

BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND
YEAR ENDED DECEMBER 31, 2017

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BETHESDA HEALTH CLINIC AND AFFILIATE
TABLE OF CONTENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3-4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-15

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 June 30, 2019 and December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the eighteen months and year then ended, and the related notes to the consolidated 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

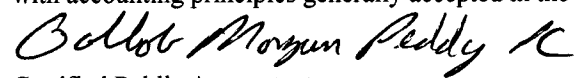
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable 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 June 30, 2019 and December 31, 2017, and the changes in their net assets and their cash flows for the eighteen months and year then ended in accordance with accounting principles generally accepted in the United States of America.


Certified Public Accountants

Tyler, Texas
January 22, 2020

BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND DECEMBER 31, 2017

	2019	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 450,994	\$ 511,467
Other receivables	-	366
Inventory	223,148	152,223
Prepaid expenses	14,815	3,717
Prepaid insurance	27,519	24,279
Total current assets	716,476	692,052
Property and Equipment		
Property, furniture, and equipment, net of accumulated depreciation	3,419,887	3,537,582
Other Assets		
Beneficial interest in assets held by East Texas Communities Foundation	273,331	192,560
Beneficial interest in Bethesda Foundation	1,373,738	1,238,307
Total other assets	1,647,069	1,430,867
TOTAL ASSETS	\$ 5,783,432	\$ 5,660,501
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 78,969	\$ 107,455
Payroll liabilities	1,918	6,408
Current portion of long-term debt	53,059	50,306
Total current liabilities	133,946	164,169
Long-term Liabilities		
Long-term debt, net of current-portion	1,835,556	1,914,542
Total long-term liabilities	1,835,556	1,914,542
TOTAL LIABILITIES	1,969,502	2,078,711
NET ASSETS		
Without donor restrictions		
Undesignated	2,065,097	2,119,688
Board designated	1,657,069	1,440,867
Total without donor restrictions	3,722,166	3,560,555
With donor restrictions		
	91,764	21,235
TOTAL NET ASSETS	3,813,930	3,581,790
TOTAL LIABILITIES AND NET ASSETS	\$ 5,783,432	\$ 5,660,501

**BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
EIGHTEEN MONTHS ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Contributions	\$ 630,290	\$ -	\$ 630,290
Grants	176,814	452,385	629,199
Donated medical professional services	1,439,547	-	1,439,547
Donated medical supplies	762,752	-	762,752
Donated rent	156,000	-	156,000
In-kind donations	130,122	-	130,122
Hangers of Hope sales	3,021,913	-	3,021,913
Other special events (fundraising), net of related expenses of \$124,406	333,444	-	333,444
Patient fees	1,053,747	-	1,053,747
Net gain on beneficial interest in ETCF	11,522	-	11,522
Gain on disposal of equipment	1,000	-	1,000
Other income	20,812	-	20,812
	<u>7,737,963</u>	<u>452,385</u>	<u>8,190,348</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>381,856</u>	<u>(381,856)</u>	<u>-</u>
	<u>8,119,819</u>	<u>70,529</u>	<u>8,190,348</u>
EXPENSES			
Patient care	5,527,330	-	5,527,330
General and administrative	590,474	-	590,474
Fundraising	1,903,635	-	1,903,635
	<u>8,021,439</u>	<u>-</u>	<u>8,021,439</u>
Net increase before change in interest in Bethesda Foundation			
	98,380	70,529	168,909
Change in interest in Bethesda Foundation	<u>63,231</u>	<u>-</u>	<u>63,231</u>
Change in net assets	161,611	70,529	232,140
NET ASSETS			
Balance, beginning of year	<u>3,560,555</u>	<u>21,235</u>	<u>3,581,790</u>
Balance, end of year	<u>\$ 3,722,166</u>	<u>\$ 91,764</u>	<u>\$ 3,813,930</u>

**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>
REVENUE			
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
Hangers of Hope sales	1,188,062	-	1,188,062
Other special events (fundraising), net of related expenses of \$94,823	227,660	-	227,660
Patient fees	655,393	-	655,393
Net gain on beneficial interest in ETCF	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>
EXPENSES			
Patient care	4,745,572	-	4,745,572
General and administrative	277,107	-	277,107
Fundraising	916,849	-	916,849
	<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>
Change in net assets	224,356	(11,439)	212,917
NET ASSETS			
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 FUNCTIONAL EXPENSES
EIGHTEEN MONTHS ENDED JUNE 30, 2019

	PROGRAM SERVICE		SUPPORT SERVICES		Total
	Patient Care	General and		Fund	
		Administrative	Raising		
Advertising	\$ 8,881	\$ 5,920	\$ 14,801	\$ 29,602	
Awards and gifts	-	-	589	\$ 589	
Bank charges	45,400	30,267	-	\$ 75,667	
Bethesda Alliance	14,448	-	2,550	\$ 16,998	
Community/committee lunches	3,628	3,628	1,814	\$ 9,070	
Computer repairs and maintenance	85,371	10,044	5,022	\$ 100,437	
Conferences, meetings and travel	7,327	916	916	\$ 9,159	
Continuing education and dues	15,944	-	-	\$ 15,944	
Dental lab fees	24,669	-	-	\$ 24,669	
Dental professional services	19,247	-	-	\$ 19,247	
Dental supplies	88,775	-	-	\$ 88,775	
Depreciation	227,790	22,779	2,531	\$ 253,100	
Diabetic/chronic disease program	830	-	-	\$ 830	
Donated rent	141,960	12,480	1,560	\$ 156,000	
Dues and subscriptions	-	2,438	-	\$ 2,438	
GYN lab fees	60	-	-	\$ 60	
Hangers of Hope - contract labor	-	-	7,405	\$ 7,405	
Hangers of Hope - interest expense	-	-	110,816	\$ 110,816	
Hangers of Hope - marketing	-	-	5,422	\$ 5,422	
Hangers of Hope - Payroll Taxes	-	-	13,010	\$ 13,010	
Hangers of Hope - rent	-	-	274,693	\$ 274,693	
Hangers of Hope - supplies	-	-	151,847	\$ 151,847	
Hangers of Hope - utilities	-	-	161,010	\$ 161,010	
Hangers of Hope - wages and benefits	-	-	784,953	\$ 784,953	
Hangers of Hope II - building maintenance	-	-	33,468	\$ 33,468	
Health insurance	169,934	31,721	24,924	\$ 226,579	
Human resources	-	46,982	-	\$ 46,982	
Laboratory	140,880	-	-	\$ 140,880	
Liability insurance	36,051	3,169	396	\$ 39,616	
Licenses and permits	1,735	1,735	-	\$ 3,470	
Madres program	3,537	-	-	\$ 3,537	
Maintenance and repairs equipment	7,449	876	438	\$ 8,763	
Malpractice insurance	38,536	-	-	\$ 38,536	
Medical professional services	426,708	-	-	\$ 426,708	
Medical supplies	820,329	-	-	\$ 820,329	
Miscellaneous	-	12,358	-	\$ 12,358	
Office	63,796	7,505	3,753	\$ 75,054	
Off-site medical services	994,637	-	-	\$ 994,637	
Payroll taxes	158,695	29,623	23,275	\$ 211,593	
Postage	4,335	4,335	5,780	\$ 14,450	
Printing	9,805	4,903	9,805	\$ 24,513	
Professional audit and tax	-	15,133	-	\$ 15,133	
Professional consulting	35,233	3,915	-	\$ 39,148	
Professional fees dental	45,544	-	-	\$ 45,544	
Professional fees medical/physician	1,500	-	-	\$ 1,500	
Repairs and maintenance building	26,613	2,340	292	\$ 29,245	
Retirement plan	8,285	1,546	1,215	\$ 11,046	
Salaries	1,778,649	332,015	260,869	\$ 2,371,533	
Telephone	5,509	484	61	\$ 6,054	
Utilities	38,246	3,362	420	\$ 42,028	
Volunteer program	9,163	-	-	\$ 9,163	
X-ray	1,466	-	-	\$ 1,466	
Zero Prostate	16,365	-	-	\$ 16,365	
Total expenses	\$ 5,527,330	\$ 590,474	\$ 1,903,635	\$ 8,021,439	

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>\$ 4,745,572</u>	<u>\$ 277,107</u>	<u>\$ 916,849</u>	<u>\$ 5,939,528</u>

See accompanying notes to financial statements.

**BETHESDA HEALTH CLINIC AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017**

	2019	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 232,140	\$ 212,917
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	253,100	167,715
(Gain)loss on disposal of equipment	(1,000)	4,703
Net (gain) loss on interest in ETCF	(7,758)	(20,775)
Net (gain) loss on interest in Foundation	(37,642)	(1,785)
(Increase) decrease in assets:		
Contributions receivable	-	50,000
Other receivables	366	(301)
Prepaid expenses	(11,098)	10,155
Prepaid insurance	(3,240)	(92)
Inventory	(70,925)	(101,699)
Increase (decrease) in liabilities:		
Accounts payable	(28,483)	(14,091)
Payroll liabilities	(4,490)	3,448
	88,830	97,278
Total adjustments		
Net cash provided by operating activities	320,970	310,195
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, furniture and equipment	(135,405)	(108,810)
Proceeds from sale of equipment	1,000	-
Transfers and reinvestments to ETCF	(73,012)	(13,535)
Transfers and reinvestments to Foundation	(97,793)	(167,230)
	(305,210)	(289,575)
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(76,233)	(36,660)
	(76,233)	(36,660)
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(60,473)	(16,040)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	511,467	527,507
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 450,994	\$ 511,467
SUPPLEMENTAL DISCLOSURE FOR NON-CASH ACTIVITY:		
Interest paid	\$ 110,816	\$ 75,800

BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Bethesda Health Clinic (“the 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 (“BPA”), is a not-for-profit organization, whose sole member is the Clinic that employs physicians with an expertise in their respective fields.

Hangars of Hope is a pair of thrift stores organized and controlled by the Clinic exclusively to provide support for the clinic to supplement grants and donations in order to provide affordable care for its patients.

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, whose sole member is the Clinic. 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.

Income Taxes

The Clinic and BPA are nonprofit corporations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, contributions to the Clinic or BPA 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. For the eighteen months ended June 30 2019, and year ended December 31, 2017, the Clinic did not accrue any amounts for uncertain tax positions. The Clinic files income tax returns in the U.S. federal jurisdiction.

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
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 eighteen months ended June 30, 2019 and year ended December 31, 2017 are as follows:

	<u>2019</u>	<u>2017</u>
Donated professional services	\$ 444,910	\$ 349,464
Donated off-site medical services	994,637	1,195,281
Total donated medical professional services	<u>\$ 1,439,547</u>	<u>\$ 1,544,745</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 2019 and 2017, 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 \$762,752 and \$1,178,592 for the eighteen months ended June 30, 2019 and year ended December 31, 2017, respectively.

The Clinic occupies a building owned by First Baptist Church of Tyler under a lease agreement for \$1 per year which expired January 1, 2018. The landlord has estimated the approximate fair value of the annual rental to be \$156,000 for the eighteen months ended June 30, 2019 and \$104,000 for the year ended December 31, 2017. 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 eighteen months ended June 30, 2019 and December 31, 2017, totaled \$29,602 and \$12,460, 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.

Fiscal Year End

Subsequent to December 31, 2017, the Clinic and BPA changed their fiscal year ends to June 30 to better align with their operating cycles, resulting in an eighteen month period for June 30, 2019.

BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Beneficial Interest in Assets Held by East Texas Communities Foundation

The Clinic has established a donor advised fund at the East Texas Communities Foundation (“ETCF”). The Clinic granted variance power to ETCF, which allows ETCF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of ETCF’s board of directors, such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by ETCF for the benefit of the Clinic, and is reported at fair value in the statement of financial position, with distributions and changes in fair value recognized in the statement of activities.

Beneficial Interest in 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. For the eighteen months ended June 30, 2019 and year ended December 31, 2017, 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) on terms similar to that of the Clinic noted above.

The assets have been reported in the accompanying financial statements at fair value under the caption “Beneficial Interest in Bethesda Foundation”.

Fair Value of Financial Instruments

The Clinic’s financial instruments consist principally of cash and cash equivalents, beneficial interests in assets held by others, 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.

BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new revenue recognition standard entitled "Revenue from Contracts with Customers" under Accounting Standards Update 2014-09. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. The standard is effective for annual reporting periods beginning after December 15, 2018. Earlier application is permitted in fiscal years beginning after December 15, 2016. Entities must adopt the new guidance using one of two retrospective application methods. The Clinic is currently evaluating the standard to determine the impact of its adoption on the financial statements.

In February 2016, FASB issued ASU 2016-02, "Leases." This update requires lessees to record a lease liability that represents the lessee's future lease obligation and a right-of-use asset that represents the lessee's right to use or control of a specified asset for the lease term. The Clinic is currently evaluating the provisions of ASU 2016-02, which are effective for fiscal years beginning after December 15, 2019.

In August 2016, FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." This update provides cash flow statement classification guidance. The Clinic is currently evaluating the provisions of ASU 2016-15, which are effective for fiscal years beginning after December 15, 2018.

In June 2018, FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." These amendments clarify and improve the scope and accounting around contributions of cash and other asset received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities is a contribution or exchange transaction. The Clinic is currently evaluating the provisions of ASU 2018-08, which are effective for fiscal years beginning after December 15, 2018.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2019 presentation. Primarily, the changes related to Hangers of Hope expenses being reclassified from program expenses fundraising expenses. The changes did not affect the change in net assets or net assets reported for December 31, 2017.

NOTE 2: BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Clinic has beneficial interest in assets held by the East Texas Communities Foundation ("ETCF"), and the Bethesda Foundation ("the Foundation"), as described in Note 1. Below is a reconciliation of the beginning and ending balances of beneficial interest in assets held by ETCF and Bethesda measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the 18 months ended June 30, 2019 and year ended December 31, 2017:

BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 2: BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS - continued

The Foundation	<u>2019</u>	<u>2017</u>
Beginning balance	\$ 1,238,307	\$ 1,069,292
Contributions	72,200	22,000
Realized gain (loss)	21,643	20,140
Unrealized gain (loss)	15,999	113,579
Interest and dividends	44,131	25,047
Fees	<u>(18,542)</u>	<u>(11,751)</u>
Ending balance	\$ <u>1,373,738</u>	\$ <u>1,238,307</u>
ETCF	<u>2019</u>	<u>2017</u>
Beginning balance	\$ 192,560	\$ 158,250
Contributions	69,249	11,750
Realized gain (loss)	3,444	3,134
Unrealized gain (loss)	4,314	17,642
Interest and dividends	7,235	3,905
Fees	<u>(3,471)</u>	<u>(2,121)</u>
Ending balance	\$ <u>273,331</u>	\$ <u>192,560</u>

NOTE 3: PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consist of the following for the eighteen months ended June 30, 2019 and year ended December 31, 2017:

	<u>2019</u>	<u>2017</u>
Equipment	\$ 960,392	\$ 872,914
Leasehold improvements	1,348,070	1,332,106
Land	535,444	535,444
Building	<u>1,830,305</u>	<u>1,804,941</u>
Total property, furniture and equipment	4,674,211	4,545,405
Less: Accumulated depreciation	<u>(1,254,324)</u>	<u>(1,007,823)</u>
Total property, furniture and equipment, net	\$ <u>3,419,887</u>	\$ <u>3,537,582</u>

Depreciation expense for the eighteen months ending June 30, 2019 and year ending December 31, 2017 was \$253,100 and \$167,715, 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. The land and building are collateral for the debt described in Note 9.

BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 4: 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 for the eighteen months ended June 30, 2019 and year ended December 31, 2017:

	<u>2019</u>	<u>2017</u>
Reserve	\$ 273,331	\$ 192,560
Maintenance	10,000	10,000
Foundation	1,373,738	1,238,307
Total board designated net assets	<u>\$ 1,657,069</u>	<u>\$ 1,440,867</u>

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2017</u>
Social worker	\$ -	\$ 10,218
Prostate	73,457	11,017
Dental	18,307	-
Total net assets with donor restrictions	<u>\$ 91,764</u>	<u>\$ 21,235</u>

NOTE 6: 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. For the eighteen months ended June 30, 2019 year ended December 31, 2017, the Clinic's uninsured cash balances were \$185,754 and \$195,819, respectively.

The Clinic receives a significant portion of its donated professional services revenue from Texas Spine and Joint Hospital, Ltd. For the eighteen months ended June 30, 2019 and year ended December 31, 2017, the hospital donated services valued at \$469,308 and \$890,259, respectively.

NOTE 7: 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 for the eighteen months ended June 30, 2019 and year ended December 31, 2017, totaled \$3,282,749 and \$1,885,212 respectively. The 2019 joint costs are allocated on the statement of functional expenses as follows: \$2,503,765 (76%) to patient care, \$444,440 (14%) to general and administrative expense, and \$334,544 (10%) to fund-raising. The 2017 joint costs are allocated on the statement of functional expenses as follows: \$1,479,999 (79%) to patient care, \$231,103 (12%) to general and administrative expense, and \$174,110 (9%) to fund-raising.

BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017

NOTE 8: OPERATING LEASE

In 2018, the Clinic entered into a five-year non-cancelable operating lease for its thrift store, Hangers of Hope, at the Troup Highway location. The lease will expire in 2023. In 2019, the Clinic entered into a 2-year non-cancelable operating lease for the same location for additional space. Future minimum rental payments under the lease are as follows:

Year Ending June 30,	Amount
2020	\$ 158,269
2021	158,269
2022	132,026
2023	132,026
2024	11,002
	\$ 591,592

Rent expense for eighteen months ending June 30, 2019 and year ending December 31, 2017 was \$274,693 and \$153,977, respectively.

NOTE 9: 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 \$2,100,750 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 estimated at \$30,446 bearing interest at 1.641% plus a variable margin currently at 1.85%, or 3.491%. The final principal and interest payment estimated at \$30,446 bearing interest at 1.641% plus a variable margin currently at 1.85%, or 3.491% is due on February 15, 2042. Interest expense was \$110,816 and \$75,800 for the eighteen months ended June 30, 2019 and year ended December 31, 2017 respectively. The balance of the note totaled \$1,888,615 and \$1,964,848 at June 30, 2019 and December 31, 2017 respectively, with current portion of long-term debt of \$53,059 and \$50,306 and long-term debt, net of current portion of \$1,835,556 and \$1,914,542 for the fiscal year ends. Future maturities as of June 30, 2019 are as follows:

2020	\$	53,059
2021		55,310
2022		57,455
2023		59,683
2024		63,588
Thereafter		1,599,520
Total	\$	1,888,615

NOTE 10: LIQUIDITY AND AVAILABILITY OF RESOURCES

At June 30, 2019 and December 31, 2017, the Clinic had \$724,325 and \$704,393, 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 \$450,994 and \$511,467, beneficial interest in the assets of ETCF of \$273,331 and \$192,560. 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. Additionally, the Clinic may utilize board designated funds, or request withdrawals from the Foundation if necessary. The Clinic has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$587,000. 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.

**BETHESDA HEALTH CLINIC AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
EIGHTEEN MONTHS ENDED JUNE 30, 2019 AND YEAR ENDED DECEMBER 31, 2017**

NOTE 11: DEFINED CONTRIBUTION PLAN

Effective January 1, 2019, the Clinic began a 401K plan that covers substantially all full time employees of the Clinic. During 2019, the Clinic made contributions of \$11,046 to the plan.

NOTE 12: SUBSEQUENT EVENTS

As of January 1, 2018, the lease with First Baptist Church of Tyler for use of the Clinic building located on the Church's property expired. 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 August 2019, the Clinic executed a 2 year operating lease on Troup Highway, Tyler, Texas for an additional Hangers of Hope retail space payable in monthly installments of \$2,386.

The Clinic has evaluated subsequent events through January 22, 2020, the date which the financial statements were issued.