



**Mary's
Center**

Quality healthcare. Stronger communities.

**MARY'S CENTER FOR MATERNAL AND
CHILD CARE, INC.**

**MC2 COMMUNITY DEVELOPMENT
CORPORATION**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2019

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

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COMBINED FINANCIAL STATEMENTS



**MARY'S CENTER FOR MATERNAL AND
CHILD CARE, INC.**

**MC2 COMMUNITY DEVELOPMENT
CORPORATION**

**FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2018**

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying combined financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations), which comprise the combined statement of financial position as of December 31, 2019, and the related combined statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organizations as of December 31, 2019, and the combined change in their net assets and their combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Organizations' 2018 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated May 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedule of Financial Position on pages I-(28 - 29), Combining Schedule of Activities on page I-30 and Combining Schedule of Change in Net Assets on page I-31 are presented for purposes of additional analysis and are not a required part of the combined financial statements. The Schedule of Expenditures of Federal Awards on pages I-(32 - 35), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2020 on our consideration of the Organizations' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Organizations' internal control over financial reporting and compliance.



June 18, 2020

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,642,251	\$ 3,191,135
Investments	3,419,992	2,721,606
Accounts receivable, net of allowance for doubtful accounts of \$1,132,556 and \$1,075,484 in 2019 and 2018, respectively	6,267,650	7,999,932
Grants receivable, net of allowance for doubtful accounts of \$50,000 in 2019 and 2018	2,850,317	2,463,239
Pledges receivable	31,250	141,395
Inventory	913,107	867,282
Prepaid expenses	326,041	291,651
Total current assets	<u>17,450,608</u>	<u>17,676,240</u>
FIXED ASSETS		
Land	5,243,216	5,243,216
Buildings and leasehold improvements	28,878,096	27,136,436
Equipment	3,321,881	3,305,023
Furniture	1,231,276	1,231,276
Computer equipment	325,815	325,815
Vehicles	510,017	510,017
	39,510,301	37,751,783
Less: Accumulated depreciation and amortization	<u>(10,608,264)</u>	<u>(9,467,376)</u>
Net fixed assets	<u>28,902,037</u>	<u>28,284,407</u>
OTHER ASSETS		
Security deposits	77,618	99,972
Pledges receivable, net of current portion and discount	<u>119,387</u>	<u>139,532</u>
Total other assets	<u>197,005</u>	<u>239,504</u>
TOTAL ASSETS	<u>\$ 46,549,650</u>	<u>\$ 46,200,151</u>

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Lines of credit	\$ 1,110,000	\$ 1,060,000
Current portion of long-term debt	530,502	511,429
Accounts payable and accrued liabilities	7,045,449	7,143,875
Deferred leasehold improvement allowance, current	310,655	310,655
Contract payable	75,000	75,000
Refundable advances	<u>55,895</u>	<u>12,363</u>
Total current liabilities	<u>9,127,501</u>	<u>9,113,322</u>
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	9,291,649	9,756,137
Tenant security deposits	527,947	332,925
Deferred leasehold improvement allowance, net of current portion	2,229,884	2,540,538
Deferred rent abatement	600,007	489,580
Contract payable, net of current portion	<u>500,000</u>	<u>575,000</u>
Total long-term liabilities	<u>13,149,487</u>	<u>13,694,180</u>
Total liabilities	<u>22,276,988</u>	<u>22,807,502</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	21,816,993	20,853,130
Board designated	<u>85,000</u>	<u>85,000</u>
Total without donor restrictions	21,901,993	20,938,130
With donor restrictions	<u>2,370,669</u>	<u>2,454,519</u>
Total net assets	<u>24,272,662</u>	<u>23,392,649</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 46,549,650</u>	<u>\$ 46,200,151</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Patient services	\$ 40,217,445	\$ -	\$ 40,217,445	\$ 40,157,961
Contributions and foundation grants	5,804,745	76,358	5,881,103	4,642,270
Grants and contracts	13,794,460	2,271,065	16,065,525	7,396,212
Other income	6,835,873	-	6,835,873	6,084,747
Pharmacy revenue, net of cost of goods sold	1,010,130	-	1,010,130	966,864
Rental income	423,032	-	423,032	488,267
Investment income (loss), net	227,805	24,333	252,138	(131,404)
Net assets released from donor restrictions	<u>2,455,606</u>	<u>(2,455,606)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>70,769,096</u>	<u>(83,850)</u>	<u>70,685,246</u>	<u>59,604,917</u>
EXPENSES				
Program Services:				
Patient Services	28,345,282	-	28,345,282	25,630,021
Medical Services	7,350,199	-	7,350,199	6,839,981
Social and Educational Services	14,149,429	-	14,149,429	11,830,451
Pharmacy	<u>1,031,987</u>	<u>-</u>	<u>1,031,987</u>	<u>860,021</u>
Total program services	<u>50,876,897</u>	<u>-</u>	<u>50,876,897</u>	<u>45,160,474</u>
Supporting Services:				
Leased Employees	6,837,295	-	6,837,295	5,842,580
Fundraising	1,093,042	-	1,093,042	1,033,709
General and Administrative	<u>10,997,999</u>	<u>-</u>	<u>10,997,999</u>	<u>12,322,547</u>
Total supporting services	<u>18,928,336</u>	<u>-</u>	<u>18,928,336</u>	<u>19,198,836</u>
Total expenses	<u>69,805,233</u>	<u>-</u>	<u>69,805,233</u>	<u>64,359,310</u>
Change in net assets	963,863	(83,850)	880,013	(4,754,393)
Net assets at beginning of year	<u>20,938,130</u>	<u>2,454,519</u>	<u>23,392,649</u>	<u>28,147,042</u>
NET ASSETS AT END OF YEAR	<u>\$ 21,901,993</u>	<u>\$ 2,370,669</u>	<u>\$ 24,272,662</u>	<u>\$ 23,392,649</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019				
	Program Services				Total Program Services
	Patient Services	Medical Services	Social and Educational Services	Pharmacy	
Salaries and personnel related expenses	\$ 18,657,296	\$ 5,926,830	\$ 11,937,108	\$ -	\$ 36,521,234
Consultants and outside services	2,271,492	642,797	1,187,155	851,869	4,953,313
Occupancy costs	32,519	-	95,454	3,884	131,857
Depreciation and amortization	-	8,284	-	19,498	27,782
Medical and dental supplies/donated vaccines	5,940,328	390,698	25,000	2,854,360	9,210,386
Insurance and registration	11,535	652	873	12,431	25,491
Equipment and maintenance	107,129	52,424	69,633	22,735	251,921
Office expenses	314,998	100,003	421,609	90,120	926,730
Meetings and travel	36,088	18,096	173,231	168	227,583
Interest expense	-	112	-	7	119
Bad debt and cancellation of award	-	80,132	6,825	2,695	89,652
Software maintenance and licensing	882,241	89,567	1,310	-	973,118
Miscellaneous	91,656	40,604	231,231	28,580	392,071
Subtotal	28,345,282	7,350,199	14,149,429	3,886,347	53,731,257
Less: Costs of goods sold included with revenues in the statement of activities	-	-	-	(2,854,360)	(2,854,360)
TOTAL EXPENSES REPORTED IN THE STATEMENT OF ACTIVITIES	\$ 28,345,282	\$ 7,350,199	\$ 14,149,429	\$ 1,031,987	\$ 50,876,897

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	2019 (Continued)				2018	
	Supporting Services				Total Expenses	Total Expenses
	Leased Employees	Fundraising	General and Administrative	Total Supporting Services		
Salaries and personnel related expenses	\$ 6,837,295	\$ 532,751	\$ 4,827,132	\$12,197,178	\$48,718,412	\$ 44,357,481
Consultants and outside services	-	55,039	1,068,049	1,123,088	6,076,401	5,935,594
Occupancy costs	-	-	1,961,503	1,961,503	2,093,360	1,977,574
Depreciation and amortization	-	-	1,179,658	1,179,658	1,207,440	1,107,861
Medical and dental supplies/donated vaccines	-	-	-	-	9,210,386	7,931,608
Insurance and registration	-	-	142,045	142,045	167,536	196,454
Equipment and maintenance	-	542	455,692	456,234	708,155	658,881
Office expenses	-	81,729	798,456	880,185	1,806,915	2,011,309
Meetings and travel	-	305,362	107,941	413,303	640,886	769,336
Interest expense	-	-	60,906	60,906	61,025	21,083
Bad debt and cancellation of award	-	-	-	-	89,652	14,134
Software maintenance and licensing	-	40,241	175,892	216,133	1,189,251	1,061,962
Miscellaneous	-	77,378	220,725	298,103	690,174	809,120
Subtotal	6,837,295	1,093,042	10,997,999	18,928,336	72,659,593	66,852,397
Less: Costs of goods sold included with revenues in the statement of activities	-	-	-	-	(2,854,360)	(2,493,087)
TOTAL EXPENSES REPORTED IN THE STATEMENT OF ACTIVITIES	\$ 6,837,295	\$ 1,093,042	\$ 10,997,999	\$18,928,336	\$69,805,233	\$ 64,359,310

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 880,013	\$ (4,754,393)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,140,888	1,035,357
Amortization of deferred financing costs	66,552	72,504
Unrealized (gain) loss on investments	(202,861)	136,900
Realized gain on investments	(17,478)	(1,321)
Loss on disposal of fixed assets	647	-
Contributions invested in perpetuity	(76,358)	(5,000)
Change in allowance for bad debt	57,072	(61,791)
Receipt of contributed securities	(459,881)	(868,296)
Proceeds from the sale of contributed securities	459,881	868,296
Decrease (increase) in:		
Accounts receivable	1,675,210	(3,841,814)
Grants receivable	(387,078)	7,295,421
Pledges receivable	130,290	189,961
Inventory	(45,825)	(176,348)
Prepaid expenses	(34,390)	99,499
Security deposits	22,354	6,513
(Decrease) increase in:		
Accounts payable and accrued liabilities	(593,488)	1,717,627
Deferred improvement allowance	(310,654)	(310,655)
Contract payable	(75,000)	148,712
Refundable advances	43,532	(6,324)
Tenant security deposits	195,022	(18,321)
Deferred rent abatement	<u>110,427</u>	<u>118,023</u>
Net cash provided by operating activities	<u>2,578,875</u>	<u>1,644,550</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,264,103)	(1,497,675)
Net purchases of investments	<u>(478,047)</u>	<u>(523,019)</u>
Net cash used by investing activities	<u>(1,742,150)</u>	<u>(2,020,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from lines of credit	50,000	920,000
Payments on long-term debt	(511,967)	(467,175)
Contributions invested in perpetuity	<u>76,358</u>	<u>5,000</u>
Net cash (used) provided by financing activities	<u>(385,609)</u>	<u>457,825</u>

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	<u>2019</u>	<u>2018</u>
Net increase in cash and cash equivalents	\$ 451,116	\$ 81,681
Cash and cash equivalents at beginning of year	<u>3,191,135</u>	<u>3,109,454</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,642,251</u>	<u>\$ 3,191,135</u>
 SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 466,377</u>	<u>\$ 444,306</u>
 SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Purchases of Fixed Assets Included in Accounts Payable	<u>\$ 495,062</u>	<u>\$ -</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organizations -

Mary's Center for Maternal and Child Care, Inc. (the Center) was incorporated in October 1988 in the District of Columbia. The primary purpose of the Center is to provide low-cost, high quality maternity and child care for low income immigrant families of the Washington, D.C. area. The Center is supported principally through government grants and patient revenue.

MC2 Community Development Corporation (MC2) was incorporated on August 19, 2010 in the District of Columbia. The primary purpose of MC2 is to support the Center's charitable purpose and to act as a special purpose real estate subsidiary of the Center. MC2's mission is to acquire, own, develop, redevelop, improve and finance the interests in real estate that are or will be used by the Center in its charitable and educational activities within the meaning of Section 501(c)(3) of the Internal Revenue Code.

Capital Clinical Integrated Network (CCIN) was incorporated on November 27, 2012 in the District of Columbia within the meaning of Section 501(c)(3) of the Internal Revenue Services. CCIN was organized to facilitate the creation of an innovative patient care model that improves health care delivery and patient health outcomes. CCIN has received its 501(c)(3) status from the IRS, and there were no financial transactions.

Basis of presentation -

The accompanying combined financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statements for Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net assets without donor restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as net assets without donor restrictions. Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions. There is a fund established by the governing Board, which was \$85,000 as of December 31, 2019, that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.
- **Net assets with donor restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than the Organizations' mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Basis of presentation (continued) -

Additionally, the accompanying combined financial statements have been combined in accordance with the Financial Accounting Standards Board (FASB) ASC 958-810, *Not-for-Profit Entities, Consolidation*. The financial statements reflect the activity of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation because of their common management. All intercompany transactions have been eliminated during combination.

The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations' combined financial statements for the year ended December 31, 2018, from which the summarized information was derived.

New accounting pronouncement adopted -

During 2019, the Organizations early adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way the Organizations recognized revenue; however, the presentation and disclosures of revenue have been enhanced. The Organizations has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents excluding cash and money market funds held by investment managers in the amount of \$156,160 at December 31, 2019.

At times during the year, the Organizations maintain cash balances in interest bearing accounts at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, and realized and unrealized gains and losses are included in investment income (loss) net of investment expenses provided by external investment advisors in the Combined Statement of Activities and Change in Net Assets.

Receivables -

Accounts receivable are amounts due from clients and third-party payers and approximate fair value. Management has established an allowance for doubtful accounts in connection with these receivables based on historical analysis and aging of the receivable balance. Accounts are written off after they are deemed to be uncollectible.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Receivables (continued) -

Grants receivable are amounts due from Federal agencies, the District of Columbia, the State of Maryland and private foundations and are recorded at their net realizable value, which approximates fair value. For the year ended December 31, 2019, 78% of the ending receivable balance represents grants due from state and Federal agencies, and 22% of the ending balance is due from foundations. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Pledges receivable represent unconditional promises to give by donors. Current pledges receivable are expected to be collected during the next fiscal year and are recorded at their net realizable value. Long-term pledges receivable expected to be collected subsequent to fiscal year 2019 have been discounted at a rate of 4.5% and are reflected in the combined financial statements at their net present value. At December 31, 2019, pledges receivable due in less than one year were in the amount of \$31,250 and pledges receivable within two to six years were in the amount of \$138,450, net of their discount of \$19,063 as of December 31, 2019.

Fixed assets -

Furniture and equipment are stated at cost and are being depreciated and amortized on the straight-line basis over their estimated useful lives, generally between three and five years. The building and land are stated at cost and the building and improvements are being depreciated over 40 years. Furniture, equipment and improvements with a useful life of more than one year, and costing \$5,000 or more, are capitalized. Leasehold improvements are amortized over the remaining life of the lease. Repairs and maintenance are recorded to expenses.

Depreciation and amortization expense for the year ended December 31, 2019 was \$1,140,888.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced to its current fair value by a charge to depreciation expense. There were no impairments for the year ended December 31, 2019.

Income taxes -

The Organizations are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. MC2 is organized as a supporting organization to the Center. The Organizations are subject to unrelated business income tax on rental income on tenant leases with debt-financed property. Neither organization is a private foundation.

Uncertain tax positions -

For the year ended December 31, 2019, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Inventory -

Inventory consists of donated vaccines and is measured at the lower of cost and net realizable value using the first-in, first-out method under FASB ASU 2015-11 *Simplifying the Measurement of Inventory*.

Debt issuance costs -

In accordance with the FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, the Organizations present debt issuance costs in the financial statement as a direct deduction from the related debt liability.

Revenue -

Patient service revenue is recorded the month in which the performance obligations are satisfied. The transaction price is determined based on historical experience and current market conditions. The Organizations provided care to clients meeting certain criteria under their charity care policy without charge or at amounts less than their established rates. Such payments are identified based on financial information obtained from the client and subsequent analysis. Since the Organizations do not pursue collection of amounts determined to qualify as charity care, they are not reported as a component of revenue or accounts receivable. The Organizations maintain records to identify and monitor the level of charity care they provide. For the year ended December 31, 2019, care provided under the charity care policy, valued on a sliding fee basis, totaled \$9,570,305.

The Organizations receive funding under contributions as well as contracts and grants from the U.S. and state and local governments, and other entities. Contributions and grants are recognized in the appropriate category of net assets in the period received. The Organizations perform an analysis of the individual contribution, grant and contract to determine if the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal.

For contributions and foundation grants qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the condition on which they depend are substantially met. Contributions and foundation grants qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Grants and contracts qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Most grants and contract awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Organizations recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances.

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MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Revenue (continued) -

Pharmacy revenue represents the sales of prescriptions and other medical supplies. The transaction price is determined based on the sales price. Revenue is recognized when the performance obligation has been satisfied. The performance obligation is met at the time of sale.

In-kind contributions consist of donated vaccines, legal services and other supplies and clothes. In-kind contributions are recorded at their fair market value as of the date of the gift.

The majority of other income consists of services provided under a contractual agreement (See Note 14). The Organizations provide assistance with managing the human resources and personnel related administrative functions for another organization. Revenue is recognized when the performance obligation has been satisfied.

Use of estimates -

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Combined Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses directly attributed to a specific functional area of the Organizations are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of actual time and effort or other reasonable basis.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Risks and uncertainties -

The Organizations invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying combined financial statements.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fair value measurement -

The Organizations adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements.

The Organizations account for a significant portion of their financial instruments at fair value or consider fair value in their measurement.

New accounting pronouncement not yet adopted -

FASB issued ASU 2019-01, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Organizations plan to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying combined financial statements.

2. INVESTMENTS

At December 31, 2019, the Organizations had investments, at fair value, as follows:

Money market funds	\$ 156,160
Mutual funds	3,262,811
Common stocks	<u>1,021</u>
TOTAL INVESTMENTS	<u>\$ 3,419,992</u>

For the year ended December 31, 2019, investment income included the following:

Interest and dividends, net of investment fees	\$ 40,999
Unrealized gain on investments	202,861
Realized gain on investments	17,478
Management fees	<u>(9,200)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 252,138</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

3. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Combined Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organizations have the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of December 31, 2019.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end mutual fund that is registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value to transact at that price. The money market fund is deemed to be actively traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by Organizations are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organizations are deemed to be actively traded.
- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2019:

Asset Class - Investments:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 156,160	\$ -	\$ -	\$ 156,160
Mutual funds	3,262,811	-	-	3,262,811
Common stocks	<u>1,021</u>	<u>-</u>	<u>-</u>	<u>1,021</u>
TOTAL	<u>\$ 3,419,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,419,992</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

3. FAIR VALUE MEASUREMENT (Continued)

There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2019. Transfers between levels are recorded at the end of the reporting period, if applicable.

4. LINES OF CREDIT

The Organizations have a line of credit in the amount of \$3,000,000 and bears interest at 4.26% expiring on September 30 2020. As of December 31, 2019, the outstanding balance on the line of credit was \$1,110,000. The line of credit is subject to debt covenants.

5. LONG-TERM DEBT

On June 29, 2016, the Center refinanced the remaining balance of a note in the amount of \$2,688,246. The interest rate on the loan is 3.85% and matures June 29, 2021. The loan assumes an amortization schedule of 5 years with monthly installments of principal and interest of approximately \$20,000. The loan is collateralized by the land and building. The Center is subject to debt covenants. \$ 2,202,530

On November 24, 2015, the Center entered into a loan with Choice Health Finance in the amount of \$89,765, bearing interest at 4.848%. The loan matures on December 20, 2020. 19,799

On September 27, 2017, the Center refinanced a note with City First Bank of D.C., National Association in the amount of \$789,809, bearing interest at 4%. The loan matures on October 1, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd., NW, D.C., and UCC financing statement. The Center is subject to debt covenants. 467,031

On April 25, 2017, the Center entered into a loan with PNC Bank in the amount of \$3,176,729, bearing interest at 3.56%. The loan matures on April 25, 2023. The loan is collateralized by the land and building. The Center is subject to debt covenants. 3,043,978

On November 14, 2017, the Center entered into a loan with City First Bank of D.C., National Association in the amount of \$2,520,000, bearing interest at 3.55%. The loan matures on November 14, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd., NW, DC, and UCC financing statement. The Center is subject to debt covenants. 2,385,243

On November 14, 2017, the Center entered into a promissory note with City First Bank of D.C., N.A. in the amount of \$980,000, bearing interest at 3.55%. The maturity date of this note is November 14, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd., NW, DC, and UCC financing statement. The Center is subject to debt covenants. 927,594

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

5. LONG-TERM DEBT (Continued)

On November 14, 2017, the Center entered into a promissory note with City First Bank of D.C., N.A. in the amount of \$1,000,000, bearing interest at 6%. The maturity date of this note is November 14, 2022. The loan is collateralized by the deed of trust, the assignment of leases and rents on 2341 Ontario Rd., NW, D.C., and UCC financing statement. The Center is subject to debt covenants.

	<u>\$ 957,971</u>
	10,004,146
Less: Current portion	(530,502)
Less: Deferred financing costs, net of accumulated amortization of \$180,523	<u>(181,995)</u>
LONG-TERM PORTION	<u>\$ 9,291,649</u>

Aggregate annual principal payments are as follows at December 31, 2019:

Year Ending December 31,

2020	\$ 530,502
2021	2,420,808
2022	3,376,864
2023	2,808,524
2024	26,737
Thereafter	<u>840,711</u>
	<u>\$ 10,004,146</u>

Interest expense on these debt instruments for the year ended December 31, 2019 totaled \$466,377, which is included in the occupancy costs in the Combined Statement of Functional Expenses.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2019:

Subject to expenditure for specified purpose:	
Medical Services	\$ 669,082
Social and Educational Services	583,876
Accumulated Investment Earnings not yet Authorized for Spending	<u>31,176</u>
Total subject to expenditure for specified purpose	1,284,134
Subject to passage of time	790,177
Contributions to be invested in perpetuity	<u>296,358</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 2,370,669</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
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6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished:	
Medical Services	\$ 358,514
Social and Educational Services	510,126
Timing restrictions accomplished	<u>1,586,966</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 2,455,606</u>

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use within one year of the Combined Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 3,642,251
Investments	3,419,992
Accounts receivable	6,267,650
Grants receivable	2,850,317
Pledges receivable, due within one year	<u>31,250</u>
Less: Assets restricted by donor for specific purposes	(1,580,492)
Less: Board designated net assets	<u>(85,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 14,545,968</u>

The Organizations obtain support by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organizations must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

As part of the Organizations' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organizations invest cash in excess of daily requirements in short-term investments. There is a fund established by the governing board, which was \$85,000 as of December 31, 2019, that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. As more fully described in Note 3, the Organizations have committed a line of credit in the amount of \$1,890,000, which they could draw upon in the event of an unanticipated liquidity need.

8. ENDOWMENTS

The Organizations' endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. ENDOWMENTS (Continued)

The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organizations consider a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organizations has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Organizations and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Original Donor-Restricted Gift Amounts Required to be Maintained in Perpetuity by Donor	\$ -	\$ 296,358	\$ 296,358
Accumulated Investment Earnings	<u>-</u>	<u>31,176</u>	<u>31,176</u>
TOTAL ENDOWMENT FUNDS	<u>\$ -</u>	<u>\$ 327,534</u>	<u>\$ 327,534</u>

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 226,843	\$ 226,843
Investment income	-	24,333	24,333
Contributions	<u>-</u>	<u>76,358</u>	<u>76,358</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 327,534</u>	<u>\$ 327,534</u>

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**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. ENDOWMENTS (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organizations to retain as fund of perpetual duration. There were no such deficiencies of this nature reported in net assets with donor restrictions as of December 31, 2019.

Return Objectives and Risk Parameters -

The Organizations have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in accordance with the investment policies and procedures of the Organizations.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Organizations rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organizations target a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Organizations have a spending policy which considers the long-term expected return on their endowment. This is consistent with the Organizations' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Organizations elected not to authorize spending on their endowments during the year ended December 31, 2019.

9. TENANT LEASES

The Organizations sublease a portion of their office space under various leases expiring throughout 2041, including several that are year-to-year renewals and are therefore not included in the future minimum payments table.

Future minimum rental payments to be received are:

Year Ending December 31,

2020	\$ 309,570
2021	310,634
2022	311,709
2023	313,341
2024	111,306
Thereafter	<u>2,072,499</u>
	<u>\$ 3,429,059</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
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9. TENANT LEASES (Continued)

Rental income received during the year totaled \$423,032 and is included in the accompanying Combined Statement of Activities and Change in Net Assets.

10. IN-KIND CONTRIBUTIONS

Included in contributions revenue in the accompanying Combined Statement of Activities and Change in Net Assets are contributions of vaccines, supplies, clothes and services. These contributions approximate fair value at the date vaccines, supplies, clothes and services were received. For the year ended December 31, 2019, the Organizations received in-kind contributions as follows:

Donated vaccines	\$ 3,847,739
Legal services	119,521
Other supplies and clothes	<u>47,393</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 4,014,653</u>

The following programs have benefited from these donated services:

Patient Services	\$ 3,847,739
General and Administrative	119,521
Social and Educational Services	<u>47,393</u>
TOTAL	<u>\$ 4,014,653</u>

11. LEASE COMMITMENT

The Organizations entered into a lease agreement for space on Flower Avenue in Maryland, commencing June 1, 2007 and expired March 31, 2019. This lease was not renewed.

On March 22, 2016, the Center entered into a 30 year agreement to lease 12,000 square feet of space at 100 Gallatin Street in Washington, D.C. The agreement began on June 1, 2016 and is set to expire on May 31, 2046. The base use fee is \$25 per square foot, with the first six months free, and the subsequent six months at a 2.5% discounted rate (approximately \$24,300 per month).

Effective July 1, 2017, the Organizations started paying the full base use fee of \$25 per square foot, which increases by 2.5%, annually.

Additionally, the Organizations received an allowance up to \$3,762,956 for various leasehold improvements, furniture and equipment. Accordingly, these amounts have been recorded as an asset (leasehold improvements, furniture and equipment) and liability (deferred improvement allowance) in the accompanying Combined Statement of Financial Position, and will be amortized over the life of the related lease and assets.

On March 28, 2018, the Center entered into a 3 year agreement to lease approximately 3,500 square feet of space on Georgia Avenue in Washington, D.C. The agreement began on February 1, 2018 and is set to expire on January 31, 2021. The Center is required to pay rent in the amount of \$6,200 monthly, which increases by 3%, annually.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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11. LEASE COMMITMENT (Continued)

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Combined Statement of Financial Position.

Rental expense, including operating costs, for the year ended December 31, 2019 totaled \$363,954 and is included in the Combined Statement of Functional Expenses as part of occupancy costs. The deferred rent liability was \$600,007 at December 31, 2019.

Future minimum payments under the leases are as follows:

Year Ending December 31,

2020	\$ 393,528
2021	333,302
2022	335,280
2023	343,662
2024	352,254
Thereafter	<u>10,064,414</u>
	<u>\$ 11,822,440</u>

12. CONTINGENCY

The Organizations receive grants from various agencies of the United States Government. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2019.

Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Various lawsuits and other contingent liabilities arise in the ordinary course of the Organizations' activities. While the final outcome of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Organizations' consolidated financial statements.

13. PENSION PLAN

The Organizations maintain a 403(b) retirement plan for all eligible employees. The Organizations match contributions up to two percent of salaries of all eligible employees. An employee becomes eligible after 90-days and is 100% vested after the second year of employment. The pension expense for the year ended December 31, 2019 was \$483,000 and is included in the Combined Statement of Functional Expenses as part of salaries and personnel related expenses.

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**NOTES TO COMBINED FINANCIAL STATEMENTS
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14. CONTRACTUAL AGREEMENTS

The Organizations have entered into an agreement with the Briya Public Charter School (BPCS), a not-for-profit public charter school located in the District of Columbia. The Organizations provide assistance with managing the human resources and personnel related administrative functions for BPCS. For the year ended December 31, 2019, the Organizations received \$6,809,905 for services provided, which is included in other income in the Combined Statement of Activities and Change in Net Assets. The contract is renewed annually.

The Organizations entered into an agreement in September 2016 with Maxor National Pharmacy Services, LLC (Maxor). As part of the agreement, Maxor will provide all comprehensive professional and management services necessary to establish and operate retail/outpatient pharmacy at the pharmacy location servicing its patient population in a manner consistent with accepted medical, quality and utilization standards. Maxor will receive seven dollars per full prescription sold in the pharmacy location as its management fee for its services rendered under this agreement. For the year ended December 31, 2019, the Organizations paid Maxor \$254,394 as management fee, which is included in the Combined Statement of Functional Expenses as part of consultants and outside services.

As part of the agreement, Maxor will pay or otherwise provide initial operating capital needed for start-up costs associated with the Pharmacy including construction, equipment, initial inventory, salary and operating expenses up to the amount of \$750,000. In return for the Operational Support Services, the Organizations will pay Maxor a fee of \$6,250 per month during the term of the agreement. As of December 31, 2019, the Organizations owed Maxor \$575,000 which is included as contract payable in the accompanying Combined Statement of Financial Position.

Future minimum payments under the contract are as follows:

Year Ending December 31,

2020	\$ 75,000
2021	75,000
2022	75,000
2023	75,000
2024	75,000
Thereafter	<u>200,000</u>
	<u>\$ 575,000</u>

The Organizations entered into an agreement in April 2017 with HBW Properties, Inc (HBW Group) which is a duly licensed real state broker and is authorized to manage real property and to engage real estate business. As part of the agreement, HBW Group will devote its time, attention, skill, experience and best efforts to the management, operation, maintenance and supervision of the property so as to conduct the operation of the property. As full compensation for performing the above services, the Organizations will pay \$3,000 monthly to HBW Group. The agreement was ended in April 2019.

For the year ended December 31, 2019, the Organizations paid HBW Group \$15,000 for services received, which is included in the Combined Statement of Functional Expenses as part of consultants and outside services.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

15. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through June 18, 2020, the date the combined financial statements were issued.

In March of 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of the COVID-19 Coronavirus, economic uncertainties have arisen. The global financial markets have declined and the fair value of the investment portfolio of the Organizations has decreased to approximately \$3,200,000 as of the date of the audit report. Other potential financial or operational impacts from COVID-19 are unknown at this time.

University Blvd W. Silver Spring, MD - Silver Spring Project:

On April 25, 2017, Mary's Center became the legal owner of the 344 University Boulevard W property located in Silver Spring, Maryland (the "Property"). This Property replaced the existing Montgomery County facility located at 8709 Flower Avenue. This relocation allows Mary's Center to provide its Social Determinant Model in Montgomery County. Mary's Center entered into an Agreement of Sale to purchase the Property on December 20th, 2016. The purchase of the Property was financed with a \$3.483 million loan from PNC Bank. The loan type is Convertible Line of Credit Note.

The Project consisted of three separate stages. The total approximate cost of the Project was \$4.8 million and was funded by contributions and grants from various organizations. The Project was completed on April 22, 2020.

SUPPLEMENTAL INFORMATION

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019**

ASSETS				
	Mary's Center	MC2	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,557,528	\$ 84,723	\$ -	\$ 3,642,251
Investments	3,419,992	-	-	3,419,992
Accounts receivable, net of allowance for doubtful accounts of \$1,132,556	6,267,650	2,797,501	(2,797,501)	6,267,650
Grants receivable, net of allowance for doubtful accounts of \$50,000	2,850,317	-	-	2,850,317
Pledges receivable	31,250	-	-	31,250
Inventory	913,107	-	-	913,107
Prepaid expenses	<u>326,041</u>	<u>-</u>	<u>-</u>	<u>326,041</u>
Total current assets	<u>17,365,885</u>	<u>2,882,224</u>	<u>(2,797,501)</u>	<u>17,450,608</u>
FIXED ASSETS				
Land	4,870,000	373,216	-	5,243,216
Buildings and leasehold improvements	13,171,634	15,706,462	-	28,878,096
Equipment	1,767,744	1,554,137	-	3,321,881
Furniture	529,111	702,165	-	1,231,276
Computer equipment	89,744	236,071	-	325,815
Vehicles	<u>510,017</u>	<u>-</u>	<u>-</u>	<u>510,017</u>
	20,938,250	18,572,051	-	39,510,301
Less: Accumulated depreciation and amortization	<u>(4,720,207)</u>	<u>(5,888,057)</u>	<u>-</u>	<u>(10,608,264)</u>
Net fixed assets	<u>16,218,043</u>	<u>12,683,994</u>	<u>-</u>	<u>28,902,037</u>
OTHER ASSETS				
Security deposits	77,618	-	-	77,618
Pledges receivable, net of current portion and discount	<u>119,387</u>	<u>-</u>	<u>-</u>	<u>119,387</u>
Total other assets	<u>197,005</u>	<u>-</u>	<u>-</u>	<u>197,005</u>
TOTAL ASSETS	<u>\$ 33,780,933</u>	<u>\$ 15,566,218</u>	<u>\$ (2,797,501)</u>	<u>\$ 46,549,650</u>

LIABILITIES AND NET ASSETS

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Lines of credit	\$ 1,110,000	\$ -	\$ -	\$ 1,110,000
Current portion of long-term debt	530,502	-	-	530,502
Accounts payable and accrued liabilities	9,842,950	-	(2,797,501)	7,045,449
Deferred leasehold improvement allowance, current	310,655	-	-	310,655
Contract payable	75,000	-	-	75,000
Refundable advances	<u>55,895</u>	<u>-</u>	<u>-</u>	<u>55,895</u>
Total current liabilities	<u>11,925,002</u>	<u>-</u>	<u>(2,797,501)</u>	<u>9,127,501</u>
LONG-TERM LIABILITIES				
Long-term debt, net of current portion	9,291,649	-	-	9,291,649
Tenant security deposits	527,947	-	-	527,947
Deferred leasehold improvement allowance, net of current portion	2,229,884	-	-	2,229,884
Deferred rent abatement	600,007	-	-	600,007
Contract payable, net of current portion	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total long-term liabilities	<u>13,149,487</u>	<u>-</u>	<u>-</u>	<u>13,149,487</u>
Total liabilities	<u>25,074,489</u>	<u>-</u>	<u>(2,797,501)</u>	<u>22,276,988</u>
NET ASSETS				
Without donor restrictions	6,335,775	15,566,218	-	21,901,993
With donor restrictions	<u>2,370,669</u>	<u>-</u>	<u>-</u>	<u>2,370,669</u>
Total net assets	<u>8,706,444</u>	<u>15,566,218</u>	<u>-</u>	<u>24,272,662</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,780,933</u>	<u>\$ 15,566,218</u>	<u>\$ (2,797,501)</u>	<u>\$ 46,549,650</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS				
Patient services	\$ 40,217,445	\$ -	\$ -	\$ 40,217,445
Contributions and foundation grants	5,804,745	-	-	5,804,745
Grants and contracts	13,794,460	-	-	13,794,460
Other income	6,835,873	-	-	6,835,873
Pharmacy revenue, net of cost of goods sold	1,010,130	-	-	1,010,130
Rental income	423,032	1,246,115	(1,246,115)	423,032
Investment income, net	227,805	-	-	227,805
Net assets released from donor restrictions	<u>2,455,606</u>	<u>-</u>	<u>-</u>	<u>2,455,606</u>
Total revenue and support without donor restrictions	<u>70,769,096</u>	<u>1,246,115</u>	<u>(1,246,115)</u>	<u>70,769,096</u>
EXPENSES				
Program Services:				
Patient Services	28,345,282	-	-	28,345,282
Medical Services	7,350,199	-	-	7,350,199
Social and Educational Services	14,149,429	-	-	14,149,429
Pharmacy	<u>1,031,987</u>	<u>-</u>	<u>-</u>	<u>1,031,987</u>
Total program services	<u>50,876,897</u>	<u>-</u>	<u>-</u>	<u>50,876,897</u>
Supporting Services:				
Leased Employees	6,837,295	-	-	6,837,295
Fundraising	1,093,042	-	-	1,093,042
General and Administrative	<u>11,829,269</u>	<u>414,845</u>	<u>(1,246,115)</u>	<u>10,997,999</u>
Total supporting services	<u>19,759,606</u>	<u>414,845</u>	<u>(1,246,115)</u>	<u>18,928,336</u>
Total expenses	<u>70,636,503</u>	<u>414,845</u>	<u>(1,246,115)</u>	<u>69,805,233</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 132,593</u>	<u>\$ 831,270</u>	<u>\$ -</u>	<u>\$ 963,863</u>
REVENUE AND SUPPORT WITH DONOR RESTRICTIONS				
Contributions and foundation grants	\$ 76,358	\$ -	\$ -	\$ 76,358
Grants and contracts	2,271,065	-	-	2,271,065
Investment income, net	24,333	-	-	24,333
Net assets released from donor restrictions	<u>(2,455,606)</u>	<u>-</u>	<u>-</u>	<u>(2,455,606)</u>
CHANGE IN REVENUE AND SUPPORT WITH DONOR RESTRICTIONS	<u>\$ (83,850)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (83,850)</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**COMBINING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR DECEMBER 31, 2019**

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Net assets at beginning of year	\$ 6,203,182	\$ 14,734,948	\$ -	\$ 20,938,130
Change in net assets without donor restrictions	<u>132,593</u>	<u>831,270</u>	<u>-</u>	<u>963,863</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,335,775</u>	<u>\$ 15,566,218</u>	<u>\$ -</u>	<u>\$ 21,901,993</u>
NET ASSETS WITH DONOR RESTRICTIONS				
Net assets at beginning of year	\$ 2,454,519	\$ -	\$ -	\$ 2,454,519
Change in net assets with donor restrictions	<u>(83,850)</u>	<u>-</u>	<u>-</u>	<u>(83,850)</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,370,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,370,669</u>

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Affordable Care Act Cluster — Maternal, Infant, and Early Childhood Home Visiting Program Formula, Expansion, and Development Grants to States-Cluster				
DC Department of Health - Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	1X10MC30464-01- 02/UH4MC30464-01-02, 4 D89MC25207-01-02	\$ -	\$ 1,781,988
Sub-total Affordable Care Act Cluster— Maternal, Infant, and Early Childhood Home Visiting Program Formula, Expansion, and Development Grants to States-Cluster			-	1,781,988
Family Planning Services				
Unity Health Care, Inc. - Family Planning Services	93.217	1FPHPA006399-01-00, 1FPHPA006406-01-00, 1FPHPA006406-01-02	-	220,195
Maryland Department of Health Mental Hygiene - Family Planning Services	93.217	FHE42CFP	-	132,969
Total Family Planning Services-CFDA # 93.217			-	353,164
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	-	3,348,961
Maternal and Child Health Federal Consolidated Programs	93.110	N/A	-	49,049
Advocates for Justice and Education Inc. - Affordable Care Act (ACA) - Family to Family Health Information Centers	93.504	H84MC21661	-	14,266
DC Health Benefit Exchange Authority - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	DCHBX-2018	-	81,293
U.S. Committee for Refugees and Immigrants - Services to Victims of a Severe Form of Trafficking	93.598	90ZV-136-01-00	-	4,800
District of Columbia Department of Health - Healthy Start Initiative	93.926	FO-CHA-PG-00183-000	-	334,286

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued)				
DC Department of Behavioral Health - Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	SM-16-009	\$ -	\$ 112,353
DC Department of Human Services - Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	G-0601DCFVPS	-	73,858
US Committee for Refugees and Immigrants - Unaccompanied Alien Children Program	93.676	90ZU0192-01-00, 90ZU0192-03-00	-	490,101
Medical Assistance Program				
Prince George's County - Medical Assistance Program	93.778	N/A	-	508,129
DC Mayor's Office on Latino Affairs - Medical Assistance Program	93.778	521594116	-	134,346
Total Medical Assistance Program- CFDA # 93.778			-	642,475
Department of Health, HIV/AIDS, Hepatitis, STD, Tuberculosis Administration (HAHSTA) - HIV Care Formula Grants	93.917	X07HA00045	-	201,500
Total Department of Health and Human Services			-	7,488,094
United States Department of Agriculture				
SNAP Cluster — Supplemental Nutrition Assistance Program				
District of Columbia Department of Health - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	15151DC452Q3903	-	81,125
Sub-total SNAP Cluster — Supplemental Nutrition Assistance Program			-	81,125
District of Columbia Department of Health - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	171DC700W1003, 201DC7001003	-	736,016
Total United States Department of Agriculture			-	817,141

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
United States Department of Justice				
Maryland Governor's Office of Crime Control and Prevention - Violence Against Women Formula Grants	16.588	2018-WF-AX-0048, 2019-WF-AX-0044	\$ -	\$ 21,280
SUB-TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>-</u>	<u>8,326,515</u>
Non-Cash Federal Awards				
Department of Health and Human Services				
DC Department of Health - Immunization Cooperative Agreements	93.268	2280;2280A; P00253; AHR0253; 000024; AHR024	-	3,690,906
TOTAL EXPENDITURES NON-CASH FEDERAL AWARDS			<u>-</u>	<u>3,690,906</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 12,017,421</u>

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Organizations under programs of the Federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule presents only a selected portion of the operations of the Organizations; accordingly, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organizations.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organizations have elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Donated Vaccines for Children

Donated vaccines are reported at the amount representing the market valuation as noted by the Center for Disease Control and Prevention. Donated vaccines in the amount of \$3,690,906 were received during the fiscal year 2019 and are included in the accompanying Schedule of Expenditures of Federal Awards under CFDA # 93.268.

Note 4. Reconciliation of Financial Statements to the Schedule of Expenditures of Federal Awards

Contributions per the Statement of Activities and Change in Net Assets	\$ 5,881,103
Grants and contracts per the Statement of Activities and Change in Net Assets	16,065,525
Less: non-federal contributions	(2,190,197)
Less: non-federal grants and contracts	<u>(7,739,010)</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$ 12,017,421</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting:

Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

3). Noncompliance material to financial statements noted?

Yes No

Federal Awards

4). Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

5). Type of auditor's report issued on compliance for major programs:

Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

7). Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program
93.676	Unaccompanied Alien Children Program
93.217	Family Planning Services

8). Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

9). Auditee qualified as a low-risk auditee?

Yes No

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section II - Financial Statement Findings

Finding 2019-001: Reconciliation of Asset and Liability Accounts

Criteria: As stated in 2 CFR 200.303, the non-Federal entity (i.e. the Organizations) must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations and terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or in the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: During our audit fieldwork, we noted that out of approximately 120 assets and liability accounts there were a few schedules and reconciliations that were not available at the commencement of the audit fieldwork and/or had some adjustments that needed to be made. Due to the above, management had to spend some time to resolve the discrepancies. The delay resulted in needing some additional audit work performed after the original end date of the initial field work. We believe this information could have resulted in unreliable internal financial information, and also represent a deficiency in completely adhering to the organization internal control policies and procedures.

Cause: The Organizations did not consistently follow the internal control policies and procedures that they have in place to ensure timely and accurate reconciliation of some of its assets and liability accounts.

Effect or Potential Effect: Without continuing to adhering to their usual year-end closing process, the potential for misstatements within the financial statement could be elevated. This could result in errors, delays in the audit process and additional audit expenses could occur as a result.

Recommendation: We recommend the Organizations adhere to their usual formal year-end closing schedule. The Organizations have an internal control process which was successfully used in previous years. The continuous use of this formal year-end closing schedule will assist the Organizations with ensuring that all the critical steps in the year-end close (such as all of the account analyses and schedule preparations) are ready at the time of the scheduled audit fieldwork date. The Organizations should adhere to ensuring the specific personnel that the account is assigned to are monitored, reconciled by the due dates that are outlined in the closing schedules and finalized in time for the audit. This will also help to ensure that the audit is completed as scheduled.

We also further recommend the Organizations consider performing an independent finance department assessment / evaluation. As the Organizations programs increase, expand and service line offerings grow, the need for more staff within the department may be necessary. Additionally, as noted in recent years, more regulations and compliance requirements have become more technical and stringent, requiring potentially additional staff for accounting transaction evaluation. An independent finance department assessment will help to understand the current composition of the Finance department staff and suggest changes to the current structure; additionally, this assessment should look at the current software and workflows utilized by the department and suggest ways to improve or automate the current processes.

Views of Responsible Officials: It should be noted that management worked with the audit firm to start some of the audit field work months in advance of the actual scheduled audit fieldwork date. Based on the decision to start early, it assisted with ensuring that the audit was able to be completed within only a few weeks delay from the original due date for distributing the final audit despite the unforeseen Pandemic. Also, out of approximately 120 accounts that are reconciled, a few were not fully ready and /or needed some adjustments during the actual audit period.

MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section II - Financial Statement Findings (Continued)

Finding 2019-001: Reconciliation of Asset and Liability Accounts / Delay in Audit Process
(Continued)

Views of Responsible Officials (Continued): The delays were due to several reasons as outlined below:

1. The unforeseen COVID-19 Pandemic resulted in the need for the Organizations to move all staff to work remotely about a month prior to the start of the audit. Although working remotely allowed us to continue with the audit as planned, it resulted in some challenges of being able to work face-to-face with the auditors to provide immediate feedback. In the normal work environment, the coordination of requests among staff and working with the auditors in person to answer question/requests more timely was compromised with remote work. In the past the auditors could work with each staff one-on-one to review documents and receive answers more readily. These challenges resulted in management spending more time locating documents that are normally readily available in files at the office, auditors would meet one-on-one with the staff to obtain feedback more readily, and any transactions that the auditors were not familiar with could be clarified more clearly by reviewing the documents together.

To help resolve this issue of process delays, reconciling the few outstanding accounts and readily accessing documents remotely the following will be implemented by December 31, 2020;

a. We are in the process of analyzing software to enhance our current financial system and develop an automated workflow process such as e-signatures and moving all documents in a cloud-based atmosphere. The enhanced software will save time and offer better efficiency by allowing a quicker turnaround time of obtaining e-signatures on documents such as invoices and other supporting documents. In additional, it will assist with all staff having the ability to retrieve document support from one online source versus paper files, a more robust and financial system for account reconciliation and an enhanced purchase order three-way match interface process.

b. We are moving the financial system to a cloud-based system. The plan to move to the cloud was already in the works for the Organizations prior to the Pandemic. The process was delayed due to the necessity to prioritize other system items by IT such as ensuring all personnel with the need could work remotely. The IT department had to ensure that the medical modules were enhanced to ensure the critical care of patients could continue with services by using the telehealth and televoice methodology.

2. During the latter part of the last year, the Organizations were also impacted by a Cyber issue. This resulted in more than one week of downtime in the finance department, which set the team back with all processes and closing deadlines; It is always difficult to fully catch-up on tasks while still meeting other routine priority tasks. Therefore, some of the year-end reconciliation deadlines were pushed back into the latter part of the first quarter of 2020. There was the need to recreate some of the reconciliation spreadsheets; however, the Organizations decided it was probably best not to postpone the entire audit while the finance department worked through reconciling those few accounts as the audit proceeded. These software/data loss issues delayed some of the month-end closing processes, especially at year-end. The data is being moved to the cloud to prevent the need to recreate data in the future.

3. The Organizations already have internal control policies and procedures which includes a closing checklist outlining all accounts, the assigned responsible parties and the due dates of when each account should be reconciled. This process was used in the past to ensure the accounts were reconciled monthly and at year-end, which assisted with having prior successful audits. The Organizations will continue following the current internal control policies and procedures of reconciling all accounts in a timely manner and as outlined in the procedures.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
MC2 COMMUNITY DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516 (a))

There were no reportable findings.



CPAs & ADVISORS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

We have audited, in accordance with the 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, the combined financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations) as of and for the year ended December 31, 2019, and the related notes to the combined financial statements, which collectively comprise the Organizations' basic combined financial statements, and have issued our report thereon dated June 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organizations' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organizations' combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-001, that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organizations' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organizations' Response to the Finding

The Organizations' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Organizations' response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 18, 2020



CPAs & ADVISORS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
MC2 Community Development Corporation
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organizations' major federal programs for the year ended December 31, 2019. The Organizations' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organizations' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organizations' compliance.

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Opinion on Each Major Federal Program

In our opinion, the Organizations complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Organizations is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organizations' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over compliance.

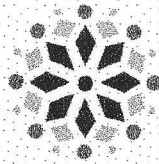
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



June 18, 2020



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Corrective Action Plan

In accordance with *Title 2 CFR 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements* under Section 200.511, Audit Findings follow-up, the following details the corrective action plan to be taken for the findings noted in the 2019 audit.

Section - II- Financial Statement Findings

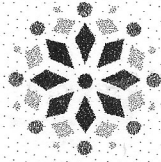
Finding 2019-001: Reconciliation of Asset and Liability Accounts

Condition: During our audit fieldwork, we noted that out of approximately 120 assets and liability accounts there were a few schedules and reconciliations that were not available at the commencement of the audit fieldwork and/or had some adjustments that needed to be made. Due to the above, management had to spend some time to resolve the discrepancies. The delay resulted in needing some additional audit work performed after the original end date of the initial field work. We believe this information could have resulted in unreliable internal financial information, and also represent a deficiency in completely adhering to the organization internal control policies and procedures.

Cause: The Organizations did not consistently follow the internal control policies and procedures that they have in place to ensure timely and accurate reconciliation of some of its assets and liability accounts.

Effect or Potential Effect: Without continuing to adhering to their usual year-end closing process, the potential for misstatements within the financial statement could be elevated. This could result in errors, delays in the audit process and additional audit expenses could occur as a result.

Recommendation: We recommend the Organizations adhere to their usual formal year-end closing schedule. The Organizations have an internal control process which was successfully used in previous years. The continuous use of this formal year-end closing schedule will assist the Organizations with ensuring that all the critical steps in the year-end close (such as all of the account analyses and schedule preparations) are ready at the time of the scheduled audit fieldwork date. The Organizations should adhere to ensuring the specific personnel that the account is assigned to are monitored, reconciled by the due dates that are



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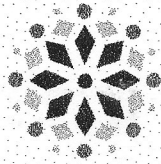
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outlined in the closing schedules and finalized in time for the audit. This will also help to ensure that the audit is completed as scheduled.

We also further recommend the Organizations consider performing an independent finance department assessment / evaluation. As the Organizations programs increase, expand and service line offerings grow, the need for more staff within the department may be necessary. Additionally, as noted in recent years, more regulations and compliance requirements have become more technical and stringent, requiring potentially additional staff for accounting transaction evaluation. An independent finance department assessment will help to understand the current composition of the Finance department staff and suggest changes to the current structure; additionally, this assessment should look at the current software and workflows utilized by the department and suggest ways to improve or automate the current processes.

Management response(s): It should be noted that management worked with the audit firm to start some of the audit field work months in advance of the actual scheduled audit fieldwork date. Based on the decision to start early, it assisted with ensuring that the audit was able to be completed within only a few weeks delay from the original due date for distributing the final audit despite the unforeseen Pandemic. Also, out of approximately 120 accounts that are reconciled, a few were not fully ready and /or needed some adjustments during the actual audit period. The delays were due to several reasons as outlined below:

1. The unforeseen COVID-19 Pandemic resulted in the need for the Organizations to move all staff to work remotely about a month prior to the start of the audit. Although working remotely allowed us to continue with the audit as planned, it resulted in some challenges of being able to work face-to-face with the auditors to provide immediate feedback. In the normal work environment, the coordination of requests among staff and working with the auditors in person to answer question/requests more timely was compromised with remote work. In



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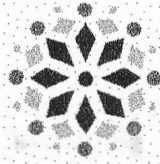
the past the auditors could work with each staff one-on-one to review documents and receive answers more readily. These challenges resulted in management spending more time locating documents that are normally readily available in files at the office, auditors would meet one-on-one with the staff to obtain feedback more readily, and any transactions that the auditors were not familiar with could be clarified more clearly by reviewing the documents together.

To help resolve this issue of process delays, reconciling the few outstanding accounts and readily accessing documents remotely the following will be implemented by December 31, 2020;

a. We are in the process of analyzing software to enhance our current financial system and develop an automated workflow process such as e-signatures and moving all documents in a cloud-based atmosphere. The enhanced software will save time and offer better efficiency by allowing a quicker turnaround time of obtaining e-signatures on documents such as invoices and other supporting documents. In addition, it will assist with all staff having the ability to retrieve document support from one online source versus paper files, a more robust and financial system for account reconciliation and an enhanced purchase order three-way match interface process.

b. We are moving the financial system to a cloud-based system. The plan to move to the cloud was already in the works for the Organizations prior to the Pandemic. The process was delayed due to the necessity to prioritize other system items by IT such as ensuring all personnel with the need could work remotely. The IT department had to ensure that the medical modules were enhanced to ensure the critical care of patients could continue with services by using the telehealth and televoice methodology.

2. During the latter part of the last year, the Organizations were also impacted by a Cyber issue. This resulted in more than one week of downtime in the finance

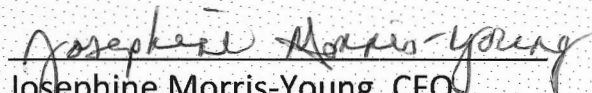


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department, which set the team back with all processes and closing deadlines; It is always difficult to fully catch-up on tasks while still meeting other routine priority tasks. Therefore, some of the year-end reconciliation deadlines were pushed back into the latter part of the first quarter of 2020. There was the need to recreate some of the reconciliation spreadsheets; however, the Organizations decided it was probably best not to postpone the entire audit while the finance department worked through reconciling those few accounts as the audit proceeded. These software/data loss issues delayed some of the month-end closing processes, especially at year-end. The data is being moved to the cloud to prevent the need to recreate data in the future.

3. The Organizations already have internal control policies and procedures which includes a closing checklist outlining all accounts, the assigned responsible parties and the due dates of when each account should be reconciled. This process was used in the past to ensure the accounts were reconciled monthly and at year-end, which assisted with having prior successful audits. The Organizations will continue following the current internal control policies and procedures of reconciling all accounts in a timely manner and as outlined in the procedures.


Josephine Morris-Young, CFO

6-18-20
Date: