

ARTHUR NAGEL COMMUNITY CLINIC, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	3 - 4
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 14

MASSEY·ITSCHNER & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

February 27, 2023

To the Board of Directors of
Arthur Nagel Community Clinic, Inc.
Bandera, Texas

Opinion

We have audited the accompanying financial statements of Arthur Nagel Community Clinic, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year 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 Arthur Nagel Community Clinic, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year 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 Arthur Nagel Community Clinic, Inc. 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 Arthur Nagel Community Clinic, Inc.'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, including omissions, 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.

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 Arthur Nagel Community Clinic, Inc.'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 Arthur Nagel Community Clinic, Inc.'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.

Massey & Stuchman + Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

ARTHUR NAGEL COMMUNITY CLINIC, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

ASSETS

Cash and Equivalents	\$	419,612
Cash and Equivalents - Restricted		28,309
Investments		34,213
Grants Receivable		250
Inventory		36,429
Prepaid Expenses		3,442
Total Current Assets		522,255
 Right-of-Use Asset		 67,468
 Equipment		 39,512
Less Accumulated Depreciation		(6,869)
		32,643
 Total Assets	 \$	 622,366

LIABILITIES AND NET ASSETS

Payables		5,671
Current Portion of Right-of-Use Lease Liability		15,264
Total Current Liabilities		20,935
 Right-of-Use Lease Liability		 52,204
 Net Assets		
Without Donor Restrictions		
Board Designated Endowment Fund		34,213
Undesignated		486,705
Total Without Donor Restriction		520,918
 With Donor Restrictions		 28,309
 Total Liabilities and Net Assets	 \$	 622,366

ARTHUR NAGEL COMMUNITY CLINIC, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenues:			
Contributions	\$ 132,889	\$ -	\$ 132,889
Grants	466,697	105,500	572,197
In-Kind Contributions	2,036,813	-	2,036,813
Special Events	112,008	-	112,008
Investment Income, net	(4,462)	-	(4,462)
Other Income	432	-	432
	<u>2,744,377</u>	<u>105,500</u>	<u>2,849,877</u>
Total Support and Revenues			
Net Assets Released from Restrictions	<u>132,006</u>	<u>(132,006)</u>	<u>-</u>
Total Support and Revenues	<u>2,876,383</u>	<u>(26,506)</u>	<u>2,849,877</u>
Expenses			
Program Services	2,506,181	-	2,506,181
Management and General	59,523	-	59,523
Fundraising	114,954	-	114,954
Total Expenses	<u>2,680,658</u>	<u>-</u>	<u>2,680,658</u>
Change in Net Assets	<u>195,725</u>	<u>(26,506)</u>	<u>169,219</u>
Net Assets - Beginning of Year	<u>325,193</u>	<u>54,815</u>	<u>380,008</u>
Net Assets - End of Year	<u>\$ 520,918</u>	<u>\$ 28,309</u>	<u>\$ 549,227</u>

**ARTHUR NAGEL COMMUNITY CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel Costs:				
Wages	\$ 239,841	\$ 14,000	\$ 56,000	\$ 309,841
Payroll Taxes	18,576	1,071	4,284	23,931
Total Personnel Costs	<u>258,417</u>	<u>15,071</u>	<u>60,284</u>	<u>333,772</u>
Patient Care Expenses	1,338,053	-	-	1,338,053
Prescription Assistance	833,508	-	-	833,508
Contract Labor	8,201	1,703	-	9,904
Rent	15,360	3,840	-	19,200
Depreciation Expense	2,779	490	-	3,269
Professional Fees	-	16,533	22,000	38,533
Utilities	5,721	2,411	-	8,132
Insurance	8,490	1,740	-	10,230
Software Maintenance and Internet	2,080	220	-	2,300
Office Supplies	-	4,975	-	4,975
Equipment	-	3,021	-	3,021
Marketing	27,838	-	-	27,838
Printing	3,166	2,259	-	5,425
Maintenance and Repairs	476	1,538	-	2,014
Other Miscellaneous	-	0	-	-
Bank Fees	-	3,188	-	3,188
Volunteer Appreciation	511	-	-	511
Education	1,581	-	-	1,581
Dues and Subscriptions	-	1,059	-	1,059
Special Event Expense	-	-	32,670	32,670
Postage	-	1,475	-	1,475
	<u>\$ 2,506,181</u>	<u>\$ 59,523</u>	<u>\$ 114,954</u>	<u>\$ 2,680,658</u>

**ARTHUR NAGEL COMMUNITY CLINIC, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Cash Flow from Operating Activities:	
Net Income (Loss)	\$ 169,219
Adjustments to Reconcile Net Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation	3,269
Realized and Unrealized (Gain) Loss on Investments	5,021
Changes in Operating Assets and Liabilities:	
Grants Receivable	63,037
Inventories	9,916
Prepaid Expenses	(96)
Deferred Income	(1,000)
Payables	(538)
Net Cash Provided (Used) by Operating Activities	<u>248,828</u>
Cash Flows from Investing Activities:	
Purchase of Equipment	(35,912)
Reinvestment in Securities	<u>(20,252)</u>
Net Cash Provided (Used) by Investing Activities	<u>(56,164)</u>
Net Increase (Decrease) in Cash	192,664
Cash at the Beginning of the Year	
Cash and Cash Equivalents	162,300
Restricted Cash and Cash Equivalents	<u>92,957</u>
	<u>255,257</u>
Cash at the End of the Year	
Cash and Cash Equivalents	419,612
Restricted Cash and Cash Equivalents	<u>28,309</u>
	<u><u>447,921</u></u>

ARTHUR NAGEL COMMUNITY CLINIC, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

Arthur Nagel Community Clinic, Inc. (the Clinic) was incorporated in September 2007 as a nonprofit organization and is governed by a Board of Directors, as well as a dedicated staff. The Clinic is located in Bandera, Texas. Its mission is to provide free medical services to low-income families in Bandera County and promote health education. The Clinic's primary sources of revenues are foundation grants and contributions.

The Clinic is a nonprofit provider of low-cost primary and preventative healthcare for low-income, medically underserved Bandera County residents aged 12 and older. In addition, the Clinic provides integrated behavioral health services (mental health counseling), prescription assistance, and healthy lifestyle classes. Over the past ten years, the Clinic has invested in the area's neediest families treating more than 2,700 unduplicated patients with 18,900 separate medical and health education services. The Clinic believes that every person deserves good health and well-being. The Clinic's programs and services actively promote dignity and self-respect for all.

B. BASIS OF PRESENTATION

The financial statements of Arthur Nagel Community Clinic, Inc. have been prepared using the accrual basis in accordance with the accounting principles generally accepted in the United States (GAAP) whereby revenues are recognized when earned and expenses are recognized when they are incurred.

Net assets, support and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. If donor-imposed restrictions are met in the same period as the gift or investment income is received, the amount is reported as contributions without donor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board designated.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met by actions of the Clinic and/or the passage of time. 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.

C. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Clinic's programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits which are allocated on the basis of estimated time and efforts, as well as utilities, rent, insurance and repairs and maintenance which are allocated based on square footage.

D. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all checking and savings accounts with a maturity of three months or less.

ARTHUR NAGEL COMMUNITY CLINIC, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

E. REVENUE RECOGNITION

Revenue is recognized when earned. Program service revenues are revenues received from clients at the time of service, and are based on a donation rather than a set fee. These exchange transactions are recognized as revenue in the period in which the contribution is received. 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. As of December 31, 2022, there are no conditional promises to give.

Grants and contributions received are recorded as net assets with restriction or net assets without restriction, depending on the existence and/or nature of any donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with restriction are reclassified to net assets without restriction and reported in the statement of activities as net assets released from restrictions.

F. INCOME TAXES

The Clinic is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. The Clinic is required to file Internal Revenue Service Form 990, Return of Organization Exempt from Income Tax, annually.

The most significant tax position of the Clinic is its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). All significant tax positions have been considered by management. It has been determined that it is more likely than not that all tax positions would be sustained upon examinations by taxing authorities. Tax years 2019 - 2021 remain open to examination by the taxing jurisdiction to which the Organization is subject, and these periods have not been extended beyond the applicable statute of limitation.

G. NEW ACCOUNTING PRONOUNCEMENT

In February 2016, the Financial Accounting Standards Board issued Accounting Standard Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

H. ADOPTION OF ACCOUNTING STANDARD CODIFICATION (ASC) 842

Effective January 1, 2022, the Organization adopted Financial Accounting Standards Board FASB ASC 842, *Leases*. The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

ARTHUR NAGEL COMMUNITY CLINIC, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The adoption of FASB ASC 842 resulted in the recognition of right-of-use-assets, net of prepaid lease payments and lease incentives, of \$67,468 and operating lease liabilities of \$67,468 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact on the Organization's statement of activities or cash flows.

I. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ended December 31, 2022, a prior period adjustment to net assets was made related to the ending net assets balance as of December 31, 2021.

Management discovered an error in the asset classification of a grant pledged or received in 2021. The result of the adjustment is a \$4,593 increase in net assets with donor restriction and an equal decrease to net assets without donor restriction as of December 31, 2021.

NOTE 3 – INVENTORY

Inventory consists of donated prescription medications and is stated at the estimated cost that the Clinic would have paid for the item had it not been donated.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2022:

Clinic Equipment	\$	8,020
Computer Equipment		31,492
Less: Accumulated Depreciation		6,869
Net Property and Equipment	\$	<u>32,643</u>

NOTE 5 – IN-KIND CONTRIBUTIONS AND PATIENT SERVICES

The total market value of free medical services provided by the Clinic is estimated to be \$1,149,043 for 2022.

The Clinic provides a Prescription Assistance Program (PAP) to its patients, which allows for the Clinic to receive prescription drugs on behalf of the patients who need pharmaceutical assistance. The prescription drug request is submitted to the drug manufacturer by the PAP manager, and the pharmaceutical is shipped to the Clinic with the patient's name on the bottle.

In-kind contributions consist of the following for the years ended December 31, 2022:

Professional Medical Services	\$	1,149,043
Prescriptions		811,983
Non-Medical Services		75,787
Total	\$	<u>2,036,813</u>

ARTHUR NAGEL COMMUNITY CLINIC, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6 – REVENUE CONCENTRATIONS

The Clinic relies upon grants and service fees for funding a majority of its programs. The reliance upon several large program members created the following revenue concentrations (not including in-kind contributions) for the year ended December 31, 2022:

Methodist Healthcare Ministries	14.83%
Kronkosky Charitable Foundation	11.64%
Baptist Health Foundation of San Antonio	<u>9.8%</u>
Total Concentration	<u><u>36.27%</u></u>

NOTE 7 – BOARD DESIGNATED ENDOWMENT FUND

The Clinic received a donation of an endowment fund with restrictions in 2017. It was reviewed and clarified in 2018 as to the original intent of the donation and the restriction was removed from the contribution. The Board of Directors have designated \$34,213 of net assets without donor restrictions (which represents the fair market value of the investment) to support the mission of the Clinic. Since the amount designated by the Board resulted from an internal designation and is not donor restricted, it is classified and reported as net assets without donor restrictions. All investment expenses have been recorded as a reduction to Interest and Dividend Income on the Statement of Activities.

It is the policy of the Board to preserve amounts designated for the Endowment. This is accomplished through non-invasion of the Endowment principal. The Board may designate a percentage of annual earnings to increase the amounts designated for the Endowment. Net assets designated for the Endowment are invested using a “Total Return Concept”.

Composition of and changes in the board designated endowment net assets for the year ended December 31, 2022 are as follows:

Beginning of the Year	\$ 18,982
Contributions	19,970
Interest & Dividends	728
Net Appreciation (Realized and Unrealized)	(5,021)
Investment Fees	<u>(466)</u>
	<u><u>\$ 34,213</u></u>

Return Objectives and Risk Parameters

The Clinic holds all endowment investments with the Community Foundation of the Texas Hill Country. The Community Foundation of the Texas Hill country believes the best long-term performance will be achieved through a balanced portfolio consisting of equities, fixed income and cash. Endowment assets include those assets from board designated funds. The Board of Directors of the Clinic has adopted investment and spending policies for the endowment fund assets that attempt to fulfill the purpose of the fund and also protect the principal of the fund. The intent of the endowment fund is to grow the fund until a capital threshold of \$50,000 is reached, after which 50% of the annual interest is to be rolled back into the fund to assist with possible reduction in annual value and to increase the fund balance. The remaining 50% of annual interest would roll into the annual budget of the Clinic.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Clinic relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends). The fund is designed to offer a portfolio balanced through a diversified group of quality securities.

ARTHUR NAGEL COMMUNITY CLINIC, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Clinic's financial assets as of the statement of financial position date (excluding in-kind), reduced by amounts not available for general use because of board designated or donor-imposed restrictions within one year of the statement of financial position date. As part of the Clinic's liquidity management, it strives to maintain at least three months of operating cash needs. Liquidity and availability as of December 31, 2022 is shown in the table below:

Financial Assets at Year-End:	
Cash	\$ 447,921
Investments	34,213
Accounts Receivable	<u>250</u>
	<u>482,384</u>
Less:	
Donor Restricted Funds	(28,309)
Board Designated Endowment Funds	<u>(34,213)</u>
	<u>(62,522)</u>
Financial Assets Available to Meet Cash Needs for general Expenditures within One Year	<u>\$ 419,862</u>

NOTE 9 – FAIR VALUE MEASUREMENT

The Clinic's financial instruments consist primarily of checking accounts, savings accounts and pooled equity investments. The carrying amount of the cash and cash equivalents approximate their fair market value due to the short-term nature of such instruments (level 1). The Clinic's pooled equity investments are valued according to their fair value hierarchy at Level 2. The Clinic holds investments, which are valued based on the value of the underlying assets which consists of the investments in equity funds in pooled funds with the Community Foundation of the Texas Hill Country. The Foundation will redeem the Clinic's share of the pooled funds upon the Clinic's request. The investments held in the pooled funds had a fair market value of \$34,213 as of December 31, 2022.

Investment income is reported net of investment fees totaling \$(4,462) for the year ended December 31, 2022. See Note 7 for additional information.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through February 27, 2023, which is the date the financial statements were available to be issued.

NOTE 11 – LEASES

Arthur Nagel Community Clinic leases the office space used for operations from Bandera County Helping Hand under the terms of a non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Many of the leases include rental escalation clauses and renewal options that are factored in to the determination of lease payments when appropriate.

The components of the lease expense were as follows for the year ended December 31, 2022:

Operating lease cost	\$ 14,749
Amortization of right-of-use assets	<u>4,451</u>
Total lease cost	<u>\$ 19,200</u>

ARTHUR NAGEL COMMUNITY CLINIC, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 11 – LEASES (cont.)

The following table presents lease-related assets and liabilities at December 31, 2022:

Operating leases:	
Operating lease right-of-use assets	\$ 67,468
Current operating lease right-of-use liabilities	14,749
Noncurrent operating lease right-of-use liabilities	<u>52,719</u>
Total operating lease liabilities	<u>\$ 67,468</u>

Other information:

Weighted-average remaining lease term – operating leases	4 years
Weighted-average discount rate – operating leases	6.5%

The maturities of operating lease liabilities as of December 31, 2022 were as follows:

2023	\$ 19,200
2024	19,200
2025	19,200
2026	<u>19,200</u>
Total lease payments	76,800
Less: interest	<u>(9,332)</u>
Present value of lease liability	<u>\$ 67,468</u>