# Healing Hands Ministries, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

# Healing Hands Ministries, Inc.

## December 31, 2020 and 2019

### 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, 2020 and 2019, 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, 2020 and 2019, 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.

BKD, LLP

Dallas, Texas
May 21, 2021

# Healing Hands Ministries, Inc.
## Balance Sheets
## December 31, 2020 and 2019

## Assets

| | 2020 | 2019 |
|---|---|---|
| **Current Assets** | | |
| Cash | $ 4,774,204 | $ 624,030 |
| Investments | 5,533,379 | 5,192,236 |
| Patient accounts receivable | 335,292 | 421,013 |
| Grants receivable | 271,814 | 30,000 |
| Contributions receivable – current | 613,542 | 136,025 |
| Supplies | 255,435 | 69,211 |
| Prepaid expenses and other | 181,553 | 115,113 |
| Total current assets | 11,965,219 | 6,587,628 |
| **Contributions Receivable** | 37,500 | 112,500 |
| **Property and Equipment, at Cost** | | |
| Buildings and leasehold improvements | 2,037,824 | 2,029,374 |
| Equipment | 788,151 | 778,564 |
| Furniture and fixtures | 504,706 | 190,330 |
| | 3,330,681 | 2,998,268 |
| Less accumulated depreciation | 1,833,015 | 1,399,144 |
| Total property and equipment, at cost | 1,497,666 | 1,599,124 |
| Total assets | $ 13,500,385 | $ 8,299,252 |

## Liabilities and Net Assets

| | 2020 | 2019 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | $ 195,162 | $ 71,268 |
| Accrued expenses | 424,841 | 215,779 |
| Contract advances | 1,200,000 | - |
| Total current liabilities | 1,820,003 | 287,047 |
| **Deferred Rent** | 214,354 | 285,669 |
| Total liabilities | 2,034,357 | 572,716 |
| **Net Assets** | | |
| Without donor restrictions | 10,544,503 | 7,306,483 |
| With donor restrictions | 921,525 | 420,053 |
| Total net assets | 11,466,028 | 7,726,536 |
| Total liabilities and net assets | $ 13,500,385 | $ 8,299,252 |

# Healing Hands Ministries, Inc.

## Statements of Operations

## Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Revenues, Gains, and Other Support Without Donor Restrictions** | | |
| Patient service revenue | $ 4,622,500 | $ 4,836,222 |
| Grant revenue | 1,804,368 | 869,105 |
| Contract revenue | 3,637,735 | - |
| Contributions | 3,022,670 | 362,184 |
| Other | 8,732 | 7,499 |
| Net assets released from restrictions used for operations | 302,512 | 192,980 |
| Total revenues, gains, and other support without donor restrictions | 13,398,517 | 6,267,990 |
| **Expenses and Losses** | | |
| Salaries and wages | 6,313,701 | 5,800,528 |
| Employee benefits | 473,302 | 387,563 |
| Purchased services and professional fees | 1,007,413 | 1,125,163 |
| Supplies and other | 2,297,936 | 1,069,540 |
| Rent | 274,060 | 274,196 |
| Depreciation and amortization | 433,871 | 415,972 |
| Interest | 5,940 | - |
| Total expenses and losses | 10,806,223 | 9,072,962 |
| **Operating Income (Loss)** | 2,592,294 | (2,804,972) |
| **Other Income** | | |
| Investment return | 341,144 | 750,251 |
| **Excess (Deficiency) of Revenues over Expenses** | 2,933,438 | (2,054,721) |
| Net assets released from restriction used for purchase of property and equipment | 61,716 | 17,644 |
| Grants of or for acquisition of property and equipment | 242,866 | 134,892 |
| **Increase (Decrease) in Net Assets Without Donor Restrictions** | $ 3,238,020 | $ (1,902,185) |

# Healing Hands Ministries, Inc.

## Statements of Changes in Net Assets

## Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Net Assets Without Donor Restrictions** | | |
| Excess (deficiency) of revenues over expenses | $ 2,933,438 | $ (2,054,721) |
| Grant of or for acquisition of property and equipment | 242,866 | 134,892 |
| Net assets released from restriction used for purchase of property and equipment | 61,716 | 17,644 |
| Increase (decrease) in net assets without donor restrictions | 3,238,020 | (1,902,185) |
| **Net Assets With Donor Restrictions** | | |
| Contributions | 865,700 | 538,402 |
| Net assets released from restriction | (364,228) | (210,624) |
| Increase in net assets with donor restrictions | 501,472 | 327,778 |
| **Change in Net Assets** | 3,739,492 | (1,574,407) |
| **Net Assets, Beginning of Year** | 7,726,536 | 9,300,943 |
| **Net Assets, End of Year** | $ 11,466,028 | $ 7,726,536 |

# Healing Hands Ministries, Inc.
## Statements of Cash Flows
## December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ 3,739,492 | $ (1,574,407) |
| Items not requiring (providing) operating cash flow | | |
| Depreciation and amortization | 433,871 | 415,972 |
| Net realized and unrealized (gains) losses on investments | (219,883) | (591,798) |
| Contributions of or for acquisition of property and equipment | (650,000) | (40,000) |
| Grants of or for acquisition of property and equipment | (242,866) | (134,892) |
| Deferred rent | (71,315) | (71,386) |
| Changes in | | |
| Patient accounts receivable | 85,721 | (99,447) |
| Grants and contributions receivable | (241,814) | 28,308 |
| Contributions receivable | 101,858 | (167,280) |
| Estimated amounts due from third-party payers | - | 5,182 |
| Prepaid expenses and other | (66,440) | (70,810) |
| Supplies | (186,224) | 128,964 |
| Accounts payable and accrued expenses | 1,558,989 | (53,646) |
| Net cash provided by (used in) operating activities | 4,241,389 | (2,225,240) |
| **Investing Activities** | | |
| Purchase of investments | (140,570) | (169,855) |
| Proceeds from disposition of investments | 19,310 | 921,402 |
| Purchase of property and equipment | (358,446) | (210,832) |
| Net cash provided by (used in) investing activities | (479,706) | 540,715 |
| **Financing Activities** | | |
| Proceeds from reimbursement for leasehold improvements | - | 334,106 |
| Proceeds from contributions for acquisition of property and equipment | 145,625 | 10,000 |
| Proceeds from grants for acquisition of property and equipment | 242,866 | 265,594 |
| Net cash provided by financing activities | 388,491 | 609,700 |
| **Increase (Decrease) in Cash** | 4,150,174 | (1,074,825) |
| **Cash, Beginning of Year** | 624,030 | 1,698,855 |
| **Cash, End of Year** | $ 4,774,204 | $ 624,030 |
| **Supplemental Cash Flows Information** | | |
| Accounts payable incurred for property and equipment | $ - | $ 26,033 |

# Healing Hands Ministries, Inc.

## Notes to Financial Statements

## December 31, 2020 and 2019

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

### *Nature of Operations*

Healing Hands Ministries, Inc. (Organization) provides low-cost 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 area 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 health care services, federal grants, and contributions from individuals, private foundations, churches, and other private organizations.

### *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, 2020 and 2019, 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, 2020, the Organization's cash accounts exceeded federally insured limits by approximately $4,346,000.

### *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, 2020 and 2019.

### *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 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.

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, 2020 and 2019.

### *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. There was no revenue recognized from contributed services for the years ended December 31, 2020 and 2019.

### *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 $1,546,289 and $60,131 were received for the years ended December 31, 2020 and 2019, 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 $1,005,823 and $620,800 that have not been recognized at December 31, 2020 and 2019, 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 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.

### *Excess (Deficiency) of Revenues Over Expenses*

The 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).

### *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 expense 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, 2020 and 2019, the Organization recognized $1,893,268 and $998,026, respectively, in CHC grant revenues. Funding for the grant year ended on March 31, 2022, 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 performance obligations considered unsatisfied or partially unsatisfied as of December 31, 2020 or 2019, 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 2020 and 2019.

### *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, 2020 and 2019, 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, 2020 and 2019, the Organization has a liability for refunds to third-party payors and patients recorded of approximately $6,000 and $9,000, 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, 2020 and 2019, is as follows:

| | 2020 | 2019 |
|---|---|---|
| Medicare | $ 66,730 | $ 59,652 |
| Medicaid | 3,454,736 | 3,848,770 |
| Other third-party payers | 177,146 | 203,653 |
| Self-pay | 923,888 | 724,147 |
| | $ 4,622,500 | $ 4,836,222 |

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, 2020 and 2019, are as follows:

| | 2020 | 2019 |
|---|---|---|
| Timing of revenue and recognition and service lines | | |
| Health care services transferred over time | | |
| Medical | $ 4,234,231 | $ 4,630,178 |
| Dental | 357,265 | 117,882 |
| Behavioral health | 2,669 | 88,162 |
| Optometry | 28,335 | - |
| | $ 4,622,500 | $ 4,836,222 |
| Method of reimbursement | | |
| Fee for service | $ 4,622,500 | $ 4,836,222 |

### *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, 2020 and 2019, is:

| | 2020 | 2019 |
|---|---|---|
| Medicare | 2% | 7% |
| Medicaid | 95% | 38% |
| Other third-party payers | 2% | 47% |
| Self-pay | 1% | 8% |
| | 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 recognized $3,637,735 and $0 during the years ended December 31, 2020 and 2019, respectively. The amended agreement is conditioned upon the Organization meeting certain performance metrics and the hospital's receipt of the DSRIP funding. Additionally, the Organization received $1,200,000 that has not been recognized as the conditions have not been met and is included in contract advances in the accompanying balance sheets at December 31, 2020. The maximum potential revenue that has not been recognized as the conditions have not been met is approximately $7,900,000 over two years.

# Healing Hands Ministries, Inc.

## Notes to Financial Statements

## December 31, 2020 and 2019

### Note 6: Investments and Investment Return

Investments, at December 31, 2020, and 2019, include:

| | 2020 | 2019 |
|---|---|---|
| Money market funds | $ 192,768 | $ 211,674 |
| Fixed income mutual funds | 3,120,497 | 2,462,604 |
| Equity mutual funds | 2,220,114 | 2,517,958 |
| | $ 5,533,379 | $ 5,192,236 |

Total investment return, at December 31, 2020, and 2019, is comprised of the following:

| | 2020 | 2019 |
|---|---|---|
| Interest and dividend income, net | $ 121,261 | $ 158,453 |
| Realized and unrealized gains (losses) | 219,883 | 591,798 |
| | $ 341,144 | $ 750,251 |

### Note 7: Contributions Receivable

Contributions receivable consisted of the following:

| | 2020 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Due within one year | $ - | $ 613,542 | $ 613,542 |
| Due within one to five years | - | 37,500 | 37,500 |
| | $ - | $ 651,042 | $ 651,042 |

| | 2019 | | |
|---|---|---|---|
| | Without Donor Restrictions | 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 |

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, 2020 and 2019. 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:

| | 2020 | 2019 |
|---|---|---|
| Subject to expenditure for specified purpose | | |
| Vickery Site 3rd floor expansion | $ 650,000 | $ - |
| Vision services | 46,809 | 99,775 |
| Other health services | 107,716 | 90,422 |
| Acquisition of property and equipment | 4,500 | 42,356 |
| Subject to the passage of time | | |
| For periods after December 31, | 112,500 | 187,500 |
| | $ 921,525 | $ 420,053 |

### *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.

| | 2020 | 2019 |
|---|---|---|
| Subject to expenditure for specified purpose | | |
| Pediatric care | $ 25,000 | $ 64,300 |
| Women's health services | - | 69,000 |
| Vision services | 72,281 | 225 |
| Other health services | 130,231 | 21,955 |
| Acquisition of property and equipment | 61,716 | 17,644 |
| Time restrictions expired | | |
| Passage of specified time | 75,000 | 37,500 |
| | $ 364,228 | $ 210,624 |

## 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, 2020 and 2019, comprise the following:

| | 2020 | 2019 |
|---|---|---|
| Financial assets at year end | | |
| Cash and cash equivalents | $ 4,774,204 | $ 624,030 |
| Investments | 5,533,379 | 5,192,236 |
| Patient accounts receivable | 335,292 | 421,013 |
| Grants receivable | 271,814 | 30,000 |
| Contributions receivable, less amounts not to be collected within one year of $37,500 (2020) $112,500 (2019) | 613,542 | 136,025 |
| Total financial assets | 11,528,231 | 6,403,304 |
| Less amounts restricted for purchase of property and equipment | 654,500 | 42,356 |
| Financial assets available to meet general expenditures within one year | $ 10,873,731 | $ 6,360,948 |

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, 2020 and 2019, restricted contributions of $267,025 and $377,697, respectively, 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:

| | 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Health Care Services | | | | | | Support Services | | |
| | Family Practice | Pediatrics | Obstetrics | Dental | Optometry | Other Health Services | General and Administrative | Fundraising | Total |
| Salaries and wages | $ 1,478,085 | $ 856,045 | $ 739,806 | $ 610,064 | $104,300 | $ 487,480 | $ 1,925,329 | $ 112,592 | $ 6,313,701 |
| Employee benefits | 112,878 | 58,365 | 66,246 | 50,658 | 7,662 | 36,528 | 134,419 | 6,546 | 473,302 |
| Purchased services and professional fees | 69,028 | 153,676 | 652,903 | 11,628 | - | 166 | 106,099 | 13,913 | 1,007,413 |
| Supplies and other | 476,506 | 1,267,996 | 164,023 | 143,477 | 21,506 | 24,984 | 170,107 | 29,337 | 2,297,936 |
| Rent | 82,433 | 70,149 | 67,526 | 22,337 | 923 | 9,022 | 19,075 | 2,595 | 274,060 |
| Depreciation and amortization | 171,529 | 99,835 | 97,148 | 11,753 | 6,969 | 679 | 45,676 | 282 | 433,871 |
| Interest | - | - | - | - | - | - | 5,940 | - | 5,940 |
| Total expenses | $ 2,390,459 | $ 2,506,066 | $ 1,787,652 | $ 849,917 | $ 141,360 | $ 558,859 | $ 2,406,645 | $ 165,265 | $ 10,806,223 |

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Health Care Services | | | | | | Support Services | | |
| | Family Practice | Pediatrics | Obstetrics | Dental | Optometry | Other Health Services | General and Administrative | Fundraising | Total |
| Salaries and wages | $ 1,635,121 | $ 792,864 | $ 709,618 | $ 558,784 | $ - | $ 335,504 | $ 1,585,215 | $ 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 | 150,041 | - | 1,125,163 |
| Supplies and other | 377,472 | 116,337 | 155,957 | 91,860 | - | 9,447 | 248,698 | 69,769 | 1,069,540 |
| 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 | $ 2,143,291 | $ 266,640 | $ 9,072,962 |

## Note 12: Operating Leases

Noncancelable operating leases 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, 2020, and 2019. 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, 2020, were:

| | |
|---|---|
| 2021 | $ 324,343 |
| 2022 | 317,333 |
| 2023 | 300,140 |
| 2024 | 111,028 |
| 2025 | 111,028 |
| Thereafter | 145,966 |
| Future minimum lease payments | $ 1,309,838 |

## 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 $61,768 and $60,581 for the years ended December 31, 2020, and 2019, respectively.

## Note 14: Related Party Transactions

The Organization's purchasing during the year ended December 31, 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 until end of 2019. Approximately $35,000 was paid in consulting fees to this employee during year ended December 31, 2019.

The Organization receives donations from its employees and board of directors throughout the year. For the years ended December 31, 2020 and 2019, the Organization received approximately $33,000 and $41,000, respectively, from employees and board members.

## 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

### *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, 2020 and 2019:

| | | 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, 2020** | | | | |
| Investments | | | | |
| Money market funds | $ 192,768 | $ 192,768 | $ - | $ - |
| Fixed income mutual funds | 3,120,497 | 3,120,497 | - | - |
| Equity mutual funds | 2,220,114 | 2,220,114 | - | - |
| Total investments | $ 5,533,379 | $ 5,533,379 | $ - | $ - |
| **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 | $ - | $ - |

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, 2020.

### *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, 2020.

## 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: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues for certain of the Organization's services have been and continue to be impacted. Certain portions of the Organization's patient population, particularly segments with a high mortality risk, could remain wary of real or perceived opportunities for exposure to the virus.

### *Health Care Center Program*

In 2020, the Organization received federal grant awards from the *Health Center Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) Funding totaling $1,261,340 and recognized revenue of $568,755 during the year ended December 31, 2020. 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, 2020, the Organization received $153,966 of distributions from the *CARES Act Provider Relief Fund* (collectively, 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 has elected to account 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, 2020, the Organization recognized $153,966, related to the distributions from the Provider Relief Fund, and these payments are recorded as grant revenue on the accompanying statements of operations.

### *Paycheck Protection Program (PPP) Loan*

The Organization received a Payroll Protection Program (PPP) loan established by the CARES Act in April 2020 totaling $1,021,740 which was subject to forgiveness if certain conditions were satisfied. The Organization elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting full-time equivalent employee and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustments could be required to the recognition of revenue.

The Organization received formal notification of forgiveness for the full amount of the loan in December 2020 and recognized in contribution revenue on the accompanying statements of operations in 2020.

## Note 18: Future Change in Accounting Principle

### *Accounting for Leases*

The Financial Accounting Standards Board 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, 2021. 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.

## Note 19: Subsequent Events

Subsequent events have been evaluated through May 21, 2021, which is the date the financial statements were issued.