

BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

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Independent Auditors' Report

The Finance Committee of
Bethesda Health Clinic and Affiliate
Tyler, Texas

We have audited the accompanying consolidated financial statements of Bethesda Health Clinic and affiliate, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bethesda Health Clinic and affiliate as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Certified Public Accountants
Tyler, Texas
August 14, 2017

BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 527,507	\$ 846,399
Grants and contributions receivable - current portion	50,000	83,336
Other receivables	65	27
Marketable securities	158,250	150,084
Inventory	50,524	49,172
Prepaid rent	13,872	12,625
Prepaid insurance	24,187	22,819
Total current assets	824,405	1,164,462
Property and Equipment		
Property, furniture, and equipment, net of accumulated depreciation	3,601,190	1,331,696
Other Assets		
Interest in Bethesda Foundation	1,069,292	1,012,251
Grants and contributions receivable, net of current portion	-	50,000
Total other assets	1,069,292	1,062,251
TOTAL ASSETS	\$ 5,494,887	\$ 3,558,409
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 121,546	\$ 78,369
Payroll liabilities	2,960	5,375
Current portion of long-term debt	36,653	-
Total current liabilities	161,159	83,744
Long-term Liabilities		
Long-term debt, net of current-portion	1,964,855	-
Total long-term liabilities	1,964,855	-
TOTAL LIABILITIES	2,126,014	83,744
Net Assets		
Unrestricted net assets:		
Operating	307,225	729,051
Invested in property and equipment	1,599,682	1,331,696
Board designated	1,429,292	1,372,251
Total unrestricted net assets	3,336,199	3,432,998
Temporarily restricted net assets	32,674	41,667
TOTAL NET ASSETS	3,368,873	3,474,665
TOTAL LIABILITIES AND NET ASSETS	\$ 5,494,887	\$ 3,558,409

**BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions	\$ 515,026	\$ -	\$ 515,026
Grants	202,988	170,667	373,655
Donated medical professional services	1,144,054	-	1,144,054
Donated medical supplies	792,768	-	792,768
Donated rent	104,000	-	104,000
In-kind donations	44,620	-	44,620
Other special events (fundraising), net of related expenses of \$84,976	786,821	-	786,821
Patient fees	660,903	-	660,903
Net gain on marketable securities	8,167	-	8,167
Other income	13,045	-	13,045
Total revenue	4,272,392	170,667	4,443,059
Net assets released from restrictions:			
Satisfaction of program restrictions	179,660	(179,660)	-
Total revenues and net assets released from restrictions	4,452,052	(8,993)	4,443,059
EXPENSES			
Patient care	4,183,892	-	4,183,892
General and administrative	255,018	-	255,018
Fundraising	166,982	-	166,982
Total expenses	4,605,892	-	4,605,892
Net increase before change in interest in Bethesda Foundation	(153,840)	(8,993)	(162,833)
Change in interest in Bethesda Foundation	57,041	-	57,041
Change in net assets	(96,799)	(8,993)	(105,792)
NET ASSETS			
Balance, beginning of year	3,432,998	41,667	3,474,665
Balance, end of year	\$ 3,336,199	\$ 32,674	\$ 3,368,873

**BETHESDA HEALTH CLINIC AND AFFILIATE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Contributions	\$ 507,446	\$ -	\$ 507,446
Grants	108,233	208,323	316,556
Donated medical professional services	1,021,219	-	1,021,219
Donated medical supplies	180,893	-	180,893
Donated rent	104,000	-	104,000
In-kind donations	12,640	-	12,640
Other special events, net of related expenses of \$96,675	775,182	-	775,182
Patient fees	582,220	-	582,220
Earnings on investments	911	-	911
Loss on disposal of equipment	(3,579)	-	(3,579)
Other income	23,679	-	23,679
	<u>3,312,844</u>	<u>208,323</u>	<u>3,521,167</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>477,260</u>	<u>(477,260)</u>	<u>-</u>
	<u>3,790,104</u>	<u>(268,937)</u>	<u>3,521,167</u>
EXPENSES			
Patient care	3,045,129	-	3,045,129
General and administrative	246,332	-	246,332
Fundraising	174,092	-	174,092
	<u>3,465,553</u>	<u>-</u>	<u>3,465,553</u>
Net increase before change in interest			
in Bethesda Foundation	324,551	(268,937)	55,614
Change in interest in Bethesda Foundation	<u>(22,131)</u>	<u>-</u>	<u>(22,131)</u>
Change in net assets	302,420	(268,937)	33,483
NET ASSETS			
Balance, beginning of year	<u>3,130,578</u>	<u>310,604</u>	<u>3,441,182</u>
Balance, end of year	<u>\$ 3,432,998</u>	<u>\$ 41,667</u>	<u>\$ 3,474,665</u>

BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICE	SUPPORT SERVICES		Total
	Patient Care	General and Administrative	Fund Raising	
Advertising	\$ 3,834	\$ 2,556	\$ 6,390	\$ 12,780
Awards and gifts	-	-	1,761	1,761
Bank charges	10,453	15,464	-	25,917
Bethesda Alliance expense	7,760	-	1,369	9,129
Community/committee lunches	2,173	2,173	1,087	5,433
Computer repairs and maintenance	12,606	1,483	742	14,831
Conferences, meetings and travel	9,088	1,136	1,136	11,360
Continuing education and dues	7,770	-	-	7,770
Dental professional service	34,085	-	-	34,085
Dental supplies	90,656	-	-	90,656
Depreciation	126,470	12,647	1,405	140,522
Diabetic/chronic disease program	11,290	-	-	11,290
Donated rent	94,640	8,320	1,040	104,000
Dues and subscriptions	-	983	-	983
Health insurance	77,877	14,537	11,422	103,836
Hangers of Hope - wages and benefits	177,862	-	-	177,862
Hangers of Hope - contract labor	8,547	-	-	8,547
Hangers of Hope - marketing	11,033	-	-	11,033
Hangers of Hope - rent	157,004	-	-	157,004
Hangers of Hope - interest expense	33,245	-	-	33,245
Hangers of Hope - sales tax	1,378	-	-	1,378
Hangers of Hope - supplies	40,113	-	-	40,113
Hangers of Hope - utilities	26,286	-	-	26,286
Human resources	-	2,404	-	2,404
Laboratory	77,972	-	-	77,972
Liability insurance	16,128	1,418	177	17,723
Licenses and permits	806	805	-	1,611
Madres Program	1,478	-	-	1,478
Malpractice insurance	28,229	-	-	28,229
Maintenance and repairs equipment	2,854	336	168	3,358
Medical professional services	289,408	-	-	289,408
Medical supplies	820,992	-	-	820,992
Miscellaneous	-	96	-	96
Off-site medical services	821,199	-	-	821,199
Office	26,167	3,079	1,539	30,785
Payroll taxes	76,101	12,292	9,658	98,051
Postage	2,402	2,402	3,201	8,005
Printing	8,213	4,106	8,213	20,532
Professional audit and tax	-	14,750	-	14,750
Professional consulting	3,565	396	-	3,961
Professional fees dental	62,818	-	-	62,818
Repairs and maintenance building	28,191	2,478	310	30,979
Salaries	942,562	149,033	117,098	1,208,693
Telephone	5,692	500	63	6,255
Utilities	18,472	1,624	203	20,299
Volunteer program	4,543	-	-	4,543
X-ray	700	-	-	700
Zero Prostate	1,230	-	-	1,230
Total expenses	\$ 4,183,892	\$ 255,018	\$ 166,982	\$ 4,605,892

BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	PROGRAM SERVICE	SUPPORT SERVICES		Total
	Patient Care	General and Administrative	Fund Raising	
Advertising	\$ -	\$ 3,659	\$ 14,637	\$ 18,296
Awards and gifts	2,168	-	542	2,710
Bank charges	15,949	15,949	-	31,898
Bethesda Alliance expense	6,677	-	1,178	7,855
Community/committee lunches	2,808	2,808	1,404	7,020
Computer repairs and maintenance	7,026	3,011	-	10,037
Conferences, meetings and travel	8,604	1,075	1,075	10,754
Continuing education and dues	2,080	-	-	2,080
Dental professional service	18,134	-	-	18,134
Dental supplies	91,128	-	-	91,128
Depreciation	89,563	7,874	984	98,421
Diabetic/chronic disease program	22,068	-	-	22,068
Donated rent	94,640	8,320	1,040	104,000
Dues and subscriptions	4,268	-	-	4,268
Health insurance	63,419	11,998	10,284	85,701
Hangers of Hope - wages and benefits	123,321	-	-	123,321
Hangers of Hope - contract labor	4,446	-	-	4,446
Hangers of Hope - marketing	-	379	1,520	1,899
Hangers of Hope - rent	146,977	-	-	146,977
Hangers of Hope - sales tax	1,274	-	-	1,274
Hangers of Hope - supplies	9,987	-	-	9,987
Hangers of Hope - utilities	19,405	-	-	19,405
Human resources	-	1,561	-	1,561
Laboratory	66,231	-	-	66,231
Liability insurance	8,892	782	98	9,772
Licenses and permits	1,756	1,756	-	3,512
Madres Program	3,090	-	-	3,090
Malpractice insurance	28,221	-	-	28,221
Maintenance and repairs equipment	6,908	4,606	-	11,514
Medical professional services	226,265	-	-	226,265
Medical supplies	159,117	-	-	159,117
Miscellaneous	-	928	-	928
Off-site medical services	776,820	-	-	776,820
Office	34,811	4,095	2,048	40,954
Payroll taxes	59,273	11,022	9,446	79,741
Postage	3,976	-	5,964	9,940
Printing	3,995	1,997	3,995	9,987
Professional audit and tax	-	14,000	-	14,000
Professional consulting	3,844	1,647	-	5,491
Professional fees dental	127,062	-	-	127,062
Repairs and maintenance building	21,773	7,258	-	29,031
Salaries	749,255	139,239	119,348	1,007,842
Telephone	5,376	472	59	5,907
Utilities	18,542	1,630	204	20,376
Volunteer program	4,780	266	266	5,312
X-ray	1,200	-	-	1,200
Total expenses	\$ 3,045,129	\$ 246,332	\$ 174,092	\$ 3,465,553

**BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (105,792)	\$ 33,483
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	140,522	98,421
Loss on disposal of equipment	-	3,579
Net (gain) loss on marketable securities	(8,167)	3,823
(Increase) decrease in assets:		
Contributions and grants receivable	83,336	83,333
Prepaid expenses	(2,615)	(1,254)
Inventory	(1,352)	(12,640)
Net investment return in Foundation	(57,041)	28,269
Increase (decrease) in liabilities:		
Accounts payable	43,177	(47,586)
Payroll liabilities	(2,452)	(3,438)
Total adjustments	<u>195,408</u>	<u>152,507</u>
Net cash provided by operating activities	<u>89,616</u>	<u>185,990</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities of certificates of deposit	-	76,533
Purchases of property, furniture and equipment	<u>(408,508)</u>	<u>(564,605)</u>
Net cash used in investing activities	<u>(408,508)</u>	<u>(488,072)</u>
Net decrease in cash and cash equivalents	(318,892)	(302,082)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>846,399</u>	<u>1,148,481</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 527,507</u>	<u>\$ 846,399</u>
SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITY:		
Interest paid	\$ 33,245	\$ -
SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of property and equipment, through financing agreement	\$ 2,001,508	\$ -

**BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Bethesda Health Clinic (Clinic) is a Christ-centered clinic that provides affordable health and dental care to hardworking low-income adults who are uninsured or underinsured. The Clinic receives most of its support from patient fees and contributions.

The affiliate, Bethesda Physician Associates, is a not-for-profit organization under common control that employs physicians with an expertise in their respective fields.

Income Taxes

The Clinic is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, contributions to the Clinic are tax deductible by the donor to the extent allowed by tax laws and regulations.

The Clinic has adopted the provisions of FASB ASC 740-10, (FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes*). The Clinic records a liability for uncertain tax position when it is probable that a loss has been incurred and the amount can be reasonably estimated. We continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. As of December 31, 2016 and 2015, the Clinic did not accrue any amounts for uncertain tax positions.

The Clinic files income tax returns in the U.S. federal jurisdiction. The Clinic is no longer subject to U.S. tax examinations by tax authorities for years before the 2013 tax year.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and in conformity with the standards promulgated by the American Institute of Certified Public Accountants in its audit guide for voluntary health and welfare organizations.

Basis of Consolidation

The statements are presented as consolidated financial statements which include the accounts of Bethesda Health Clinic and Bethesda Physician Associates (“BPA”), its commonly controlled affiliate. BPA was organized in 2015 to provide delivery of physician medical services and other health care services for the benefit of Bethesda Health Clinic. Inter-organization balances and transactions have been eliminated.

Financial Statement Presentation

Under generally accepted accounting principles, the Clinic is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of the Clinic and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets utilized to account for support and revenue that are absent of donor-imposed restrictions.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that may or will be met either by the Clinic and/or passage of time.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Clinic. Generally, the donors of these assets permit the Clinic to use all of the income earned on related investments for general or specific purposes.

**BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support and Revenues

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase their respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Clinic had no permanently restricted net assets as of December 31, 2016 and 2015.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Contributions and Grants Receivable

The Clinic considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Marketable Securities

The Clinic reports investments at market value as of the statement of financial position date. Realized and unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Clinic has a custodial agreement with East Texas Communities Foundation (ETCF) for the management of certain funds. ETCF maintains these funds in a pooled investment account. At December 31, 2016 and 2015, the balance in this account was \$158,250 and \$150,084, respectively.

Inventory

The Clinic accepts donations of clothing and household items for resale to customers in its store, Hangers of Hope. These donated items are recorded at their fair value as of December 31, 2016 and 2015 and are reflected as inventory in the Statement of Financial Position. Inventory is sold on a first-in, first-out (FIFO) basis.

Property, Furniture and Equipment

Acquisitions of property, furniture and equipment over \$2,500 are capitalized. Property, furniture and equipment are recorded at cost if purchased and gifts or contributions of property and equipment are recorded at the assets' fair market value at the date of donation. Depreciation is calculated using the straight-line method based on expected useful lives ranging from three to thirty-nine years.

Donated Materials, Services and Facilities

Professional licensed health care providers volunteer their services to the clinic. These services are recognized as donated professional services revenue on the Statement of Activities. Donated professional service revenues are recorded at the fair market value of the service provided with a corresponding expense in the same amount. The value of donated services on the financial statements and the corresponding expenses for the year ended December 31, 2016 and 2015 are as follows:

**BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials, Services and Facilities (continued)

	2016	2015
Donated professional services	\$ 322,855	\$ 244,399
Donated off-site medical services	821,199	776,820
Total donated medical professional services	\$ 1,144,054	\$ 1,021,219

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Clinic with program services and fundraising activities. No amounts have been reflected in the financial statements for these donated services since the volunteer's time does not meet the criteria for recognition.

In 2016 and 2015, the Clinic received medical equipment and supplies from local hospitals, clinics and other organizations. Donated equipment over \$2,500, which is put into service by the Clinic, is capitalized at the fair market value of the equipment on the date the gift is donated. Donated equipment and supplies under \$2,500 are recognized as in-kind revenue in the Statement of Activities with a corresponding expense in the same amount. Donated medical supplies total \$792,768 and \$180,893 as of December 31, 2016 and 2015, respectively.

The Clinic occupies a building owned by First Baptist Church of Tyler under a lease agreement for \$1 per year for ten years with a renewal option. The landlord has estimated the approximate fair value of the annual rental to be \$104,000 for 2016 and 2015. This amount is included in the Statements of Activities and Statements of Functional Expenses as donated rent and rent expense.

Advertising Costs

All advertising costs are expensed when incurred. Advertising expense for the years ended December 31, 2016 and 2015, totaled \$12,780 and \$18,296, respectively.

Functional Expenses

The costs of providing the patient care program and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Interest in Bethesda Foundation

Interest in the Bethesda Foundation includes investments in securities which are valued at current fair value based upon quoted market prices. Other assets, net of liabilities, are valued at cost. Changes in the interest in Bethesda Foundation are included in the Statements of Activities and Statements of Functional Expenses, as applicable.

Fair Value of Financial Instruments

The Clinic's financial instruments consist principally of cash and cash equivalents, short-term marketable securities, and accounts payable. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" 820), *Fair Value Measurement*, defines fair value of a financial instrument as the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 Inputs: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

**BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

Level 2 Inputs: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 Inputs: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The fair value of the Clinic's cash equivalents and marketable securities was determined based on "Level 1" inputs. The Clinic does not have any marketable securities in the "Level 2" or "Level 3" categories. The Clinic believes that the recorded values of all the other financial instruments approximate their current fair values because of their nature and relatively short maturity dates or durations.

Compensated Absences

Employees of the Clinic are entitled to paid vacation and sick days, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Clinic's policy is to recognize the costs of compensated absences when actually paid to employees.

Evaluation of ASU 2016-14

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 provides guidance on the improvements to net asset classification requirements as well as the required information presented and disclosed about a not-for-profit entity's liquidity, financial performance and cash flows. The amendments for this update will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

The Clinic has evaluated the issuance of ASU 2016-14 and has determined to forego early adoption and will apply the amendments in the Update on a retrospective basis in the year that the Update is first applied after the effective date.

NOTE 2: GRANTS AND CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recorded as receivables and revenues when received. The following represents unconditional promises as of December 31, 2016 and 2015:

	2016	2015
Restricted for capital expansion	\$ 50,000	\$ 133,336
Less: allowance for uncollectible promises	-	-
Net unconditional promises to give	<u>\$ 50,000</u>	<u>\$ 133,336</u>
Receivable in one year or less	\$ 50,000	\$ 83,336
Receivable between one and five years	-	50,000
Total	<u>\$ 50,000</u>	<u>\$ 133,336</u>

**BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3: INVESTMENTS

Marketable securities are reported net of related investment expenses in the statement of financial position. The amount of expenses netted with revenues was \$1,826 and \$1,607 for the years ended December 31, 2016 and 2015, respectively. Net unrealized gains of \$10,208 and net unrealized losses of \$13,065 have been included in unrestricted net assets as of the years ended December 31, 2016 and 2015, respectively. Realized losses of \$3,221 and realized gains of \$6,523 have been included in unrestricted net assets as of the years ended December 31, 2016 and 2015, respectively. Interest and dividend income received for the years ended December 31, 2016 and 2015 were \$3,006 and \$4,326, respectively and are included in unrestricted net assets.

NOTE 4: PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 802,011	\$ 730,636
Leasehold improvements	1,323,716	1,304,796
Land	535,444	-
Buildings	<u>1,784,236</u>	<u>-</u>
Total property, furniture and equipment	4,445,407	2,035,432
Less: Accumulated depreciation	<u>(844,217)</u>	<u>(703,736)</u>
Total property, furniture and equipment, net	<u>\$ 3,601,190</u>	<u>\$ 1,331,696</u>

Depreciation expense for the years ending December 31, 2016 and 2015 was \$140,522 and \$98,421, respectively. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Routine repairs and maintenance are expensed as incurred.

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Program director	\$ <u>32,674</u>	\$ <u>41,667</u>
Total temporarily restricted net assets	<u>\$ 32,674</u>	<u>\$ 41,667</u>

NOTE 6: DESIGNATION OF NET ASSETS

The Clinic's Board designated the following unrestricted net assets at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Bethesda Foundation	\$ 1,069,292	\$ 1,012,251
Maintenance reserve	10,000	10,000
Operating reserve	<u>350,000</u>	<u>350,000</u>
Total unrestricted - designated net assets	<u>\$ 1,429,292</u>	<u>\$ 1,372,251</u>

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NOTE 7: BETHESDA FOUNDATION

The Bethesda Health Clinic Foundation (Foundation) was formed in March 2005 and received its Internal Revenue Service 501(c)(3) letter in August 2006. The Foundation was organized and is operated exclusively for the benefit of and to further the purposes of the Clinic. The Foundation's Board of Directors is elected to serve a three year term.

To accomplish its purpose, an endowment fund was established in the Foundation to receive contributions for the benefit of the Clinic with the understanding that the principal of the assets held and managed by the Foundation be used for the sole benefit of the Clinic. The endowment principal and income earned is available for the support of the Clinic. Investment and spending policy, approved by the Foundation's Board of Directors in December 2006, limited spending in the first three years to five percent of the portfolio value. Thereafter, spending is available to target five percent of the fund's average three year portfolio value. However, as of December 31, 2016 and 2015, no spending has occurred. The Board of the Clinic elected to fund the endowment in August 2006 with \$630,000 of unrestricted contributions received in prior years.

In October 2013, the Foundation's investments were transferred to East Texas Communities Foundation (ETCF). The Foundation retains ownership of the investments, but ETCF manages the investments.

The assets have been reported in the accompanying financial statements at current market value under the caption "Interest in Bethesda Foundation". Interest in net assets for the Foundation totaled \$1,069,292 and \$1,012,251, for years ended December 31, 2016 and 2015, respectively.

NOTE 8: CONCENTRATIONS

The Clinic maintains its cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015, the Clinic's uninsured cash balances were \$227,377 and \$273,225, respectively.

The Clinic receives a significant portion of its donated professional services revenue from Texas Spine and Joint Hospital, Ltd. For the years ended December 31, 2016 and 2015, the hospital donated services valued at \$567,930 and \$540,247, respectively.

NOTE 9: JOINT COSTS

The Clinic's office is often used to educate the public, request public participation in programs, and to inform donors about the Clinic's activities. The Clinic's major joint operating costs are salaries, benefits, insurance, utilities, rent, office and meeting supplies, depreciation and postage.

Joint operating costs incurred by the Clinic as of December 31, 2016 and 2015, totaled \$1,849,356 and \$1,509,736 respectively. The 2016 joint costs are allocated on the statement of functional expenses as follows: \$1,489,207 (81%) to patient care, \$204,947 (11%) to general and administrative expense, and \$155,202 (8%) to fund-raising. The 2015 joint costs are allocated on the statement of functional expenses as follows: \$1,171,835 (78%) to patient care, \$182,992 (12%) to general and administrative expense, and \$154,909 (10%) to fund-raising.

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NOTE 10: OPERATING LEASE

In 2013, the Clinic entered into a five-year non-cancelable operating lease for its thrift store, Hangers of Hope. The lease will expire in 2018. Future minimum rental payments under the lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 152,640
2018	158,640
	<u>\$ 311,280</u>

Rent expense for December 31, 2016 and 2015 was \$157,004 and \$146,977, respectively. Accrued prepaid rent expense for December 31, 2016 and 2015 was \$13,872 and \$12,625, respectively.

NOTE 11: CONTRIBUTED SERVICES RECEIVED FROM PERSONNEL OF AN AFFILIATE

In December 31, 2016 and 2015, the Clinic recognized expenses of \$154,749 and \$15,088, respectively, for contributed services received from personnel of its affiliate, Bethesda Physician Associates, for its patient care program. The Clinic measured the services received at the cost recognized by Bethesda Physician Associates for the personnel providing those services. Intercompany accounts related to these expenses have been eliminated in the consolidation.

NOTE 12: LONG -TERM DEBT

Bethesda Health Clinic purchased a 28,000 square foot building located at 920 WSW Loop 323 in Tyler during 2016. The building houses the second location of Hangers of Hope resale store which benefits the mission of the Clinic. The building was financed through Southside Bank for \$2,100,508 and matures in February 2042. The note is secured by the building as well as any equipment, furniture, and fixtures within the building. The new store was opened in January 2017, See Note 13.

Beginning August 15, 2016, the note is payable with three quarterly interest only payments assessed on the outstanding principal balance at an initial rate of 3.77%. Beginning May 15, 2017, the note is payable quarterly with 25 principal and interest payments of \$31,175 bearing interest at 3.77%. Beginning August 15, 2023, the note is payable with 74 quarterly principal and interest payments of \$30,446 bearing interest at 1.641% plus a margin of 1.85%, or 3.491%. The final principal and interest payment of \$30,446 bearing interest at 1.641% plus a margin of 1.85%, or 3.491% is due on February 15, 2042. Interest expense was \$33,245 and \$0 for the years ended December 31, 2016 and 2015, respectively. Debt totaled \$2,001,508 as of December 31, 2016, with current portion of long-term debt of \$36,653 and long-term debt, net of current portion of \$1,964,855 for the year then ended.

Future maturities as of December 31, 2016 are as follows:

2017	\$ 36,653
2018	50,307
2019	52,258
2020	54,087
2021	58,567
Thereafter	<u>1,749,636</u>
Total	<u>\$ 2,001,508</u>

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NOTE 13: SUBSEQUENT EVENTS

During January 2017, the new Hangers of Hope resale store located at 920 WSW Loop 323 in Tyler, Texas was opened for retail services, See Note 12.

The Clinic has evaluated subsequent events through August 14, 2017, the date which the financial statements were available to be issued.