Healing Hands Ministries, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Healing Hands Ministries, Inc.
December 31, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Directors
Healing Hands Ministries, Inc.
Dallas, Texas

We have audited the accompanying financial statements of Healing Hands Ministries, Inc. (Organization) which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Healing Hands Ministries, Inc. as of December 31, 2019 and 2018, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 1* to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

BKD, LLP

Dallas, Texas
April 28, 2020

Healing Hands Ministries, Inc.
Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	$ 624,030	$ 1,698,855
Investments	5,192,236	5,351,985
Patient accounts receivable	421,013	321,566
Grants receivable	30,000	189,010
Contributions receivable - current	136,025	51,245
Estimated amounts due from third-party payers	-	5,182
Supplies	69,211	198,175
Leasehold incentive receivable	-	334,106
Prepaid expenses and other	115,113	44,303
Total current assets	6,587,628	8,194,427
Contributions Receivable	112,500	-
Property and Equipment, at Cost		
Buildings and leasehold improvements	2,029,374	2,029,374
Equipment	778,564	642,580
Furniture and fixtures	190,330	193,729
	2,998,268	2,865,683
Less accumulated depreciation	1,399,144	983,172
Total property and equipment, at cost	1,599,124	1,882,511
Total assets	$ 8,299,252	$ 10,076,938

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Accounts payable	$ 71,268	$ 244,608
Accrued expenses	215,779	174,332
Total current liabilities	287,047	418,940
Deferred Rent	285,669	357,055
Total liabilities	572,716	775,995
Net Assets		
Without donor restrictions	7,306,483	9,208,668
With donor restrictions	420,053	92,275
Total net assets	7,726,536	9,300,943
Total liabilities and net assets	$ 8,299,252	$ 10,076,938

Healing Hands Ministries, Inc.

Statements of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue	$ 4,836,222	$ 2,416,532
Grant revenue	869,105	948,674
Contract revenue	-	2,227,679
Contributions	362,184	324,457
Other	7,499	9,334
Net assets released from restrictions used for operations	192,980	188,845
Total revenues, gains and other support without donor restrictions	6,267,990	6,115,521
Expenses and Losses		
Salaries and wages	5,800,528	4,001,786
Employee benefits	387,563	365,202
Purchased services and professional fees	1,054,367	857,243
Supplies and other	1,140,336	1,038,475
Rent	274,196	177,896
Depreciation and amortization	415,972	215,004
Total expenses and losses	9,072,962	6,655,606
Operating Loss	(2,804,972)	(540,085)
Other Income		
Investment return	750,251	(228,250)
Deficiency of Revenues over Expenses	(2,054,721)	(768,335)
Contributions of or for acquisition of property and equipment	-	10,000
Net assets released from restriction used for purchase of property and equipment	17,644	791,755
Grants of or for acquisition of property and equipment	134,892	75,000
Increase (Decrease) in Net Assets Without Donor Restrictions	$ (1,902,185)	$ 108,420

Healing Hands Ministries, Inc.

Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	$ (2,054,721)	$ (768,335)
Contributions of or for acquisition of property and equipment	-	10,000
Grant of or for acquisition of property and equipment	134,892	75,000
Net assets released from restriction used for purchase of property and equipment	17,644	791,755
Increase (decrease) in net assets without donor restrictions	(1,902,185)	108,420
Net Assets With Donor Restrictions		
Contributions	538,402	354,374
Net assets released from restriction	(210,624)	(980,600)
Increase (decrease) in net assets with donor restrictions	327,778	(626,226)
Change in Net Assets	(1,574,407)	(517,806)
Net Assets, Beginning of Year	9,300,943	9,818,749
Net Assets, End of Year	$ 7,726,536	$ 9,300,943

Healing Hands Ministries, Inc.
Statements of Cash Flows
December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (1,574,407)	$ (517,806)
Items not requiring (providing) operating cash flow		
Depreciation and amortization	415,972	215,004
Net realized and unrealized (gains) losses on investments	(591,798)	436,919
Contributions of or for acquisition of property and equipment	(40,000)	(298,300)
Grants of or for acquisition of property and equipment	(134,892)	(75,000)
Deferred rent	(71,386)	(4,709)
Changes in		
Patient accounts receivable	(99,447)	(239,140)
Grants and contributions receivable	28,308	(65,255)
Contributions receivable	(167,280)	
Estimated amounts due from third-party payers	5,182	(5,182)
Prepaid expenses and other	(70,810)	3,834
Supplies	128,964	188,737
Accounts payable and accrued expenses	(53,646)	221,351
Net cash used in operating activities	(2,225,240)	(139,547)
Investing Activities		
Purchase of investments	(169,855)	(208,669)
Proceeds from disposition of investments	921,402	1,350,000
Purchase of property and equipment	(210,832)	(995,685)
Net cash provided by investing activities	540,715	145,646
Financing Activities		
Proceeds from reimbursement for leasehold improvements	334,106	-
Proceeds from contributions for acquisition of property and equipment	10,000	280,800
Proceeds from grants for acquisition of property and equipment	265,594	75,000
Net cash provided by financing activities	609,700	355,800
Increase (Decrease) in Cash	(1,074,825)	361,899
Cash, Beginning of Year	1,698,855	1,336,956
Cash, End of Year	$ 624,030	$ 1,698,855
Supplemental Cash Flows Information		
Accounts payable incurred for property and equipment	$ 26,033	$ 104,280
Leasehold improvements acquired through tenant improvement allowance	$ -	$ 334,106
Property and equipment acquired through noncash contributions	$ -	$ 10,000

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Healing Hands Ministries, Inc. (Organization) provides low-cost medical, dental and mental health care and preventative education for children, adolescents and adults in the Lake Highlands and adjacent Dallas communities. The Organization is recognized as a Federally Qualified Health Center (FQHC) by the U.S. Department of Health and Human Services and the state of Texas and is subject to established regulations. The Organization primarily earns revenues from providing health care services and from federal, state and private grants.

Change in Accounting Principle

Revenue Recognition

On January 1, 2019, the Organization adopted Topic 606, *Revenue from Contracts with Customers* (Topic 606), using a full-retrospective method of adoption to all contracts with customers (patients) at January 1, 2018.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients.

Adoption of Topic 606 resulted in changes in presentation of the financial statements and related disclosures in the notes to the financial statements.

Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for copays, coinsurance and deductibles for clients with insurance. Under Topic 606 the estimated amounts due from patients for which the Organization does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Organization's estimation of the transaction price or revenue recorded.

The following table presents the related effect of the adoption of Topic 606 on the statements of operations and cash flows for the year ended December 31, 2018:

	As Previously Reported	As Adjusted	Adoption Impact
Statements of Operations			
Revenues, Gains and Other Support Without Donor Restrictions			
Patient service revenue (net of contractual discounts and allowances)	$ 2,471,823	$ -	$ (2,471,823)
Provision for uncollectible accounts	(55,291)	-	55,291
Net patient service revenue less provision for uncollectible accounts	$ 2,416,532	$ -	$ (2,416,532)
Patient Service Revenue	$ -	$ 2,416,532	$ 2,416,532
Statements of Cash Flows			
Provision for uncollectible accounts	$ 55,921	$ -	$ (55,921)
Changes in patient accounts receivable	$ (294,431)	$ (239,140)	$ 55,291

The adoption had no impact on operating income, change in net assets or net cash provided by operating activities.

Clarifying Contributions Received and Contributions Made

In 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis to all agreements not completed as of January 1, 2019 or entered into after January 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the previously reported 2018 financial statement amounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consist primarily of money market accounts with brokers. Uninvested cash and cash equivalents included in investment accounts are not considered to be cash and cash equivalents.

At December 31, 2019, the Organization's cash accounts exceeded federally insured limits by approximately $480,000.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and, in all debt, securities are carried at fair value. Investment return includes dividend, interest and other investment income; and realized and unrealized gains and losses on investments carried at fair value, less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

No material bad debt expense has been recognized for the years ended December 31, 2019 and 2018.

Supplies

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisition greater than $5,000 are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	Up to 39 years
Leasehold improvements	5-10 years
Furniture and Equipment	5-7 years
Software	3-5 years

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items or a portion thereof may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Patient Service Revenue

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policies and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the Organization overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.* the donor imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Revenue recognized from contributed services consisted of donated medical and dental personnel of $0 and $280,965 for the years ended December 31, 2019 and 2018, respectively, which is included in contract revenue on the accompanying statements of operations.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of laboratory services, rent, minor equipment and other supplies from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as inventory or expense in its financial statements and similarly increase contribution revenue by a like amount. In-kind contributions of $60,131 and $117,923 were received for the years ended December 31, 2019 and 2018, respectively, and are included in contributions without donor restrictions on the accompanying statements of operations.

Government Grant Revenue

A portion of the Organization's revenue is derived from cost-reimbursable federal grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization received cost-reimbursable grants of $620,800 that have not been recognized at December 31, 2019, because qualifying expenditures have not yet been incurred.

Professional Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

Deficiency of Revenues Over Expenses

The statements of operations include deficiency of revenues over expenses. Changes in net assets without donor restrictions which are excluded from deficiency of revenues over expenses, consistent with industry practice, contributions of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction were to be used for the purpose of acquiring such assets).

Self-insurance

The Organization has elected to self-insure certain costs related to employee accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred.

Note 2: Grant Revenue

The Organization is the recipient of a Health Center Program Cluster (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of this grant is to provide expanded health care services in Dallas, Texas, and the surrounding area. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period.

During the years ended December 31, 2019 and 2018, the Organization recognized $998,026 and $1,023,674, respectively, in CHC grant revenues. Funding for the grant year ended on March 31, 2021, has been approved at $735,200.

In addition to this grant, the Organization may receive additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in the Organization's clinics. The Organization measures the performance obligation from commencement of a service to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the services. The Organization had no performed obligations considered unsatisfied or partially unsatisfied as of December 31, 2019 or 2018, respectively.

Transaction Price

The Organization determines the transaction price based on standard charges for services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's sliding fee discount program policy and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are under a prospective payment system (PPS). Medicare payment, including patient coinsurance, is paid based on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided under the plan. The encounter rate is updated annually based on the Medicare Economic Index (MEI).

Other. Payment agreements with certain commercial insurance carriers provide for payment using prospectively determined rates per service and discounts from established charges.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 and 2018.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the *Public Health Service Act* (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, sliding fee discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, no significant revenue was recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Refund Liabilities

From time to time the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2019 and 2018, the Organization has a liability for refunds to third-party payors and patients recorded of approximately $9,000 and $34,000, respectively, which is included in accounts payable on the accompanying balance sheets.

Revenue Composition

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines and method of reimbursement. Tables providing details of these factors are presented below.

The composition of patient service revenue by primary payor for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Medicare	$ 59,652	$ 164,548
Medicaid	3,848,770	1,039,815
Other third-party payers	203,653	373,012
Self-pay	724,147	839,157
	$ 4,836,222	$ 2,416,532

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of patient service revenue based on lines of business and method of reimbursement for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Timing of revenue and recognition and service lines		
Health care services transferred over time		
Family practice	$ 328,921	$ 846,967
Pediatrics	2,543,131	681,226
Dental	117,882	408,632
OBGYN	1,758,126	446,784
Behavioral health	88,162	32,923
	$ 4,836,222	$ 2,416,532
Method of reimbursement		
Fee for service	$ 4,836,222	$ 2,416,532

Financing Component

The Organization has elected the practical expedient allowed under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASC) 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payor pays for that service will be one year or less.

Contract Costs

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2019 and 2018, is:

	2019	2018
Medicare	7%	25%
Medicaid	38%	57%
Other third-party payers	47%	17%
Self-pay	8%	1%
	100%	100%

Note 5: Contract Revenue

The Organization records contract revenue related to an agreement with a local hospital for the Organization to provide medical services to uninsured patients referred by the hospital in order for the hospital to meet certain obligations to participate in the Texas Delivery System Reform Incentive Payment (DSRIP) Program. This agreement was revised and fully amended on March 31, 2020. The Organization received $0 and $2,227,679 during the years ended December 31, 2019 and 2018, respectively. The amended agreement is conditioned upon the Organization meeting certain performance metrics and the hospital's receipt of the DSRIP funding. The maximum potential revenue that has not been recognized as the conditions have not been met is approximately $12,478,000 over three years.

Healing Hands Ministries, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 6: Investments and Investment Return

Investments, at December 31, 2019, and 2018, include:

	2019	2018
Money market funds	$ 211,674	$ 18,980
Fixed income mutual funds	2,462,604	1,800,771
Equity mutual funds	2,517,958	3,532,234
	$ 5,192,236	$ 5,351,985

Total investment return, at December 31, 2019, and 2018, is comprised of the following:

	2019	2018
Interest and dividend income, net	$ 158,453	$ 208,669
Realized and unrealized gains (losses)	591,798	(436,919)
	$ 750,251	$ (228,250)

Note 7: Contributions Receivable

Contributions receivable consisted of the following:

	2019		
	Without Donor Restictions	With Donor Restrictions	Total
Due within one year	$ 31,025	$ 105,000	$ 136,025
Due within one to five years	-	112,500	112,500
	$ 31,025	$ 217,500	$ 248,525

	2018		
	Without Donor Restictions	With Donor Restrictions	Total
Due within one year	$ 51,245	$ -	$ 51,245

No discount or allowance was provided for the contributions as majority of contributions are expected to be fully collected within one year from the time of the pledge and history of contributions.

Note 8: Medical Malpractice Claims

Effective January 8, 2018, the U.S. Department of Health and Human Services has deemed the Organization and its practicing providers are covered under the *Federal Tort Claims Act* (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical dental, and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Prior to being deemed covered under the FTCA, the Organization purchased medical malpractice insurance under a claims made policy. Under such policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Organization also purchased excess multi-peril coverage, which provided additional coverage above the basic policy limits up to the amount specified in the policy.

Claim liabilities are determined without consideration for insurance recoveries. Expected recoveries are presented separately. Based on the Organization's claim experience, no such accrual has been made for the Organization's medical malpractice cost for the years ended December 31, 2019 and 2018. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical malpractice claim.

Note 9: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Pediatric care	$ -	$ 31,800
Women's health services	-	16,500
Vision services	99,775	-
Other health services	90,422	23,975
Acquisition of property and equipment	42,356	20,000
Subject to the passage of time		
For periods after December 31,	187,500	-
	$ 420,053	$ 92,275

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2019	2018
Subject to expenditure for specified purpose		
Family practice	$ -	$ 91,004
Pediatric care	64,300	16,500
Women's health services	69,000	-
Vision services	225	
Other health services	21,955	81,341
Acquisition of property and equipment	17,644	30,630
Creation of Vickery Health Clinic		761,125
Time restrictions expired		
Passage of specified time	37,500	-
	$ 210,624	$ 980,600

Note 10: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 624,030	$ 1,698,855
Investments	5,192,236	5,351,985
Patient accounts receivable	421,013	321,566
Grants receivable	30,000	189,010
Contributions receivable, less amounts not to be collected within one year of $112,500 (2019)	136,025	51,245
Estimated amounts due from third-party payers	-	5,182
Leasehold incentive receivable	-	334,106
Total financial assets	6,403,304	7,951,949
Less amounts restricted for purchase of property and equipment	42,356	20,000
Financial assets available to meet general expenditures within one year	$ 6,360,948	7,931,949

The Organization receives contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended December 31, 2019 and 2018, restricted contributions of $272,697 and $72,275 were included in financial assets available to meet cash need for general expenditures within one year.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

Note 11: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on the actual usage, salary allocations and other methods. The following schedule presents the natural classification of expenses by function for the years ended December 31:

	2019							
	Health Care Services					Support Services		
	Family Practice	Pediatrics	Obstetrics	Dental	Other Health Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 1,635,121	$ 792,864	$ 709,618	$ 558,784	$ 335,504	$ 1,566,709	$ 183,422	$ 5,800,528
Employee benefits	123,099	51,361	64,671	48,149	24,299	62,535	13,449	387,563
Purchased services and professional fees	75,420	147,835	708,981	36,158	6,728	79,245	-	1,054,367
Supplies and other	377,472	116,337	155,957	91,860	9,447	319,494	69,769	1,140,336
Rent	59,678	70,906	69,352	24,590	8,924	40,746	-	274,196
Depreciation and amortization	94,438	109,686	109,686	33,829	12,277	56,056	-	415,972
Total expenses	$ 2,365,228	$ 1,288,989	$ 1,818,265	$ 793,370	$ 397,179	$ 2,124,785	$ 266,640	$ 9,072,962

	2018							
	Health Care Services					Support Services		
	Family Practice	Pediatrics	Obstetrics	Dental	Other Health Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 1,012,536	$ 457,679	$ 285,688	$ 569,232	$ 223,531	$ 1,320,113	$ 133,007	$ 4,001,786
Employee benefits	92,224	22,805	16,596	49,633	34,948	135,061	13,935	365,202
Purchased services and professional fees	350,842	48,583	262,893	18,147	41,604	135,174	-	857,243
Supplies and other	423,271	118,760	131,489	76,219	19,329	208,955	60,452	1,038,475
Rent	62,308	27,965	25,535	20,559	7,461	34,068	-	177,896
Depreciation and amortization	89,639	11,079	10,754	32,109	18,215	53,208	-	215,004
Total expenses	$ 2,030,820	$ 686,871	$ 732,955	$ 765,899	$ 345,088	$ 1,886,579	$ 207,394	$ 6,655,606

Note 12: Operating Leases

Noncancelable operating leases for office and clinic space expire in various years through 2024. The leases generally contain renewal options for periods ranging from 1 to 10 years and require the Organization to pay all executory costs (property taxes, maintenance and insurance).

The Organization entered into a facility lease on April 2013 with payments escalating throughout the lease. The Organization is recording the lease expense in the straight-line method throughout the life of the lease. Accordingly, the Organization has recorded a deferred rent liability in long-term liabilities on the accompanying balance sheets at December 31, 2019, and 2018. In January 2019, this lease agreement was extended through April 2027.

During 2018, the Organization entered into a facility lease on March 2018 with an effective date of December 1, 2018. The lease agreement included tenant improvement allowances of approximately $335,000, which are amortized on a straight-line basis over the life of the lease.

Future minimum lease payments at December 31, 2019, were:

2020	$ 345,376
2021	324,343
2022	317,333
2023	300,140
2024	111,028
Thereafter	256,993
Future minimum lease payments	$ 1,655,213

Note 13: Retirement Plan

The Organization adopted a 403(b) contribution retirement plan, which covers substantially all employees who work 20 hours or more hours a week. The Organization's contributions to the plan are required by the plan documents. The Organization matches 100 percent of employees' contributions up to three percent of employee compensation. Retirement expense was $60,581 and $54,377 for the years ended December 31, 2019, and 2018, respectively.

Note 14: Related Party Transactions

The Organization's purchasing during the years ended December 31, 2019, and 2018, was directed by a former employee who is also a close relative of one of the Organization's employees. During 2018, the employee left the Organization but remained in charge of purchasing as a contracted consultant. Approximately $35,000 and $97,000 was paid in salary or consulting fees to this employee during the years ended December 31, 2019, and 2018, respectively.

The Organization receives donations from its employees and board of directors throughout the year. For the years ended December 31, 2019, and 2018, the Organization received approximately $41,000 and $53,000 from employees and board members, respectively.

Note 15: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Healing Hands Ministries, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments				
Money market funds	$ 211,674	$ 211,674	$ -	$ -
Fixed income mutual funds	2,462,604	2,462,604	-	-
Equity mutual funds	2,517,958	2,517,958	-	-
Total investments	$ 5,192,236	$ 5,192,236	$ -	$ -
December 31, 2018				
Investments				
Money market funds	$ 18,980	$ 18,980	$ -	$ -
Fixed income mutual funds	1,800,771	1,800,771	-	-
Equity mutual funds	3,532,234	3,532,234	-	-
Total investments	$ 5,351,985	$ 5,351,985	$ -	$ -

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization did not have any Level 2 or Level 3 investments at December 31, 2019.

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenues

Concentration of revenues related to grant awards and other support is described in *Note 2*.

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 1* and *3*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *8*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Note 17: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically an increased no-show rate as well as reduction in services at various locations.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Organization expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. In April 2020, the Organization was awarded $938,371 in CHC grant funds to support the detection of COVID-19 and/or the prevention, diagnosis and treatment of COVID-19.

Subsequent events have been evaluated through April 28, 2020, which is the date the financial statements were issued.

Note 18: Future Change in Accounting Principle

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.