Healing Hands Ministries, Inc. d/b/a HHM Health

Independent Auditor's Reports and Consolidated Financial Statements

December 31, 2022 and 2021

Healing Hands Ministries, Inc.
d/b/a HHM Health
December 31, 2022 and 2021

Contents

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Independent Auditor's Report

Board of Directors
Healing Hands Ministries, Inc.
d/b/a HHM Health
Dallas, Texas

Opinion

We have audited the consolidated financial statements of Healing Hands Ministries, Inc. d/b/a HHM Health (Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2022 and 2021, and the consolidated 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.

Basis for Opinion

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

Emphasis of Matter

As discussed in *Note 4* to the financial statements, in 2022, the Organization adopted new accounting guidance regarding leases (Topic 842). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

FORVIS, LLP

Little Rock, Arkansas
July 17, 2023

Healing Hands Ministries, Inc.
d/b/a HHM Health
Consolidated Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash	$ 1,573,389	$ 1,549,965
Investments	9,608,117	11,276,148
Patient accounts receivable	329,969	405,741
Grants receivable	659,318	713,176
Contributions receivable	77,880	80,601
Supplies	396,420	199,148
Prepaid expenses and other	292,575	876,635
Total current assets	12,937,668	15,101,414
Property and Equipment, at Cost		
Buildings and leasehold improvements	3,591,024	2,080,235
Equipment	1,932,873	1,236,831
Furniture and fixtures	474,480	144,212
Construction in progress	-	399,835
	5,998,377	3,861,113
Less accumulated depreciation	2,868,819	2,308,976
	3,129,558	1,552,137
Right-of-Use Assets – Operating Leases	2,955,220	-
Total assets	$ 19,022,446	$ 16,653,551

Liabilities and Net Assets

	2022	2021
Current Liabilities		
Accounts payable	$ 487,366	$ 93,637
Accrued expenses	960,174	649,820
Contract advances	-	1,200,000
Current portion of operating lease liabilities	640,043	-
Total current liabilities	2,087,583	1,943,457
Other Liabilities		
Operating lease liabilities	2,352,336	-
Deferred rent	-	143,037
	2,352,336	143,037
Net Assets		
Without donor restrictions	14,334,039	13,439,015
With donor restrictions	248,488	1,128,042
Total net assets	14,582,527	14,567,057
Total liabilities and net assets	$ 19,022,446	$ 16,653,551

Healing Hands Ministries, Inc.

d/b/a HHM Health

Consolidated Statements of Operations

Years Ended December 31, 2022 and 2021

	2022	2021
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue	$ 6,117,250	$ 5,067,262
Grant revenue	4,483,632	3,162,482
Contract revenue	3,923,904	4,594,090
Contributions	2,443,631	1,549,594
Other	27,188	12,211
Net assets released from restrictions used for operations	656,129	405,648
Total revenues, gains and other support without donor restrictions	17,651,734	14,791,287
Expenses and Losses		
Salaries and wages	9,152,099	7,174,830
Employee benefits	1,194,745	622,625
Purchased services and professional fees	1,565,137	1,089,493
Supplies and other	4,268,395	2,826,596
Rent	544,815	300,134
Depreciation and amortization	559,843	475,961
Total expenses and losses	17,285,034	12,489,639
Operating Income	366,700	2,301,648
Other Income (Expense)		
Investment return	(1,167,244)	492,769
Excess (Deficiency) of Revenues over Expenses	(800,544)	2,794,417
Net assets released from restriction used for purchase of property and equipment	953,667	11,909
Contributions of property and equipment	180,000	-
Grants of or for acquisition of property and equipment	561,901	88,186
Increase in Net Assets Without Donor Restrictions	$ 895,024	$ 2,894,512

Healing Hands Ministries, Inc.
d/b/a HHM Health
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	$ (800,544)	$ 2,794,417
Net assets released from restriction used for purchase of property and equipment	953,667	11,909
Contributions of property and equipment	180,000	-
Grant of or for acquisition of property and equipment	561,901	88,186
Increase in net assets without donor restrictions	895,024	2,894,512
Net Assets with Donor Restrictions		
Contributions	730,242	624,074
Net assets released from restriction	(1,609,796)	(417,557)
Increase (decrease) in net assets with donor restrictions	(879,554)	206,517
Change in Net Assets	15,470	3,101,029
Net Assets, Beginning of Year	14,567,057	11,466,028
Net Assets, End of Year	$ 14,582,527	$ 14,567,057

Healing Hands Ministries, Inc.
d/b/a HHM Health
Consolidated Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

2022

	Healthcare Services									Support Services		
	Family Practice	Pediatrics	Obstetrics	Dental	Optometry	Behavioral	Pharmacy	Imaging	Other Health Services	General and Admin	Fund-raising	Total
Salaries and wages	$ 1,920,074	$ 1,583,244	$ 783,274	$ 695,800	$ 197,464	$ 228,939	$ 83,839	$ 69,720	$ 824,853	$ 2,623,165	$ 141,727	$ 9,152,099
Employee benefits	230,138	175,032	107,135	61,272	25,735	21,443	13,674	4,816	137,666	396,201	21,633	1,194,745
Purchased services and professional fees	109,463	234,913	645,682	36,990	5,831	27,903	33,666	13,959	100,017	328,947	27,766	1,565,137
Supplies and other	517,231	2,228,586	183,921	175,006	27,365	12,356	84,445	65,648	124,929	742,183	106,725	4,268,395
Rent	108,686	123,109	68,293	30,422	17,618	12,026	15,321	20,370	61,433	81,159	6,378	544,815
Depreciation/amortization	162,023	111,543	101,096	17,630	22,499	18,051	7,297	19,953	25,997	70,375	3,379	559,843
Total expenses	$ 3,047,615	$ 4,456,427	$ 1,889,401	$ 1,017,120	$ 296,512	$ 320,718	$ 238,242	$ 194,466	$ 1,274,895	$ 4,242,030	$ 307,608	$ 17,285,034

2021

	Healthcare Services									Support Services		
	Family Practice	Pediatrics	Obstetrics	Dental	Optometry	Behavioral	Pharmacy	Imaging	Other Health Services	General and Admin	Fund-raising	Total
Salaries and wages	$ 1,814,158	$ 896,329	$ 729,762	$ 626,733	$ 166,266	$ 256,585	$ -	$ -	$ 276,541	$ 2,292,916	$ 115,540	$ 7,174,830
Employee benefits	124,980	75,696	66,240	62,064	15,120	25,124	-	-	18,691	226,543	8,167	622,625
Purchased services and professional fees	73,276	191,290	618,123	8,704	1,037	1,953	-	-	5,318	182,612	7,180	1,089,493
Supplies and other	466,089	1,433,321	217,253	107,700	16,035	21,921	-	-	23,127	507,053	34,097	2,826,596
Rent	104,208	69,406	66,214	22,671	1,847	3,873	-	-	4,841	24,971	2,103	300,134
Depreciation/amortization	184,768	106,784	101,862	19,787	12,768	494	-	-	1,170	47,746	582	475,961
Total expenses	$ 2,767,479	$ 2,772,826	$ 1,799,454	$ 847,659	$ 213,073	$ 309,950	$ -	$ -	$ 329,688	$ 3,281,841	$ 167,669	$ 12,489,639

Healing Hands Ministries, Inc.
d/b/a HHM Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	$ 15,470	$ 3,101,029
Items not requiring (providing) operating cash flow		
Depreciation and amortization	559,843	475,961
Noncash operating lease expense	434,242	-
Net realized and unrealized gains on investments	1,441,953	(271,100)
Grants of or for acquisition of property and equipment	(561,901)	(88,186)
Contributions of or for acquisition of property and equipment	(180,000)	-
Deferred rent	-	(71,317)
Changes in		
Patient accounts receivable	79,139	(70,449)
Grants receivable	50,491	(441,362)
Contributions receivable	2,721	536,441
Prepaid expenses and other	569,620	(695,082)
Supplies	(197,272)	56,287
Accounts payable and accrued expenses	(619,699)	123,454
Operating lease liability	(525,680)	-
Net cash provided by operating activities	1,068,927	2,655,676
Investing Activities		
Purchase of investments	(313,477)	(5,501,451)
Proceeds from disposition of investments	539,555	29,782
Purchase of property and equipment	(1,833,482)	(530,432)
Net cash used in investing activities	(1,607,404)	(6,002,101)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	-	34,000
Proceeds from grants for acquisition of property and equipment	561,901	88,186
Net cash provided by financing activities	561,901	122,186
Increase (Decrease) in Cash	23,424	(3,224,239)
Cash, Beginning of Year	1,549,965	4,774,204
Cash, End of Year	$ 1,573,389	$ 1,549,965
Supplemental Cash Flows Information		
Accounts payable incurred for property and equipment	$ 123,782	$ -
Property and equipment acquired through noncash contributions	$ 180,000	$ -
Right of use asset obtained in exchange for new operating lease liability	$ 2,608,081	$ -
Right of use asset recorded upon adoption of ASC 842	$ 781,381	$ -
Lease liability recorded upon adoption of ASC 842	$ 909,978	$ -

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

Nature of Operations and Principles of Consolidation

Healing Hands Ministries, Inc. d/b/a HHM Health (Organization) provides medical, dental, mental, and vision care and preventative education for children, adolescents, and adults in the Dallas and surrounding counties with a heavy concentration in the Vickery Meadow and Oak Cliff areas of Dallas. 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 healthcare services, federal grants, and contributions from individuals, private foundations, churches, and other private organizations.

The Organization is the sole member of HHM Imaging, LLC (Imaging), which provides radiology, mammography, bone density scans and other imaging services. All material intercompany accounts have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. 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. Uninvested cash and cash equivalents included in investment accounts are not considered to be cash and cash equivalents.

At December 31, 2022, the Organization’s cash accounts exceeded federally insured limits by approximately $790,000.

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 co-pays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed.

Supplies

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Equity Investments

The Organization measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess (deficiency) of revenues over expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Net Investment Return

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

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 consolidated 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.

Property and Equipment

Property and equipment acquisitions 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.

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 are 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, 2022 and 2021.

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. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

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 consolidated statements of operations 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. There was no revenue recognized from contributed services for the years ended December 31, 2022 and 2021.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of vaccines 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 $1,915,351 and $1,256,833 were received for the years ended December 31, 2022 and 2021, respectively, and are included in contributions without donor restrictions on the accompanying consolidated statements of operations. In-kind expenses of $1,706,901 and $1,293,562 were recognized for the years ended December 31, 2022 and 2021, respectively, and are included in supplies and other expense on the accompanying consolidated 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 $309,206 and $4,217,464 that have not been recognized at December 31, 2022 and 2021, respectively, 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 11*.

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.

Imaging is organized as a Texas limited liability company, which is not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Therefore, taxable income or loss is reported to the individual partners for inclusion in their respective tax returns, and no provision for federal and state income taxes has been included in the accompanying consolidated financial statements.

Functional Allocation of Expenses

The Organization provides healthcare services primarily to residents within its geographic area. The statement of functional expenses presents the natural classification detail of expense by function. Certain costs attributable to more than one function have been allocated among the healthcare services, general and administrative, and fundraising functional expense classifications based on the actual usage, salary allocations, and other methods.

Excess (Deficiency) of Revenues over Expenses

The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include 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).

Note 2: Investments and Investment Return

Investments at December 31, 2022 and 2021 include:

	2022	2021
Money market funds	$ 134,195	$ 472,755
Fixed income mutual funds	2,894,170	3,277,015
Equity mutual funds	6,579,752	7,526,378
	$ 9,608,117	$ 11,276,148

Total investment return is comprised of the following:

	2022	2021
Interest and dividend income, net	$ 274,709	$ 221,669
Realized and unrealized gains (losses), net	(1,441,953)	271,100
	$ (1,167,244)	$ 492,769

Note 3: 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 payor agreements. The mix of receivables from patients and third-party payors at December 31, 2022 and 2021 is:

	2022	2021
Medicare	2%	2%
Medicaid	74%	95%
Other third-party payors	22%	2%
Self-pay	2%	1%
	100%	100%

Note 4: Nature of Leases

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Organization adopted Topic 842 on January 1, 2022 (the effective date) using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Organization elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Organization has lease agreements with nonlease components that relate to the lease components. The Organization elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all classes of underlying asset. Also, the Organization elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Organization did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of $781,381 and $909,978, respectively. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the consolidated statements of operations, changes in net assets or cash flows.

Accounting Policies

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

The Organization combines lease and nonlease components, such as common area and other maintenance costs and accounts for them as a single lease component, in calculating the ROU assets and lease liabilities on the consolidated balance sheet.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Organization has entered into the following lease arrangements:

Operating Leases

The Organization leases space for clinic locations that expire in various years through 2027. Termination of the leases generally is prohibited unless there is a violation under the lease agreement.

All Leases

The Organization has no material related-party leases.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the year ended December 31, 2022 are:

Lease cost	
Operating lease cost	$ 492,090
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 583,528
Right-of-use assets obtained in exchange for new operating lease liabilities	2,608,081
Weighted-average remaining lease term	
Operating leases	4.3 years
Weighted-average discount rate	
Operating leases	2.6%

Future minimum lease payments and reconciliation to the consolidated balance sheet at December 31, 2022 are as follows:

2023	$ 707,995
2024	741,118
2025	741,118
2026	695,358
2027	276,053
Total future undiscounted lease payments	3,161,642
Less interest	(169,263)
Operating lease liabilities	$ 2,992,379

Note 5: Operating Leases

Noncancelable operating leases at December 31, 2021 for office and clinic space expire in various years through 2027. 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, 2021. In January 2019, this lease agreement was extended through April 2027.

During 2018, the Organization entered into a facility lease 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, 2021, were:

2022	$ 372,245
2023	355,052
2024	165,940
2025	165,940
2026	120,225
Thereafter	34,893
Future minimum lease payments	$ 1,214,295

Note 6: 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 healthcare 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, 2022 and 2021, the Organization recognized $4,328,706 and $2,931,719, respectively, in CHC grant revenues. Funding for the grant year ending on March 31, 2024 has been approved at $902,200.

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 7: 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 include 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. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example pharmaceuticals and medical equipment) and the Organization does not believe it is required to provide additional goods related to the patient.

Transaction Price

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 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 healthcare 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.

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. Refund liabilities were not material as of December 31, 2022 and 2021.

Patient and Uninsured Payors

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 co-pays 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.

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, 2022 and 2021, 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.

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 (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Method of reimbursement (fee for service or capitation)
- Organization's line of business that provided the service (for example, medical, dental, behavioral health, optometry, etc.)

For the years ended December 31, 2022 and 2021, the Organization recognized revenue of $6,079,528 and $5,067,262, respectively, from goods and services that transfer to the customer over time and $37,722 and $0, respectively, from goods and services that transfer to the customer at a point in time.

Contract Balances

The following table provides information about the Organization's receivables from contracts with customers:

	2022	2021
Accounts receivable, beginning of year	$ 405,741	$ 335,292
Accounts receivable, end of year	$ 329,969	$ 405,741

Note 8: 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:

	2022	2021
Subject to expenditure for specified purpose		
Women's health services	$ 50,000	$ 35,000
Vision services	31,296	-
Dental services	30,000	-
HPV prevention and treatment	30,000	-
Nutrition education	26,840	-
Vickery Site 3rd floor expansion	8,719	650,000
Pediatric mental health services	992	155,000
Acquisition of property and equipment	-	34,000
Activities benefitting children of Dallas	-	50,000
Mobile food pantry	-	10,500
Other health services	58,141	156,042
Subject to the passage of time		
For periods after December 31	12,500	37,500
	$ 248,488	$ 1,128,042

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.

	2022	2021
Subject to expenditure for specified purpose		
Acquisition of property and equipment	$ 953,667	$ 11,909
Imaging Center	150,000	-
Pediatric mental health services	131,052	-
Women's health services	76,500	-
Women and children's clinic	60,931	75,000
Vision services	22,013	46,809
Other health services	165,633	208,839
Expiration of time restrictions	50,000	75,000
	$ 1,609,796	$ 417,557

Note 9: 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, 2022 and 2021 comprise the following:

	2022	2021
Financial assets at year-end		
Cash	$ 1,573,389	$ 1,549,965
Investments	9,608,117	11,276,148
Patient accounts receivable	329,969	405,741
Grants receivable	659,318	713,176
Contributions receivable	77,880	80,601
Total financial assets	12,248,673	14,025,631
Less amounts restricted for purchase of property and equipment	8,719	684,000
Financial assets available to meet general expenditures within one year	$ 12,239,954	$ 13,341,631

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.

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.

To help manage unanticipated liquidity needs, subsequent to year-end, the Organization secured a committed line of credit of $1,000,000, which it could draw upon.

Note 10: 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 and March 2022 and extended through August 31, 2022, at which point it was not renewed. The Organization recognized $3,923,904 and $4,594,090 during the years ended December 31, 2022 and 2021, respectively. The amended agreement is conditioned upon the Organization meeting certain performance metrics and the hospital's receipt of the DSRIP funding.

Note 11: 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 claim 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, 2022 and 2021. However, because of the risk in providing healthcare services, it is possible that an event has occurred which will be the basis of a future medical malpractice claim.

Note 12: Retirement Plan

The Organization adopted a 403(b) retirement plan, which covers substantially all employees who work 20 hours or more a week. The Organization's contributions to the plan are required by the plan documents. The Organization matches 100% of employees' contributions up to 3% plus 50% over 3% of employee compensation. Retirement expense was $160,856 and $123,188 for the years ended December 31, 2022 and 2021, respectively.

Note 13: Related Party Transactions

The Organization receives donations from its employees and board of directors throughout the year. For the years ended December 31, 2022 and 2021, the Organization received donations of approximately $23,000 and $18,000, respectively, from employees and board members.

Note 14: 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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated 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, 2022 and 2021:

		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, 2022				
Investments				
Money market funds	$ 134,195	$ 134,195	$ -	$ -
Fixed income mutual funds	2,894,170	2,894,170	-	-
Equity mutual funds	6,579,752	6,579,752	-	-
Total investments	$ 9,608,117	$ 9,608,117	$ -	$ -
December 31, 2021				
Investments				
Money market funds	$ 472,755	$ 472,755	$ -	$ -
Fixed income mutual funds	3,277,015	3,277,015	-	-
Equity mutual funds	7,526,378	7,526,378	-	-
Total investments	$ 11,276,148	$ 11,276,148	$ -	$ -

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 consolidated 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, 2022.

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.

Note 15: 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 6*.

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 1* and *7*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *11*.

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 consolidated balance sheets.

Note 16: COVID-19 Pandemic Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The Organization has experienced some disruption through reduction in patient service revenue, specifically, and increased no show rate as well as decreased reimbursement from providing telehealth visits rather than in person visits. This has been partially offset by grant funding.

The extent of the COVID-19 pandemic's effect on the Organization's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Organization's control and ability to forecast.

Because of these and other uncertainties, the Organization cannot estimate the length or severity of the effect of the pandemic on the Organization's business. Decreases in cash flows and results of operations may have an effect on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts.

Health Center Program

In 2020, the Organization received federal grant awards from the Health Center Program *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). Funding received totaled $1,261,340 and revenue recognized was $93,313 and $599,272 during the years ended December 31, 2022 and 2021, respectively.

In 2021, $5,403,986 in funding for the American Rescue Plan was awarded to the Organization to provide it with direct relief and to help contain COVID-19 as part of a one-time funding to health centers funded under the Health Center Program. The Organization recognized revenue of $3,372,685 and $1,333,163 during the years ended December 31, 2022 and 2021, respectively.

Each grant award contains specific terms and conditions that must be followed when utilizing this funding.

Provider Relief Fund

During the year ended December 31, 2022, the Organization received $202,979 of distributions from the CARES Act Provider Relief Fund (the "Provider Relief Fund"). These distributions from the Provider Relief Fund are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Organization accounts for such payments as conditional contributions in accordance with ASC Topic 958-605, *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Organization's revenues and expenses through December 31, 2022, the Organization recognized $202,979 related to the distributions from the Provider Relief Fund, and these payments are recorded as grant revenue on the accompanying consolidated statements of operations.

Note 17: Subsequent Events

Subsequent events have been evaluated through July 17, 2023, which is the date the consolidated financial statements were available to be issued.

The Organization opened an in-house pharmacy under the federal 340B Drug Pricing Program in February 2023. The pharmacy is expected to increase the Organization's revenue while also providing savings in medications to the Organization's patients.

The Organization entered into a revolving line of credit agreement with a bank on February 21, 2023. The agreement allows borrowings up to $1 million, payable on demand with interest at Bloomberg Short-Term Bank Yield Index plus 1.00%.