

**BETHESDA HEALTH CLINIC AND AFFILIATE**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Gollob Morgan Peddy PC**  
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**BETHESDA HEALTH CLINIC AND AFFILIATE  
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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, 2017 and 2016, 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 auditors' 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

  
Certified Public Accountants

Tyler, Texas  
July 30, 2018

**BETHESDA HEALTH CLINIC AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 511,467	\$ 527,507
Grants and contributions receivable - current portion	-	50,000
Other receivables	366	65
Marketable securities	192,560	158,250
Inventory	152,223	50,524
Prepaid expenses	3,717	13,872
Prepaid insurance	24,279	24,187
Total current assets	884,612	824,405
<b>Property and Equipment</b>		
Property, furniture, and equipment, net of accumulated depreciation	3,537,582	3,601,190
<b>Other Assets</b>		
Interest in Bethesda Foundation	1,238,307	1,069,292
Total other assets	1,238,307	1,069,292
<b>TOTAL ASSETS</b>	<b>\$ 5,660,501</b>	<b>\$ 5,494,887</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 107,455	\$ 121,546
Payroll liabilities	6,408	2,960
Current portion of long-term debt	50,306	36,653
Total current liabilities	164,169	161,159
<b>Long-term Liabilities</b>		
Long-term debt, net of current-portion	1,914,542	1,964,855
Total long-term liabilities	1,914,542	1,964,855
<b>TOTAL LIABILITIES</b>	<b>2,078,711</b>	<b>2,126,014</b>
<b>NET ASSETS</b>		
<b>Without donor restrictions</b>		
Undesignated	2,119,688	1,906,907
Board designated	1,440,867	1,429,292
Total without donor restrictions	3,560,555	3,336,199
<b>With donor restrictions</b>	21,235	32,674
<b>TOTAL NET ASSETS</b>	<b>3,581,790</b>	<b>3,368,873</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,660,501</b>	<b>\$ 5,494,887</b>

**BETHESDA HEALTH CLINIC AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE</b>			
Contributions	\$ 506,913	\$ -	\$ 506,913
Grants	177,718	250,151	427,869
Donated medical professional services	1,544,745	-	1,544,745
Donated medical supplies	1,178,592	-	1,178,592
Donated rent	104,000	-	104,000
In-kind donations	141,787	-	141,787
Other special events (fundraising), net of related expenses of \$94,823	1,415,722	-	1,415,722
Patient fees	655,393	-	655,393
Net gain on marketable securities	22,560	-	22,560
Loss on disposal of equipment	(4,703)	-	(4,703)
Other income	12,552	-	12,552
	<u>5,755,279</u>	<u>250,151</u>	<u>6,005,430</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>261,590</u>	<u>(261,590)</u>	<u>-</u>
	<u>6,016,869</u>	<u>(11,439)</u>	<u>6,005,430</u>
<b>EXPENSES</b>			
Patient care	5,477,600	-	5,477,600
General and administrative	277,107	-	277,107
Fundraising	<u>184,821</u>	<u>-</u>	<u>184,821</u>
	<u>5,939,528</u>	<u>-</u>	<u>5,939,528</u>
Net increase before change in interest			
in Bethesda Foundation	77,341	(11,439)	65,902
Change in interest in Bethesda Foundation	<u>147,015</u>	<u>-</u>	<u>147,015</u>
	224,356	(11,439)	212,917
<b>NET ASSETS</b>			
Balance, beginning of year	<u>3,336,199</u>	<u>32,674</u>	<u>3,368,873</u>
Balance, end of year	<u>\$ 3,560,555</u>	<u>\$ 21,235</u>	<u>\$ 3,581,790</u>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE</b>			
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
	4,272,392	170,667	4,443,059
<b>Total revenue</b>			
Net assets released from restrictions:			
Satisfaction of program restrictions	179,660	(179,660)	-
	4,452,052	(8,993)	4,443,059
<b>Total revenues and net assets released from restrictions</b>			
<b>EXPENSES</b>			
Patient care	4,183,892	-	4,183,892
General and administrative	255,018	-	255,018
Fundraising	166,982	-	166,982
	4,605,892	-	4,605,892
<b>Total expenses</b>			
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
	(96,799)	(8,993)	(105,792)
<b>Change in net assets</b>			
<b>NET ASSETS</b>			
Balance, beginning of year	3,432,998	41,667	3,474,665
	\$ 3,336,199	\$ 32,674	\$ 3,368,873
<b>Balance, end of year</b>			

**BETHESDA HEALTH CLINIC AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**

	PROGRAM SERVICE		SUPPORT SERVICES		Total
	Patient Care	General and		Fund	
		Administrative	Raising		
Advertising	\$ 3,738	\$ 2,492	\$ 6,230	\$ 12,460	
Awards and gifts	-	-	538	538	
Bank charges	21,784	10,922	-	32,706	
Bethesda Alliance	7,594	-	1,339	8,933	
Community/committee lunches	1,998	1,998	998	4,994	
Computer repairs and maintenance	16,127	1,897	948	18,972	
Conferences, meetings and travel	5,065	633	633	6,331	
Continuing education and dues	10,270	-	-	10,270	
Dental professional services	13,063	-	-	13,063	
Dental supplies	99,020	-	-	99,020	
Depreciation	150,944	15,094	1,677	167,715	
Diabetic/chronic disease program	1,974	-	-	1,974	
Donated rent	94,640	8,320	1,040	104,000	
Dues and subscriptions	-	1,385	-	1,385	
Hangers of Hope - contract labor	21,146	-	-	21,146	
Hangers of Hope - interest expense	75,800	-	-	75,800	
Hangers of Hope - marketing	2,191	-	-	2,191	
Hangers of Hope - rent	153,977	-	-	153,977	
Hangers of Hope - supplies	47,153	-	-	47,153	
Hangers of Hope - utilities	71,120	-	-	71,120	
Hangers of Hope - wages and benefits	350,191	-	-	350,191	
Hangers of Hope II - building maintenance	10,450	-	-	10,450	
Health insurance	88,302	16,483	12,950	117,735	
Human resources	-	1,535	-	1,535	
Laboratory	89,545	-	-	89,545	
Liability insurance	11,997	1,055	131	13,183	
Licenses and permits	100	100	-	200	
Madres program	6,529	-	-	6,529	
Maintenance and repairs equipment	5,072	597	298	5,967	
Malpractice insurance	33,224	-	-	33,224	
Medical professional services	336,402	-	-	336,402	
Medical supplies	1,211,886	-	-	1,211,886	
Miscellaneous	-	508	-	508	
Office	23,954	2,818	1,409	28,181	
Off-site medical services	1,195,281	-	-	1,195,281	
Payroll taxes	95,749	15,820	12,430	123,999	
Postage	2,552	2,552	3,402	8,506	
Printing	7,592	3,796	7,592	18,980	
Professional audit and tax	-	14,750	-	14,750	
Professional consulting	8,529	948	-	9,477	
Professional fees dental	50,518	-	-	50,518	
Repairs and maintenance building	29,000	2,550	318	31,868	
Salaries	1,068,533	168,805	132,632	1,369,970	
Telephone	5,552	488	61	6,101	
Utilities	17,761	1,561	195	19,517	
Volunteer program	8,546	-	-	8,546	
X-ray	304	-	-	304	
Zero Prostate	22,427	-	-	22,427	
Total expenses	<u>\$ 5,477,600</u>	<u>\$ 277,107</u>	<u>\$ 184,821</u>	<u>\$ 5,939,528</u>	

See accompanying notes to financial statements.

**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	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 services	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	<u>\$ 4,183,892</u>	<u>\$ 255,018</u>	<u>\$ 166,982</u>	<u>\$ 4,605,892</u>	

See accompanying notes to financial statements.



**BETHESDA HEALTH CLINIC AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 212,917	\$ (105,792)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	167,715	140,522
Loss on disposal of equipment	4,703	-
Net (gain) loss on marketable securities	(22,560)	(8,167)
(Increase) decrease in assets:		
Contributions and receivables	49,699	83,336
Prepaid expenses	10,063	(2,615)
Inventory	(101,699)	(1,352)
Net investment return in Foundation	(147,015)	(57,041)
Increase (decrease) in liabilities:		
Accounts payable	(14,091)	43,177
Payroll liabilities	3,448	(2,452)
	(49,737)	195,408
Total adjustments		
Net cash provided by operating activities	163,180	89,616
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, furniture and equipment	(108,810)	(408,508)
Transfers to ETCF Designated and Reserve Funds	(33,750)	-
	(142,560)	(408,508)
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(36,660)	-
	(36,660)	-
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(16,040)	(318,892)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	527,507	846,399
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 511,467	\$ 527,507
<b>SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITY:</b>		
Interest paid	\$ 75,800	\$ 33,245
<b>SUMMARY OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisition of property and equipment, through financing agreement	\$ -	\$ 2,001,508

**BETHESDA HEALTH CLINIC AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, 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 2014 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.

**Support and Revenues**

Contributions received are recorded as with or without donor restrictions 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 net assets with donor restrictions. Contributions received with restrictions that are met in the same reporting period are reported as net assets without donor restrictions. All contributions are considered to be net assets without donor restrictions unless specifically restricted by the donor.

**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.

**BETHESDA HEALTH CLINIC AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 are reported as increases in net assets without donor restrictions 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, 2017 and 2016, the balance in this account was \$192,560 and \$158,250, 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 net realizable value as of December 31, 2017 and 2016 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 \$1,500 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 years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Donated professional services	\$ 349,464	\$ 322,855
Donated off-site medical services	1,195,281	821,199
Total donated medical professional services	<u>\$ 1,544,745</u>	<u>\$ 1,144,054</u>

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 2017 and 2016, the Clinic received medical equipment and supplies from local hospitals, clinics and other organizations. Donated equipment over \$1,500, 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 \$1,500 are recognized as in-kind revenue in the Statement of Activities with a corresponding expense in the same amount. Donated medical supplies total \$1,178,592 and \$792,768 as of December 31, 2017 and 2016, respectively.

The Clinic occupies a building owned by First Baptist Church of Tyler under a lease agreement for \$1 per year expiring January 2018. The landlord has estimated the approximate fair value of the annual rental to be \$104,000 for 2017 and 2016. 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, 2017 and 2016, totaled \$12,460 and \$12,780, respectively.

**BETHESDA HEALTH CLINIC AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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.

**NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES**

During 2017, the Clinic early adopted Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. As a result, the Clinic changed its method of accounting for classification of net assets and the information presented in the financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. Accordingly, the classification of net assets for the years ended December 31, 2017 and 2016, shown in the statements of financial position and statement of activities have been updated to reflect those changes. There was no effect on the 2017 or 2016 change in net assets as a result of the adoption of ASU No. 2016-14.

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**NOTE 3: 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
With donor restrictions for capital expansion	\$ -	\$ 50,000
Less: allowance for uncollectible promises	-	-
Net with donor restrictions receivable	<u>\$ -</u>	<u>\$ 50,000</u>
Receivable in one year or less	\$ -	\$ 50,000
Receivable between one and five years	-	-
Total	<u>\$ -</u>	<u>\$ 50,000</u>

**NOTE 4: INVESTMENTS**

Marketable securities are reported net of related investment expenses in the statement of financial position. The amount of expenses netted with revenues was \$2,122 and \$1,826 for the years ended December 31, 2017 and 2016, respectively. Net unrealized gains of \$17,642 and \$10,208 have been included in net assets without donor restrictions as of the years ended December 31, 2017 and 2016, respectively. Realized gains of \$3,134 and realized losses of \$3,221 have been included in net assets without donor restrictions as of the years ended December 31, 2017 and 2016, respectively. Interest and dividend income received for the years ended December 31, 2017 and 2016 were \$3,906 and \$3,006, respectively and are included in net assets without donor restrictions.

**NOTE 5: PROPERTY, FURNITURE AND EQUIPMENT**

Property, furniture and equipment consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 872,914	\$ 802,011
Leasehold improvements	1,332,106	1,323,716
Land	535,444	535,444
Buildings	<u>1,804,941</u>	<u>1,784,236</u>
Total property, furniture and equipment	4,545,405	4,445,407
Less: Accumulated depreciation	<u>(1,007,823)</u>	<u>(844,217)</u>
Total property, furniture and equipment, net	<u>\$ 3,537,582</u>	<u>\$ 3,601,190</u>

Depreciation expense for the years ending December 31, 2017 and 2016 was \$167,715 and \$140,522, 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 6: BOARD DESIGNATED NET ASSETS**

A portion of the Clinic's net assets without donor restrictions has been designated by the Clinic's board. Board-designated net assets are available for the following purposes at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Reserve	\$ 192,560	\$ 350,000
Maintenance	10,000	10,000
Foundation	<u>1,238,307</u>	<u>1,069,292</u>
Total board designated net assets	<u>\$ 1,440,867</u>	<u>\$ 1,429,292</u>

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**NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS**

The Clinic's net assets with donor restrictions are subject to the following purpose:

	<u>2017</u>	<u>2016</u>
Program director	\$ <u>21,235</u>	\$ <u>32,674</u>
Total net assets with donor restrictions	\$ <u>21,235</u>	\$ <u>32,674</u>

**NOTE 8: 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. As of December 31, 2017 and 2016, no spending has occurred. The Board of the Clinic elected to fund the endowment in August 2006 with \$630,000 of contributions received in prior years without donor restrictions.

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 \$1,238,307 and \$1,069,292, for years ended December 31, 2017 and 2016, respectively.

**NOTE 9: 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, 2017 and 2016, the Clinic's uninsured cash balances were \$195,819 and \$227,377, 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, 2017 and 2016, the hospital donated services valued at \$890,259 and \$567,930, respectively.

**NOTE 10: 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, 2017 and 2016, totaled \$2,235,403 and \$1,849,356 respectively. The 2017 joint costs are allocated on the statement of functional expenses as follows: \$1,830,190 (82%) to patient care, \$231,103 (10%) to general and administrative expense, and \$174,110 (8%) to fund-raising. 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.

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**NOTE 11: 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>
2018	\$ <u>158,640</u>

Rent expense for December 31, 2017 and 2016 was \$153,977 and \$157,004, respectively. Accrued prepaid rent expense for December 31, 2017 and 2016 was \$0 and \$13,872, respectively.

During 2017, the Organization entered into several operating leases for portable storage units for Hanger's of Hope inventory overflow. The leases are month to month and are retained on an as needed basis. The monthly installment for the units range from \$377 to \$452, per unit.

**NOTE 12: CONTRIBUTED SERVICES RECEIVED FROM PERSONNEL OF AN AFFILIATE**

In December 31, 2017 and 2016, the Clinic recognized expenses of \$174,204 and \$154,749, 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 13: 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.

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 \$75,800 and \$33,245 for the years ended December 31, 2017 and 2016, respectively. The balance of long-term debt totaled \$1,964,848 and \$2,001,508 as of December 31, 2017 and 2016, respectively, with current portion of long-term debt of \$50,306 and \$36,653 and long-term debt, net of current portion of \$1,914,542 and \$1,964,855 for the years then ended.

Future maturities as of December 31, 2017 are as follows:

2018	\$	50,306
2019		52,258
2020		54,087
2021		58,381
2022		58,567
Thereafter		<u>1,691,249</u>
Total	\$	<u>1,964,848</u>

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**NOTE 14: LIQUIDITY AND AVAILABILITY OF RESOURCES**

As of December 31, 2017 and 2016, the Clinic had \$704,393 and \$735,822, respectively, of financial assets available within 1 year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$511,467 and \$527,507, employee receivable of \$366 and \$65, and marketable securities of \$192,560 and \$158,250. None of the financial assets are subject to donor restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The Clinic has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$46,779. The Clinic has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as a part of its liquidity management, the Clinic invests certain contributions in marketable securities maintained at the East Texas Communities Foundation. As more fully described in Note 8, the Clinic also has an endowment fund in the amount of \$1,238,307 and \$1,069,292 for the years ended December 31, 2017 and 2016, which it could draw upon pursuant to the fund agreement, in the event of an unanticipated liquidity need.

**NOTE 15: SUBSEQUENT EVENTS**

As of January 2018, the lease with First Baptist Church of Tyler for use of the Clinic building located on the Church's property matured. The lease has been continued on a month to month basis without change in terms until written notice is received. The Clinic will continue to recognize the fair value of annual rent in the Statement of Activities and the Statements of Functional Expenses as donated rent and rent expense.

During June 2018, the Clinic executed a five year operating lease on Troup Highway, Tyler, Texas for an additional Hangers of Hope retail space payable in monthly installments of \$7,252.

The Clinic has evaluated subsequent events through July 30, 2018, the date which the financial statements were issued.