-	893,615	861,878
Wayne medical clinic	304,471	-	304,471	264,141
Social work	285,265	-	285,265	174,399
Total program services	<u>3,474,613</u>	<u>-</u>	<u>3,474,613</u>	<u>3,706,970</u>
Supporting Services				
Management and general	230,581	-	230,581	141,755
Fund raising	173,936	-	173,936	130,987
Total support services	<u>404,517</u>	<u>-</u>	<u>404,517</u>	<u>272,742</u>
<b>Total expenses</b>	<u>3,879,130</u>	<u>-</u>	<u>3,879,130</u>	<u>3,979,712</u>
<b>Change in net assets</b>	<u>(96,808)</u>	<u>(189,637)</u>	<u>(286,445)</u>	<u>185,551</u>
Net assets, beginning	<u>3,436,031</u>	<u>1,775,329</u>	<u>5,211,360</u>	<u>5,025,809</u>
Net assets, ending	<u>\$ 3,339,223</u>	<u>\$ 1,585,692</u>	<u>\$ 4,924,915</u>	<u>\$ 5,211,360</u>

**HOPE MEDICAL CLINIC**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	Program Services					Supporting Services			Total		
	Medical Clinic	Dental Clinic	Food & Direct Assistance	Wayne Medical Clinic	Social Work	Subtotal	Management and General	Fund Raising	Subtotal	2018	2017
Salaries	\$ 213,220	\$ 282,548	\$ 118,988	\$ 84,857	\$ 121,427	\$ 821,040	\$ 96,246	\$ 126,483	\$ 222,729	\$ 1,043,769	\$ 950,520
Payroll taxes	15,285	24,775	7,086	-	5,931	53,077	6,434	8,421	14,855	67,932	70,615
Employee benefits	42,507	23,951	14,445	5,679	10,786	97,368	41,887	18,464	60,351	157,719	138,540
Donated services	473,574	200,549	10,700	143,903	86,413	915,139	16,446	-	16,446	931,585	836,309
Volunteer services	2,100	1,800	900	300	480	5,580	2,577	-	2,577	8,157	14,992
Donated Supplies	487,322	6,436	647,653	43,704	32,047	1,217,162	11,404	-	11,404	1,228,566	1,522,653
Program materials	5,041	30,172	9,601	1,691	4,094	50,599	-	-	-	50,599	-
Insurance	8,696	2,400	3,000	1,800	600	16,496	1,229	-	1,229	17,725	16,441
Interest	800	800	1,000	600	200	3,400	551	-	551	3,951	5,742
Miscellaneous	190	1,647	504	253	15,587	18,181	7,905	3,293	11,198	29,379	178,046
Office	5,109	3,800	3,800	1,151	700	14,560	10,885	17,275	28,160	42,720	23,722
Professional fees	11,470	3,800	9,428	700	700	26,098	3,079	-	3,079	29,177	32,921
Repairs and maintenance	-	-	1,943	6,389	-	8,332	9,180	-	9,180	17,512	-
Information & technology	4,000	4,000	4,800	800	800	14,400	1,617	-	1,617	16,017	12,896
Depreciation and amortization	30,865	42,240	28,555	5,559	-	107,219	13,152	-	13,152	120,371	153,662
Utilities	11,800	11,800	18,197	5,506	2,400	49,703	2,955	-	2,955	52,658	-
Building	12,000	12,000	9,500	-	2,500	36,000	2,862	-	2,862	38,862	-
Equipment	4,925	9,640	3,515	1,579	600	20,259	2,172	-	2,172	22,431	22,653
<b>Total</b>	<b>\$1,328,904</b>	<b>\$ 662,358</b>	<b>\$ 893,615</b>	<b>\$ 304,471</b>	<b>\$ 285,265</b>	<b>\$ 3,474,613</b>	<b>\$ 230,581</b>	<b>\$ 173,936</b>	<b>\$ 404,517</b>	<b>\$ 3,879,130</b>	<b>\$3,979,712</b>

**HOPE MEDICAL CLINIC**  
**STATEMENTS OF CASH FLOWS**

	<b>Years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (286,445)	\$ 185,551
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	120,371	153,662
Loss on disposal of assets	-	3,166
Proceeds from sale of donated stock	(20,887)	-
Net realized and unrealized loss (gain) on investments	132,052	(169,703)
Changes in assets and liabilities:		
Promises to give	96,412	(70,041)
Other receivable	-	(14,321)
Accounts payable	5,462	(2,832)
Accrued expenses	11,961	(8,402)
	<u>58,926</u>	<u>77,080</u>
Net cash provided by operating activities	<u>58,926</u>	<u>77,080</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(556,678)	(36,857)
Proceeds from sale of investments	567,008	57,558
Purchase of equipment	(1,900)	(31,064)
	<u>8,430</u>	<u>(10,363)</u>
Net cash provided by (used in) investing activities	<u>8,430</u>	<u>(10,363)</u>
<b>FINANCING ACTIVITY</b>		
Payments on line of credit	-	(71,421)
	<u>-</u>	<u>(71,421)</u>
Net cash (used in) financing activities	<u>-</u>	<u>(71,421)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>67,356</b>	<b>(4,704)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<b>134,259</b>	<b>138,963</b>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<b>\$ 201,615</b>	<b>\$ 134,259</b>



**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**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 Hope**

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”). (ASC) 958-205 was effective January 1, 2018.

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

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

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Hope or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents and Credit Risk**

Hope considers all highly liquid investments with original maturities of three months or less to be cash equivalents. 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.

**Promise to Give Receivables**

Receivables consist of promises to give that are recognized as contributions when promises are received. Promise to give receivables that are expected to be collected in more than one year are recorded at fair value at the date of the promise. The fair value is computed using the present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional revenue. The allowance for doubtful accounts is determined based on management's evaluation of the collectability of individual promises. There was no allowance for promise to give receivables for the years ended December 31, 2018 and 2017.

**Property and Equipment**

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

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Assets Held For Sale**

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

**Investments**

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

**Revenue Recognition**

*Revenue and Support*

Hope's revenue and support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed or external restrictions. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Contributions and special events revenue, including unconditional promises to give and grants that have been determined to be contributions, are recognized as revenues in the year received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

*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.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

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 9,147 and 9,882 volunteer hours were provided by medical and dental professionals for the year ended December 31, 2018 and 2017, respectively. The value of these services were estimated to be \$931,585 and \$836,309.

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

*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 \$87,288 and \$85,890 for the years ended December 31, 2018 and 2017, respectively. These amounts are not considered contributions to Hope and are not included as support or expense in these financial statements

**New Accounting Pronouncement**

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Hope Medical Clinic, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Reclassifications**

Certain 2017 amounts have been reclassified to conform to 2018 presentations. The reclassifications had no effect on net assets.

**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 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, 2018 and 2017, there were no uncertain tax positions that require accrual.

**Special Events**

Hope reports special events revenue at net of direct expenses. For the year ended December 31, 2018 and 2017, the direct expenses were \$64,291 and \$58,047, respectively.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

**Summarized Comparative Totals**

The amounts shown for 2017 in the accompanying financial statements are included to provide a basis for comparison with 2018 and are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America.

**Subsequent Events**

Hope has performed a review of events subsequent to December 31, 2018 through October 21, 2019, the date the financial statements were available to be issued. In April of 2019 Hope received a restricted stock donation of approximately \$1,023,000. The donor restriction allows Hope to use \$100,000 per year for operations and/or capital expenditures while investing the remaining funds. This distribution limitation ends in 2029 with the balance available for use at the discretion of management

**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>Amount</u>
Cash	\$ 201,615
Unconditional promises to give	<u>69,849</u>
	<u><u>\$ 271,464</u></u>

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

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**NOTE 3 – INVESTMENTS**

Fair values and unrealized gains/losses as of December 31 are summarized as follows:

	<u>2018</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and equivalents	\$ 248,891	\$ 248,891	\$ -
Equity securities	983,109	949,445	(33,664)
Fixed income	268,538	263,508	(5,030)
	<u>\$ 1,500,538</u>	<u>\$ 1,461,844</u>	<u>\$ (38,694)</u>
	<u>2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and equivalents	\$ 103,987	\$ 103,987	\$ -
Equity securities	1,037,326	1,194,475	\$ 157,149
Fixed income	280,457	284,876	4,419
	<u>\$ 1,421,770</u>	<u>\$ 1,583,338</u>	<u>\$ 161,568</u>

Investment return for the years ended December 31, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Investment income, net	\$ 31,299	\$ 36,857
Unrealized gains (losses)	(193,084)	67,703
Net realized gains	61,032	102,000
	<u>\$ (100,753)</u>	<u>\$ 206,560</u>

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**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).

The three levels of the fair value hierarchy under ASC topic, *Fair Value Measurements* are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. There are no comparable assets or liabilities that Hope has the ability to access.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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



**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**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 sets forth by level, within the fair value hierarchy, Hope's marketable securities at fair value:

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

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

***Assets at Fair Value as of December 31, 2017***

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 103,988	\$ -	\$ -	\$ 103,988
Common Stock	12,519	-	-	12,519
Mutual Funds				-
Fixed Income	284,977	-	-	284,977
Balanced	381,297	-	-	381,297
Large Blend	500,565	-	-	500,565
International	229,764	-	-	229,764
Beneficial Interest in funds - AACF	-	-	70,228	70,228
Total assets at fair value	<u>\$ 1,513,110</u>	<u>\$ -</u>	<u>\$ 70,228</u>	<u>\$ 1,583,338</u>

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**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:

	<b>Beneficial Interest in Funds Held by Ann Arbor Area Community Foundation</b>
<b>2018</b>	
Balance of recurring Level 3 assets at January 1, 2018	\$ 70,228
Total losses (realized / unrealized) included in change in net assets	<u>6,492</u>
<b>Balance of recurring Level 3 assets at December 31, 2018</b>	<b><u>\$ 63,736</u></b>
<b>2017</b>	
Balance of recurring Level 3 assets at January 1, 2017	\$ 63,548
Total gains (realized / unrealized) included in change in net assets	<u>6,680</u>
<b>Balance of recurring Level 3 assets at December 31, 2017</b>	<b><u>\$ 70,228</u></b>

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 5 – PROMISES TO GIVE**

Unconditional promises to give consist of grants receivable, pledges receivable, and United way allocations and designations receivable. The amounts are unsecured and are generally due within one year. Management reviews the likelihood of collection of each promise to give and has determined that an allowance is not necessary at December 31, 2018 or December 31, 2017, based on management’s predictions of donor behavior relative to economic conditions. A pledge or other receivable is considered to be past due on a donor specific basis.

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

	December 31,	
	2018	2017
2018	\$ -	\$ 146,261
2019	119,849	110,000
2020	40,000	-
	<u>\$ 159,849</u>	<u>\$ 256,261</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, 2018 and 2017, would produce a value that is not material to these financial statements.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Hope’s property and equipment are summarized as follows:

	December 31,	
	2018	2017
Building	\$ 3,086,340	\$ 3,086,340
Building improvements	979,152	979,152
Furniture and equipment	423,928	422,028
Land	266,976	266,976
	4,756,396	4,754,496
Less: Accumulated depreciation and amortization	<u>(1,587,193)</u>	<u>(1,466,822)</u>
	<u>\$ 3,169,203</u>	<u>\$ 3,287,674</u>

Depreciation and amortization expenses for the years ended December 31, 2018 and 2017 related to the above equipment were \$120,371 and \$153,661, respectively. Additionally, Hope holds land classified as property held for sale with asking price of \$15,000 at December 31, 2018 and 2017.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 7 – LINE OF CREDIT**

Hope has an unused line of credit agreement with a financial institution. Under the terms of this agreement, Hope may borrow up to \$300,000 on a revolving basis which bears interest at the prime rate plus 1%, subject to a 4.75% floor. The line of credit is secured by all assets of Hope. Interest payments are due monthly on the outstanding balance. The prime rate at December 31, 2018 and 2017 was 5.50% and 4.25%, respectively.

**NOTE 8 – OPERATING LEASES**

In 2017 Hope entered into a 3-year operating lease for use of a copy machine with monthly payments of \$139. The lease expires in April 2020. Lease expense for the year ended December 31, 2018 was \$2,682.

Future minimum lease payments under operating leases subsequent to December 31, 2018, are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2019	\$ 1,524
2020	<u>508</u>
	<u>\$ 2,032</u>

**NOTE 9 – EMPLOYEE BENEFIT PLAN**

Hope has established a Savings Incentive Match Plan for employees (the “Plan”). Eligible employees are those that have earned at least \$5,000 of wages in the current year and in either of the two preceding years. Eligible employees can contribute up to \$10,000 of deferred wages in each year. Hope must make matching contributions equal to the amount of the employee’s elective deferrals up to 3% of their compensation, but not less than 1% for any year. During the years ended December 31, 2018 and 2017, Hope contributed matching contributions to the plan in the amount of \$19,008 and \$20,550, respectively. Hope pays all administrative fees associated with the plan.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 10 – ENDOWMENTS**

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

The endowments include the following:

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

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

**Hope Clinic Endowment Fund (“Permanent Endowment”)**

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

The portion of the fund contributed by unrelated third-party donors and the earnings thereon is owned and directed by the community foundation. The Foundation's trustees determine the timing and amount of any distributions. The Foundation's trustees are also granted variance power, that is, the unilateral power to redirect the distribution of the funds to another beneficiary under certain conditions. Accordingly, Hope has not recorded an asset in the financial statements to reflect its interest in this portion of the fund. The market value of this portion of the fund was \$35,094 and \$38,602 at December 31, 2018 and 2017, 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.

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**NOTE 10 – ENDOWMENTS** (Continued)

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

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets beginning of year	\$ -	\$ 1,583,338	\$ 1,583,338
Investment return:			
Investment income	-	31,299	31,299
Net realized gains	-	61,032	61,032
Unrealized losses	-	(193,084)	(193,084)
Total investment return	-	(100,753)	(100,753)
Contributions	-	40,000	40,000
Net endowment assets used for expenditures	-	(60,741)	(60,741)
Net endowment assets end of year	\$ -	\$ 1,461,844	\$ 1,461,844
	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Net endowment assets beginning of year	\$ -	\$ 1,434,337	\$ 1,434,337
Investment return:			
Investment income	-	36,857	36,857
Net realized gains	-	102,000	102,000
Unrealized gains	-	67,703	67,703
Total investment return	-	206,560	206,560
Net endowment assets used for expenditures	-	(57,559)	(57,559)
Net endowment assets end of year	\$ -	\$ 1,583,338	\$ 1,583,338

**HOPE MEDICAL CLINIC, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**NOTE 10 – ENDOWMENTS** (Continued)

**Interpretation of Relevant Law**

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

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

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

**Return objective and risk parameters**

Hope has adopted a long-term total return (growth plus income) investment approach structured to modestly grow fund principal in real dollars and provide for distributions. Endowment assets are invested in a manner intended, over time, to cover inflation plus a distribution rate of 4% 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, 2018 and 2017

**NOTE 10 – ENDOWMENTS (Continued)**

Annual amounts available for distribution from the permanent endowment are set forth in the community foundation's then current spending policy and are subject to the authority of the community foundation's Board of Trustees. No amounts were appropriated for expenditures from the permanent endowment during the years ended December 31, 2018 and 2017.

**NOTE 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the year for interest	<u>\$ 3,951</u>
Non-cash financing activities:	
Donated stock	<u>\$ 20,887</u>

**NOTE 12 – RESTRICTED ASSETS**

Net assets include restrictions of net assets for the following programs and uses:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
AAACF Endowment	\$ 61,500	\$ 61,500
AAACF Endowment	2,236	8,728
General Endowment	40,000	-
DDH Endowment at BOAA	1,358,108	1,513,111
Ypsi Medical	13,127	15,016
Wayne Medical	9,375	17,950
Dental	73,125	126,625
Basic Needs	8,221	12,004
Social Work	<u>20,000</u>	<u>20,395</u>
Total	<u>\$ 1,585,692</u>	<u>\$ 1,775,329</u>