



Financial Statements
December 31, 2018 and 2017

**Wasatch Homeless Health
Care, Inc.
dba Fourth Street Clinic**

Independent Auditor’s Report.....	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	6
Statements of Cash Flow	8
Notes to Financial Statements	9



Independent Auditor's Report

The Board of Directors
Wasatch Homeless Health Care, Inc.
dba Fourth Street Clinic
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Wasatch Homeless Health Care, Inc. dba Fourth Street Clinic (the Clinic), which comprise of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wasatch Homeless Health Care, Inc. dba Fourth Street Clinic as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Wasatch Homeless Health Care, Inc. has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 25, 2019 on our consideration of the Clinic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Clinic's internal control over financial reporting and compliance.



Salt Lake City, Utah
July 25, 2019

Wasatch Homeless Health Care, Inc.
 dba Fourth Street Clinic
 Statements of Financial Position
 December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 3,320,558	\$ 2,502,233
Operating investments	2,221,767	2,219,318
Patient accounts receivable, net of allowance for doubtful accounts of \$164,722 and \$48,907	54,789	36,884
Grants and contributions receivable	705,992	730,182
Other receivables	28,663	1,862
Estimated third party payor settlements receivable	17,464	342
Inventory	431,822	386,971
Prepaid expenses	16,975	76,548
Property and equipment, net	4,078,798	4,340,884
Total assets	\$ 10,876,828	\$ 10,295,224
Liabilities and Net Assets		
Accounts payable	\$ 131,738	\$ 117,399
Accrued expenses and other liabilities	212,792	190,374
Note payable	460,185	549,472
Total liabilities	804,715	857,245
Net Assets		
Without donor restrictions		
Undesignated	5,504,256	4,506,615
Invested in property and equipment, net of related debt	3,618,613	3,791,412
	9,122,869	8,298,027
With donor restrictions	949,244	1,139,952
Total net assets	10,072,113	9,437,979
Total liabilities and net assets	\$ 10,876,828	\$ 10,295,224

Wasatch Homeless Health Care, Inc.
 dba Fourth Street Clinic
 Statement of Activities
 Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Net patient service revenue	\$ 528,618	\$ -	\$ 528,618
Net investment loss	(48,615)	-	(48,615)
Federal and state contracts and grants	2,928,597	-	2,928,597
Other grants and contributions	1,751,235	456,521	2,207,756
Donated professional and other services	651,650	-	651,650
In-kind contributions - supplies and pharmaceuticals	1,416,554	-	1,416,554
Rental income	114,489	-	114,489
Other revenue	58,236	-	58,236
Gross special events revenue	105,193	-	105,193
Less cost of direct benefits to donors	(30,079)	-	(30,079)
Net special events revenue	75,114	-	75,114
Net assets released from restrictions	647,229	(647,229)	-
Total revenue, support, and gains	8,123,107	(190,708)	7,932,399
Expenses			
Program services expense	6,014,421	-	6,014,421
Supporting services expenses			
Management and general	995,817	-	995,817
Fundraising and development	288,027	-	288,027
Total supporting services expenses	1,283,844	-	1,283,844
Total expenses	7,298,265	-	7,298,265
Change in Net Assets	824,842	(190,708)	634,134
Net Assets, Beginning of Year	8,298,027	1,139,952	9,437,979
Net Assets, End of Year	\$ 9,122,869	\$ 949,244	\$ 10,072,113

Wasatch Homeless Health Care, Inc.
 dba Fourth Street Clinic
 Statement of Activities
 Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Net patient service revenue	\$ 159,902	\$ -	\$ 159,902
Net investment income	174,491	-	174,491
Federal and state contracts and grants	2,518,343	-	2,518,343
Other grants and contributions	1,805,996	666,763	2,472,759
Donated professional and other services	1,004,955	-	1,004,955
In-kind contributions - supplies and pharmaceuticals	3,769,851	-	3,769,851
Rental income	93,641	-	93,641
Other revenue	118,592	-	118,592
Gross special events revenue	78,308	-	78,308
Less cost of direct benefits to donors	(29,511)	-	(29,511)
Net special events revenue	48,797	-	48,797
Net assets released from restrictions	107,377	(107,377)	-
Total revenue, support, and gains	9,801,945	559,386	10,361,331
Expenses			
Program services expense	8,680,636	-	8,680,636
Supporting services expenses			
Management and general	973,781	-	973,781
Fundraising and development	289,207	-	289,207
Total supporting services expenses	1,262,988	-	1,262,988
Total expenses	9,943,624	-	9,943,624
Change in Net Assets	(141,679)	559,386	417,707
Net Assets, Beginning of Year	8,439,706	580,566	9,020,272
Net Assets, End of Year	\$ 8,298,027	\$ 1,139,952	\$ 9,437,979

Wasatch Homeless Health Care, Inc.
 dba Fourth Street Clinic
 Statement of Functional Expenses
 Year Ended December 31, 2018

	Program Services	Supporting Services		Total
		Management and General	Fundraising and Development	
Salaries and wages	\$ 2,433,403	\$ 361,752	\$ 178,980	\$ 2,974,135
Payroll taxes	167,776	37,324	10,513	215,613
Employee benefits	313,731	79,205	24,469	417,405
In-kind contributions - services	607,415	32,431	9,855	649,701
In-kind contributions - supplies and pharmaceuticals	1,349,227	13,873	8,128	1,371,228
Provider referrals	99,495	-	-	99,495
Medical supplies and pharmaceuticals	135,794	802	-	136,596
Respite housing and transportation	132,772	-	-	132,772
Information technology	120,805	109,550	3,364	233,719
Professional services	146,689	152,981	34,692	334,362
Insurance	6,559	2,270	71	8,900
Advertising and promotion	3,618	3,379	11,667	18,664
Occupancy and telephone	99,936	20,118	2,015	122,069
Operating supplies	89,965	90,721	272	180,958
Training and development	55,696	5,766	1,366	62,828
Travel	1,676	-	-	1,676
Dues, subscriptions, and licenses	5,477	951	22	6,450
Cost of direct benefits to donors	-	-	30,079	30,079
Other	19,178	41,215	-	60,393
Depreciation	217,993	47,125	2,535	267,653
Interest	7,216	19,237	78	26,531
Total expenses by function	6,014,421	1,018,700	318,106	7,351,227
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(30,079)	(30,079)
Investment management fees	-	(22,883)	-	(22,883)
Total expenses included in the expense section on the statement of activities	\$ 6,014,421	\$ 995,817	\$ 288,027	\$ 7,298,265

Wasatch Homeless Health Care, Inc.
 dba Fourth Street Clinic
 Statement of Functional Expenses
 Year Ended December 31, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising and Development	
Salaries and wages	\$ 2,253,614	\$ 379,598	\$ 195,103	\$ 2,828,315
Payroll taxes	164,493	38,573	12,226	215,292
Employee benefits	257,318	68,471	12,759	338,548
In-kind contributions - services	994,605	9,370	910	1,004,885
In-kind contributions - supplies and pharmaceuticals	3,727,282	11,752	234	3,739,268
Provider referrals	140,297	-	-	140,297
Medical supplies and pharmaceuticals	173,863	-	-	173,863
Respite housing and transportation	121,358	-	-	121,358
Information technology	146,796	62,287	7,774	216,857
Professional services	232,285	87,503	33,050	352,838
Insurance	20,000	5,758	215	25,973
Advertising and promotion	2,007	4,690	18,565	25,262
Occupancy and telephone	87,174	25,571	1,371	114,116
Operating supplies	54,268	83,050	503	137,821
Training and development	25,181	851	3,148	29,180
Travel	1,855	3,858	-	5,713
Dues, subscriptions, and licenses	9,275	5,570	68	14,913
Bad debt expense	-	91,369	-	91,369
Cost of direct benefits to donors	-	-	29,511	29,511
Other	5,191	47,874	226	53,291
Depreciation	250,203	51,994	2,909	305,106
Interest	13,571	17,333	146	31,050
Total expenses by function	8,680,636	995,472	318,718	9,994,826
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(29,511)	(29,511)
Investment management fees	-	(21,691)	-	(21,691)
Total expenses included in the expense section on the statement of activities	\$ 8,680,636	\$ 973,781	\$ 289,207	\$ 9,943,624

See Notes to Financial Statements

Wasatch Homeless Health Care, Inc.
 dba Fourth Street Clinic
 Statements of Cash Flow
 Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 634,134	\$ 417,707
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	267,653	305,106
Unrealized loss (gain) on operating investments	175,345	(118,208)
Realized loss (gain) on sale of operating investments	(45,496)	9,153
In-kind contributions of operating investments	(14,940)	(18,197)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(17,905)	28,770
Grants and contributions receivable	24,190	5,296
Other receivables	(26,801)	6,726
Estimated third party payor settlements receivable	(17,122)	123,838
Inventory	(44,851)	(31,412)
Prepaid expenses	59,573	(48,374)
Accounts payable	14,339	34,398
Accrued expenses and other liabilities	22,418	(10,147)
Deferred wages payable	-	(93,797)
	1,030,537	610,859
Net Cash from Operating Activities		
Cash Flows from Investing Activities		
Proceeds from sales of operating investments	588,122	178,600
Purchase of property and equipment	(5,567)	(85,639)
Purchase of investments	(705,480)	(236,161)
	(122,925)	(143,200)
Net Cash used for Investing Activities		
Cash Flows from Financing Activities		
Payments on note payable	(89,287)	(84,766)
	(89,287)	(84,766)
Net Cash used for Financing Activities		
Net Change in Cash and Cash Equivalents	818,325	382,893
Cash and Cash Equivalents, Beginning of Year	2,502,233	2,119,340
Cash and Cash Equivalents, End of Year	\$ 3,320,558	\$ 2,502,233
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 26,530	\$ 33,193

Note 1 - Principal Activity and Significant Accounting Policies

Organization

The financial statements of Wasatch Homeless Health Care, Inc. dba Fourth Street Clinic (the Clinic) have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Business Activity

Wasatch Homeless Health Care, Inc. is a nonprofit organization located in Salt Lake City, Utah, created for the purpose of, but not limited to, providing primary medical, dental, pharmacy, and mental health services to indigent and homeless persons. The Clinic operates under the name "Fourth Street Clinic".

Cash and Cash Equivalents

The Clinic considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building project, permanent endowment, or other long-term purposes are excluded from this definition.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Clinic analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third party coverage, the Clinic analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Clinic either records the uncollectible amount as a contractual adjustment to revenue, to comply with federal guidelines for Sliding Fee determination or records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Grants and Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. At December 31, 2018 and 2017, the Clinic did not have any contributions receivable that are expected to be collected in more than one year. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Inventory

Inventories of pharmaceuticals are presented at the lower of cost (first-in, first-out) or net realizable value.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2018 and 2017.

Operating Investments

The Clinic records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statement of financial position. Net investment return is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions that may or will be met by expenditures or actions and/or the passage of time.

The Clinic reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, 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.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Retroactive adjustments from third party payers are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Clinic's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States of America (U.S. GAAP). Contributed goods are recorded at fair value at the date of donation. The Clinic records donated professional services at the respective fair values of the services received (Note 10).

Advertising Costs

Advertising costs are expensed as incurred and were \$18,664 and \$25,262 during the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Clinic leases out a portion of its buildings. Expenses attributable to these leasing activities, including depreciation, interest, taxes, insurance and other leased property management expenses are included in the management and general function and totaled \$90,877 and \$117,256 for the year ended December 31, 2018 and 2017, respectively.

Income Taxes

The Clinic is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifying for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1). The Clinic is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Clinic is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Clinic files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Clinic has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Clinic would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Clinic to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

The Clinic manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Clinic has not experienced losses in any of these accounts. Credit risk associated with grants and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and foundations supportive of the Clinic's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Clinic.

Adoption of Accounting Standards Update 2016-14

As of January 1, 2018, the Clinic adopted the provisions of Financial Accounting Standards Board Accounting Standards Updated (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The ASU introduces new disclosure requirements to provide disclosures to improve a financial statement user's ability to assess the Clinic's liquidity and exposure to risk. The Clinic has adopted this standard as management believes the standard improves the usefulness and understandability of the Clinic's financial reporting. Accordingly, the accompanying financial statements and related notes follow the net asset classification, presentation, and disclosure requirements prescribed by the ASU.

Subsequent Events

Management has evaluated subsequent events through July 25, 2019, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 2,012,768
Operating investments	2,221,767
Patient accounts receivable	54,789
Grants and contributions receivable	347,446
Other receivables	28,663
	<u> </u>
	<u>\$ 4,665,433</u>

Income from donor-restricted donations is restricted for specific purposes, with the exception of the amounts available for general use.

As part of the liquidity management plan, cash in excess of daily requirement is invested in short-term investments, CDs and money market fund.

Note 3 - Net Patient Service Revenue

Private Payers – Services for patients with no insurance or government medical coverage are reviewed based on the Federal Poverty Level (FPL) guidelines. Patient that are at 200% or below of FPL pay a nominal fee for services. This is referred to as the Sliding Fee Scale.

The Clinic has agreements with third-party payors that provide for payments to the Clinic at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare- Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The Clinic is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Clinic and audits thereof by the Medicare fiscal intermediary. The Clinic's Medicare cost reports have been settled by the Medicare Administrative Contractor through the year ended December 31, 2016.

Medicaid- Outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per outpatient ambulatory patient group. Clinical services are paid on a fixed fee schedule.

Concentration of gross revenues by all payers accounted for the following percentages of the Clinic's patient service revenues for the years ended December 31, 2018 and 2017:

	2018		2017	
Medicare	\$ 231,159	44%	\$ 56,940	36%
Medicaid	821,105	155%	231,098	145%
Private payers	3,231,749	611%	2,135	1%
Contractual adjustments	(3,755,395)	-710%	(130,606)	-82%
Net patient service revenue	\$ 528,618	100%	\$ 159,567	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 4 - Fair Value Measurements

The Clinic reports operating investments at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

The Clinic's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2018:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Corporate bonds	\$ 778,462	\$ 778,462	\$ -	\$ -
Common stock	793,549	793,549	-	-
Real estate trusts	172,918	172,918	-	-
Mutual funds	386,102	386,102	-	-
Exchange traded product	90,736	90,736	-	-
	<u>\$ 2,221,767</u>	<u>\$ 2,221,767</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2017:

	Fair Value Measurements at Report Date Using			
	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Corporate bonds	\$ 725,059	\$ 725,059	\$ -	\$ -
Common stock	780,061	780,061	-	-
Real estate trusts	218,316	218,316	-	-
Mutual funds	376,357	376,357	-	-
Exchange traded product	119,525	119,525	-	-
	<u>\$ 2,219,318</u>	<u>\$ 2,219,318</u>	<u>\$ -</u>	<u>\$ -</u>

Note 5 - Grant and Contributions Receivable

Grants and contributions receivable consist of the following at December 31, 2018 and 2017:

	2018	2017
Federal grants	\$ 169,888	\$ 105,544
State and local grants	61,780	56,950
Other grants (foundations, etc.)	453,833	442,688
Contributions	20,491	125,000
	\$ 705,992	\$ 730,182

Note 6 - Property and Equipment

Property and equipment consist of the following at December 31, 2018 and 2017:

	2018	2017
Land	\$ 1,898,271	\$ 1,898,271
Buildings and improvements	3,540,782	3,540,782
Equipment	777,599	772,032
Furniture and fixtures	45,219	45,219
	6,261,871	6,256,304
Less accumulated depreciation	(2,183,073)	(1,915,420)
	\$ 4,078,798	\$ 4,340,884

Note 7 - Notes Payable

The Clinic has a note which is payable in monthly installments of \$9,651 and bears interest at 5.14%. The note is collateralized by the building and is due May 2023. Future principal maturities at December 31, 2018 are as follows:

Years Ending December 31,	
2019	\$ 94,066
2020	99,035
2021	104,373
2022	109,944
2023	52,767
Thereafter	-
	\$ 460,185

Note 8 - Leasing Activities

The Clinic leases office space to a tenant under a non-cancelable operating leases that expires December 31, 2019. The following is a schedule by year of future minimum rentals under these leases at December 31, 2018:

<u>Year Ending December 31,</u>	
2019	<u>\$ 16,353</u>

The Clinic also leases office space to multiple tenants on a month to month basis. Gross rental income recognized during the years ended December 31, 2018 and 2017 totaled \$114,489 and \$93,641, respectively.

See also Note 12.

Note 9 - Net Assets with Donor Restrictions

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

	<u>2018</u>	<u>2017</u>
Restricted by donors for		
Electronic health records	\$ 224,287	\$ 146,230
Dental services	72,470	390,609
Nurse Care Manager Program	495,387	543,540
Respite	64,880	44,479
Wellness and cardio	51,453	11,453
Vision services	1,936	3,641
Smoking Cessation	16,761	-
Diabetes	1,892	-
Pharmacy	3,000	-
Cancer Initiative	2,500	-
Women's Program	14,678	-
	<u>\$ 949,244</u>	<u>\$ 1,139,952</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Satisfaction of purpose restrictions		
Electronic Health Record	\$ 110,347	\$ 53,610
Dental services	390,609	53,767
Nurse Care Manager	98,153	-
Respite	44,479	-
Vision	3,641	-
	\$ 647,229	\$ 107,377

Note 10 - Donated Professional Services and Materials

The Clinic received donated professional services and materials, which were used and charged to the Clinic's activities as follows during the years ended December 31, 2018 and 2017:

	Program Services	Management and General	Fundraising and Development	Total
<u>December 31, 2018</u>				
Professional services	\$ 607,415	\$ 32,431	\$ 9,855	\$ 649,701
Supplies and equipment	141,230	13,873	8,128	163,231
Pharmaceuticals	1,207,997	-	-	1,207,997
	\$ 1,956,642	\$ 46,304	\$ 17,983	\$ 2,020,929
<u>December 31, 2017</u>				
Professional services	\$ 994,605	\$ 9,370	\$ 910	\$ 1,004,885
Supplies and equipment	1,288,305	11,752	234	1,300,291
Pharmaceuticals	2,438,977	-	-	2,438,977
	\$ 4,721,887	\$ 21,122	\$ 1,144	\$ 4,744,153

Note 11 - Retirement Plans

The Clinic participates in a defined contribution plan for employees who meet certain eligibility and service requirements. The Clinic contributes 4% of an employee’s eligible earnings. The Clinic made contributions to the plan totaling \$100,675 and \$82,202 during the years ended December 31, 2018 and 2017, respectively.

The Clinic sponsored a nonqualified deferred compensation plan covering eligible management-level employees. Benefits were based on the employee’s current compensation. The plan was closed as of January 3, 2017 and \$93,797 was distributed.

Note 12 - Commitments and Contingencies

The Clinic entered into a lease in August 2014 for equipment. The lease requires monthly payments of \$547. The lease expires in July 2019. Minimum future payments on both leases are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 3,829
	<u>\$ 3,829</u>

Disallowed Costs

The Clinic receives funds from government and private entities to perform specific services. The grantors reserve the right to perform certain audit work in addition to the services performed by the Clinic’s independent auditors. Disallowed costs, if any, resulting from such additional work, would need to be repaid by the Clinic from funds without donor restrictions. Management does not believe that any significant costs will be incurred by the Clinic if such additional work should occur.

Federal Interest in Building

As a condition of a federal grant to fund the remodel/expansion of the Clinic’s facilities, the Clinic has signed a “Notice of Federal Interest” limiting the Clinic’s ability to mortgage, sell, transfer, or change the use of its facilities without approval by the U.S. Department of Health and Human Services, Health Resources and Services Administration.

Note 13 - Related Party Transactions

The Clinic uses an investment advisor that is a family member of one of the Clinic’s board members. This board member abstained from voting on the selection of the investment advisor. This investment advisor manages the investment accounts of the Clinic and is also the broker. Investment fees incurred on the investment portfolio and paid to this broker’s company amounted to \$22,833 and \$21,691 for the years ended December 31, 2018 and 2017, respectively.

For the year ending December 31, 2018, the Clinic received contributions from employees and from entities for which a Clinic board member is a partner, board member, or employee totaling \$18,623.

Note 14 - Concentrations

The Clinic is a federally supported health center, and as such, receives a substantial portion of its revenue from one federal agency. Revenue from this federal agency totaled \$2,732,812 and \$2,265,496 for the years ended December 31, 2018 and 2017, respectively.