

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Combined Financial Statements
and Supplemental Information
For the Years Ended June 30, 2019 and 2018

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, 2019

Board of Trustees

Robert Carter, Chairman
Edward Dobbs
John W. Stokes, Jr.
Steve Fracchia
Andrew R. McCarroll
Douglas G. Scarboro
The Rev. Dorothy Sanders Wells
Dr. Phillip A. Wenk
Barbara C. Williamson
Dr. Paul DePriest
Dr. Kathleen Forbes
Dr. Alisa Haushalter
Rev. Dr. J. Lawrence Turner
McLean Wilson

Management

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



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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in note 1 to the combined financial statements, for the year ended June 30, 2019, the Organization adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* and retrospectively applied the update to the combined financial statements as of and for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

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 20, 2019, 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.



Memphis, Tennessee
November 20, 2019

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Combined Statements of Financial Position
June 30, 2019 and 2018

	<u>Assets</u>	
	2019	2018
Assets		
Cash	\$ 1,517,222	\$ 1,925,343
Accounts and other receivables, net	337,918	334,261
Pledges receivable, net	6,236,007	6,118,428
Grants receivable	188,775	189,953
Investments	19,891,461	22,688,516
Investments - restricted	11,075,981	11,464,496
Prepays and other assets	39,371	180,323
Property and equipment, net	<u>21,152,718</u>	<u>20,827,494</u>
	<u>\$ 60,439,453</u>	<u>\$ 63,728,814</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Lines of credit	\$ 5,100,000	\$ 4,500,000
Accounts payable	43,928	28,584
Accrued payroll and related benefits	452,411	437,637
Other accrued expenses	683,308	285,765
Deferred revenue	171,708	167,000
Capital lease obligations	332,144	293,564
Deferred lease incentive	<u>5,047,913</u>	<u>5,443,828</u>
Total liabilities	11,831,412	11,156,378
Commitments and contingencies		
Net assets		
Without donor restrictions		
Undesignated	15,771,512	18,644,284
Designated by the Board for endowment	<u>2,033,763</u>	<u>2,033,763</u>
	17,805,275	20,678,047
With donor restrictions	<u>30,802,766</u>	<u>31,894,389</u>
Total net assets	<u>48,608,041</u>	<u>52,572,436</u>
	<u>\$ 60,439,453</u>	<u>\$ 63,728,814</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and other revenues			
Contributions and grants - CHC	\$ 7,226,565	\$ 4,148,282	\$ 11,374,847
Contributions and grants - Perea	-	302,073	302,073
Contributions and grants - ECHO	-	526,500	526,500
State financial assistance	868,130	-	868,130
Donated professional services	1,140,927	6,505	1,147,432
MEMPHIS Plan	2,034,660	-	2,034,660
Patient and member receipts	2,061,241	-	2,061,241
Third-party reimbursements	347,669	-	347,669
Dividend and interest income	447,574	1,369,766	1,817,340
Net realized and unrealized investment loss	(529,530)	(1,185,539)	(1,715,069)
Special events	226,335	-	226,335
Outreach	278,182	-	278,182
Nutrition Hub	138,947	-	138,947
Other	456,232	263,580	719,812
	<u>14,696,932</u>	<u>5,431,167</u>	<u>20,128,099</u>
Net assets released from restrictions	<u>6,522,790</u>	<u>(6,522,790)</u>	<u>-</u>
Total support and other revenues	<u>21,219,722</u>	<u>(1,091,623)</u>	<u>20,128,099</u>
Functional expenses			
Program services			
Clinic	14,945,462	-	14,945,462
Health Advisory Team	1,304,880	-	1,304,880
Nutrition Hub	720,542	-	720,542
Faith & Health Ministry Resources	1,426,847	-	1,426,847
Perea Preschool	1,835,399	-	1,835,399
ECHO Program	526,399	-	526,399
Children's Program	726,477	-	726,477
Fundraising	1,267,797	-	1,267,797
General and administrative	<u>1,338,691</u>	<u>-</u>	<u>1,338,691</u>
Total functional expenses	<u>24,092,494</u>	<u>-</u>	<u>24,092,494</u>
Decrease in net assets	(2,872,772)	(1,091,623)	(3,964,395)
Net assets at beginning of year	<u>20,678,047</u>	<u>31,894,389</u>	<u>52,572,436</u>
Net assets at end of year	<u>\$ 17,805,275</u>	<u>\$ 30,802,766</u>	<u>\$ 48,608,041</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

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and other revenues			
Contributions and grants - CHC	\$ 6,153,531	\$ 2,736,659	\$ 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	1,801,832	-	1,801,832
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	154,999	-	154,999
Other	<u>319,116</u>	<u>209,468</u>	<u>528,584</u>
	13,379,267	5,612,950	18,992,217
Net assets released from restrictions	<u>8,714,275</u>	<u>(8,714,275)</u>	<u>-</u>
Total support and other revenues	22,093,542	(3,101,325)	18,992,217
Functional expenses			
Program services			
Clinic	14,205,434	-	14,205,434
Health Advisory Team	811,694	-	811,694
Nutrition Hub	660,789	-	660,789
Faith & Health Ministry Resources	1,656,798	-	1,656,798
Perea Preschool	1,815,410	-	1,815,410
ECHO Program	480,482	-	480,482
Children's Program	839,983	-	839,983
Fundraising	1,158,714	-	1,158,714
General and administrative	<u>1,401,483</u>	<u>-</u>	<u>1,401,483</u>
Total functional expenses	<u>23,030,787</u>	<u>-</u>	<u>23,030,787</u>
Decrease in net assets	(937,245)	(3,101,325)	(4,038,570)
Net assets at beginning of year	<u>21,615,292</u>	<u>34,995,714</u>	<u>56,611,006</u>
Net assets at end of year	<u>\$ 20,678,047</u>	<u>\$ 31,894,389</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 Functional Expenses
For the Year Ended June 30, 2019

	Integrated Health			Outreach						Totals
	Clinic	Health Advisory Team	Nutrition Hub	Children's Program	Faith & Health Ministry Resources	Perea Preschool	ECHO Program	Fundraising	General and Administrative	
Salaries	\$ 7,830,694	\$ 406,358	\$ 351,159	\$ 379,530	\$ 636,442	\$ 1,103,245	\$ 165,483	\$ 619,789	\$ 379,750	\$ 11,872,450
Donated services	670,928	8,883	31,158	49,429	16,753	6,505	-	30,560	333,216	1,147,432
Payroll taxes	547,328	40,402	30,894	26,534	47,424	81,295	20,648	43,479	23,847	861,851
Employee benefits	1,027,657	163,947	60,763	48,015	82,234	190,173	16,794	79,680	55,333	1,724,596
Insurance	82,506	3,857	4,308	4,809	5,448	3,414	-	5,523	18,786	128,651
Staff development and recruitment	48,822	5,498	1,824	4,071	2,123	12,065	96	2,477	3,539	80,515
Licenses and dues	38,895	4,832	4,217	3,939	1,701	2,679	-	3,130	2,227	61,620
Supplies	814,334	3,072	27,291	7,113	6,537	183,274	543	6,849	8,388	1,057,401
Printing and publications	40,774	14,830	2,110	1,783	59,700	1,403	7,616	53,323	5,461	187,000
Postage	16,654	5,284	863	975	14,905	298	340	22,438	3,764	65,521
Publicity and promotions	78,561	1,449	2,278	1,807	5,978	137	5,191	3,397	7,056	105,854
Rent expense	933,865	208,979	57,723	64,482	73,073	33,540	-	74,037	39,042	1,484,741
Utilities	230,835	51,952	16,572	16,063	18,203	17,347	-	18,443	9,870	379,285
Telephone	46,660	4,322	2,058	2,657	6,766	3,977	2,163	4,078	8,973	81,654
Security	-	-	-	-	-	18,796	-	-	-	18,796
Repairs and maintenance	625,741	11,707	18,582	11,136	18,956	80,771	-	69,170	37,800	873,863
Conferences and travel	93,938	9,237	3,146	1,065	51,527	12,407	43,043	6,725	2,760	223,848
Professional services	390,254	46,474	20,003	19,857	219,629	17,955	210,639	22,591	38,109	985,511
Special events	1,063	63	(34)	78	24,195	15,705	-	108,104	306	149,480
Bad debt expense	80,871	23,899	-	-	-	-	-	-	-	104,770
Other	241,532	33,952	11,447	12,623	57,001	9,002	53,843	14,826	15,393	449,619
Total before depreciation	13,841,912	1,048,997	646,362	655,966	1,348,595	1,793,988	526,399	1,188,619	993,620	22,044,458
Depreciation	1,103,550	255,883	74,180	70,511	78,252	41,411	-	79,178	345,071	2,048,036
Total functional expenses	<u>\$14,945,462</u>	<u>\$1,304,880</u>	<u>\$ 720,542</u>	<u>\$ 726,477</u>	<u>\$ 1,426,847</u>	<u>\$ 1,835,399</u>	<u>\$ 526,399</u>	<u>\$ 1,267,797</u>	<u>\$ 1,338,691</u>	<u>\$ 24,092,494</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						Totals
	Clinic	Health Advisory Team	Nutrition Hub	Children's Program	Faith & Health	Perea Preschool	ECHO Program	Fundraising	General and Administrative	
					Ministry Resources					
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
Employee benefits	939,395	60,648	44,018	48,473	104,002	169,222	17,685	73,938	47,617	1,504,998
Insurance	93,055	6,004	4,503	7,504	9,005	7,830	-	13,829	22,513	164,243
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
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
Total functional expenses	<u>\$14,205,434</u>	<u>\$ 811,694</u>	<u>\$ 660,789</u>	<u>\$ 839,983</u>	<u>\$ 1,656,798</u>	<u>\$ 1,815,410</u>	<u>\$ 480,482</u>	<u>\$ 1,158,714</u>	<u>\$ 1,401,483</u>	<u>\$ 23,030,787</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (3,964,395)	\$ (4,038,570)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Depreciation	2,048,036	1,912,454
Amortization of deferred lease incentive	(395,915)	(395,915)
Net realized and unrealized investment gain	(102,271)	(2,079,966)
Contributions restricted for long-term purposes	(2,481,775)	(3,630,197)
Bad debt expense	104,770	242,116
Loss on disposal of property	(10,241)	-
Changes in assets and liabilities		
Accounts and other receivables	(108,427)	(400,554)
Pledges receivable	(117,579)	2,849,346
Grants receivable	1,178	(50,520)
Prepays and other assets	140,952	(1,784)
Accounts payable	15,344	16,219
Accrued expenses and other liabilities	417,025	(535,041)
Net cash used in operating activities	<u>(4,453,298)</u>	<u>(6,112,412)</u>
Cash flows from investing activities:		
Purchases of investments	(8,396,318)	(1,443,651)
Purchases of property and equipment	(2,257,484)	(1,476,252)
Proceeds from sale of investments	11,684,159	4,678,077
Proceeds from sale of property and equipment	100,000	-
Net cash provided by investing activities	<u>1,130,357</u>	<u>1,758,174</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	167,616	434,820
Term or performance	2,314,159	3,195,376
Proceeds from borrowings on lines of credit	1,500,000	-
Principal payments on lines of credit	(900,000)	(1,000,000)
Principal payments on capital leases	(166,955)	(121,736)
Net cash provided by financing activities	<u>2,914,820</u>	<u>2,508,460</u>
Net decrease in cash	(408,121)	(1,845,778)
Cash at beginning of year	<u>1,925,343</u>	<u>3,771,121</u>
Cash at end of year	<u>\$ 1,517,222</u>	<u>\$ 1,925,343</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, 2019 and 2018

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 separate from the Center's Board.

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, faith communities, hospitals, corporations, and foundations.

Contributions and grants received are recorded as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Donor restrictions can be modified only by written request from the original donor or other authorized party. Support that is restricted by the donor is reported as an increase in net assets without

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 1 - Summary of significant accounting policies (continued)

Support and revenues (continued)

donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. Expirations of donor-imposed restrictions on net assets, that is, when a stipulated time restriction ends or purpose restriction is accomplished, are reported in the statement of activities and changes in net assets as net assets released from restrictions between the classes of net assets. 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, 2019 and 2018.

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 \$1,147,432 and \$1,147,091 in 2019 and 2018, respectively.

Numerous primary care providers, specialists and professional organizations, including hospital systems, 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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 1 - Summary of significant accounting policies (continued)

Donated assets and services (continued)

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 6 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 net assets without donor restrictions, unless restricted by the donor or by law.

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 8). 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 \$2,048,036 and \$1,912,454 in 2019 and 2018, respectively.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2019 and 2018

Note 1 - Summary of significant accounting policies (continued)

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, 2019 and 2018.

Endowment funds

The Organization classifies net assets of donor-restricted endowment funds in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 205, *Presentation of Financial Statements*. ASC 205 provides guidance on net asset classification of donor-restricted endowment funds and required disclosures related to 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. 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 15 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 2016.

Events occurring after the reporting date

Management has evaluated events and transactions that have occurred between June 30, 2019 and November 20, 2019, 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

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 1 - Summary of significant accounting policies (continued)

Use of estimates (continued)

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 2018 combined financial statements in order to conform to the 2019 presentation.

Recent accounting pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU revises the net asset classification structure from three classes to two classes (net assets without donor restrictions and net assets with donor restrictions). The ASU also requires qualitative and quantitative disclosures on liquidity and the availability of resources to fund operations (see note 4). The Center has adopted the provisions of this new standard and adjusted the presentation of the financial statements accordingly. The ASU has been applied retrospectively to the financial statements as of and for the year ended June 30, 2018.

The FASB issued ASU 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. Pending issuance of a final ASU, the FASB has affirmed a proposal to amend the effective date for ASU 2016-02 for entities that are not public business entities to fiscal years beginning after December 15, 2020 (the year ending June 30, 2022 for the Organization).

Note 2 - Accounts and other receivables

Accounts and other receivables consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accounts receivable - patients	\$ 221,607	\$ 270,046
MEMPHIS Plan	242,555	195,193
Accounts receivable - insurers	120,119	213,075
Other receivables	<u>113,485</u>	<u>86,529</u>
	697,766	764,843
Less allowance for doubtful accounts	<u>359,848</u>	<u>430,582</u>
Accounts and other receivables, net	<u>\$ 337,918</u>	<u>\$ 334,261</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 3 - Pledges receivable

Pledges receivable are summarized as follows as of June 30, 2019 and 2018.

	2019	2018
Within one year	\$ 3,019,664	\$ 2,339,664
One to five years	3,556,000	4,255,084
Total unconditional promises to give	6,575,664	6,594,748
Less present value component	339,657	476,320
Pledges receivable, net	\$ 6,236,007	\$ 6,118,428

Pledges receivable have been discounted to their net present value using an annual rate of 2.76% in 2019 and 3.73% in 2018.

Each pledge balance is assessed for collectability 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, 2019 or 2018.

Note 4 - Availability and liquidity of resources

As of June 30, 2019 and 2018, the following represents the Organization's financial assets which are available to meet expenditures over the next twelve months:

	2019	2018
Cash	\$ 1,517,222	\$ 1,925,343
Accounts and other receivables, net	337,918	334,261
Pledges receivable, net	3,019,664	2,339,664
Grants receivable	188,775	189,953
Perea Preschool Program	2,185,000	1,835,398
Crosstown rent	2,199,697	2,199,697
Endowment earnings	1,175,507	1,237,451
Total financial assets available to meet expenditures over the next twelve months	\$ 10,623,783	\$ 10,061,767

In addition to the financial assets available to meet general expenditures over the next twelve (12) months, the Organization operates within a balanced budget and anticipates collecting sufficient revenue to cover general expenditures over the next twelve (12) months. As more fully described in note 9, the Organization has a remaining available line of credit in the amount of \$1,500,000, which it could draw upon in the event of an unanticipated liquidity need. Additionally, board designated net assets could be appropriated for liquidity needs.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 4 - Availability and liquidity of resources (continued)

Financial assets not available in the next twelve (12) months include those with contractual or donor-imposed restrictions limiting availability to future years and those designated by the Board for endowment.

Note 5 - Investments

The fair value of investments as of June 30, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Mutual funds	\$ 6,083,972	\$ 8,874,869
Mutual funds - restricted	11,075,981	11,464,496
Hedge funds	8,464,633	8,138,947
Exchange-traded funds	-	225,145
Common stocks	250,818	249,954
Money market funds	<u>5,092,038</u>	<u>5,199,601</u>
Total	<u>\$ 30,967,442</u>	<u>\$ 34,153,012</u>

Investments as of June 30, 2019 and 2018 include restricted endowment funds of \$18,143,867 and \$17,976,250, respectively. As of June 30, 2019 and 2018, mutual and money market funds totaling \$11,075,981 and \$11,464,496, respectively, had been restricted by the donor as to the type of investment (see note 7).

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 6 - Fair value measurements

FASB ASC 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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 6 - Fair value measurements (continued)

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.

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, 2019 and 2018.

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,

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 6 - Fair value measurements (continued)

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.

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, 2019 and 2018.

	Investments at Fair Value as of June 30, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bonds	\$ 2,713,988	\$ -	\$ -	\$ 2,713,988
International	1,699,098	-	-	1,699,098
Large cap	843,101	-	-	843,101
Small cap	<u>827,785</u>	<u>-</u>	<u>-</u>	<u>827,785</u>
Total mutual funds	6,083,972	-	-	6,083,972
Mutual funds - restricted				
International	5,574,154	-	-	5,574,154
Large-cap	2,771,084	-	-	2,771,084
Small-cap	<u>2,730,743</u>	<u>-</u>	<u>-</u>	<u>2,730,743</u>
Total mutual funds - restricted	11,075,981	-	-	11,075,981
Common stocks				
Manufacturing	-	-	250,818	250,818
Money market funds	<u>5,092,038</u>	<u>-</u>	<u>-</u>	<u>5,092,038</u>
Total	<u>\$ 22,251,991</u>	<u>\$ -</u>	<u>\$ 250,818</u>	\$ 22,502,809
Hedge funds measured at net asset value*				<u>8,464,633</u>
				<u>\$ 30,967,442</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 6 - Fair value measurements (continued)

	Investments at Fair Value as of June 30, 2018			
	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

* 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, 2019 and 2018.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 6 - Fair value measurements (continued)

	<u>Common Stocks</u>
Balances, July 1, 2017	\$ 220,444
Investment income	<u>29,510</u>
Balances, June 30, 2018	249,954
Investment income	<u>864</u>
Balances, June 30, 2019	\$ <u><u>250,818</u></u>
Changes in net assets for the year attributable to the change in unrealized gain (loss) relating to investments still held at June 30:	
2019	\$ <u><u>864</u></u>
2018	\$ <u><u>29,510</u></u>

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

	<u>Fair Value June 30, 2019</u>	<u>Fair Value June 30, 2018</u>	<u>Unfunded Commitments as of June 30, 2019</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge funds:					
Cayman Islands	\$ 6,908,762	\$ 6,763,937	\$ -	Annually	90 Days
Domestic (1)	1,107,283	1,121,115	-	Annually	90 Days
Domestic (2)	448,588	253,895	-	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.
- 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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 6 - Fair value measurements (continued)

- 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 7 - Restricted investments

During fiscal 2011, an anonymous donor advanced mutual funds into the Organization's endowment account 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 of 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, 2019 and 2018, the prefunded mutual funds plus the earnings thereon totaling \$11,075,981 and \$11,464,496, respectively, are included in restricted investments in the accompanying combined statements of financial position.

Note 8 - Property and equipment

Property and equipment as of June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Building and leasehold improvements	\$ 20,029,334	\$ 19,846,568
Furniture and equipment	5,485,606	4,949,340
Building and land	343,052	480,758
Construction-in-progress	<u>1,721,458</u>	<u>-</u>
	27,579,450	25,276,666
Accumulated depreciation	<u>6,426,732</u>	<u>4,449,172</u>
Property and equipment, net	<u>\$ 21,152,718</u>	<u>\$ 20,827,494</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2019 and 2018

Note 9 - Lines of credit

In August 2016, the Center entered into a \$3,000,000 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% (4.6% as of June 30, 2019). 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 \$3,600,000 and \$4,500,000 as of June 30, 2019 and 2018, respectively. The line of credit is unsecured.

In March of 2018, the Center entered into another \$3,000,000 revolving credit agreement with a financial institution. In February 2019, the terms of the agreement were modified to extend the maturity date of the line from March 2019 to March 2020. Interest is payable at the three-month LIBOR Rate plus 2.3% (4.6% as of June 30, 2019). The principal balance plus all accrued interest is due March 2020. Borrowings outstanding under the line of credit totaled \$1,500,000 as of June 30, 2019. There were no borrowings outstanding under the line of credit as of June 30, 2018. The line of credit is unsecured.

Principal maturities of the lines of credit as of June 30, 2019 are as follows:

<u>Year</u>	
2020	\$ 2,400,000
2021	900,000
2022	900,000
2023	<u>900,000</u>
	<u>\$ 5,100,000</u>

In August of 2019, the Center entered into a \$2,500,000 line of credit agreement with a financial institution. Interest is payable at the three-month LIBOR Rate plus 2.3%. Interest only payments are due for three months beginning October 2019, and principal and interest payments totaling \$32,313 are due monthly beginning in January 2020. The remaining principal balance plus all remaining accrued interest is due December 2024. The line of credit is unsecured.

Note 10 - 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 November 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, less accumulated amortization, are included in property and equipment in the accompanying combined statements of financial position. The capitalized cost, less accumulated amortization, totaled \$269,011 and \$346,777 as of June 30, 2019 and 2018, respectively.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 10 - Capital lease obligations (continued)

Future minimum lease payments under capital leases as of June 30, 2019, are as follows:

<u>Fiscal Year</u>	
2020	\$ 158,647
2021	128,583
2022	69,279
2023	<u>6,252</u>
Net minimum lease payments	362,761
Less amounts representing interest	<u>30,617</u>
Present value of future minimum lease payments	\$ <u><u>332,144</u></u>

Note 11 - 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>	
2020	\$ 1,817,976
2021	1,817,976
2022	1,817,976
2023	1,817,976
2024	1,817,976
Thereafter	<u>14,089,314</u>
	\$ <u><u>23,179,194</u></u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 12 - Net assets

Net assets without donor restriction are those assets available for use for program services, management and general, and fundraising expenses. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The following table summarizes net assets as of June 30, 2019.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating funds:			
Undesignated	\$ 15,771,512	\$ -	\$ 15,771,512
Subject to expenditure for specified purpose:			
Crosstown project	-	5,506,362	5,506,362
Endowment fund earnings - Programs & Services	-	3,332,506	3,332,506
Perea Preschool program	-	2,398,585	2,398,585
Integrated Health	-	1,268,245	1,268,245
ECHO	-	134,617	134,617
Outreach	-	18,584	18,584
Endowment funds:	<u>2,033,763</u>	<u>18,143,867</u>	<u>20,177,630</u>
Total net assets	<u>\$ 17,805,275</u>	<u>\$ 30,802,766</u>	<u>\$ 48,608,041</u>

The following table summarizes net assets as of June 30, 2018.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating funds:			
Undesignated	\$ 18,644,284	\$ -	\$ 18,644,284
Subject to expenditure for specified purpose:			
Crosstown project	-	5,553,676	5,553,676
Endowment fund earnings - Programs & Services	-	4,443,998	4,443,998
Perea Preschool program	-	3,603,556	3,603,556
Integrated Health	-	106,592	106,592
ECHO	-	134,517	134,517
Community Garden	-	44,770	44,770
Outreach	-	21,668	21,668
Advancement & Stewardship	-	9,362	9,362
Endowment funds:	<u>2,033,763</u>	<u>17,976,250</u>	<u>20,010,013</u>
Total net assets	<u>\$ 20,678,047</u>	<u>\$ 31,894,389</u>	<u>\$ 52,572,436</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 13 - Net assets released from restrictions

The following table summarizes net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors for the years ended June 30, 2019 and 2018.

	2019	2018
Crosstown project	\$ 2,601,813	\$ 3,513,021
Perea Preschool program	1,835,398	1,815,410
Endowment fund earnings -		
Programs and services	1,237,451	1,322,750
ECHO	526,400	480,483
Integrated Health	229,797	1,525,444
Outreach	29,499	41,788
Community Garden	52,770	5,230
Advancement and stewardship	9,662	10,000
Discretionary fund	-	149
Total	\$ 6,522,790	\$ 8,714,275

Note 14 - Unrestricted net assets - board designated for endowment

By resolution, the Board has designated certain amounts of the Center's net assets without donor restrictions to be maintained as an endowment. The Board designated endowment may be spent with Board approval. The Board designated endowment was \$2,033,763 as of June 30, 2019 and 2018.

Note 15 - 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 which were established in accordance with individual gifts, and one of which 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 net assets to be maintained as an endowment (see note 14). 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

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 15 - Endowment funds (continued)

Interpretation of relevant law (continued)

contrary. As a result of this interpretation, the Organization retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation 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, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 21,476,373	\$ 21,476,373
Board-designated endowment funds	<u>2,033,763</u>	<u>-</u>	<u>2,033,763</u>
Total funds	<u>\$ 2,033,763</u>	<u>\$ 21,476,373</u>	<u>\$ 23,510,136</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 2,033,763	\$ 22,420,248	\$ 24,454,011
Investment gain	-	125,960	125,960
Contributions	-	167,616	167,616
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,237,451)</u>	<u>(1,237,451)</u>
End of year	<u>\$ 2,033,763</u>	<u>\$ 21,476,373</u>	<u>\$ 23,510,136</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 15 - Endowment funds (continued)

Interpretation of relevant law (continued)

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 22,420,248	\$ 22,420,248
Board-designated endowment funds	<u>2,033,763</u>	<u>-</u>	<u>2,033,763</u>
Total funds	<u>\$ 2,033,763</u>	<u>\$ 22,420,248</u>	<u>\$ 24,454,011</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 2,033,763	\$ 21,701,632	\$ 23,735,395
Investment gain	-	1,606,546	1,606,546
Contributions	-	434,820	434,820
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,322,750)</u>	<u>(1,322,750)</u>
End of year	<u>\$ 2,033,763</u>	<u>\$ 22,420,248</u>	<u>\$ 24,454,011</u>

The portion of the endowment funds subject to time and purpose restrictions was \$3,332,507 and \$4,443,998 as of June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, endowment funds totaling \$1,168,132 and \$1,556,648, respectively, were only subject to time restrictions.

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 assets without donor restrictions. These deficiencies result from allowed withdrawals from endowment funds and unfavorable market fluctuations that occur after the investment of donor restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. There were no such deficiencies as of June 30, 2019 and 2018.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

Note 15 - Endowment funds (continued)

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

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 2019 and 2018, this percentage was five percent (5%). Accordingly, appropriations of endowment earnings totaled \$1,237,451 and \$1,322,750 in 2019 and 2018, 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.

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. After one year of service, the Organization contributes a discretionary match up to 1% of each employee's compensation to the plan, based on the employee's contribution. 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 \$339,000 and \$262,700 for the years ended June 30, 2019 and 2018, respectively.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2019 and 2018

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 \$254,000 in 2019 and \$204,000 in 2018.

Non-cash financing activities

During 2019 and 2018, the Organization financed equipment totaling approximately \$206,000 and \$153,000, 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, 2019

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	00-212	\$ 143,755
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	59056	102,813
Opioid State Targeted Response (STR) Community Response	93.788	58146	111,247
Opioid State Targeted Response (STR) Community Response	93.788	61223	<u>119,116</u>
Total Program 93.788			<u>230,363</u>
Total Department of Health and Human Services/ Tennessee Department of Mental Health and Substance Abuse Services			<u>333,176</u>
Total Federal Awards			476,931
<u>State Awards</u>			
Tennessee Department of Health			
Safety Net Grant - Primary Care Services for Uninsured Adult Tennesseans	N/A	DA1958065	405,692
Safety Net Grant - Emergency Dental Services for Uninsured Adult Tennesseans (as amended)	N/A	DA1958065	69,262
Tennessee Department of Mental Health and Substance Abuse Services			
Lifeline Peer Project	N/A	59070	<u>60,000</u>
Total State Awards			<u>534,954</u>
Total Federal and State Awards			<u>\$ 1,011,885</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance (Continued)
For the Year Ended June 30, 2019

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 \$188,775 and \$189,953 as of June 30, 2019 and 2018, 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, 2019 and 2018.

All other federal and state awards are included in state financial assistance in the combined statement of activities for the years ended June 30, 2019 and 2018.



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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, 2019 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 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined 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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." The signature is written in a cursive, flowing style.

Memphis, Tennessee
November 20, 2019

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Prior Year Findings
For the Year Ended June 30, 2019

There were no prior year findings reported.