

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

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Combined Financial Statements  
and Supplemental Information  
For the Years Ended June 30, 2018 and 2017

# CHURCH HEALTH CENTER OF MEMPHIS, INC.

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**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Roster of Board of Trustees and Management  
June 30, 2018

**Board of Trustees**

Robert Carter, Chairman  
Edward Dobbs  
William C. Drummond, CPA  
John W. Stokes, Jr.  
Steve Fracchia  
Andrew R. McCarroll  
Harry Smith  
Douglas G. Scarboro  
Michael Ugwueke, DHA, FACHE  
The Rev. Dorothy Sanders Wells  
Dr. Phillip A. Wenk  
Barbara C. Williamson  
Dr. Paul DePriest

**Management**

Rev. G. Scott Morris, M.D., M. Div., Chief Executive Officer  
Jenny Bartlett-Prescott, Senior Director of Integrated Health Services  
Ann W. Langston, Senior Director of Partnerships and Opportunities  
Jennie Robbins, Senior Director of Finance and Performance  
Michaelia G. Sturdivant, R.N., Senior Director, Reach Programs  
Lois McFarland, Director of Human Resources  
Dr. Susan Nelson, M.D., Medical Director  
Jenny Koltnow, Director of Communications and Development  
Sherronda Rhyan, Finance Director



5100 Poplar Ave., 30<sup>th</sup> Floor ■ Memphis, TN 38137  
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ [www.mhmcpa.com](http://www.mhmcpa.com)

## Independent Auditor's Report

Board of Trustees  
Church Health Center of Memphis, Inc.  
Memphis, Tennessee

### Report on the Financial Statements

We have audited the accompanying combined financial statements of Church Health Center of Memphis, Inc. and its related entities, Perea Preschool, Inc. and Empowering Community Healthcare Outreach (collectively, the "Organization"), which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Church Health Center of Memphis, Inc., Perea Preschool, Inc. and Empowering Community Healthcare Outreach as of June 30, 2018 and 2017, and the combined changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by the State of Tennessee Audit Manual for Local Governmental Units and Recipients of Grant Funds, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Mayer Hoffman McCann P.C.*

Memphis, Tennessee  
November 2, 2018

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Combined Statements of Financial Position  
June 30, 2018 and 2017

	<u>Assets</u>	
	2018	2017
Assets		
Cash	\$ 1,925,343	\$ 3,771,121
Accounts and other receivables, net	334,261	175,824
Pledges receivable, net	6,118,428	8,967,774
Grants receivable	189,953	139,433
Investments	22,688,516	22,917,132
Investments - restricted	11,464,496	12,390,340
Prepays and other assets	180,323	178,539
Property and equipment, net	<u>20,827,494</u>	<u>21,111,165</u>
	<u>\$ 63,728,814</u>	<u>\$ 69,651,328</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Line of credit	\$ 4,500,000	\$ 5,500,000
Accounts payable	28,584	12,365
Accrued payroll and related benefits	437,637	437,171
Other accrued expenses	447,665	982,274
Deferred revenue	5,100	6,000
Capital lease obligations	293,564	262,769
Deferred lease incentive	<u>5,443,828</u>	<u>5,839,743</u>
Total liabilities	11,156,378	13,040,322
Commitments and contingencies		
Net assets		
Unrestricted	18,644,284	19,581,529
Unrestricted - board designated	<u>2,033,763</u>	<u>2,033,763</u>
Total unrestricted	20,678,047	21,615,292
Temporarily restricted	13,918,139	17,454,284
Permanently restricted	<u>17,976,250</u>	<u>17,541,430</u>
Total net assets	<u>52,572,436</u>	<u>56,611,006</u>
	<u>\$ 63,728,814</u>	<u>\$ 69,651,328</u>

The accompanying notes are an integral part  
of these combined financial statements.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Combined Statement of Activities  
For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Support and other revenues				
Contributions and grants - CHC	\$ 6,153,531	\$ 2,301,839	\$ 434,820	\$ 8,890,190
Contributions and grants - Perea	-	384,871	-	384,871
Contributions and grants - ECHO	-	615,000	-	615,000
State financial assistance	836,536	-	-	836,536
Donated professional services	1,131,582	15,509	-	1,147,091
MEMPHIS Plan	1,924,425	-	-	1,924,425
Patient and member receipts	1,728,001	-	-	1,728,001
Third-party reimbursements	369,417	-	-	369,417
Dividend and interest income	285,403	722,937	-	1,008,340
Net realized and unrealized investment gain	143,120	928,506	-	1,071,626
Special events	79,417	-	-	79,417
Outreach	179,889	-	-	179,889
Nutrition Hub	105,049	-	-	105,049
Other	442,897	209,468	-	652,365
	<u>13,379,267</u>	<u>5,178,130</u>	<u>434,820</u>	<u>18,992,217</u>
Net assets released from restrictions	8,714,275	(8,714,275)	-	-
Total support and other revenues	<u>22,093,542</u>	<u>(3,536,145)</u>	<u>434,820</u>	<u>18,992,217</u>
Functional expenses				
Program services				
Clinic	14,205,434	-	-	14,205,434
Nutrition Hub	660,789	-	-	660,789
Health Advisory Team	811,694	-	-	811,694
Faith & Health Ministry Resources	1,656,798	-	-	1,656,798
Perea Preschool	1,815,410	-	-	1,815,410
ECHO Foundation	480,482	-	-	480,482
Children's Programs	839,983	-	-	839,983
Fundraising	1,158,714	-	-	1,158,714
General and administrative	1,401,483	-	-	1,401,483
Total functional expenses	<u>23,030,787</u>	<u>-</u>	<u>-</u>	<u>23,030,787</u>
Increase (decrease) in net assets	(937,245)	(3,536,145)	434,820	(4,038,570)
Net assets at beginning of year	<u>21,615,292</u>	<u>17,454,284</u>	<u>17,541,430</u>	<u>56,611,006</u>
Net assets at end of year	<u>\$ 20,678,047</u>	<u>\$ 13,918,139</u>	<u>\$ 17,976,250</u>	<u>\$ 52,572,436</u>

The accompanying notes are an integral part of these combined financial statements.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Combined Statement of Activities  
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Support and other revenues				
Contributions and grants - CHC	\$ 5,584,576	\$ 4,935,684	\$ 216,153	\$ 10,736,413
Contributions and grants - Perea	-	3,114,719	-	3,114,719
Contributions and grants - ECHO	-	291,000	-	291,000
State financial assistance	634,052	-	-	634,052
Donated rent	241,727	-	-	241,727
Donated professional services	615,262	47,812	-	663,074
MEMPHIS Plan	1,972,561	-	-	1,972,561
Patient and member receipts	1,414,059	-	-	1,414,059
Third-party reimbursements	285,424	-	-	285,424
Dividend and interest income	282,493	748,859	-	1,031,352
Net realized and unrealized investment gain (loss)	979,188	3,232,102	-	4,211,290
Special events	57,125	-	-	57,125
Outreach	167,649	-	-	167,649
Other	116,833	-	-	116,833
	<u>12,350,949</u>	<u>12,370,176</u>	<u>216,153</u>	<u>24,937,278</u>
Net assets released from restrictions	<u>17,293,177</u>	<u>(17,293,177)</u>	<u>-</u>	<u>-</u>
Total support and other revenues	29,644,126	(4,923,001)	216,153	24,937,278
Functional expenses				
Program services				
Clinic	10,950,360	-	-	10,950,360
MEMPHIS Plan	844,415	-	-	844,415
Wellness	2,558,989	-	-	2,558,989
Faith Community Outreach	1,004,724	-	-	1,004,724
Knowledge Ministries	814,043	-	-	814,043
Behavioral Health	-	-	-	-
Perea Preschool	1,747,249	-	-	1,747,249
ECHO Foundation	366,807	-	-	366,807
Children's Programs	597,593	-	-	597,593
Fundraising	1,283,694	-	-	1,283,694
General and administrative	1,900,999	-	-	1,900,999
Total functional expenses	<u>22,068,873</u>	<u>-</u>	<u>-</u>	<u>22,068,873</u>
Increase (decrease) in net assets	7,575,253	(4,923,001)	216,153	2,868,405
Net assets at beginning of year	<u>14,040,039</u>	<u>22,377,285</u>	<u>17,325,277</u>	<u>53,742,601</u>
Net assets at end of year	<u>\$ 21,615,292</u>	<u>\$ 17,454,284</u>	<u>\$ 17,541,430</u>	<u>\$ 56,611,006</u>

The accompanying notes are an integral part of these combined financial statements.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

### Combined Statement of Functional Expenses For the Year Ended June 30, 2018

	Integrated Health			Outreach						General and Administrative	Totals
	Clinic	* Health Advisory Team	Nutrition Hub	Children's Program	Faith & Health Ministry Resources	Perea Preschool	ECHO Foundation	Fundraising			
Salaries	\$ 7,229,591	\$ 471,416	\$ 315,080	\$ 434,592	\$ 771,024	\$ 1,091,990	\$ 133,016	\$ 599,212	\$ 384,588	\$ 11,430,509	
Donated services	553,313	12,338	50,458	52,815	27,531	15,508	-	20,512	414,616	1,147,091	
Payroll taxes	521,176	35,334	23,144	30,937	54,894	74,952	14,527	43,104	23,529	821,597	
Insurance and employee benefits	1,027,381	66,325	48,276	55,568	112,516	177,052	17,685	81,034	68,904	1,654,741	
Staff development and recruitment	37,526	3,543	1,765	3,887	4,722	10,275	1,350	3,118	4,025	70,211	
Licenses and dues	31,099	1,767	1,812	794	3,204	5,651	-	37,263	1,751	83,341	
Supplies	780,876	4,365	44,559	19,238	9,143	151,385	835	7,623	14,607	1,032,631	
Printing and publications	41,051	4,704	1,962	2,676	21,853	740	468	31,045	7,792	112,291	
Postage	16,987	1,486	820	1,354	19,178	302	336	15,762	4,063	60,288	
Publicity and promotions	65,734	4,721	3,020	5,034	36,432	44	8,489	5,308	15,102	143,884	
Rent expense	1,033,666	62,232	53,231	77,790	93,349	39,334	-	84,347	36,672	1,480,621	
Utilities	265,470	16,047	14,709	20,059	24,071	22,396	-	21,733	9,954	394,439	
Telephone	46,139	4,251	1,928	3,573	6,936	5,827	3,033	4,013	9,640	85,340	
Security	47	3	2	4	5	20,141	-	4	11	20,217	
Repairs and maintenance	415,377	16,427	9,972	10,813	14,772	83,081	-	13,229	31,629	595,300	
Conferences and travel	100,281	6,222	5,441	2,646	42,258	8,474	43,413	4,938	5,673	219,346	
Professional services	412,558	12,510	13,321	25,735	199,100	34,083	256,150	29,555	41,208	1,024,220	
Special events	8,293	402	248	414	61,168	10,635	-	51,645	1,242	134,047	
CSV	5,069	327	245	409	491	-	-	6,733	1,226	14,500	
Bad debt expense	234,720	7,250	146	-	-	-	-	-	-	242,116	
Other	201,538	8,992	10,908	11,240	60,635	36,802	1,180	12,796	7,512	351,603	
Total before depreciation	13,027,892	740,662	601,047	759,578	1,563,282	1,788,672	480,482	1,072,974	1,083,744	21,118,333	
Depreciation	1,177,542	71,032	59,742	80,405	93,516	26,738	-	85,740	317,739	1,912,454	
<b>Total functional expenses</b>	<b>\$ 14,205,434</b>	<b>\$ 811,694</b>	<b>\$ 660,789</b>	<b>\$ 839,983</b>	<b>\$ 1,656,798</b>	<b>\$ 1,815,410</b>	<b>\$ 480,482</b>	<b>\$ 1,158,714</b>	<b>\$ 1,401,483</b>	<b>\$ 23,030,787</b>	

\* Formerly known as MEMPHIS Plan

Fiscal year 2018 was a transition year with various departmental structure adjustments being made to better utilize staff resources. As a result, it is difficult to make a direct comparison of functional expenses for fiscal years 2018 and 2017.

The accompanying notes are an integral part of these combined financial statements.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

### Combined Statement of Functional Expenses For the Year Ended June 30, 2017

	Medical		Wellness	Outreach						General and Administrative	Totals
	Clinic	MEMPHIS Plan	Wellness	Children's Programs	Faith & Health Ministry Resources	Perea Preschool	ECHO Foundation	Fundraising			
Salaries	\$ 5,965,186	\$ 518,404	\$ 988,703	\$ 308,288	\$ 962,447	\$ 1,074,633	\$ 88,601	\$ 706,044	\$ 368,820	\$ 10,981,126	
Donated services	428,447	29,789	24,355	36,855	9,860	47,812	-	18,995	66,961	663,074	
Payroll taxes	437,088	38,509	75,843	25,582	69,142	77,725	6,169	52,766	26,113	808,937	
Insurance and employee benefits	884,939	77,164	130,957	39,118	138,032	163,170	13,494	87,862	67,437	1,602,173	
Staff development and recruitment	35,355	4,157	6,702	4,266	8,065	12,762	619	2,489	3,546	77,961	
Licenses and dues	95,793	3,549	17,557	379	13,325	3,626	265	51,689	1,892	188,075	
Supplies	625,072	12,235	40,287	8,294	14,913	155,819	756	11,545	22,179	891,100	
Printing and publications	34,044	8,432	5,504	1,643	15,409	2,297	234	53,371	8,215	129,149	
Postage	14,920	2,233	3,009	816	20,771	266	435	27,831	4,057	74,338	
Publicity and promotions	113,366	12,255	18,408	6,124	39,286	10	(465)	19,302	30,619	238,905	
Rent expense	243,983	20,454	37,848	23,139	40,199	37,346	-	33,035	11,930	447,934	
Utilities	94,973	6,924	137,825	6,401	13,441	-	-	12,515	11,078	283,157	
Telephone	82,120	8,289	11,635	4,132	15,237	4,476	4,259	9,252	20,662	160,062	
Security	50,037	4,417	7,706	2,737	7,639	18,628	-	5,399	13,684	110,247	
Repairs and maintenance	360,004	24,400	40,388	8,215	30,196	13,526	-	17,373	41,074	535,176	
Conferences and travel	162,831	16,701	22,933	7,391	54,022	7,301	56,707	21,145	36,361	385,392	
Professional services	390,794	18,267	64,810	20,614	145,034	25,462	195,733	28,549	44,032	933,295	
Special events	6,220	399	846	247	47,247	11,061	-	26,440	1,236	93,696	
Donated rent	-	-	155,337	-	-	-	-	-	86,390	241,727	
Life insurance	4,479	396	690	245	654	-	-	6,808	1,227	14,499	
Bad debt expense	163,048	15,667	2,665	-	-	-	-	-	918,825	1,100,205	
Other	336,471	1,559	111,506	10,768	155,951	74,455	-	71,384	30,215	792,309	
Total before depreciation	10,529,170	824,200	1,905,514	515,254	1,800,870	1,730,375	366,807	1,263,794	1,816,553	20,752,537	
Depreciation	421,190	20,215	653,475	82,339	17,897	16,874	-	19,900	84,446	1,316,336	
Total functional expenses	<u>\$10,950,360</u>	<u>\$ 844,415</u>	<u>\$ 2,558,989</u>	<u>\$ 597,593</u>	<u>\$ 1,818,767</u>	<u>\$ 1,747,249</u>	<u>\$ 366,807</u>	<u>\$ 1,283,694</u>	<u>\$ 1,900,999</u>	<u>\$ 22,068,873</u>	

The accompanying notes are an integral part of these combined financial statements.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Combined Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (4,038,570)	\$ 2,868,405
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities		
Depreciation	1,912,454	1,316,336
Amortization of deferred lease incentive	(395,915)	(98,978)
Net realized and unrealized investment gain	(2,079,966)	(5,242,642)
Contributions restricted for long-term purposes	(3,630,197)	(3,109,464)
Bad debt expense	242,116	1,100,205
Loss on disposal of property	-	545,069
Donation of property	-	54,945
Changes in assets and liabilities		
Accounts and other receivables	(400,554)	(223,969)
Pledges receivable	2,849,346	684,496
Grants receivable	(50,520)	(3,482)
Prepays and other assets	(1,784)	(120,937)
Accounts payable	16,219	(33,425)
Accrued expenses and other liabilities	(535,041)	540,530
Net cash used in operating activities	<u>(6,112,412)</u>	<u>(1,722,911)</u>
Cash flows from investing activities:		
Purchases of investments	(1,443,651)	(3,972,393)
Purchases of property and equipment	(1,476,252)	(16,375,656)
Proceeds from sale of investments	4,678,077	10,151,595
Proceeds for tenant improvement allowance	-	5,938,721
Proceeds from sale of property and equipment	-	6,195
Net cash provided by (used in) investing activities	<u>1,758,174</u>	<u>(4,251,538)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	434,820	216,153
Term or performance	3,195,376	2,893,311
Net borrowings from line of credit	-	5,500,000
Principal payments on line of credit	(1,000,000)	-
Principal payments on capital leases	(121,736)	(68,769)
Net cash provided by financing activities	<u>2,508,460</u>	<u>8,540,695</u>
Net increase (decrease) in cash	(1,845,778)	2,566,246
Cash at beginning of year	<u>3,771,121</u>	<u>1,204,875</u>
Cash at end of year	<u>\$ 1,925,343</u>	<u>\$ 3,771,121</u>

The accompanying notes are an integral part  
of these combined financial statements.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements  
June 30, 2018 and 2017

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### Note 1 - Summary of significant accounting policies

#### Organization and activities

The Church Health Center of Memphis, Inc. (the "Center") was incorporated on October 15, 1986. The Center is an ecumenical healthcare ministry which seeks to reclaim the biblical and historical commitment of the church to care for the working uninsured that are sick and to promote healthy bodies and spirits for all. With the volunteer services of health professionals, along with the Center staff, the Center provides on-site, affordable healthcare for the working uninsured and their families. The Center cares for the whole person by providing medical, dental, and eye care, as well as counseling, social work, and health education. It reaches out to the entire community by promoting and encouraging healthy lifestyles and disease prevention and utilizing congregations as the focal point of education. The Center expanded its mission during the year ended June 30, 2000 by establishing Perea Preschool, Inc. (Perea), a separate not-for-profit entity, to provide preschool services for under-served children. The Center took over control of Empowering Community Healthcare Outreach (ECHO), a separate 501(c)(3) not-for-profit entity, at no cost on May 1, 2015 to expand its mission to provide consulting services to start and develop effective charitable community healthcare clinics.

The Center and Perea are governed by a Board of Trustees (the "Board"), which includes a broad range of representatives from the Memphis community. ECHO is governed by a Board of Directors which includes certain members of the Center's Board and certain officers of the Center.

#### Principles of combination

The combined financial statements include the accounts of Church Health Center of Memphis, Inc., Perea Preschool, Inc., and Empowering Community Healthcare Outreach (collectively, the "Organization"), which share common supervision and control. The Center and Perea share a common 501(c)(3) qualification. All significant intercompany balances and transactions have been eliminated in the combination.

#### Basis of accounting

The combined financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America.

#### Support and revenues

To execute its mission, the Organization has developed a broad funding base. The most significant sources of funding are individuals, area churches, hospitals, corporations, and foundations.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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### Note 1 - Summary of significant accounting policies (continued)

#### Support and revenues (continued)

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted (i.e., endowment) support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending upon the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give greater than \$5,000 are recognized upon receipt of the pledge contract or other credible confirmation.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their estimated future cash flows, using risk-adjusted interest rates applicable to the years in which the promises are to be received. The unconditional promises to give consist of pledges receivable.

Conditional contributions received and conditional promises to give are not included as revenue until the conditions are substantially met. There were no unearned contributions related to conditional contributions received as of June 30, 2018 and 2017.

MEMPHIS Plan participant revenue is recorded in the month for which the coverage applies. Net patient revenues are recorded at the estimated net realizable amounts received or expected to be received. Changes in the estimated net realizable amounts to be received are reflected as a reduction in net revenues at the time of the change in estimate.

#### Donated assets and services

The Center has an extensive volunteer network. Medical and dental professionals, counselors, social workers, and non-professional volunteers donate time and services to support the operations of the Center. A core staff is maintained to provide services, coordinate the network, and manage the Center.

Donated services are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated professional services recognized in the combined financial statements include medical and non-medical services that were provided on-site. The Organization's total estimates of these on-site services based on volunteer hours recorded were \$1,147,091 and \$663,074 in 2018 and 2017, respectively.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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### Note 1 - Summary of significant accounting policies (continued)

#### Donated assets and services (continued)

Numerous specialists and professional organizations see patients off-site free of charge in their own offices. Off-site services are not recorded even though they are a significant resource because historically there has been no objective or efficient basis to measure the value of these services.

Other medical and non-medical services and various operating supplies are donated regularly. These include, but are not limited to, lab, diagnostic and medical services, grounds maintenance, computer consulting, fundraising, and pharmaceuticals. While very important to the success of the Center, these services and supplies are not recorded because historically there has been no objective or efficient means of doing so.

#### Receivables

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate, and amortization of the discounts is included in contribution revenue.

Receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessments of the current status of individual accounts. Balances still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable.

#### Investments

The Organization's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. See note 5 for discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments include the Organization's gains and losses on investments bought and sold as well as held during the year. Net realized and unrealized gains (losses) are reported in the combined statements of activities as increases or decreases in unrestricted net assets, unless temporarily or permanently restricted by the donor or by law.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

### Notes to Combined Financial Statements (Continued) June 30, 2018 and 2017

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#### Note 1 - Summary of significant accounting policies (continued)

##### Property and equipment

Purchased property and equipment are recorded at cost. The cost of property and equipment purchased in excess of \$5,000 is capitalized. Donated property and equipment are recorded at estimated fair value (see note 7). Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally thirty years for buildings and improvements, fifteen years for leasehold improvements, and five to ten years for furniture and equipment. Depreciation expense totaled \$1,912,454 and \$1,316,336 in 2018 and 2017, respectively.

##### Long-lived assets

The Organization recognizes impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired. There were no such losses recognized for the years ended June 30, 2018 and 2017.

##### Endowment funds

The Organization classifies net assets of donor-restricted endowment funds in accordance with FASB Accounting Standards Codification (ASC) 205, *Presentation of Financial Statements*. ASC 205 provides guidance on net asset classification of donor-restricted endowment funds and improves disclosures on both an organization's donor-restricted and board-designated endowment funds. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) establishes guidelines for prudent management of costs and expenditures of funds in relation to the whole economic situation of the charitable institution and was enacted by the State of Tennessee effective July 1, 2007. An organization, whether or not it is subject to an enacted version of UPMIFA, shall disclose information to enable users of financial statements to understand net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds. See note 14 for required disclosures of endowment funds.

##### Income taxes

The Center, Perea, and ECHO are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and are similarly exempt from Tennessee and Texas state income taxes under the provisions of the Tennessee and Texas tax regulations. Accordingly, no provision for income taxes is included in the accompanying combined financial statements.

The Organization files informational returns with the Internal Revenue Service and the States of Tennessee and Texas. The Organization is generally no longer subject to examinations by tax authorities for tax years prior to 2015.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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### Note 1 - Summary of significant accounting policies (continued)

#### Events occurring after the reporting date

Management has evaluated events and transactions that have occurred between June 30, 2018 and November 2, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

#### Use of estimates

Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant estimates used include the estimated fair value of donated professional services, donated rent, pledge receivable discount, investments, and the estimated allowance for doubtful accounts and pledges receivable. Accordingly, actual results could differ from those estimates.

#### Reclassifications

Certain reclassifications have been made to the 2017 combined financial statements in order to conform to the 2018 presentation.

#### Recent accounting pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes impacting the presentation and disclosures of the Organization's financial statements are as follows:

- Net asset classes - net asset classifications have been reduced from three classes (unrestricted, temporarily restricted, and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
- Liquidity and availability of resources - the ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 1 - Summary of significant accounting policies (continued)

Recent accounting pronouncements (continued)

The FASB issued ASU No 2016-02, Leases (Topic 842), which requires lessees to recognize on their statement of financial position all lease contracts with lease terms greater than 12 months, including operating leases. Specifically, lessees are required to recognize on the statement of financial position at lease commencement both a right-of-use, representing the lessee's right to use the leased asset over the term of the lease, and a lease liability, representing the lessee's contractual obligation to make lease payments over the term of the lease.

Note 2 - Accounts and other receivables

Accounts and other receivables consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts receivable - patients	\$ 270,046	\$ 159,318
MEMPHIS Plan	195,193	165,466
Accounts receivable - insurers	213,075	149,445
Other receivables	<u>86,529</u>	<u>30,492</u>
	764,843	504,721
Less allowance for doubtful accounts	<u>430,582</u>	<u>328,897</u>
Accounts and other receivables, net	<u>\$ 334,261</u>	<u>\$ 175,824</u>

Note 3 - Pledges receivable

Pledges receivable are summarized as follows as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Within one year	\$ 2,339,664	\$ 3,502,321
One to five years	<u>4,255,084</u>	<u>6,043,509</u>
Total unconditional promises to give	6,594,748	9,545,830
Less present value component	<u>476,320</u>	<u>578,056</u>
Pledges receivable, net	<u>\$ 6,118,428</u>	<u>\$ 8,967,774</u>

Pledges receivable have been discounted to their net present value using an annual rate of 3.73% in 2018 and 2.89% in 2017.

Each pledge balance is assessed for collectibility based on management's knowledge of and relationship with the donor and the age of the pledge. No allowance for doubtful pledges was recorded as of June 30, 2018 or 2017.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

### Notes to Combined Financial Statements (Continued) June 30, 2018 and 2017

#### Note 4 - Investments

The fair value of investments as of June 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Mutual funds	\$ 8,874,869	\$ 8,082,117
Mutual funds - restricted	11,464,496	12,390,340
Hedge funds	8,138,947	7,784,206
Exchange-traded funds	225,145	-
Common stocks	249,954	220,444
Money market funds	<u>5,199,601</u>	<u>6,830,365</u>
Total	<u>\$ 34,153,012</u>	<u>\$ 35,307,472</u>

Investments as of June 30, 2018 and 2017 include permanently restricted amounts of \$17,976,250 and \$17,541,430, respectively. As of June 30, 2018 and 2017, mutual and money market funds totaling \$11,464,496 and \$12,390,340, respectively, had been restricted by the donor as to the type of investment (see note 6).

The Organization utilizes professional investment advisors to assist in fulfilling its investment objectives. The Organization's investment advisory committee is responsible for the oversight of the Organization's selection of investments and investment advisors. The Organization's investment committee and its advisors review the asset allocation on a quarterly basis and work to ensure all strategies outlined are within the investment policy.

#### Note 5 - Fair value measurements

FASB Accounting Standards Codification 820, *Fair Value Measurement*, provides the framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or liability in an orderly transaction between market participants on the measurement date. This framework also provides 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below.

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

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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### Note 5 - Fair value measurements (continued)

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

The asset or liability's fair value measurement level within the fair value hierarchy is based upon 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2018 and 2017.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

*Exchange traded funds:* Valued using the latest closing sales price or official closing price taken from the market in which the security trades.

*Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded. Private company common stock is generally valued based upon independent valuations provided by the company.

*Money market funds:* Valued at cost, which approximates fair value.

*Hedge funds:* Hedge funds include investments in various Cayman Islands multi-strategy hedge funds and domestic hedge funds that invest in other investment entities and individual domestic and foreign debt and equity securities. The Organization's investments in hedge funds are valued at the NAV of units held by the Organization at year end based upon the fair value of the underlying assets as reported by the respective fund managers. The NAV, as provided by the fund managers, is used as a practical expedient to estimating fair value. The NAV is based upon the fair value of the underlying investments held by the fund less its liabilities. The estimated fair value is determined by the investment managers based upon, among other things, the type of investments, purchase price, marketability, current financial condition, operating results, and other information. The estimated fair values of substantially all of the investments of the underlying investment entities, which may include securities for which prices are not readily available, are determined by the investment managers or management of the respective underlying investment entities and may not reflect amounts that could be realized upon immediate sale. Accordingly, estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. This practical expedient is not used when it is determined to be probable that the investment will transact at an amount different than the reported NAV.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 5 - Fair value measurements (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value on a recurring basis as of June 30, 2018 and 2017.

	<b>Investments at Fair Value as of June 30, 2018</b>			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Bonds	\$ 4,489,043	\$ -	\$ -	\$ 4,489,043
International	2,148,571	-	-	2,148,571
Large cap	1,084,412	-	-	1,084,412
Small cap	1,152,843	-	-	1,152,843
Total mutual funds	8,874,869	-	-	8,874,869
Mutual funds - restricted				
International	5,714,639	-	-	5,714,639
Large-cap	2,861,679	-	-	2,861,679
Small-cap	2,888,178	-	-	2,888,178
Total mutual funds - restricted	11,464,496	-	-	11,464,496
Exchange-traded funds	225,145	-	-	225,145
Common stocks				
Manufacturing	-	-	249,954	249,954
Money market funds	5,199,601	-	-	5,199,601
Total	\$ 25,764,111	\$ -	\$ 249,954	26,014,065
Hedge funds measured at net asset value*				8,138,947
				\$ 34,153,012

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 5 - Fair value measurements (continued)

	<b>Investments at Fair Value as of June 30, 2017</b>			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Bonds	\$ 2,890,034	\$ -	\$ -	\$ 2,890,034
International	2,672,533	-	-	2,672,533
Small cap	1,317,679	-	-	1,317,679
Large cap	1,201,871	-	-	1,201,871
Total mutual funds	8,082,117	-	-	8,082,117
Mutual funds - restricted				
International	6,463,871	-	-	6,463,871
Large cap	3,054,997	-	-	3,054,997
Small cap	2,871,472	-	-	2,871,472
Total mutual funds - restricted	12,390,340	-	-	12,390,340
Common stocks				
Manufacturing	-	-	220,444	220,444
Money market funds	6,830,365	-	-	6,830,365
Total	\$ 27,302,822	\$ -	\$ 220,444	27,523,266
Hedge funds measured at net asset value*				7,784,206
				\$ 35,307,472

\* In accordance with ASU 2015-07, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying combined statements of financial position.

The following table reflects the changes in the Organization's investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended June 30, 2018 and 2017.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 5 - Fair value measurements (continued)

	Common Stocks
Balances, July 1, 2016	\$ 101,236
Purchases/contributions	485,559
Redemptions/sales	(387,555)
Investment loss	21,204
Balances, June 30, 2017	220,444
Purchases/contributions	569,127
Redemptions/sales	(571,255)
Investment income	31,638
Balances, June 30, 2018	\$ 249,954
Changes in net assets attributable to the change in unrealized gain (loss) relating to investments still held at June 30:	
2018	\$ 48,853
2017	\$ 19,225

The following table provides information related to the investments that are valued based on NAV:

	Fair Value June 30, 2018	Fair Value June 30, 2017	Unfunded Commitments as of June 30, 2018	Redemption Frequency	Redemption Notice Period
Hedge funds:					
Cayman Islands	\$ 6,763,937	\$ 6,568,878	-	Annually	90 Days
Domestic (1)	1,121,115	1,064,140	-	Annually	90 Days
Domestic (2)	253,895	151,188	-	None	N/A

- a. Hedge fund - Cayman Islands - This investment is an open-ended "umbrella" fund in the Cayman Islands with multiple classes of shares. Each class of shares is separately valued and pursues its own investment objectives and strategies. The fund's overall objective is to achieve capital appreciation through direct and indirect investments in securities, derivative instruments, and commodities. The Organization's investment consists of class shares invested in an underlying investment fund that invests in other multi-strategy and global equity long/short funds.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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Note 5 - Fair value measurements (continued)

- b. Hedge fund - domestic (1) - This investment is a limited partnership organized as a "fund of funds" which invests in limited partnerships, open-end mutual funds, closed-end mutual funds, trust funds, and separately managed accounts that invest in equity and debt securities in developed and developing economies on a global basis.
- c. Hedge fund - domestic (2) - This investment is a limited partnership organized as a parallel fund to pool and invest funds contributed by the partners in managed investment vehicles, securities, managed or segregated accounts with money managers, or other investments as may be deemed appropriate by the General Partner. This investment is illiquid and no limited partner may withdraw any capital from the partnership without consent of the General Partner.

Note 6 - Restricted investments

During fiscal 2011, an anonymous donor advanced mutual funds to the Organization totaling \$10,000,000 under a conditional challenge gift arrangement. Under the terms of the challenge gift, the Organization agreed to raise an additional \$20,000,000 by December 31, 2015, to not spend any of the principal or earnings on the mutual funds advanced until the challenge was met in full, and to reinvest any earnings in the prefunded mutual funds. The Organization was entitled to the earnings on the mutual funds upon either raising the additional contributions or the end of the challenge period. The Organization earned \$1 of the challenge gift for every \$2 in qualifying contributions. Upon meeting the terms of the challenge or the end of the challenge period, the Organization was entitled to the total value of the principal and reinvested earnings or the earned value of the principal and reinvested earnings, respectively. The challenge gift was met and fully earned as of June 30, 2013. As of June 30, 2018 and 2017, the prefunded mutual funds plus the earnings thereon totaling \$11,464,496 and \$12,390,340, respectively, are included in restricted investments in the accompanying combined statements of financial position.

Note 7 - Property and equipment

Property and equipment as of June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Building and leasehold improvements	\$ 19,846,568	\$ 19,271,264
Furniture and equipment	4,949,339	3,884,292
Building and land	<u>480,758</u>	<u>480,758</u>
	25,276,665	23,636,314
Accumulated depreciation	<u>4,449,172</u>	<u>2,525,149</u>
Property and equipment, net	<u>\$ 20,827,493</u>	<u>\$ 21,111,165</u>

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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Note 7 - Property and equipment (continued)

In April 2017, the Center moved all of its operations to Crosstown Concourse. At that time, it transferred the deed to its location at 1178 Peabody to another not-for-profit organization. It also terminated leases related to certain other properties that it previously occupied. At the time of the move, building and leasehold improvements for the abandoned properties, along with any furniture and equipment that were not transferred to the new facilities, were recorded as dispositions by the Organization.

Note 8 - Line of credit

In August 2016, the Center entered into a \$3,000,000 revolving line of credit agreement with a financial institution. In February 2017, the terms of the agreement were modified to increase the line of credit to \$5,500,000. In March 2018, the terms of the agreement were modified to decrease the line of credit to \$4,500,000. Interest is payable monthly at the three-month LIBOR Rate plus 2.3% (3.6% as of June 30, 2018). The principal balance is due in five annual payments of \$900,000, with the final payment due March 2023. Borrowings outstanding under the line of credit totaled \$4,500,000 and \$5,500,000 as of June 30, 2018 and 2017, respectively. The line of credit is unsecured.

Principal maturities of the line of credit as of June 30, 2018 are as follows:

<u>Year</u>	
2019	\$ 900,000
2020	900,000
2021	900,000
2022	900,000
2023	<u>900,000</u>
	<u>\$ 4,500,000</u>

Note 9 - Capital lease obligations

The Center leases certain equipment under various capital lease agreements. The capital lease obligations are payable in monthly installments totaling approximately \$8,000 and expire at various times through February 2022. Obligations under the capital leases have been recorded in the accompanying combined statements of financial position at the present value of future minimum lease payments, discounted at their respective interest rates. The capitalized costs of \$470,777 and \$318,246, less accumulated amortization of \$130,000 and \$38,367, respectively, are included in property and equipment in the accompanying combined statements of financial position.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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Note 9 - Capital lease obligations (continued)

Future minimum lease payments under capital leases as of June 30, 2018, are as follows:

2019	\$	142,885
2020		97,355
2021		67,290
2022		<u>23,190</u>
Net minimum lease payments		330,720
Less amounts representing interest		<u>37,156</u>
Present value of future minimum lease payments	\$	<u><u>293,564</u></u>

Note 10 - Crosstown Concourse lease

In 2014, the Organization signed on to become one of the founding tenants in the Crosstown Concourse building. On April 1, 2017 the Organization moved its operations into the renovated Crosstown Concourse under the terms of a fifteen year operating lease. The lease provides for annual rental payments of approximately \$1,800,000. Additionally, the lease agreement stipulates the landlord will provide a tenant allowance of approximately \$6,000,000 to reimburse the Organization for a portion of its tenant improvements. In accordance with ASC-840-20, the tenant allowance has been recorded as a deferred lease incentive liability and will be recognized as a reduction of rental expense over the term of the lease. The Organization also recorded a leasehold improvement of \$6,000,000 which is being amortized over the term of the lease. Rental expense and the deferred lease incentive liability will be reduced by approximately \$404,000 annually over the term of the lease. The Organization has two options to renew the lease for additional terms of thirty months each at rates and terms mutually agreed upon with the landlord.

Future minimum lease payments due under the Organization's Crosstown Concourse lease are as follows:

<u>Fiscal Year</u>		
2019	\$	1,817,976
2020		1,817,916
2021		1,817,916
2022		1,817,916
2023		1,817,916
Thereafter		<u>15,914,880</u>
	\$	<u><u>25,004,520</u></u>

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 11 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2018 and 2017.

	2018	2017
Crosstown project	\$ 5,553,676	\$ 7,510,995
Endowment fund earnings - Programs & Services	4,443,998	4,160,202
Perea Preschool program	3,603,556	4,764,221
ECHO	134,517	-
Integrated Health	106,592	910,674
Community Garden	44,770	50,000
Outreach	21,668	38,830
Advancement & Stewardship	9,362	19,362
Total temporarily restricted net assets	\$ 13,918,139	\$ 17,454,284

Note 12 - Net assets released from restrictions

Net assets were released from donor restrictions by incurring costs or expenses satisfying the restricted purposes for the years ended June 30, 2018 and 2017 as follows:

	2018	2017
Crosstown project	\$ 3,513,021	\$ 10,408,279
Perea Preschool program	1,815,410	1,747,250
Integrated Health	1,525,444	1,020,519
Endowment fund earnings - Programs & Services	1,322,750	3,742,890
ECHO	480,483	291,000
Outreach	41,788	72,690
Advancement & Stewardship	10,000	10,000
Community Garden	5,230	-
Discretionary fund	149	549
Total	\$ 8,714,275	\$ 17,293,177

Note 13 - Unrestricted net assets - board designated for endowment

By resolution, the Board has designated certain amounts of the Center's unrestricted net assets to be maintained as an endowment. The Board designated endowment may be spent with Board approval. The Board approved \$607,300 for general use as unrestricted funds during 2017. No such approvals were made during 2018. The Board designated endowment was \$2,033,763 as of June 30, 2018 and 2017.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 14 - Endowment funds

The Center's endowment accounts consist of three donor-restricted endowment funds established for the purpose of funding the programs and services of the Organization. Two of the endowment funds were established in accordance with individual gifts (see notes 6 and 17). The other endowment fund was established as a general endowment fund for individual contributions that do not designate a specific purpose. In addition to the three donor-restricted endowment funds, the Board has also designated certain unrestricted net assets to be maintained as an endowment (see note 13). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of the Organization has interpreted the Tennessee Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds and (b) the original value of subsequent gifts to the permanent endowment funds. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,444,001	\$ 17,976,250	\$ 22,420,251
Board-designated endowment funds	<u>2,033,763</u>	<u>-</u>	<u>-</u>	<u>2,033,763</u>
Total funds	<u>\$ 2,033,763</u>	<u>\$ 4,444,001</u>	<u>\$ 17,976,250</u>	<u>\$ 24,454,014</u>

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

Note 14 - Endowment funds (continued)

Interpretation of relevant law (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 2,033,763	\$ 4,160,202	\$ 17,541,430	\$ 23,735,395
Investment gain	-	1,606,549	-	1,606,549
Contributions	-	-	434,820	434,820
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,322,750)</u>	<u>-</u>	<u>(1,322,750)</u>
End of year	<u>\$ 2,033,763</u>	<u>\$ 4,444,001</u>	<u>\$ 17,976,250</u>	<u>\$ 24,454,014</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,160,202	\$ 17,541,430	\$ 21,701,632
Board-designated endowment funds	<u>2,033,763</u>	<u>-</u>	<u>-</u>	<u>2,033,763</u>
Total funds	<u>\$ 2,033,763</u>	<u>\$ 4,160,202</u>	<u>\$ 17,541,430</u>	<u>\$ 23,735,395</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ 2,641,063	\$ 3,925,225	\$ 17,325,277	\$ 23,891,565
Investment gain	-	3,977,867	-	3,977,867
Contributions	-	-	216,153	216,153
Designation of endowment to operations	-	(2,400,000)	-	(2,400,000)
Appropriation of endowment assets for expenditure	<u>(607,300)</u>	<u>(1,342,890)</u>	<u>-</u>	<u>(1,950,190)</u>
End of year	<u>\$ 2,033,763</u>	<u>\$ 4,160,202</u>	<u>\$ 17,541,430</u>	<u>\$ 23,735,395</u>

All of the permanently restricted endowment funds are required to be retained permanently either by explicit donor stipulation or TUPMIFA. The portion of the temporarily restricted endowment funds subject to time and purpose restrictions was \$4,444,001 and \$4,160,202 as of June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, temporarily restricted endowment funds totaling \$1,556,648 and \$2,482,492, respectively, were only subject to time restrictions.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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### Note 14 - Endowment funds (continued)

#### Funds with deficiencies

Fair value of assets associated with individual donor-restricted endowment funds may, at times, fall below the level that the donor requires the Organization to retain in a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from allowed withdrawals from endowment funds and unfavorable market fluctuations that occur after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. There were no such deficiencies as of June 30, 2018 and 2017.

#### Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk.

#### Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a significant emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### Spending policy and relationship to investment objectives

With the exception of the Paul W. Barret, Jr. Fund, the Organization has a policy of budgeting for expenditure each year a percentage of its endowment funds' average fair value over the prior three calendar years preceding the fiscal year in which the expenditure is planned. For fiscal years 2018 and 2017, this percentage was five percent (5%). Accordingly, appropriations of endowment earnings totaled \$1,322,750 and \$1,342,890 in 2018 and 2017, respectively. In establishing this policy, the Organization considered the long-term expected return on its endowment funds.

Accordingly, over the long-term, the Organization expects the current spending policy to allow for endowment growth. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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### Note 14 - Endowment funds (continued)

#### Spending policy and relationship to investment objectives (continued)

The Paul W. Barret, Jr. Fund may be spent for any of the Center's operations with the stipulation that if the Paul W. Barret, Jr. Fund is less than \$1,000,000 at the beginning of any fiscal year, the Center will replenish the Paul W. Barret, Jr. Fund to that level within nineteen months of this time in order to maintain it in perpetuity. The Paul W. Barret, Jr. Fund has become a part of the permanent endowment of the Center. The Organization's objective is to invest conservatively with limited exposure to equities.

### Note 15 - Donated rent

The Center leased a building and grounds located at 1115 Union Avenue in Memphis, Tennessee from Baptist Memorial Hospital for one dollar per year until the Center vacated the property on March 31, 2017.

The Center also leased buildings on Peabody Avenue in Memphis, Tennessee from St. John's United Methodist Church for a total of two dollars per year until the Center vacated the property on March 31, 2017.

On April 1, 2017, the Center began leasing properties located at 1192 Peabody, 1196 Peabody, and 1200 Peabody to another not-for-profit organization for one dollar per year under a lease that expires in 2022. Beginning April 1, 2017, the Center is also allowing another not-for-profit organization to occupy its property located at 321 Bellevue rent-free.

For the year ended June 30, 2017, the estimated fair value of each of these building leases is recorded as donated rent revenue, offset by the donated rent provided to other not-for-profit organizations. The fair value is calculated by multiplying the square footage of the buildings by the published local market square footage rental rates for the type of property. Estimated fair value of donated rent was \$241,727 for the year ended June 30, 2017. The estimated fair value of donated rent provided to other not-for-profit organizations was not recorded for the year ended June 30, 2018. However, the fair value of such donated rent was estimated to be \$210,610.

### Note 16 - Retirement plan

The Organization sponsors a 401(k) defined contribution plan (the "plan"). All employees of the Organization are eligible for the plan and may elect to defer up to 100% of their compensation, subject to Internal Revenue Service limitations. Once an employee completes twelve months of service and 1,000 hours, and works at least 20 hours per week, the Organization contributes 3% of each employee's compensation to the plan. Assets of the plan are held by a custodial trustee. The plan is administered by a committee selected by Organization management. The Organization's contributions to the plan totaled \$262,700 and \$260,100 for the years ended June 30, 2018 and 2017, respectively.

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Notes to Combined Financial Statements (Continued)  
June 30, 2018 and 2017

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Note 17 - Risks and uncertainties

The Organization has concentrated its credit risk for cash by maintaining deposits in a financial institution which may exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to significant risk to cash.

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 such changes could materially affect the amounts reported in the combined statements of financial position.

Note 18 - Supplemental cash flow information

Cash paid for interest totaled \$204,000 in 2018 and \$93,835 in 2017.

Non-cash financing activities

During 2018 and 2017, the Organization financed equipment totaling approximately \$153,000 and \$257,000, respectively, through capital leases.

**SUPPLEMENTAL INFORMATION**

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Schedule of Expenditures of Federal Awards and State Financial Assistance  
For the Year Ended June 30, 2018

Federal Grantor/ Pass Through Grantor	CFDA Number	Contract/ Agreement Number	Expenditures
<u>Federal Awards</u>			
Department of Agriculture/ Tennessee Department of Human Services - Child and Adult Care Food Program (CACFP)	10.558	034164518006	\$ 128,421
Department of Health and Human Services/ Tennessee Department of Mental Health and Substance Abuse Services			
Federal Block Grants for Prevention and Treatment of Substance Abuse	93.959	54911	95,389
Opioid State Targeted Response (STR) Community Response	93.788	55403	110,009
Opioid State Targeted Response (STR) Community Response	93.788	58146	<u>23,723</u>
Total Program 93.788			<u>133,732</u>
Total Department of Health and Human Services/ Tennessee Department of Mental Health and Substance Abuse Services			<u>229,121</u>
Total Federal Awards			357,542
<u>State Awards</u>			
Tennessee Department of Health			
Safety Net Grant - Primary Care Services for Uninsured Adult Tennesseans	N/A	DA1854782	441,625
Safety Net Grant - Emergency Dental Services for Uninsured Adult Tennesseans (as amended)	N/A	DA1854782	95,790
Tennessee Department of Mental Health and Substance Abuse Services			
Lifeline Peer Project	N/A	54898	60,000
Community-Based Organization and Faith- Based Organization Health Disparities Initiative	N/A	GR:Z-15-157825	<u>10,000</u>
Total State Awards			<u>607,415</u>
Total Federal and State Awards			<u>\$ 964,957</u>

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Schedule of Expenditures of Federal Awards and State Financial Assistance (Continued)  
For the Year Ended June 30, 2018

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Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Note A - Basis of presentation

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the state and federal grant activity of the Church Health Center of Memphis, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Tennessee Audit Manual*.

Note B - Grants receivable

The grants receivable from the State of Tennessee Department of Health totaling \$189,953 and \$139,433 as of June 30, 2018 and 2017, respectively, are included in grants receivable in the accompanying combined statements of financial position.

Note C - Child and Adult Care Food Program

The Child and Adult Care Food Program (CACFP) revenues are included in contributions and grants - Perea in the combined statement of activities for the years ended June 30, 2018 and 2017.



5100 Poplar Ave., 30<sup>th</sup> Floor ■ Memphis, TN 38137  
Main: 901.685.5575 ■ Fax: 901.685.5583 ■ [www.mhmcpa.com](http://www.mhmcpa.com)

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Trustees  
Church Health Center of Memphis, Inc.  
Memphis, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Church Health Center of Memphis, Inc. and its related entities, Perea Preschool, Inc. and Empowering Community Healthcare Outreach (collectively, the "Organization"), which comprise the combined statement of financial position as of June 30, 2018 and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated November 2, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's combined financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mayer Hoffman McCann P.C.*

Memphis, Tennessee  
November 2, 2018

**CHURCH HEALTH CENTER OF MEMPHIS, INC.**

Schedule of Prior Year Findings  
For the Year Ended June 30, 2018

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There were no prior year findings reported.