

HEAL THE CITY FREE CLINIC
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019
with
INDEPENDENT AUDITOR'S REPORT

CONTENTS

<u>Independent Auditor's Report</u>	1-2
<u>Financial Statements</u>	3
Statements of financial position	4
Statements of activities	5
Statements of functional expenses	6
Statements of cash flows	7
Notes to financial statements	8-20



STEWART
MARTIN
DUDLEY
WEBB, PC

CERTIFIED PUBLIC ACCOUNTANTS

600 S. Tyler St., Suite 2500

P.O. Box 669
Amarillo, Texas 79105

Phone: (806) 374-7576
Fax: (806) 374-3127

Independent Auditor's Report

The Board of Directors

Heal the City Free Clinic
Amarillo, Texas

We have audited the accompanying financial statements of Heal the City Free Clinic (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses 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.

HEAL THE CITY
STATEMENTS OF FINA
June 30, 2020

<u>ASSETS</u>	<u>Without donor restrictions</u>
Cash	\$1,115,530
Accounts receivable - operations	12,830
Accounts receivable - pledges - current	-
Prepaid expenses	<u>33,647</u>
Total current assets	1,162,007
Accounts receivable - pledges - noncurrent	-
Beneficial interest in Endowment Fund held by Community Foundation	579,762
Property and equipment, at cost:	
Building and improvements	3,173,686
Leasehold improvements	17,350
Medical equipment	134,801
Office equipment	<u>188,610</u>
	3,514,447
Accumulated depreciation	<u>(206,443)</u>
Net property and equipment	<u>3,308,004</u>
	<u>\$5,049,773</u>
 <u>LIABILITIES AND NET ASSETS</u> 	
Current liabilities:	
Accounts payable	\$ 36,087
Accrued liabilities	3,544
Deferred revenue	<u>25,000</u>
Total current liabilities	64,631
Long-term debt	<u>183,100</u>
Total liabilities	247,731
Net assets:	
Without donor restrictions	4,802,042
With donor restrictions	<u>-</u>
Total net assets	<u>4,802,042</u>
	<u>\$5,049,773</u>

See accompany

REE CLINIC

ICIAL POSITION

and 2019

2020		2019		
With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
\$1,060,714	\$2,176,244	\$1,287,075	\$ 918,441	\$2,205,516
-	12,830	-	-	-
34,980	34,980	-	177,250	177,250
-	33,647	3,649	-	3,649
1,095,694	2,257,701	1,290,724	1,095,691	2,386,415
-	-	-	29,800	29,800
-	579,762	457,783	-	457,783
-	3,173,686	2,931,302	-	2,931,302
-	17,350	17,350	-	17,350
-	134,801	66,529	-	66,529
-	188,610	158,494	-	158,494
-	3,514,447	3,173,675	-	3,173,675
-	(206,443)	(86,452)	-	(86,452)
-	3,308,004	3,087,223	-	3,087,223
<u>\$1,095,694</u>	<u>\$6,145,467</u>	<u>\$4,835,730</u>	<u>\$1,125,491</u>	<u>\$5,961,221</u>
\$ -	\$ 36,087	\$ 121,171	\$ -	\$ 121,171
-	3,544	1,953	-	1,953
-	25,000	-	-	-
-	64,631	123,124	-	123,124
-	183,100	-	-	-
-	247,731	123,124	-	123,124
-	4,802,042	4,712,606	-	4,712,606
<u>1,095,694</u>	<u>1,095,694</u>	<u>-</u>	<u>1,125,491</u>	<u>1,125,491</u>
<u>1,095,694</u>	<u>5,897,736</u>	<u>4,712,606</u>	<u>1,125,491</u>	<u>5,838,097</u>
<u>\$1,095,694</u>	<u>\$6,145,467</u>	<u>\$4,835,730</u>	<u>\$1,125,491</u>	<u>\$5,961,221</u>

ng notes.

HEAL THE CITY

STATEMENTS OF

Years ended June 30

	<u>Without donor restrictions</u>
Support and revenue:	
Contributions and grants	\$1,163,707
Grants - public	25,000
In-kind donations	1,955,951
Miscellaneous income	15,459
Interest income	23,086
Investment income, net	(1,991)
Fundraising income	47,215
Loss on disposal of assets	(2,643)
Net assets released from restrictions - satisfied of donor by program restrictions	<u>614,783</u>
Total support and revenue	3,840,567
Expenses:	
Program services	3,374,885
General and administrative	292,810
Fundraising	<u>83,436</u>
Total expenses	<u>3,751,131</u>
Increase (decrease) in net assets	89,436
Net assets at beginning of year	<u>4,712,606</u>
Net assets at end of year, as restated	<u><u>\$4,802,042</u></u>

See accompany

REE CLINIC

ACTIVITIES

, 2020 and 2019

2020		2019		
<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
\$ 72,000	\$1,235,707	\$1,053,181	\$ 626,750	\$1,679,931
512,986	537,986	-	29,900	29,900
-	1,955,951	754,492	-	754,492
-	15,459	14,345	-	14,345
-	23,086	27,953	-	27,953
-	(1,991)	12,698	-	12,698
-	47,215	298,577	-	298,577
-	(2,643)	-	-	-
<u>(614,783)</u>	<u>-</u>	<u>1,488,297</u>	<u>(1,488,297)</u>	<u>-</u>
(29,797)	3,810,770	3,649,543	(831,647)	2,817,896
-	3,374,885	1,645,401	-	1,645,401
-	292,810	209,881	-	209,881
-	83,436	138,578	-	138,578
<u>-</u>	<u>3,751,131</u>	<u>1,993,860</u>	<u>-</u>	<u>1,993,860</u>
(29,797)	59,639	1,655,683	(831,647)	824,036
<u>1,125,491</u>	<u>5,838,097</u>	<u>3,056,923</u>	<u>1,957,138</u>	<u>5,014,061</u>
<u>\$1,095,694</u>	<u>\$5,897,736</u>	<u>\$4,712,606</u>	<u>\$ 1,125,491</u>	<u>\$5,838,097</u>

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HEAL THE CITY F
STATEMENTS OF FUNCT
Years ended June 30,

	2020		
	<u>Program services</u>	<u>Management and general</u>	<u>Fundrai</u>
Salaries	\$ 876,815	\$ 99,032	\$53,2
Payroll taxes	66,909	7,872	3,9
Employee benefits	61,998	7,294	3,6
 Total salaries and related expenses	 1,005,722	 114,198	 60,8
Appreciation and benevolence	6,080	6,588	
Computer and license fees	34,165	34,121	
Contract labor	233	-	
Credit card fees	-	3,809	
Dental equipment and supplies	5,029	-	
Education	2,127	-	
Food program	2,112	-	
Fundraising	-	-	22,5
In-kind expense - volunteer hours and medication	1,955,951	-	
Insurance	-	38,287	
Lease - office equipment	-	8,451	
Meals and entertainment	212	1,082	
Medical supplies	43,283	-	
Medicine	90,964	-	
Miscellaneous	2,548	144	
Office expense	5,413	28,398	
Office supplies	2,939	9,416	
Payroll expenses	-	3,202	
Postage	3,036	1,940	
Printing	4,985	4,784	
Professional fees	25,360	19,970	
Repairs and maintenance	30,692	3,410	
Seminars and conferences	4,587	-	
Travel	12,605	-	
Utilities	18,498	2,055	
Wellness	1,751	-	
 Total expenses before depreciation	 3,258,292	 279,855	 83,4
Depreciation	116,593	12,955	
 Total expenses	 <u>\$3,374,885</u>	 <u>\$292,810</u>	 <u>\$83,4</u>

See accompanyi

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IONAL EXPENSES

2020 and 2019

		2019			
sing	<u>Total</u>	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
72	\$1,029,119	\$ 508,452	\$ 68,060	\$ 46,653	\$ 623,165
36	78,717	40,406	5,409	3,707	49,522
47	<u>72,939</u>	<u>28,344</u>	<u>3,794</u>	<u>2,601</u>	<u>34,739</u>
55	1,180,775	577,202	77,263	52,961	707,426
-	12,668	6,453	717	-	7,170
-	68,286	49,677	1,633	-	51,310
-	233	-	-	-	-
-	3,809	-	5,006	-	5,006
-	5,029	19,080	-	-	19,080
-	2,127	7,603	-	-	7,603
-	2,112	-	-	-	-
81	22,581	-	-	85,617	85,617
-	1,955,951	747,844	-	-	747,844
-	38,287	-	24,751	-	24,751
-	8,451	-	5,994	-	5,994
-	1,294	-	795	-	795
-	43,283	32,904	-	-	32,904
-	90,964	78,191	-	-	78,191
-	2,692	717	2,488	-	3,205
-	33,811	-	31,745	-	31,745
-	12,355	-	11,193	-	11,193
-	3,202	-	1,009	-	1,009
-	4,976	-	2,692	-	2,692
-	9,769	-	8,844	-	8,844
-	45,330	11,225	25,313	-	36,538
-	34,102	19,200	2,133	-	21,333
-	4,587	4,690	-	-	4,690
-	12,605	14,009	-	-	14,009
-	20,553	18,127	2,014	-	20,141
-	<u>1,751</u>	<u>1,860</u>	<u>-</u>	<u>-</u>	<u>1,860</u>
36	3,621,583	1,588,782	203,590	138,578	1,930,950
-	<u>129,548</u>	<u>56,619</u>	<u>6,291</u>	<u>-</u>	<u>62,910</u>
<u>36</u>	<u>\$3,751,131</u>	<u>\$1,645,401</u>	<u>\$209,881</u>	<u>\$138,578</u>	<u>\$1,993,860</u>

ng notes.

HEAL THE CITY FREE CLINIC

STATEMENTS OF CASH FLOWS

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 59,639	\$ 824,036
Depreciation	129,548	62,910
Loss on disposal of assets	2,643	-
Unrealized loss on investments	13,186	9,104
Change in operating assets and liabilities:		
Accounts receivable - operations	(12,830)	5,076
Accounts receivable - pledges	172,070	10,850
Prepaid expenses	(29,998)	(1,261)
Accounts payable	(85,084)	99,690
Accrued liabilities	1,591	(8,868)
Deferred revenue	25,000	-
Net cash provided by operating activities	275,765	1,001,537
Cash flows from investing activities:		
Payments for property and equipment	(352,972)	(1,481,968)
Net change in long-term investments	<u>(135,165)</u>	<u>(184,517)</u>
Net cash used by investing activities	(488,137)	(1,666,485)
Net cash flows from financing activities - advances on long-term debt	<u>183,100</u>	<u>-</u>
Net decrease in cash and restricted cash	(29,272)	(664,948)
Cash and restricted cash at beginning of year	<u>2,205,516</u>	<u>2,870,464</u>
Cash and restricted cash at end of year	<u>\$2,176,244</u>	<u>\$ 2,205,516</u>

See accompanying notes.

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. Summary of significant accounting policies

Nature of activities - Heal the City Free Clinic (Heal the City) organized April 23, 2014, as a Texas non-profit corporation. Heal the City is a medical mission providing free urgent medical care and referral services with compassion and dignity to the uninsured in Amarillo. The vision is to provide for the medical needs of the uninsured while connecting them to the existing health community and to share Christ's love and hope with patients and volunteers alike.

Basis of accounting - Heal the City prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as applicable to voluntary health and welfare organizations.

Basis of presentation - In accordance with ASU No. 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities (ASU No. 2016-14), Heal the City is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. Summary of significant accounting policies (cont'd)

Contributions - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. In accordance with ASU 2016-14, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use, except those specifically restricted by the donor. Donor restricted contributions are reported as restricted in the accompanying financial statements. When donor restrictions are met or expire, applicable amounts are transferred to net assets without donor restrictions.

Investments - Investments are carried at fair value as determined by quoted prices. Gains and losses and other investment income are reflected in the statements of activities. Investment income less investment expense and realized and unrealized gains and losses on investments are classified as net assets without donor restrictions in the statements of activities unless a donor or law restricts their use.

Receivables - Heal the City records receivables as its right to receive them is established. Management reviews accounts receivable on a periodic basis for collectibility. As of June 30, 2020 and 2019, an allowance for doubtful accounts was not considered necessary as all receivables were collected as of the date of this report.

Property and equipment - Heal the City capitalizes property and equipment purchases over \$1,500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. Summary of significant accounting policies (cont'd)

Property and equipment (cont'd) - of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to 20 years and buildings and improvements use the same method over estimated useful lives ranging from 15 - 40 years.

Donated assets, supplies and services - Donated assets, supplies and donated services that create or enhance a non-financial asset or require specialized skills, when significant, are recorded as contributions at estimated fair value at the date of receipt. A substantial number of unpaid volunteers have made significant contributions of their time in conjunction with the Organization's programs and services and the value of these contributions is not included in these financials statements. Donated services and supplies included in revenue and expense for the years ended June 30, 2020 and 2019, was \$1,955,951 and \$754,492, respectively.

Federal income taxes - Heal the City is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax liability has been provided.

Cash, cash equivalents, and restricted cash

Heal the City considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, that are perpetual in nature, or other long-term purposes are excluded from this definition.

HEAL THE CITY FREE CLINIC
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. Summary of significant accounting policies (cont'd)

Cash, cash equivalents, and restricted cash (cont'd)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows:

	<u>2020</u>	<u>2019</u>
Cash	\$1,115,530	\$1,287,075
Restricted cash	<u>1,060,714</u>	<u>918,441</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$2,176,244</u>	<u>\$2,205,516</u>

Recent accounting pronouncements - In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows Topic 230: *Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Additionally, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. As such, Heal the City adopted ASU 2016-18 on July 1, 2019. The amendments in ASU 2016-18 were applied using the retrospective transition method to each period presented. There were no prior period adjustments necessary to adequately implement ASU 2016-18.

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

1. Summary of significant accounting policies (cont'd)

Recent accounting pronouncements (cont'd) - The Association has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) as management believes the standard improves the usefulness and understandability of Heal the City's financial reporting. In accordance with the ASU, Heal the City has determined that there are no previously unrecognized promises to give that should be reported in the statements of financial position and the statements of activities as an increase in net assets with donor restrictions.

2. Liquidity and availability of financial assets

The following reflects Heal the City's financial assets as of June 30, reduced by amounts not available for general use within one year of June 30:

	<u>2020</u>	<u>2019</u>
Financial assets, at year-end	\$2,224,054	\$2,412,566
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted for capital renovations and operations	(662,959)	(905,344)
Donor-restricted for dental clinic	(37,249)	(84,905)
Donor-restricted for wellness program	(158,273)	(135,242)
Donor restricted for vision program	(1,280)	-
Donor restricted for clinic/program	(52,500)	-
Donor restricted for diagnostic services	(183,433)	-
Board designations:		
Operational reserve	<u>(579,762)</u>	<u>(457,783)</u>
	<u>\$ 548,598</u>	<u>\$ 829,292</u>

As part of Heal the City's liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Accounts receivable - pledges

Pledges receivable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Amounts due in one year	\$ 34,980	\$ 177,250
Amounts due in two to five years	<u>-</u>	<u>29,800</u>
	34,980	207,050
Less amounts due in one year	<u>(34,980)</u>	<u>(177,250)</u>
Noncurrent portion of pledges receivable	<u>\$ -</u>	<u>\$ 29,800</u>

4. Investments

At June 30, 2020, investments consist of the following:

	<u>Fair value</u>	<u>Cost</u>	<u>Cumulative unrealized losses</u>
Beneficial interest in Endowment Fund held by Community Foundation	<u>\$579,762</u>	<u>\$607,136</u>	<u>\$ (27,374)</u>
Included in investment income:			
Interest and dividends			\$ 3,555
Realized gains, net			9,673
Unrealized losses, net			(13,186)
Investment expenses			<u>(2,033)</u>
			<u>\$ (1,991)</u>

At June 30, 2019, investments consist of the following:

	<u>Fair value</u>	<u>Cost</u>	<u>Cumulative unrealized losses</u>
Beneficial interest in Endowment Fund held by Community Foundation	<u>\$457,783</u>	<u>\$471,951</u>	<u>\$ (14,168)</u>
Included in investment income:			
Interest and dividends			\$ 1,569
Realized gains, net			21,710
Unrealized losses, net			(9,104)
Investment expenses			<u>(1,477)</u>
			<u>\$12,698</u>

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

4. Investments (cont'd)

Beneficial interest in assets held by Community foundation

In 2017, Heal the City established an endowment fund that is non-perpetual in nature (the "Fund") under a community foundation, Amarillo Area Foundation (the "AAF"), with Heal the City named as beneficiary. Heal the City granted AAF variance power, which allows AAF to modify any condition or restriction on its distributions for any specific charitable purpose or to any specified organization if, in the sole judgment of AAF's Board of Directors, such restriction or condition become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by AAF for the benefit of Heal the City and is reported at fair value in the statements of financial position, with distributions and changes in fair valued recognized in the statements of activities.

5. Long-term debt

Long-term debt consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Paycheck Protection Program note payable to Amarillo National Bank, issued on April 9, 2020, matures on April 9, 2022, including interest at 1%.	<u>\$183,100</u>	<u>\$ -</u>

Future maturities of long-term debt are as follows:

2021	\$ -
2022	<u>183,100</u>
	<u>\$183,100</u>

6. Board designated funds

Heal the City's Board of Directors has designated from, net assets without donor restrictions of \$4,802,042, net assets for the following purposes as of June 30:

	<u>2020</u>	<u>2019</u>
Operational reserve	<u>\$579,762</u>	<u>\$457,783</u>

HEAL THE CITY FREE CLINIC
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

7. Net assets with donor restrictions

Net assets with donor restrictions as of June 30 are restricted for the following purposes or periods:

Subject to expenditure for specified purpose:

	<u>2020</u>	<u>2019</u>
Capital renovations and operations	\$ 662,959	\$ 905,344
Dental clinic	37,249	84,905
Wellness program	158,273	135,242
Vision program	1,280	-
Clinic/program	52,500	-
Diagnostic services	<u>183,433</u>	<u>-</u>
 Total net assets with donor restrictions	 <u>\$1,095,694</u>	 <u>\$1,125,491</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donor for the years ended June 30 as follows:

	<u>2020</u>	<u>2019</u>
Capital renovations and operations	\$242,385	\$1,325,946
Education	-	1,500
Dental clinic	47,656	65,095
Clinic/Program	112,000	23,000
Ultrasound machine	-	10,000
Vision program	11,220	-
Wellness program	96,969	62,756
Diagnostic services	<u>104,553</u>	<u>-</u>
	<u>\$614,783</u>	<u>\$1,488,297</u>

8. Concentrations

Heal the City maintains its cash balances in one financial institution in Amarillo, Texas. The balances are insured by the Federal Deposit Insurance Company up to \$250,000. At June 30, 2020, Heal the City's uninsured cash balances total \$1,979,543.

HEAL THE CITY FREE CLINIC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. Concentrations (cont'd)

During the year ended June 30, 2020, Heal the City had two contributors who accounted for \$614,535 or 35% of contributions and grants. During the year ended June 30, 2019, Heal the City had one contributor who accounted for \$198,000 or 11% of contributions and grants.

9. Commitments

Heal the City entered into a contract with a construction contractor for the renovation and improvement of its newly acquired building. Although the contract for the last phase was not finalized as of year end, \$99,176 of costs were incurred as of June 30, 2020. Subsequent to year end, Heal the City finalized the contract with the construction contractor for the last phase of the renovation, for an estimated amount of \$994,891.

Additionally, Heal the City entered a contract with the architect of the project for 5% of total construction costs plus engineering fees as reimbursables, of which \$121,901 was incurred by June 30, 2020.

On February 7, 2020, Heal the City entered into a 36 month agreement to lease health management software, that requires future payments as follows: 2021 - \$27,060, 2022 - \$27,060, and 2023 - \$20,295.

10. Employee 401(k) Plan

Heal the City established a qualified 401(k) profit sharing plan effective March 1, 2018, which covers eligible employees. In general, all employees become eligible immediately. Heal the City currently makes a discretionary matching contribution not to exceed 100% of the first 5% of an employee's compensation contributed as a salary deferral. Heal the City contributions vest 100% after three years. For the years ended June 30, 2020 and 2019, matching contributions were made in the amounts of \$14,021 and \$9,680, respectively.

HEAL THE CITY FREE CLINIC
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

11. Related parties

Heal the City entered into a contract, to design the Clinic renovation, with a business in which the Board President's son is owner. All transactions were conducted at arm's length and in the normal course of business.

12. Fair value of financial statements

Cash, receivables and payables - The carrying amount approximates fair value because of their short maturities or due dates.

Investments

The fair value of investments are based on quoted market prices for those of similar investments.

The framework for measuring fair value produces a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Heal the City has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- quoted inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HEAL THE CITY FREE CLINIC
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

12. Fair value of financial statements (cont'd)

Investments (cont'd)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following table sets forth by level, within the fair value hierarchy, Heal the City's assets at fair value as of June 30:

	2020			Total
	Level 1	Level 2	Level 3	
Beneficial interest in Endowment Fund held by Community foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$579,762</u>	<u>\$579,762</u>

	2019			Total
	Level 1	Level 2	Level 3	
Beneficial interest in Endowment Fund held by Community foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$457,783</u>	<u>\$457,783</u>

The following schedules reconcile the beginning and ending balances of level 3 investments:

	Beneficial interest in Endowment Fund held by Community Foundation	
	2020	2019
Beginning balance	\$457,783	\$280,770
Contributions	123,970	164,315
Earnings	3,555	1,569
Realized gains	9,673	21,710
Unrealized losses	(13,186)	(9,104)
Fees	<u>(2,033)</u>	<u>(1,477)</u>
Ending balance	<u>\$579,762</u>	<u>\$457,783</u>

Following is a description of the valuation methodologies used for the level 3 assets measured at fair value. There have been no changes in methodologies used at June 30, 2020 and 2019.

HEAL THE CITY FREE CLINIC
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

12. Fair value of financial statements (cont'd)

Investments (cont'd)

The fair value of pooled investment funds approximates the aggregate of all contributions made to the account plus interest earned on those contributions, less all administrative expenses and withdrawals. The change in market value is determined using a formula that incorporates prevailing interest rates.

13. Expense by nature and function

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes, employee benefits, and other various costs which are allocated on the basis of estimates of departmental time and effort. Occupancy costs are allocated by facility or on a square footage basis.

14. Correction of error

A contribution made to the beneficial interest in endowment fund held by community foundation was incorrectly recorded into the asset, contribution income and related investment earnings also recorded during June 30, 2019. The error was corrected in the 2019 financial statements as follows:

	<u>Previously Reported</u>		<u>Corrected</u>	
	<u>Without donor restriction</u>	<u>Total</u>	<u>Without donor restriction</u>	<u>Total</u>
Beneficial interest in Endowment Fund held by Community Foundation	\$ 485,228	\$ 485,288	\$457,783	\$ 457,783
Contributions and grants	\$1,078,181	\$1,679,931	\$1,053,181	\$1,679,931
Investment income, net	\$ 15,143	\$ 15,143	\$12,698	\$ 12,698
Increase in net assets	\$1,683,128	\$ 851,481	\$1,655,683	\$ 824,036
Net assets	\$4,740,051	\$5,865,542	\$4,712,606	\$5,838,097

HEAL THE CITY FREE CLINIC
NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

15. Subsequent events

Subsequent events were evaluated through November 5, 2020, the date these financial statements were available to be issued.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of various organizations and educational institutions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, Heal the City expects this matter to impact its contributions. However, the related financial impact and duration cannot be reasonably estimated at this time.