



**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, 2022

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

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CONSOLIDATED FINANCIAL STATEMENTS



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

**MC2 COMMUNITY DEVELOPMENT
CORPORATION**

FOR THE YEAR ENDED DECEMBER 31, 2022

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

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CPAs & ADVISORS

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.

Qualified Opinion

We have audited the accompanying consolidated financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organizations as of December 31, 2022, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Because of the inadequacy of accounting records, we were unable to obtain sufficient appropriate audit evidence supporting the Organizations' balances of grants receivables and refundable advances in the amounts of \$18,687,689 and \$16,386,493, respectively, at December 31, 2022 as reported in the accompanying Statement of Financial Position.

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

Responsibilities of Management for the Consolidated Financial Statements

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

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position on pages I-(27 - 28), Consolidating Schedule of Activities on page I-29 and Consolidating Schedule of Change in Net Assets on page I-30 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards on pages I-(31 - 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 consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 November 7, 2023, on our consideration of the Organizations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organizations' 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.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

November 7, 2023

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,714,329
Investments	6,800,947
Accounts receivable, net of allowance for doubtful accounts	3,774,643
Grants receivable, net of allowance for doubtful accounts	18,687,689
Pledges receivable	36,723
Inventory	987,146
Prepaid expenses	<u>276,484</u>
Total current assets	<u>34,277,961</u>

FIXED ASSETS

Land	7,994,634
Buildings and leasehold improvements	28,041,684
Equipment	4,244,980
Furniture	1,245,683
Computer equipment	477,102
Vehicles	<u>639,777</u>
	42,643,860
Less: Accumulated depreciation and amortization	<u>(14,215,968)</u>
Net fixed assets	<u>28,427,892</u>

OTHER ASSETS

Security deposits	27,618
Pledges receivable, net of current portion and discount	69,691
Right-of-use asset, net of amortization	<u>5,629,363</u>
Total other assets	<u>5,726,672</u>
TOTAL ASSETS	<u>\$ 68,432,525</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 6,122,380
EIDL loan	3,662
Notes payable	6,808,581
Contract payable	75,000
Refundable advances	16,386,493
Operating lease liability	<u>183,281</u>
Total current liabilities	<u>29,579,397</u>

LONG-TERM LIABILITIES

EIDL loan, net of current portion	144,567
Notes payable, net of current portion and deferred financing costs	1,716,603
Contract payable, net of current portion	275,000
Tenant security deposits	566,879
Operating lease liability, net of current portion	<u>8,272,477</u>
Total long-term liabilities	<u>10,975,526</u>
Total liabilities	<u>40,554,923</u>

NET ASSETS

Without donor restrictions:	
Undesignated	22,302,040
Board designated	<u>85,000</u>
Total without donor restrictions	22,387,040
With donor restrictions	<u>5,490,562</u>
Total net assets	<u>27,877,602</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 68,432,525</u>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Patient services	\$ 41,919,231	\$ -	\$ 41,919,231
Federal grants	16,943,559	-	16,943,559
Non-Federal grants	13,241,349	1,937,153	15,178,502
Leased employee revenue	8,727,310	-	8,727,310
Pharmacy revenue, net of cost of goods sold	1,818,812	-	1,818,812
Contributions and foundation grants	1,642,015	120,117	1,762,132
Lease income	316,561	-	316,561
Other income	52,780	-	52,780
Investment loss, net	(283,111)	(81,910)	(365,021)
Net assets released from donor restrictions	<u>2,127,206</u>	<u>(2,127,206)</u>	<u>-</u>
Total revenue and support	<u>86,505,712</u>	<u>(151,846)</u>	<u>86,353,866</u>
EXPENSES			
Program Services:			
Patient Services	34,878,344	-	34,878,344
Medical Services	9,127,903	-	9,127,903
Social and Educational Services	16,841,414	-	16,841,414
Pharmacy	<u>1,137,440</u>	<u>-</u>	<u>1,137,440</u>
Total program services	<u>61,985,101</u>	<u>-</u>	<u>61,985,101</u>
Supporting Services:			
Leased Employees	8,554,636	-	8,554,636
Fundraising	833,481	-	833,481
General and Administrative	<u>21,784,316</u>	<u>-</u>	<u>21,784,316</u>
Total supporting services	<u>31,172,433</u>	<u>-</u>	<u>31,172,433</u>
Total expenses	<u>93,157,534</u>	<u>-</u>	<u>93,157,534</u>
Change in net assets	(6,651,822)	(151,846)	(6,803,668)
Net assets at beginning of year	<u>29,038,862</u>	<u>5,642,408</u>	<u>34,681,270</u>
NET ASSETS AT END OF YEAR	<u>\$ 22,387,040</u>	<u>\$ 5,490,562</u>	<u>\$ 27,877,602</u>

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022									
	Program Services					Supporting Services				
	Patient Services	Medical Services	Social and Educational Services	Pharmacy	Total Program Services	Leased Employees	Fundraising	General and Administrative	Total Supporting Services	Total Expenses
Salaries and personnel related expenses	\$23,024,957	\$ 7,489,249	\$ 14,802,255	\$ -	\$45,316,461	\$ 8,551,969	\$ 633,544	\$ 11,169,246	\$ 20,354,759	\$ 65,671,220
Medical and dental supplies/donated vaccines	6,694,225	837,543	42,024	4,833,298	12,407,090	-	-	-	-	12,407,090
Consultants and outside services	2,711,039	454,795	694,152	988,272	4,848,258	-	46,347	4,205,045	4,251,392	9,099,650
Office expenses	582,565	107,194	810,234	62,453	1,562,446	2,667	37,955	846,251	886,873	2,449,319
Occupancy costs	32,221	145	1,461	-	33,827	-	-	2,397,825	2,397,825	2,431,652
Software maintenance and licensing	1,219,564	41,759	147,400	-	1,408,723	-	44,451	668,905	713,356	2,122,079
Depreciation and amortization	590	100	-	19,186	19,876	-	-	1,139,796	1,139,796	1,159,672
Equipment and maintenance	329,375	115,589	14,231	17,809	477,004	-	670	666,115	666,785	1,143,789
Miscellaneous	229,853	71,417	257,233	26,464	584,967	-	68,403	315,624	384,027	968,994
Insurance and registration	1,774	187	230	23,176	25,367	-	41	309,818	309,859	335,226
Meetings and travel	52,181	9,925	72,194	65	134,365	-	2,070	60,804	62,874	197,239
Interest expense	-	-	-	-	-	-	-	4,887	4,887	4,887
Bad debt and cancellation of award	-	-	-	15	15	-	-	-	-	15
Subtotal	34,878,344	9,127,903	16,841,414	5,970,738	66,818,399	8,554,636	833,481	21,784,316	31,172,433	97,990,832
Less: Costs of goods sold included with revenues in the consolidated statement of activities	-	-	-	(4,833,298)	(4,833,298)	-	-	-	-	(4,833,298)
TOTAL EXPENSES REPORTED IN THE CONSOLIDATED STATEMENT OF ACTIVITIES	\$34,878,344	\$ 9,127,903	\$ 16,841,414	\$ 1,137,440	\$61,985,101	\$ 8,554,636	\$ 833,481	\$ 21,784,316	\$ 31,172,433	\$ 93,157,534

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (6,803,668)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	1,096,814
Amortization of deferred financing costs	62,858
Unrealized loss on investments	443,582
Realized loss on investments	46,413
Amortization of right-of-use asset	174,055
Contributions invested in perpetuity	(10,000)
Change in allowance for bad debt of accounts receivable	(1,139)
Change in discount on long-term pledges receivable	(2,596)
Receipt of contributed securities	(37,781)
Proceeds from the sale of contributed securities	37,062
Decrease (increase) in:	
Accounts receivable	3,274,955
Grants receivable	(14,247,410)
Pledges receivable	18,831
Inventory	(57,200)
Prepaid expenses	(42,613)
(Decrease) increase in:	
Accounts payable and accrued liabilities	(858,813)
Contract payable	(75,000)
Refundable advances	15,325,532
Operating lease liability	<u>(171,487)</u>
Net cash used by operating activities	<u>(1,827,605)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(439,669)
Net purchases of investments	<u>(960,044)</u>
Net cash used by investing activities	<u>(1,399,713)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net payments from lines of credit	(85,000)
Payments on notes payable	(448,204)
Contributions invested in perpetuity	10,000
Payments on EIDL loan	<u>(1,771)</u>
Net cash used by financing activities	<u>(524,975)</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

Net decrease in cash and cash equivalents	\$ (3,752,293)
Cash and cash equivalents at beginning of year	<u>7,466,622</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,714,329</u>

SUPPLEMENTAL INFORMATION:

Interest Paid	<u>\$ 342,305</u>
Right-of-Use Asset	<u>\$ 5,803,418</u>
Operating Lease Liability for Right-of-Use Asset	<u>\$ 8,627,245</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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.

Principles of consolidation -

The accounts of the Organizations have been consolidated pursuant to the criterion established by FASB ASC 958-810, *Not-for-Profit Entities Consolidation*. Under FASB ASC 958-810, consolidation is required if a separate not-for-profit organization has control (i.e., major voting interest) and significant economic interest in that other organization. The consolidated financial statements reflect the activity of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation because Mary's Center for Maternal and Child Care, Inc. is the sole member of MC2 Community Development Corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

Basis of presentation -

The accompanying consolidated 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, 2022, 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Basis of presentation (continued) -

- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from donor restrictions. 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.

New accounting pronouncements adopted -

During 2022, the Organizations adopted ASU 2019-01, *Leases* (Topic 842), which changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. The Organizations applied the new standard using the modified retrospective approach and adopted the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. See Note 12 for further details.

During 2022, the Organizations adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles in the United States (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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 money market funds held by investment managers in the amount of \$2,804,435 at December 31, 2022. 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 loss, net of investment expenses provided by external investment advisors in the Consolidated Statement of Activities and Change in Net Assets.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

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 uncollectable. The allowance was \$1,264,321 as of December 31, 2022.

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. 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 or donor. The allowance was \$346,143 as of December 31, 2022.

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 2023 have been discounted at a rate of 3.25% and are reflected in the consolidated financial statements at their net present value. At December 31, 2022, pledges receivable due in less than one year were in the amount of \$36,723 and pledges receivable within two to five years were in the amount of \$79,038, net of their discount of \$9,347 as of December 31, 2022.

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, 2022 was \$1,096,814.

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, 2022.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Uncertain tax positions -

For the year ended December 31, 2022, 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 consolidated financial statements.

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*.

Deferred financing costs -

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

Revenue and support -

Patience service, pharmacy revenue and leased employee revenue are classified as exchange transactions following ASU 2014-09, *Revenue from Contracts With Customers*. The Organizations have elected to opt out of all (or certain) disclosures not required for nonpublic entities. Funding received in advance of satisfying performance obligations is recorded as deferred 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 provide 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, 2022, care provided under the charity care policy, valued on a sliding fee basis, totaled \$6,037,922.

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, which is at the time of sale.

Leased employee revenue consists of services provided under a contractual agreement (see Note 15). The Organizations provide assistance with managing the human resources and personnel related administrative functions for another organization. Revenue is recognized monthly under the invoicing terms of the agreement.

The Organizations receive contributions, including unconditional promises to give, from many sources as well as grants from the U.S. Government, organizations and other entities.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Revenue and support (continued) -

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 or grant to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For contributions and grants qualifying under the contribution 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 conditions on which they depend are substantially met. Contributions and 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 consolidated financial statements.

Contributions or grants 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 awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and recognized as contributions when the revenue becomes unconditional.

The Organizations recognize 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. For contributions, grants or contracts treated as conditional contributions, the Organizations had approximately \$10,260,000 in unrecognized conditional awards as of December 31, 2022.

In-kind contributions, such as donated vaccines, supplies and clothes, are included in the Consolidated Statement of Activities and Changes in Net Assets within Federal grants and Contributions and foundation grants as in-kind contributions at their estimated fair market value as of the date of donation on the basis of contract values provided by the donor. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organizations.

Use of estimates -

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated 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.

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 consolidated financial statements.

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) -

ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for Organizations for the year ending December 31, 2023. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

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 their accompanying consolidated financial statements.

2. INVESTMENTS

At December 31, 2022, the Organizations had investments, at fair value, as follows:

Money Market Funds	\$ 2,804,435
Mutual Funds	1,497,113
Common Stocks	<u>2,499,399</u>
TOTAL INVESTMENTS	<u>\$ 6,800,947</u>

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

2. INVESTMENTS (Continued)

For the year ended December 31, 2022, investment loss, net included the following:

Interest and dividends	\$ 140,891
Unrealized loss on investments	(443,582)
Realized loss on investments	(46,413)
Management fees	<u>(15,917)</u>
TOTAL INVESTMENT LOSS, NET	<u>\$ (365,021)</u>

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 Consolidated 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, 2022.

- *Money Market Funds* - Valued at the daily closing price as reported by the fund. The money market funds are open-end mutual funds that are 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 the 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

3. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of December 31, 2022:

Asset Class - Investments:	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 2,804,435	\$ -	\$ -	\$ 2,804,435
Mutual Funds	1,497,113	-	-	1,497,113
Common Stocks	2,499,399	-	-	2,499,399
TOTAL INVESTMENTS	\$ 6,800,947	\$ -	\$ -	\$ 6,800,947

There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2022. Transfers between levels are recorded at the end of the reporting period, if applicable.

4. LINE OF CREDIT

The Organizations have a line of credit in the amount of \$3,000,000 and bears interest at 8.18% expiring on December 31, 2023. There was no outstanding balance on this line of credit as of December 31, 2022. Additionally, the line of credit agreement contains various covenants, which require the Organizations to maintain certain financial ratios and submit various financial reports subsequent to their fiscal year-end. The covenant for the submission of financial reports was extended by the bank for the year ended December 31, 2022.

5. EIDL LOAN

On June 16, 2020, the Organizations received an Economic Injury Disaster Loan (EIDL) from the Small Business Administration totaling \$150,000. The loan bears interest at 2.75% and is due over thirty years in monthly installments of \$641 beginning twelve months from the date of the note. Each payment will be applied first to interest accrued to the date of receipt of each payment, and the balance, if any, will be applied to principal.

The balance of principal and interest will be payable thirty years from the date of the promissory note. The loan is collateralized by all tangible and intangible personal property of the Organizations.

Principal payments as stated in the promissory note are due as follows:

Year Ending December 31,

2023	\$ 3,662
2024	3,764
2025	3,868
2026	3,976
2027	4,087
2028 and Thereafter	128,872
	\$ 148,229

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. NOTES PAYABLE

On September 2, 2021, the Center refinanced a note in the amount of \$1,954,580. The interest rate on the loan is 3% and matures August 29, 2026. The loan assumes an amortization schedule of 5 years, with monthly installments of principal and interest of approximately \$14,000. The loan is collateralized by the land and building. \$ 1,825,376

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 was set to expire on April 25, 2023. During 2023, the Center refinanced the remaining balance of the note in the amount of \$2,760,537. The interest rate on the loan is 7.3% and matures May 25, 2028. The loan is collateralized by the land and building. 2,783,341

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 was set to expire on October 14, 2023; however, subsequent to year-end, the expiration date was extended to May 14, 2024. 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. 2,172,999

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 loan was set to expire on October 14, 2023; however, subsequent to year-end, the expiration date was extended to May 14, 2024. 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. 845,055

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 loan is set to expire on October 14, 2023. 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. 898,413

Less: Current portion 8,525,184
(6,808,581)

LONG-TERM PORTION **\$ 1,716,603**

On all of the above notes, the Center is held to various covenants, which require the maintenance of certain financial ratios and submission of various financial reports subsequent to its fiscal year-end; the covenant for submission of financial reports was extended by the banks for the year ended December 31, 2022.

Aggregate annual principal payments are as follows at December 31, 2022:

Year Ending December 31,

2023	\$ 6,808,581
2024	111,983
2025	115,582
2026	<u>1,489,038</u>
	<u>\$ 8,525,184</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

6. NOTES PAYABLE (Continued)

Interest expense on these debt instruments for the year ended December 31, 2022 totaled \$350,365, which is included in the occupancy costs in the Consolidated Statement of Functional Expenses.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2022:

Subject to expenditure for specified purpose:	
Medical Services	\$ 473,874
Social and Educational Services	2,966,444
Maria Scholarship Fund	980,900
Accumulated Investment Earnings not yet Authorized for Spending	<u>82,122</u>
Total subject to expenditure for specified purpose	4,503,340
Subject to passage of time	630,864
Contributions to be invested in perpetuity	<u>356,358</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 5,490,562</u>

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	\$ 799,873
Social and Educational Services	1,198,337
Timing restrictions accomplished	<u>128,996</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 2,127,206</u>

8. LIQUIDITY AND AVAILABILITY

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

Cash and cash equivalents	\$ 3,714,329
Investments	6,800,947
Accounts receivable, net	3,774,643
Grants receivable, net	18,687,689
Pledges receivable	<u>36,723</u>
Financial assets as of December 31, 2022	33,014,331
Less: Assets restricted by donors for specific purposes/in perpetuity	(4,929,388)
Less: Board designated net assets	<u>(85,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 27,999,943</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

8. LIQUIDITY AND AVAILABILITY (Continued)

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, they have a policy to structure 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, 2022, 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 4, the Organizations have committed a line of credit with an additional \$3,000,000 which could be drawn upon in the event of an unanticipated liquidity need as of December 31, 2022.

9. 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. 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 have 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 Organizations.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

9. ENDOWMENTS (Continued)

Endowment net asset composition by type of fund as of December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amounts required to be maintained in perpetuity by donor	\$ -	\$ 356,358	\$ 356,358
Accumulated investment earnings	<u>-</u>	<u>82,122</u>	<u>82,122</u>
TOTAL ENDOWMENT FUNDS	<u>\$ -</u>	<u>\$ 438,480</u>	<u>\$ 438,480</u>

Changes in endowment net assets for the year ended December 31, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 510,390	\$ 510,390
Investment loss, net	-	(81,910)	(81,910)
Contributions	<u>-</u>	<u>10,000</u>	<u>10,000</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 438,480</u>	<u>\$ 438,480</u>

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, 2022.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

9. ENDOWMENTS (Continued)

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. The Organizations elected not to authorize spending on their endowments during the year ended December 31, 2022.

10. 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 lease income payments to be received are:

Year Ending December 31,

2023	\$ 332,668
2024	334,186
2025	335,722
2026	134,035
2027	135,375
Thereafter	<u>2,059,463</u>
	<u>\$ 3,331,449</u>

Lease income recognized during the year totaled \$316,561.

11. IN-KIND CONTRIBUTIONS

There were no donor-imposed restrictions associated with in-kind contributions during the year ended December 31, 2022. The Organizations received in-kind contributions as follows:

Donated vaccines	\$ 4,179,390
Other supplies and clothes	<u>147,464</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 4,326,854</u>

The following programs have benefited from these in-kind contributions:

Patient Services	\$ 4,179,390
Social and Educational Services	<u>147,464</u>
TOTAL PROGRAMS BENEFITED	<u>\$ 4,326,854</u>

12. LEASE COMMITMENT

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). The base use fee then increases 2.5%, annually.

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

12. LEASE COMMITMENT (Continued)

Additionally, the Organizations received an allowance up to \$3,762,956 for various leasehold improvements, furniture and equipment.

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. The Organizations elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes.

The Organizations adopted the package of practical expedients to not perform any lease reclassification, did not reevaluate embedded leases and did not reassess initial direct costs. As a result, the Organizations recorded a right-of-use asset in the amount of \$5,803,418. The Organizations recorded an operating lease liability in the amount of \$8,627,245 by calculating the present value using the discount rate of 1.92%.

The following is a schedule of the future minimum lease payments:

<u>Year Ending December 31,</u>		
	2023	\$ 343,662
	2024	352,254
	2025	361,062
	2026	370,092
	2027	379,344
	Thereafter	<u>8,904,003</u>
		10,710,417
Less: Discount to present value		<u>(2,254,659)</u>
		8,455,758
Less: Current portion		<u>(183,281)</u>
		<u>\$ 8,272,477</u>
	LONG-TERM PORTION	\$ 8,272,477

Lease expense, including operating costs, for the year ended December 31, 2022 totaled \$496,789 and is included in the Consolidated Statement of Functional Expenses in occupancy costs.

13. CONTINGENCY

The Organizations receive grants from various agencies of the United States Government. 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 2022. 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

14. RETIREMENT 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 employer retirement expense for the year ended December 31, 2022 was \$810,851 and is included in the Consolidated Statement of Functional Expenses in salaries and personnel related expenses.

15. 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, 2022, the Organizations received \$8,727,310 for services provided, which is included as leased employee revenue in the Consolidated 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, 2022, the Organizations paid Maxor \$266,385 as management fee, which is included in the Consolidated Statement of Functional Expenses in 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, 2022, the Organizations owed Maxor \$350,000 which is included as contract payable in the accompanying Consolidated Statement of Financial Position.

Future minimum payments under the contract are as follows:

Year Ending December 31,

2023	\$ 75,000
2024	75,000
2025	75,000
2026	75,000
2027	<u>50,000</u>
	<u>\$ 350,000</u>

16. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through November 7, 2023, the date the consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

**MARY'S CENTER FOR MATERNAL AND CHILD CARE, INC.
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**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022**

	ASSETS			
	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,630,886	\$ 83,443	\$ -	\$ 3,714,329
Investments	6,800,947	-	-	6,800,947
Accounts receivable, net of allowance for doubtful accounts	3,774,644	6,725,900	(6,725,901)	3,774,643
Grants receivable, net of allowance for doubtful accounts	18,687,689	-	-	18,687,689
Pledges receivable	36,723	-	-	36,723
Inventory	987,146	-	-	987,146
Prepaid expenses	<u>276,484</u>	<u>-</u>	<u>-</u>	<u>276,484</u>
Total current assets	<u>34,194,519</u>	<u>6,809,343</u>	<u>(6,725,901)</u>	<u>34,277,961</u>
FIXED ASSETS				
Land	7,621,418	373,216	-	7,994,634
Buildings and leasehold improvements	12,335,222	15,706,462	-	28,041,684
Equipment	2,690,843	1,554,137	-	4,244,980
Furniture	543,518	702,165	-	1,245,683
Computer equipment	241,031	236,071	-	477,102
Vehicles	<u>639,777</u>	<u>-</u>	<u>-</u>	<u>639,777</u>
	24,071,809	18,572,051	-	42,643,860
Less: Accumulated depreciation and amortization	<u>(7,090,753)</u>	<u>(7,125,215)</u>	<u>-</u>	<u>(14,215,968)</u>
Net fixed assets	<u>16,981,056</u>	<u>11,446,836</u>	<u>-</u>	<u>28,427,892</u>
OTHER ASSETS				
Security deposits	27,618	-	-	27,618
Pledges receivable, net of current portion and discount	69,691	-	-	69,691
Right-of-use asset, net of amortization	<u>5,629,363</u>	<u>-</u>	<u>-</u>	<u>5,629,363</u>
Total other assets	<u>5,726,672</u>	<u>-</u>	<u>-</u>	<u>5,726,672</u>
TOTAL ASSETS	<u>\$ 56,902,247</u>	<u>\$ 18,256,179</u>	<u>\$ (6,725,901)</u>	<u>\$ 68,432,525</u>

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

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

LIABILITIES AND NET ASSETS

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 12,848,281	\$ -	\$ (6,725,901)	\$ 6,122,380
EIDL loan	3,662	-	-	3,662
Notes payable	6,808,581	-	-	6,808,581
Contract payable	75,000	-	-	75,000
Refundable advances	16,386,493	-	-	16,386,493
Operating lease liability	<u>183,281</u>	<u>-</u>	<u>-</u>	<u>183,281</u>
Total current liabilities	<u>36,305,298</u>	<u>-</u>	<u>(6,725,901)</u>	<u>29,579,397</u>
LONG-TERM LIABILITIES				
EIDL loan, net of current portion	144,567	-	-	144,567
Notes payable, net of current portion and deferred financing costs	1,716,603	-	-	1,716,603
Contract payable, net of current portion	275,000	-	-	275,000
Tenant security deposits	566,879	-	-	566,879
Operating lease liability, net of current portion	<u>8,272,477</u>	<u>-</u>	<u>-</u>	<u>8,272,477</u>
Total long-term liabilities	<u>10,975,526</u>	<u>-</u>	<u>-</u>	<u>10,975,526</u>
Total liabilities	<u>47,280,824</u>	<u>-</u>	<u>(6,725,901)</u>	<u>40,554,923</u>
NET ASSETS				
Without donor restrictions	4,130,861	18,256,179	-	22,387,040
With donor restrictions	<u>5,490,562</u>	<u>-</u>	<u>-</u>	<u>5,490,562</u>
Total net assets	<u>9,621,423</u>	<u>18,256,179</u>	<u>-</u>	<u>27,877,602</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,902,247</u>	<u>\$ 18,256,179</u>	<u>\$ (6,725,901)</u>	<u>\$ 68,432,525</u>

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

**CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Mary's Center</u>	<u>MC2</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS				
Patient services	\$ 41,919,231	\$ -	\$ -	\$ 41,919,231
Federal grants	16,943,559	-	-	16,943,559
Non-Federal grants	13,241,349	-	-	13,241,349
Leased employee revenue	8,727,310	-	-	8,727,310
Pharmacy revenue, net of cost of goods sold	1,818,812	-	-	1,818,812
Contributions and foundation grants	1,642,015	-	-	1,642,015
Lease income	316,561	1,341,931	(1,341,931)	316,561
Other income	52,780	-	-	52,780
Investment loss, net	(283,111)	-	-	(283,111)
Net assets released from donor restrictions	<u>2,127,206</u>	<u>-</u>	<u>-</u>	<u>2,127,206</u>
Total revenue and support without donor restrictions	<u>86,505,712</u>	<u>1,341,931</u>	<u>(1,341,931)</u>	<u>86,505,712</u>
EXPENSES				
Program Services:				
Patient Services	34,878,344	-	-	34,878,344
Medical Services	9,127,903	-	-	9,127,903
Social and Educational Services	16,841,414	-	-	16,841,414
Pharmacy	<u>1,137,440</u>	<u>-</u>	<u>-</u>	<u>1,137,440</u>
Total program services	<u>61,985,101</u>	<u>-</u>	<u>-</u>	<u>61,985,101</u>
Supporting Services:				
Leased Employees	8,554,636	-	-	8,554,636
Fundraising	833,481	-	-	833,481
General and Administrative	<u>22,713,410</u>	<u>412,837</u>	<u>(1,341,931)</u>	<u>21,784,316</u>
Total supporting services	<u>32,101,527</u>	<u>412,837</u>	<u>(1,341,931)</u>	<u>31,172,433</u>
Total expenses	<u>94,086,628</u>	<u>412,837</u>	<u>(1,341,931)</u>	<u>93,157,534</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ (7,580,916)</u>	<u>\$ 929,094</u>	<u>\$ -</u>	<u>\$ (6,651,822)</u>
REVENUE AND SUPPORT WITH DONOR RESTRICTIONS				
Non-Federal grants	\$ 1,937,153	\$ -	\$ -	\$ 1,937,153
Contributions and foundation grants	120,117	-	-	120,117
Investment loss, net	(81,910)	-	-	(81,910)
Net assets released from donor restrictions	<u>(2,127,206)</u>	<u>-</u>	<u>-</u>	<u>(2,127,206)</u>
CHANGE IN REVENUE AND SUPPORT WITH DONOR RESTRICTIONS	<u>\$ (151,846)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (151,846)</u>

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

**CONSOLIDATING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR DECEMBER 31, 2022**

	<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	\$ 11,711,777	\$ 17,327,085	\$ -	\$ 29,038,862
Change in net assets without donor restrictions	<u>(7,580,916)</u>	<u>929,094</u>	<u>-</u>	<u>(6,651,822)</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	<u>\$ 4,130,861</u>	<u>\$ 18,256,179</u>	<u>\$ -</u>	<u>\$ 22,387,040</u>
NET ASSETS WITH DONOR RESTRICTIONS				
Net assets at beginning of year	\$ 5,642,408	\$ -	\$ -	\$ 5,642,408
Change in net assets with donor restrictions	<u>(151,846)</u>	<u>-</u>	<u>-</u>	<u>(151,846)</u>
NET ASSETS WITH DONOR RESTRICTIONS AT END OF YEAR	<u>\$ 5,490,562</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,490,562</u>
TOTAL NET ASSETS AT END OF YEAR	<u>\$ 9,621,423</u>	<u>\$ 18,256,179</u>	<u>\$ -</u>	<u>\$ 27,877,602</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services -				
Maternal, Infant, and Early Childhood Home Visiting Cluster:				
DC Department of Health - Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	X10MC39678	\$ -	\$ 1,404,148
Sub-total Maternal, Infant, and Early Childhood Home Visiting Cluster			-	1,404,148
Health Center Program Cluster:				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	-	3,160,852
COVID-19 - Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	-	4,057,383
Sub-total Health Center Program Cluster			-	7,218,235
Medicaid Cluster:				
PG County Department of Social Services - Medical Assistance Program	93.778	N/A	-	463,557
Sub-total Medicaid Cluster			-	463,557
Research and Development Cluster:				
The Scripps Research Institute - Trans-NIH Research Support	93.310	U24OD023176	-	261,525
Sub-total Research and Development Cluster			-	261,525
COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution - Period 3	93.498	N/A	-	70,613

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued) -				
COVID-19 - Prince George's County Health Department - Coronavirus Relief Fund	21.019	N/A	\$ -	\$ 29,982
Officials	93.011	N/A	-	10,000
COVID-19 - DC Primary Care Association - Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	N/A	-	196
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects:				
COVID-19 -UNIDOS-US - Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	CDC-RFA-IP21-2106	-	56,910
COVID-19 -URBAN INSTITUTE - Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	102351-0001-MCMCC-01	-	44,960
Total Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects-CFDA # 93.185			-	101,870
Family Planning Services:				
Unity Health Care, Inc. - Family Planning Services	93.217	1 FPHPA006406-03-01	-	83,763
Maryland Department of Health Mental Hygiene - Family Planning Services	93.217	FHE42CFP	-	43,141
Total Family Planning Services-CFDA # 93.217			-	126,904
Maternal and Child Health Federal Consolidated Programs	93.110	N/A	-	56,990
Advocates for Justice and Education Inc. - Affordable Care Act (ACA) - Family to Family Health Information Centers	93.504	H84MC21661	-	6,765
DC Health Benefit Exchange Authority - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	DCHBX-2022-A-0004	-	74,812

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services (Continued) -				
U.S. Committee for Refugees and Immigrants - Services to Victims of a Severe Form of Trafficking	93.598	90ZV-137-01-00	\$ -	\$ 6,342
District of Columbia Department of Health - Healthy Start Initiative	93.926	H49MC00117 5	-	358,574
District of Columbia Department of Health - HIV Emergency Relief Project Grants	93.914	HAHSTA2022-000011	-	86,886
DC Department of Human Services - Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	JA-FSA-0731-3-21, JA-FSA-0732-3-21	-	9,604
US Committee for Refugees and Immigrants - Unaccompanied Alien Children Program	93.676	90ZU0357-01-00	-	821,302
District of Columbia Department of Health - Maternal and Child Health Services Block Grant to the States	93.994	CHA2021-000020-01	-	75,871
District of Columbia Department of Health - Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	93.426	NU58DP006555	-	24,417
DC Dept of Behavioral Health - Opioid STR	93.788	RFA # DCOR012221	-	195,502
Howard University Hospital - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5H79TI081111-04	-	196,703
DC Department of Aging and Community Living - Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043	MCW020W-20, MCW020HHW-20	-	158,111
DC Department of Health - HIV Care Formula Grants	93.917	X07HA00045	-	35,425
Total Department of Health and Human Services			-	11,794,334

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
United States Department of Agriculture -				
District of Columbia Department of Health - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	CHA2021-000039-00	\$ -	\$ 821,179
United States Department of Justice -				
Maryland Governor's Office of Crime Control and Prevention - Violence Against Women Formula Grants	16.588	2020-WF-AX-0046	-	17,703
SUB-TOTAL EXPENDITURES OF FEDERAL AWARDS			-	12,633,216
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	-	4,161,573
TOTAL EXPENDITURES NON-CASH FEDERAL AWARDS			-	4,161,573
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 16,794,789

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of the Center under programs of the Federal Government for the year ended December 31, 2022. 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 Center; accordingly, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.

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 Center has 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 \$4,161,573 were received during the fiscal year 2022 and are included in the accompanying Schedule under Assistance Listing Number (ALN) 93.268.

Note 4. Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution – Assistance Listing Number 93.498

For the HHS awards related to the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (PRF) program, HHS has indicated the amounts on the Schedule be reported corresponding to reporting requirements of the HRSA PRF Reporting Portal. Payments from HHS for PRF are assigned to 'Payment Received Periods' (each, a Period) based upon the date each payment from the PRF was received. Each Period has a specified Period of Availability and timing of reporting requirements. Entities report into the HRSA PRF Reporting Portal after each Period's deadline to use the funds (i.e., after the end of the Period of Availability).

The accompanying Schedule includes \$70,613 received from HHS between January 1 through June 30, 2021. In accordance with guidance from HHS, these amounts are presented as Period 3. Such amounts were recognized as Federal grant revenue in the Center's financial statements as shown in the accompanying Schedule during the year ended December 31, 2021. Due to the PRF Reporting requirements, these amounts are not the total PRF received and/or recognized as Federal grant revenue in the year presented in the accompanying Schedule.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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: **Qualified**
- 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:

Assistance Listing Number	Name of Federal Program or Cluster
93.224	Health Center Program Cluster
93.676	Unaccompanied Alien Children Program
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program

- 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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section II - Financial Statement Findings

Finding 2022-001: Reconciliation of Asset and Liability Accounts / Delay in Audit Process

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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 some schedules and reconciliations were not available at the commencement of the audit fieldwork and/or had some adjustments that needed to be made including grants and pledges receivable, with donor restrictions net assets, accrued vacation, accounts payable, right-of-use assets and the related lease liability. Due to the above, a significant amount of time was spent by management during the audit process reconciling accounts resulting in an audit delay. The delay resulted in 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 Center's internal control policies and procedures.

Cause: Due to the increased financial activities of the Center and the lack of proactiveness to increase the finance department's limited staff availability and vacancies, the Center 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: Without continuing to adhering to their usual year-end closing process, the potential for misstatements within the consolidated financial statements 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 Center adhere to their usual formal year-end closing schedule. The continuous use of this formal year-end closing schedule will assist the Center 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 Center 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 understand the Center had an independent finance department assessment / evaluation performed in 2022. Throughout the past several years, the Center's programs have increased, with expanded service line offerings growing significantly, ever increasing the need for more staff within the finance department. 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. We recommend the Center review the evaluation and implement the recommendations as quickly as possible, including the additional staffing levels needed to support the Center's financial activities and transaction.

Views of Responsible Officials: As detailed in our Policy and Procedure document Mary's Center has developed a detailed pre-audit process to ensure our formal-year end closing occurs with no issues.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section II - Financial Statement Findings (Continued)

Finding 2022-001: Reconciliation of Asset and Liability Accounts / Delay in Audit Process
(Continued)

Views of Responsible Officials (Continued): In preparation for our annual audit, all accounts will be reconciled prior to the beginning of the audit period using a detailed workflow. The workflow includes a formalized checklist and workplan with the following tasks that need to be completed:

- Patient Receivable Schedule Reconciliation
- Patient Revenue Reconciliation
- Asset and Liability Accounts Reconciliation

Pre-Audit reconciliation efforts and adherence to the workflow will be co-led by the Assistant Controller, Director of Grants, and Director of Revenue Initiatives and reviewed by multiple levels of leadership.

In addition, to combat the growth of our organization and additional regulations we have implemented or are in the process of implementing the following activities at Mary's Center:

- Employed an experienced Grant director to oversee the grant department and optimize productivity and quality;
- Actively enlisting the services of an experienced Finance Consultant to perform an assessment of the entire Finance department including current process and staffing needs;
- Invested in technologies such as Sage Intacct ERP (industry leader) to replace manual processes;
- Budgeted for additional Finance staffing in our upcoming annual budget to combat current capacity issues.

Finding 2022-002: Material Audit Adjustments - Adoption of ASU 2019-01, Leases

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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: At the planning phase of the audit, we received a trial balance that still included deferred rent balances, and lacked the required adoption of ASU 2019-01, *Leases*, whereby a right-of-use asset and corresponding operating lease liability should have been recorded, resulting in a proposed audit adjustment of approximately \$8,650,000.

Cause: During 2022, the Center's finance department turned over significantly, resulting in oversight of the required standard to be adopted.

Effect: The potential for misstatements within the consolidated financial statements could be elevated. This could result in errors, delays in the audit process and additional audit expenses could occur as a result.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section II - Financial Statement Findings (Continued)

Finding 2022-002: Material Audit Adjustments - Adoption of ASU 2019-01, Leases (Continued)

Recommendation: We recommend the Center develop standard operating procedures (SOPs) to document the current processes, procedures, and contingency plans to improve daily operations, efficiency, productivity, compliance, and risk management. Additionally, we recommend the Center ensure its senior finance stay up-to-date on required standards that impact the Center's consolidated financial position. This includes staying current with required continuing education, signing up for various publications through resources such as its audit firm, and continue conversations with its auditors on what potential impacts adopted and proposed standards may have on the Center's consolidated financial position.

Views of Responsible Officials: Mary's Center Finance team has revised our Financial Policies and Procedures Manual to further outline our standard operating procedures (SOPs) and created additional supporting documentation that details SOPs for current processes/procedures. We have also defined in this supporting documentation contingency plans to combat the lack of knowledge transfer that can occur with unexpected staff attrition. In addition, we have allocated funds in our Training budget to ensure our Finance Leadership has the resources to stay current on any new audit requirements and relevant FQHC financial updates.

Finding 2022-003: Qualified Opinion on Financial Statements due to Grants Receivable and Refundable Advances Balances

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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: For the year ended December 31, 2022, the Center's Finance team was unable to properly reconcile the balances over grants receivable and refundable advances.

Cause: During 2022, the Center's finance department turned over significantly, resulting in the loss of institutional knowledge surrounding the application of cash receipts and award amounts.

Effect: We were unable to obtain sufficient appropriate audit evidence over the balances, resulting in a qualified opinion on the grants receivable and refundable advances balances as of December 31, 2022.

Recommendation: We recommend the Center continue to do its due diligence in reconciling the balances to determine the appropriate balances. We further recommend the Center develop standard operating procedures (SOPs) to document the current and improved processes, procedures, and contingency plans to improve daily operations, efficiency, productivity, compliance, and risk management.

Views of Responsible Officials: Mary's Center Finance team has created a special task force who meet weekly and is currently reconciling the grant receivable and refundable advances balances in the Legacy Accounting System. Once reconciled any necessary journal entry adjustments will be reviewed for approval by Senior Leadership and made prior to finalizing our 2023 Financials.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section II - Financial Statement Findings (Continued)

Finding 2022-003: Qualified Opinion on Financial Statements due to Grants Receivable and Refundable Advances Balances (Continued)

Views of Responsible Officials (continued): In addition, Mary's Center Finance team has revised our Financial Policies and Procedures Manual to further outline our standard operating procedures (SOPs) and created additional supporting documentation that details SOPs for current processes/procedures. We have also defined in this supporting documentation contingency plans to combat the lack of knowledge transfer that can occur with unexpected staff attrition.

See Finding 2022-006 under Section III - Federal Award Findings and Questioned Costs (2 CFR §200.516 (a))

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

Finding 2022-004: Schedule of Expenditures of Federal Awards

Criteria: The Organizations are required under 2 CFR §200.302 to be able to have "identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received". It is also required to maintain "effective control over, and accountability for, all funds, property, and other assets". These requirements are imperative to ensure that all Federal programs are properly reported on the Organizations' Schedule of Expenditures of Federal Awards (SEFA).

Condition: During our audit, we noted a few Federal programs that had expired in prior years were inadvertently included in the SEFA by error due to failure of reallocating expenditures to the proper Federal programs. Additionally, the Vaccines for Children program and a portion of the required Period 4 Provider Relief Fund receipts was not included in the original SEFA prepared by the Center.

Cause: Due to significant turnover in the finance department and lack of accountability and monitoring of Federal funds, the Center did not properly report the Federal expenditures in the SEFA. This situation is due primarily to the fact that there is not a designated individual responsible and accountable for ensuring that all Federal sources of funds are properly identified and monitored in accordance with the laws and regulations, contracts, and grant agreements.

Effect or Potential Effect: Without sufficient internal controls surrounding the preparation of the SEFA and an understanding of all programs that are Federally funded, the SEFA could be inaccurately reported.

Questioned Costs: None.

Context: The Center failed to properly track and allocate Federal expenditures in fiscal year 2022, which resulted in the SEFA not being properly prepared. Additionally, the Center did not have a person with the appropriate knowledge of the Vaccines for Children program or SEFA receipt reporting requirements of the Provider Relief Fund programs.

Identification as a Repeat Finding: Not applicable.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-004: Schedule of Expenditures of Federal Awards (Continued)

Recommendation: We recommend the Center develop standard operating procedures (SOPs) to document the current processes, procedures, and contingency plans to improve daily operations, efficiency, productivity, compliance, and risk management. Additionally, we recommend that the Center implement policies and procedures to ensure that expenses are allocated to the appropriate Federal grant award/program so the SEFA can be prepared to accurately reflect expenses incurred.

We also recommend that the Center identify and monitor all Federal source of funds (including Federally sourced donated vaccines) and ensure they have oversight/monitoring and are being properly reported.

Views of Responsible Officials: Mary's Center Finance team has revised our Financial Policies and Procedures Manual to further outline our standard operating procedures (SOPs) and created additional supporting documentation that details SOPs for current processes/procedures. We have also defined in this supporting documentation contingency plans to combat the lack of knowledge transfer that can occur with unexpected staff attrition. Lastly, our Director of Grants has begun reconciling our SEFA report monthly to ensure we are accurate in our reporting and can proactively address any issues.

Finding 2022-005: Reporting

Federal Programs: 93.110

Criteria: Grantor requires that the Center submit programmatic reports in accordance with the schedules indicated in its grant agreements. Internal controls should provide for these reports to report the measurement of the recipient's performance to show achievement of program goals and objectives, share lessons learned, improve program outcomes, and foster adoption of promising practices (2 CFR §200.301(a)).

Condition: During our audit, we were notified by management that certain programmatic reports were not submitted within the deadlines outlined in the grant agreements. We also noted the Center did not have evidence that certain programmatic reports were submitted in accordance with specific grant terms.

Cause: The Center did not have the proper internal controls in place to ensure proper management of the Federal award(s) in compliance with the terms and conditions of the Federal award(s).

Effect or Potential Effect: The performance progress according to the Federal award(s) may not be monitored, thus having potential unallowable costs or unallowable activities.

Questioned Costs: None.

Context: Several programmatic reports tested were not submitted on a timely basis.

Identification as a Repeat Finding: Not applicable.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-005: Reporting (Continued)

Recommendation: We recommend the Center develop proper internal controls to ensure appropriate tracking of reporting deadlines for all Federal awards to ensure the preparation and timely submission of all reports required under its Federal awards' terms and conditions.

Views of Responsible Officials: Mary's Center is currently formalizing the existing checklist of all Programmatic Reports required for each of our Federal Grants. This checklist is being reviewed and updated by our Director of Grants. In addition, there is now a bi-weekly meeting in place between the Programmatic and Finance teams to address any changes or updates to grants. Lastly, a Grants liaison was recently employed at Mary's Center. This person will act as the conduit between our Programmatic and Finance teams and help maintain this checklist on a going forward basis.

Finding 2022-006: Supporting Documentation (Allowable Costs)

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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, we noted one instance where a cash disbursement was not supported with corroborating documentation (i.e. invoices, valuation documentation, contracts, etc.). While we understand that this was a year of higher than normal volume of transactions for the Center, we also recognize the importance of management's attention to maintaining support, policies and processes during the life cycle of an organization. Absent such documentation the Center expose themselves to a risk of misappropriation, misclassification and questioned costs by funders.

Cause: The Center did not consistently follow the internal control policies and procedures that they have in place to ensure each expenditure is supported with corroborating documentation.

Effect or Potential Effect: Failure to maintain proper documentation for cash disbursements, there is a risk of misappropriation, misclassification and questioned costs by funders.

Questioned Costs: None.

Context: 1 cash disbursement tested did not have proper supporting documentation.

Identification as a Repeat Finding: 2021-003

Recommendation: In order to strengthen transparency with respect to all financial transactions, we recommend the Center strive to ensure transactions are appropriately supported with contemporaneous documentation justifying the nature and business purpose of each expenditure. We also recommend the Center develop a plan to establish a system that allows for documents to be accessed with ease, and be organized in such a manner that it allows for seamless retrieval of documentation by those responsible for maintaining those records.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-006: Supporting Documentation (Allowable Costs) (Continued)

Views of Responsible Officials: Mary's Center now has the following process in place to directly address this issue. Please see details below:

All cash disbursements must be supported by an automated invoice, contract, and/or valuation documentation in the financial accounting system (Sage Intacct) prior to payment. The same process applies for both purchase order and nonpurchase order related invoices. Any individual invoice exceeding \$10,000 requires approval from both Department and Finance leadership prior to payment. Monthly Finance Team meetings are held to address staff's outstanding questions/concerns about workflows and processes.

Finding 2022-007: Procurement

Criteria: According to 2 CFR §200.303, the non-Federal entity must: (a) 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 the 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 the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Additionally, according to 2 CFR §200.318 Procurement standards, the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Title 2, Subtitle A Chapter II Part 200 Subpart D 200.319 Procurement Standards. All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and §200.320. The non-Federal entity must have written procedures for procurement transactions. These procedures must ensure that all solicitations: (1) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description must not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured and, when necessary, must set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Noncompetitive procurements can only be awarded in accordance with §200.320(c).

According to 2 CFR §200.320 Procurement Standards, there are specific circumstances in which noncompetitive procurement can be used. Noncompetitive procurement can only be awarded if one or more of the following circumstances apply:

1. The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (see paragraph (a)(1) of this section);
2. The item is available only from a single source;
3. The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation;
4. The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or
5. After solicitation of a number of sources, competition is determined inadequate.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-007: Procurement (Continued)

Condition: During our testing over procurement, we determined that the Center did not clearly document the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. In addition, for noncompetitive procurements, there was no documentation to support which of the five criteria was met to allow for the noncompetitive procurement.

Cause: Management did not have effective internal controls in place to ensure that procurement requirements were adequately documented and retained.

Effect or Potential Effect: Procurement records were insufficient to meet the requirements noted in the Criteria section above, as well as the Center's internal procurement policy.

Questioned Costs: None.

Context: We noted that several items selected for testing did not document the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. In addition, we noted that several items selected for testing for noncompetitive procurements did not maintain documentation of which of the five criteria were met to allow for the noncompetitive procurement.

Identification as a Repeat Finding: Not applicable.

Recommendation: We recommend the Center retain sufficient procurement documentation to meet the requirements noted in the Criteria section above.

Views of Responsible Officials: A detailed Procurement process currently exists; however, due to staff attrition we were unable locate all the procurement documentation requested. We will continue to reinforce our Procurement policy (detailed below as it relates to documentation) and now require all documentation be stored in a Central location for all applicable Finance staff.

E. Procurement Records and Files:

1. Mary's Center will establish and maintain procurement records and files. The records will be kept in the office of the Chief Executive Officer and/or Finance office and virtual copies will be stored on the Finance shared folder.
2. Mary's Center will document in the procurement files some form of cost or price analysis made in connection with every procurement action.
3. For any contracted service (other than equipment-specific technical support), Mary's Center procurement file will include:
 - Basis for selection of the contractor,
 - Justification for lack of competition when competitive bids or prices are not obtained, and
 - Basis for award cost or price.
4. These records and files will be kept in accordance with Mary's Center's Record Retention and Document Destruction Policy.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-008: Indirect Cost Rate Calculation

Federal Programs: 93.224, 93.870

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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).

According to 2 CFR §200.414 Subpart F, Appendix IV, Section C.2.f, the provisional and final rates must be negotiated where neither predetermined nor fixed rates are appropriate. Predetermined or fixed rates may replace provisional rates at any time prior to the close of the organization's fiscal year. If that event does not occur, a final rate will be established and upward or downward adjustments will be made based on the actual allowable costs incurred for the period involved.

Condition: During our review of the Center's indirect cost rate calculation, we were unable to be provided with a true-of actual indirect costs based on the final rates versus the provisional rate used by the Center.

Cause: The Center did not have adequate controls in place to ensure that final rates provided were used to determine if any upward or downward adjustments were necessary.

Effect or Potential Effect: Total indirect costs charged by the Center were not in line with the final rates as determined by the oversight agency.

Questioned Costs: None.

Context: 2 of 3 major programs tested did not have calculated indirect cost rates that agreed with their respective agreements.

Identification as a Repeat Finding: 2021-004

Recommendation: We recommend the Center establish an internal control procedure to ensure that once a final rate has been determined, that procedures are applied to true-up the costs for the prior charges on grants and any upward or downward adjustments are properly recorded, reported, and applied to future reimbursement requests.

Views of Responsible Officials: Mary's Center now has a robust process where the agreed upon provisional indirect rate or (if applicable) the specific rate included in the final Grant agreement is the governing default rate used for each Grant. In any scenarios where a change in rate is being requested, the Program Manager alerts the Senior Grant Accountant assigned to the grant and provides supporting documentation from the Grant funder of an addendum to the existing Grant agreement. If for any reason the Finance team is using an upward or downward adjustment to the provisional indirect rate or what was agreed upon in the Grant agreement the EVP Finance and Director of Grants must approve this change and notify the EVPs of Health and Programs and Development prior to implementing this change. All changes are documented. In addition, to ensure the rate in the agreement is the same rate being used when invoicing Grant funders, the Finance team conducts a thorough reconciliation process during the year.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-009: Late Submissions of Data Collection Forms

Federal Programs: All

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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).

According to 2 CFR §200.512(a)(1) the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

Condition: The Data Collection Form for audits for each of the years ended December 31, 2021 and December 31, 2022 were not filed timely in accordance with the requirements under Uniform Guidance.

Cause: The Center did not have adequate controls in place to provide for a timely audit process and allow the Data Collection Form to be filed timely.

Effect or Potential Effect: Delinquent data collection forms may result in action by funders such as 1) draw-down restrictions, 2) reimbursable draw-down restrictions, 3) withholding a percentage of Federal funds, 4) suspending Federal funds, or 5) termination of the award.

Questioned Costs: None.

Context: The past two years of Data Collection Forms have not been filed timely.

Identification as a Repeat Finding: Not applicable.

Recommendation: We recommend the Center establish an internal control procedure to ensure that audits are completely more timely in the future, and within the timeframe as outlined by Uniform Guidance, to ensure the required data collection form, along with the reporting package is filed timely.

Views of Responsible Officials: As detailed in our Policy and Procedure document Mary's Center has developed a detailed pre-audit process to ensure our formal-year end closing occurs with no issues.

In preparation for our annual audit, all accounts will be reconciled prior to the beginning of the audit period using a detailed workflow. The workflow includes a formalized checklist and workplan with the following tasks that need to be completed:

- Patient Receivable Schedule Reconciliation
- Patient Revenue Reconciliation
- Asset and Liability Accounts Reconciliation

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-009: Late Submissions of Data Collection Forms (Continued)

Views of Responsible Officials (continued): Pre-Audit reconciliation efforts and adherence to the workflow will be co-led by the Assistant Controller, Director of Grants, and Director of Revenue Initiatives and reviewed by multiple levels of leadership.

In addition, to combat the growth of our organization and additional regulations we have implemented or are in the process of implementing the following activities at Mary's Center:

- Employed an experienced Grant director to oversee the grant department and optimize productivity and quality;
- Actively enlisting the services of an experienced Finance Consultant to perform an assessment of the entire Finance department including current process and staffing needs;
- Invested in technologies such as Sage Intacct ERP (industry leader) to replace manual processes;
- Budgeted for additional Finance staffing in our upcoming annual budget to combat current capacity issues.

Collectively, these processes and staffing updates will ensure Data Collection Forms are submitted timely going forward.

Finding 2022-010: Suspension and Debarment

Criteria: As stated in 2 CFR §200.303, the non-Federal entity (i.e. the Center) 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).

According to 2 CFR §200.214, the non-Federal entity is subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. The regulations in 2 CFR part 180 restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Condition: During our audit, we noted several cases in which the Center did not perform, or did not maintain proper support to demonstrate that it performed checks via SAM.gov to ensure that potential vendors, contractors, or consultants are suspended or debarred. The failure to screen such parties increases the possibility that U.S. Government funds may inadvertently be provided to individuals or organizations deemed to be excluded by the U.S. Government.

Cause: Management did not have effective internal controls in place to ensure that suspension and debarment was being performed prior to entering into contracts with vendors or contractors/consultants.

Effect or Potential Effect: The Center is exposed to an increased risk that future noncompliance could occur by entering into transactions with vendors, contractors, or consultants that are suspended and debarred.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Finding 2022-010: Suspension and Debarment (Continued)

Effect or Potential Effect (continued): If a non-Federal entity knowingly does business with an excluded person, the agency responsible for the Center's funding may disallow costs, annul or terminate the transaction, issue a stop work order, debar or suspend the non-Federal entity, or take other remedies as appropriate.

Questioned Costs: None.

Context: The Center failed to perform and/or properly document its due diligence with respect to these requirements. The issue is considered systemic in nature.

Identification as a Repeat Finding: Not applicable.

Recommendation: We recommend the Center implement internal controls to ensure that all vendors, contractors, and consultants are screened for suspension and debarment prior to entering into any executed contract. We further recommend that a policy be formalized and implemented that requires an annual screening of any current vendors, contractors, or consultants as well.

Views of Responsible Officials: A detailed Procurement process currently exists; however, due to staff attrition we were unable locate all the procurement documentation requested. We will continue to reinforce our Procurement policy (detailed below as it relates to documentation) and now require all documentation be stored in a Central location for all applicable Finance staff. This policy includes a required annual screening of any current vendors and has now been extended to contractors and consultants also.

E. Procurement Records and Files:

1. Mary's Center will establish and maintain procurement records and files. The records will be kept in the office of the Chief Executive Officer and/or Finance office and virtual copies will be stored on the Finance shared folder.
2. Mary's Center will document in the procurement files some form of cost or price analysis made in connection with every procurement action.
3. For any contracted service (other than equipment-specific technical support), Mary's Center procurement file will include:
 - a. Basis for selection of the contractor,
 - b. Justification for lack of competition when competitive bids or prices are not obtained, and
 - c. Basis for award cost or price.
4. These records and files will be kept in accordance with Mary's Center's Record Retention and Document Destruction Policy.

Section IV - Prior Year Findings with Current Year Status

Finding 2021-001: Revenue Recognition

Condition: During our audit fieldwork, we noted the patient receivable schedule and reconciliation was not available at the commencement of the audit fieldwork.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section IV - Prior Year Findings with Current Year Status (Continued)

Finding 2021-001: Revenue Recognition (Continued)

Condition (continued): Due to the above, a significant amount of time was spent by management during the audit process reconciling this account resulting in an adjustment that increased net assets by approximately \$1,100,000. We also noted that certain patient revenue that was earned during the year ended December 31, 2021 was not properly recorded in the general ledger. Instead, revenue was recorded upon the receipt of cash from the patient, with a significant amount outstanding at year-end as the Center waited for payment from a private entity. Additionally, we noted the allowance for doubtful accounts was not properly adjusted at year-end based on the Center's analysis, resulting in an adjustment that decreased net assets by approximately \$800,000.

Recommendation: We recommend the Center direct attention toward ensuring that all revenue transactions are captured and recorded in the correct period. The Center should also develop defined policies and procedures (in its financial policies and procedures manual) governing how all sources/types of revenue and support (without restrictions/with restrictions) are recorded in the general ledger. We believe this policy will allow the Center to report its support and revenue in a more consistent and comparative manner, on a yearly basis, as these types of transactions arise. We also recommend the Center enhance their review and approval process to ensure reconciliations and yearend schedules are accurate and the financial data is properly stated throughout the year. All revenue transactions should be recorded in the consolidated financial statements based on assumptions and procedures included in the revenue policies in the upcoming fiscal year.

Current Year Status: Finding 2021-001 has been cleared during the FY 2022 audit. No further action is required.

Finding 2021-002: Reconciliation of Asset and Liability Accounts / Delay in Audit Process

Condition: During our audit fieldwork, we noted some schedules and reconciliations were not available at the commencement of the audit fieldwork and/or had some adjustments that needed to be made. Due to the above, a significant amount of time was spent by management during the audit process reconciling accounts resulting in an audit delay. The delay resulted in 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 Center's internal control policies and procedures.

Recommendation: We recommend the Center adhere to their usual formal year-end closing schedule. The continuous use of this formal year-end closing schedule will assist the Center 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 Center 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 understand the Center had an independent finance department assessment / evaluation performed in 2022. Throughout the past several years, the Center's programs have increased, with expanded service line offerings growing significantly, ever increasing the need for more staff within the finance department. 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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section IV - Prior Year Findings with Current Year Status (Continued)

Finding 2021-002: Reconciliation of Asset and Liability Accounts / Delay in Audit Process (Continued)

Recommendation (continued): We recommend the Center review the evaluation and implement the recommendations as quickly as possible, including the additional staffing levels needed to support the Center's financial activities and transaction.

Current Year Status: See current year Finding 2022-001: Reconciliation of Asset and Liability Accounts / Delay in Audit Process under Section II -Financial Statement Findings.

Finding 2021-003: Supporting Documentation

Condition: During our audit, we noted several instances where cash disbursements were not supported with corroborating documentation (i.e. invoices, valuation documentation, contracts, etc.). While we understand that this was a year of higher than normal volume of transactions for the Center, we also recognize the importance of management's attention to maintaining support, policies and processes during the life cycle of an organization. Absent such documentation the Center expose themselves to a risk of misappropriation, misclassification and questioned costs by funders.

Recommendation: In order to strengthen transparency with respect to all financial transactions, we recommend the Center strive to ensure transactions are appropriately supported with contemporaneous documentation justifying the nature and business purpose of each expenditure. We also recommend the Center develop a plan to establish a system that allows for documents to be accessed with ease, and be organized in such a manner that it allows for seamless retrieval of documentation by those responsible for maintaining those records.

Current Year Status: See current year Finding 2022-004: Supporting documentation under Section III -Federal Award Findings and Questioned Costs

Finding 2021-004: Indirect Cost Rate Calculation

Condition: During our review of the Center's indirect cost rate calculation, we noted the indirect costs were not properly calculated and reconciled with the program income statements according to each grants' approved indirect cost rate.

Recommendation: We recommend that going forward the Center calculate its indirect costs based on either the approved or provisional rates for the year under audit. While the auditor understands the provisional rate for the year ended December 31, 2021 was not obtained by the Center until December 21, true-ups for the indirect rates should still be performed for audit purpose and to ensure reimbursement by the Federal Government is appropriate for each respective grant. The Center should pay special attention to all terms and conditions within its current and any future agreements to ensure that indirect costs are calculated appropriately. Additionally, in the next fiscal year, the Center should adjust its procedures to account for the actual indirect costs and true up each grant.

Current Year Status: See current year Finding 2022-005: Indirect Cost Rate Calculation under Section III -Federal Award Findings and Questioned Costs.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Section IV - Prior Year Findings with Current Year Status (Continued)

Finding 2021-005: Reporting

Condition: During our audit, we noted two (2) instances where a Federal financial report was not submitted within the deadlines outlined in the grant agreement.

Recommendation: We recommend the Center look at the use of a tool to ensure appropriate tracking of the preparation and submission of all reporting requirements based on each Grant agreement.

Current Year Status: Finding 2021-005 has been cleared during the FY 2022 audit. No further action is required.



CPAs & ADVISORS

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Mary's Center for Maternal and Child Care, Inc.
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 consolidated financial statements of Mary's Center for Maternal and Child Care, Inc. and MC2 Community Development Corporation (the Organizations), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 7, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned as Findings 2022-001, 2022-002, and 2022-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2022-006 to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organizations' consolidated 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 consolidated financial statements. 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 Center's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Center's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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November 7, 2023



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Mary's Center for Maternal and Child Care, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Center's major Federal programs for the year ended December 31, 2022. The Center's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

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)*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major Federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Center's Federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major Federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings 2022-005, 2022-006, 2022-007, 2022-009 and 2022-010. Our opinion on each major Federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Center's responses to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance 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, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2022-004 and 2022-009 to be a material weakness. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2022-005, 2022-006, 2022-007, 2022-008, and 2022-010 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Center's responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

The image shows a handwritten signature in black ink that reads "Gelman Rosenberg & Freedman". The signature is written in a cursive, flowing style.

November 7, 2023