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

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2023 and 2022

Healing Hands Ministries, Inc. d/b/a HHM Health
Contents
December 31, 2023 and 2022

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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, 2023 and 2022 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, 2023 and 2022, 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.

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 these 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 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 Mazars, LLP

Little Rock, Arkansas
September 20, 2024

Healing Hands Ministries, Inc. d/b/a HHM Health
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash	$ 615,049	$ 1,573,389
Investments	7,546,103	9,608,117
Patient accounts receivable	339,907	329,969
Grants receivable	577,730	659,318
Contributions receivable	80,000	77,880
Supplies	463,545	396,420
Prepaid expenses and other	213,277	292,575
Total Current Assets	9,835,611	12,937,668
Property and Equipment, at Cost		
Buildings and leasehold improvements	3,614,394	3,591,024
Equipment	2,102,293	1,932,873
Furniture and fixtures	474,480	474,480
	6,191,167	5,998,377
Less accumulated depreciation	3,492,466	2,868,819
	2,698,701	3,129,558
Right-of-Use Assets – Operating Leases	2,410,632	2,955,220
Total Assets	$ 14,944,944	$ 19,022,446
LIABILITIES AND NET ASSETS		
Current Liabilities		
Note payable	$ 526,917	$ -
Accounts payable	906,264	487,366
Accrued expenses	926,389	960,174
Due to third-party payors	19,583	-
Current portion of operating lease liabilities	710,517	640,043
Total Current Liabilities	3,089,670	2,087,583
Other Liabilities		
Operating lease liabilities	1,755,282	2,352,336
	1,755,282	2,352,336
Net Assets		
Without donor restrictions	9,356,917	14,334,039
With donor restrictions	743,075	248,488
Total Net Assets	10,099,992	14,582,527
Total Liabilities and Net Assets	$ 14,944,944	$ 19,022,446

Healing Hands Ministries, Inc. d/b/a HHM Health
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	$ 6,958,926	$ 6,117,250
Grant revenue	2,220,693	4,483,632
Contract revenue	-	3,923,904
Contributions	1,960,489	2,443,631
Other	1,716	27,188
Net assets released from restriction used for operations	686,899	656,129
Total Revenues, Gains, and Other Support Without Donor Restrictions	11,828,723	17,651,734
Expenses and Losses		
Salaries and wages	9,774,636	9,152,099
Employee benefits	1,209,620	1,194,745
Purchased services and professional fees	1,577,537	1,565,137
Supplies and other	3,611,736	4,268,395
Rent	805,958	544,815
Depreciation and amortization	623,647	559,843
Total Expenses and Losses	17,603,134	17,285,034
Operating Income (Loss)	(5,774,411)	366,700
Other Income (Expense)		
Investment return	553,983	(1,167,244)
Deficiency of Revenues over Expenses	(5,220,428)	(800,544)
Net assets released from restriction used for purchase of property and equipment	132,592	953,667
Contributions of property and equipment	-	180,000
Grants of or for acquisition of property and equipment	110,714	561,901
Increase (Decrease) in Net Assets Without Donor Restrictions	$ (4,977,122)	$ 895,024

Healing Hands Ministries, Inc. d/b/a HHM Health
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2023 and 2022

	2023	2022
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	$ (5,220,428)	$ (800,544)
Net assets released from restriction used for purchase of property and equipment	132,592	953,667
Contributions of property and equipment	-	180,000
Grants of or for acquisition of property and equipment	110,714	561,901
Increase (Decrease) in Net Assets Without Donor Restrictions	(4,977,122)	895,024
Net Assets with Donor Restrictions		
Contributions	1,314,078	730,242
Net assets released from restriction	(819,491)	(1,609,796)
Increase (Decrease) in Net Assets with Donor Restrictions	494,587	(879,554)
Change in Net Assets	(4,482,535)	15,470
Net Assets, Beginning of Year	14,582,527	14,567,057
Net Assets, End of Year	$ 10,099,992	$ 14,582,527

Healing Hands Ministries, Inc. d/b/a HHM Health
Consolidated Statements of Functional Expenses
Years Ended December 31, 2023 and 2022

2023

	Healthcare Services									Support Services		
	Family Practice	Pediatrics	Obstetrics	Dental	Optometry	Behavioral	Pharmacy	Imaging	Other Health Services	General and Admin	Fundraising	Total
Salaries and wages	$ 1,905,994	$ 1,577,013	$ 1,155,900	$ 759,894	$ 279,325	$ 177,574	$ 263,473	$ 88,925	$ 759,461	$ 2,658,830	$ 148,247	$ 9,774,636
Employee benefits	225,897	151,960	146,334	80,594	30,078	15,309	25,687	11,796	124,599	376,018	21,348	1,209,620
Purchased services and professional fees	239,243	101,420	674,632	65,945	7,449	59,027	10,769	34,776	40,858	319,682	23,736	1,577,537
Supplies and other	724,301	1,566,762	297,458	160,529	43,039	19,692	90,717	73,437	127,582	378,494	129,725	3,611,736
Rent	117,028	187,744	135,408	31,682	27,607	25,124	22,086	27,607	77,300	154,372	-	805,958
Depreciation/amortization	126,586	96,228	78,042	23,380	30,292	8,980	19,141	82,856	43,313	109,438	5,391	623,647
Total expenses	$ 3,339,049	$ 3,681,127	$ 2,487,774	$ 1,122,024	$ 417,790	$ 305,706	$ 431,873	$ 319,397	$ 1,173,113	$ 3,996,834	$ 328,447	$ 17,603,134

2022

	Healthcare Services									Support Services		
	Family Practice	Pediatrics	Obstetrics	Dental	Optometry	Behavioral	Pharmacy	Imaging	Other Health Services	General and Admin	Fundraising	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

Healing Hands Ministries, Inc. d/b/a HHM Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	$ (4,482,535)	$ 15,470
Items not requiring (providing) operating cash flows		
Depreciation and amortization	623,647	559,843
Noncash operating lease expense	659,185	434,242
Net realized and unrealized (gains) losses on investments	(347,377)	1,441,953
Grants of or for acquisition of property and equipment	(110,714)	(561,901)
Contributions of property and equipment	-	(180,000)
Changes in		
Patient accounts receivable	(9,938)	79,139
Grants receivable	81,588	50,491
Contributions receivable	(2,120)	2,721
Prepaid expenses and other	79,298	569,620
Supplies	(67,125)	(197,272)
Accounts payable and accrued expenses	404,696	(619,699)
Operating lease liability	(641,177)	(525,680)
Net Cash Provided by (Used in) Operating Activities	(3,812,572)	1,068,927
Investing Activities		
Purchase of investments	(3,803,799)	(313,477)
Proceeds from disposition of investments	6,213,190	539,555
Purchase of property and equipment	(192,790)	(1,833,482)
Net Cash Provided by (Used in) Investing Activities	2,216,601	(1,607,404)
Financing Activities		
Borrowings on line of credit	526,917	-
Proceeds from grants for acquisition of property and equipment	110,714	561,901
Net Cash Provided by Financing Activities	637,631	561,901
Increase (Decrease) in Cash	(958,340)	23,424
Cash, Beginning of Year	1,573,389	1,549,965
Cash, End of Year	$ 615,049	$ 1,573,389
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	$ 114,597	$ 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) offers a wide range of healthcare services, including medical, dental, mental health, dietitian, OBGYN, infection disease prevention and treatment, imaging screening, and substance use services to children, adolescents, and adults in the Dallas and surrounding areas with a heavy concentration in the Vickery Meadow, Mesquite and South Dallas areas of Dallas County. In addition to healthcare services, the Organization also serves its patients by providing low-cost pharmaceutical services through its own in-house pharmacy under the 340B federal program. 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, 2023, the Organization’s cash accounts exceeded federally insured limits by approximately $465,000.

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.

If, subsequent to providing the services, the Organization becomes aware of patient-specific events, facts, or circumstances indicating patients no longer have the ability or intention to pay the amount of consideration to which the Organization expected to be entitled for providing the patient services, then the related patient receivable balances are written off as credit loss expense and reported in the accompanying consolidated statements of operations as other operating expenses. No material credit loss expense has been recognized for the years ended December 31, 2023 and 2022.

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.

Debt Investments

Debt securities held by the Organization generally are classified and recorded in the consolidated financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) of revenues over expenses
Other than trading	Securities not classified as trading	Fair value, with unrealized gains and losses (for those which no allowance for credit losses is recorded) recorded below excess (deficiency) of revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

When the fair value of securities is below the amortized cost, and the Organization will not be required to sell the security before recovery of its amortized cost basis, the Organization evaluates whether the decline in fair value has resulted from credit losses or other factors. If the present value of cash flows expected to be collected from the security are less than the amortized cost basis of the security, an allowance for credit losses is recorded for the credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

	Accounting Treatment	
Circumstances of Impairment Considerations	Credit Component	Remaining Portion
Not intended for sale and more likely than not that the Organization will not have to sell before recovery of cost basis	Recognized as an allowance for credit loss	Recognized below excess (deficiency) of revenues over expenses
Intended for sale or more likely than not that the Organization will be required to sell before recovery of cost basis	Recognized in excess (deficiency) of revenues over expenses	

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 to 10 years
Furniture and equipment	5 to 7 years
Software	3 to 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, 2023 and 2022.

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. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

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 estimates 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.

Pharmacy Revenue and 340B

The Organization participates in the 340B Drug Discount Pricing Program, which enables qualifying healthcare providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of reimbursements from third-party payors and patients.

The 340B gross receipts reported as patient service revenue on the accompanying consolidated statements of operations and changes in net assets totaled $227,206 and $37,722 for the years ended December 31, 2023 and 2022, respectively. The drug replenishment costs and associated fees are included in supplies and other on the accompanying consolidated statements of operations and changes in net assets and totaled $73,958 and $27,671 for the years ended December 31, 2023 and 2022, respectively. The 340B revenue from this program is used in furtherance of the Organization's mission.

Government Grants

Support funded by grants is recognized as the Organization meets the conditions prescribed by the grant agreement, performs the contracted services, or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

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 restriction. 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 that are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

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 unrealized gains and losses on investments other than trading debt securities, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

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 6.

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 accompanying consolidated statements of functional expenses present 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.

Allowance for Credit Losses

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, related to the impairment of financial instruments was effective January 1, 2023. This guidance, commonly referred to as Current Expected Credit Loss (CECL), changes impairment recognition to a model that is based on expected losses rather than incurred losses. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost including trade receivables and notes receivable. It also applies to off-balance-sheet credit exposures and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in Topic 326 were trade accounts receivable.

The Organization adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements.

Note 2. Grant Reimbursement Receivables and Future Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the consolidated financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of December 31, 2023 have been recorded as receivables. Following are the grant commitments that extend beyond December 31, 2023:

Grant	Term	Grant Amount	Earned Through December 31, 2023	Funding Available
Health Center Program Cluster	4/1/21–3/31/23 12/1/22–12/31/23 9/1/23–12/31/24	$ 5,515,229	$ 5,037,218	$ 478,011
Grants for Capital Development in Health Centers	9/15/21–9/14/24	664,736	624,563	40,173
Texas Immunizations and Vaccines for Children Grant	1/12/23–6/30/24	350,000	118,000	232,000
		$ 6,529,965	$ 5,779,781	$ 750,184

Note 3. Investments and Investment Return

Investments at December 31 include:

	2023	2022
Trading		
Money market funds	$ 519,258	$ 134,195
Fixed income mutual funds	3,026,707	2,894,170
Equity mutual funds	1,538,655	6,579,752
U.S. Treasury notes	2,461,483	-
	$ 7,546,103	$ 9,608,117

Total investment return is comprised of the following:

	2023	2022
Interest and dividend income, net	$ 206,606	$ 274,709
Realized and unrealized gains (losses), net	347,377	(1,441,953)
	$ 553,983	$ (1,167,244)

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 payor agreements. The mix of receivables from patients and third-party payors at December 31 is:

	2023	2022
Medicare	3%	2%
Medicaid	77%	74%
Other third-party payors	16%	22%
Self-pay	4%	2%
	100%	100%

Note 5. Lines of Credit

The Organization has an unsecured $1,000,000 revolving line of credit that that is due on demand with an interest rate of 5.83% and 0.00% at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, there was $526,917 and $0 borrowed against this line.

Note 6. Professional Liability Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating providers are covered under the *Federal Tort Claims Act* (FTCA) for damage and 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.

Claim liabilities are determined without consideration of 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, 2023 and 2022. However, because of the risk in providing healthcare services, it is possible that an event has occurred that will be the basis for a future claim.

Note 7. Leases

Accounting Policies

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (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 sheets.

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 years ended December 31 are:

	2023	2022
Lease cost		
Operating lease cost	$ 729,815	$ 492,090

	2023	2022
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 710,074	$ 583,528
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 114,597	$ 2,608,081
Weighted-average remaining lease term		
Operating leases	3.4 years	4.3 years
Weighted-average discount rate		
Operating leases	2.7%	2.6%

Future minimum lease payments and reconciliation to the consolidated balance sheet at December 31, 2023 are as follows:

2024	$ 766,150
2025	766,657
2026	721,416
2027	302,643
2028	22,650
Total future undiscounted lease payments	2,579,516
Less interest	(113,717)
Operating lease liabilities	$ 2,465,799

Note 8. 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 in a retail setting (for example, pharmaceuticals) 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 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 estimates of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payors

The Organization is approved as a FQHC for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid 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, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per unit of service and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. 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. As of December 31, 2023 and 2022, the Organization's liability for refunds to third-party payors and patients was not significant.

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 has established a sliding fee discount program that offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and for 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, 2023 and 2022, no significant additional 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 credit loss 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
- Service lines
- Method of reimbursement
- Geography of the service location

For the years ended December 31, 2023 and 2022, the Organization recognized revenue of $6,731,720 and $6,079,528, respectively, from goods and services that transfer to the customer over time and $227,206 and $37,722, 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:

	2023	2022
Accounts receivable, beginning of year	$ 329,969	$ 405,741
Accounts receivable, end of year	$ 339,907	$ 329,969

Note 9. Retirement Plan

The Organization has 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. Contributions to the plan were $193,089 and $160,856 for the years ended December 31, 2023 and 2022, respectively.

Note 10. Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the accompanying consolidated statements of operations and changes in net assets included:

	2023	2022
Supplies	$ 1,379,485	$ 1,915,351

The contributed nonfinancial assets listed above were recognized within revenue and utilized in providing healthcare services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Other Contributed Items

The following basis was used for valuing contributed items:

Contributed Items	Valuation Basis
Supplies otherwise legally permissible for sale in the United States	The Organization used a determined percentage of the total retail value.

Note 11. Net Assets

Net Assets with Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose		
Women's health services	$ 524,242	$ 50,000
Vision services	-	31,296
Dental services	-	30,000
Imaging Center	11,669	-
HPV prevention and treatment	30,000	30,000
Nutrition education	2,686	26,840
Pediatric mental health services	22,898	992
Acquisition of property and equipment	61,127	8,719
Women and children's clinic	17,472	-
Other health services	60,481	58,141
	730,575	235,988
Subject to the passage of time		
For periods after December 31	12,500	12,500
	$ 743,075	$ 248,488

Net Assets Released from Restriction

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.

	2023	2022
Subject to expenditure for specified purpose		
Acquisition of property and equipment	$ 132,592	$ 953,667
Imaging Center	28,331	150,000
Pediatric mental health services	3,094	131,052
Women's health services	177,348	76,500
Women and children's clinic	231,028	60,931
Vision services	31,296	22,013
Dental services	30,000	-
Nutrition education	24,154	-
HPV prevention and treatment	30,000	-
Other health services	106,648	165,633
	794,491	1,559,796
Expiration of time restrictions	25,000	50,000
	$ 819,491	$ 1,609,796

Note 12. 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, 2023 and 2022, comprise the following:

	2023	2022
Financial assets		
Cash	$ 615,049	$ 1,573,389
Investments	7,546,103	9,608,117
Patient accounts receivable	339,907	329,969
Grants receivable	577,730	659,318
Contributions receivable	80,000	77,880
Total financial assets	9,158,789	12,248,673
Less amounts restricted for purchase of property and equipment	132,592	953,667
Financial assets available to meet general expenditures within one year	$ 9,026,197	$ 11,295,006

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, the Organization has a $1,000,000 line of credit, which it could draw upon.

Note 13. 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 $0 and $3,923,904 during the years ended December 31, 2023 and 2022, respectively.

Note 14. Related-Party Transactions

The Organization receives donations from its employees and board of directors throughout the year. For the years ended December 31, 2023 and 2022, the Organization received donations of approximately $17,000 and $23,000, 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 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:

		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, 2023				
Investments				
Money market funds	$ 519,258	$ 519,258	$ -	$ -
Fixed income mutual funds	3,026,707	3,026,707	-	-
Equity mutual funds	1,538,655	1,538,655	-	-
U.S. Treasury notes	2,461,483	2,461,483	-	-
Total investments	$ 7,546,103	$ 7,546,103	$ -	$ -
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	$ -	$ -

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, 2023.

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 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 8.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

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 17. Government Pandemic Funding

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 $197,676 and $93,313 during the years ended December 31, 2023 and 2022, 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 $151,513 and $3,372,685 during the years ended December 31, 2023 and 2022, respectively.

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

Note 18. Subsequent Events

Subsequent to year-end, in February 2024, Change Healthcare experienced a ransomware attack affecting health center organizations nationwide. This affected real-time eligibility determination for patient service revenue claims, for which a manual process had to be implemented. This also impacted the Organization's ability to submit process claims electronically and receive payments electronically. The delays did not materially impact patient service revenue.

Subsequent events have been evaluated through September 20, 2024, which is the date the consolidated financial statements were available to be issued.