

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Combined Financial Statements
and Supplemental Information
For the Years Ended June 30, 2020 and 2019

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, 2020

Board of Trustees

Robert Carter, Chairman
Edward Dobbs
John W. Stokes, Jr.
Steve Fracchia
Andrew R. McCarroll
Dr. Douglas 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
Dr. G. Scott Morris
T. Michael Glenn

Management

Dr. G. Scott Morris, M.D., M. Div., Chief Executive Officer
Jenny Bartlett-Prescott, Chief Operating Officer
Ann W. Langston, Senior Director of Strategic Partnerships
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, 2020 and 2019, 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, 2020 and 2019, 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.

Adoption of New Accounting Standard

As discussed in note 1 to the combined financial statements, for the year ended June 30, 2020, the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

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 - Auditing, Accounting, and Reporting for Local Governmental Units and Other Organizations*, 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 October 29, 2020, 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
October 29, 2020

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Combined Statements of Financial Position
June 30, 2020 and 2019

	<u>Assets</u>	
	2020	2019
Assets		
Cash	\$ 4,327,862	\$ 1,517,222
Accounts and other receivables, net	332,717	337,918
Pledges receivable, net	3,920,967	6,236,007
Grants receivable	240,864	188,775
Investments	19,290,914	19,891,461
Investments - restricted	9,221,591	11,075,981
Prepays and other assets	39,447	39,371
Property and equipment, net	<u>20,110,724</u>	<u>21,152,718</u>
	<u>\$ 57,485,086</u>	<u>\$ 60,439,453</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Lines of credit	\$ 4,532,898	\$ 5,100,000
Accounts payable	305,910	43,928
Accrued payroll and related benefits	727,341	452,411
Other accrued expenses	112,944	683,308
Deferred revenue	160,600	171,708
Capital lease obligations	217,018	332,144
Refundable advances	133,838	-
Deferred lease incentive	<u>4,651,998</u>	<u>5,047,913</u>
Total liabilities	10,842,547	11,831,412
Commitments and contingencies		
Net assets		
Without donor restrictions		
Undesignated	19,189,836	15,771,512
Designated by the Board for endowment	<u>2,033,763</u>	<u>2,033,763</u>
	21,223,599	17,805,275
With donor restrictions	<u>25,418,940</u>	<u>30,802,766</u>
Total net assets	<u>46,642,539</u>	<u>48,608,041</u>
	<u>\$ 57,485,086</u>	<u>\$ 60,439,453</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and other revenues			
Contributions and grants - CHC	\$ 11,709,312	\$ 4,636,127	\$ 16,345,439
Contributions and grants - Perea	-	444,598	444,598
Contributions and grants - ECHO	-	352,174	352,174
State financial assistance	996,795	-	996,795
Donated professional services	864,808	2,782	867,590
MEMPHIS Plan	1,979,678	-	1,979,678
Patient and member receipts	1,995,101	-	1,995,101
Third-party reimbursements	302,670	-	302,670
Dividend and interest income	198,687	661,065	859,752
Net realized and unrealized investment loss	(321,269)	(2,032,837)	(2,354,106)
Special events	251,892	-	251,892
Outreach	129,439	-	129,439
Nutrition Hub	82,959	-	82,959
Other	<u>274,493</u>	<u>344,590</u>	<u>619,083</u>
	18,464,565	4,408,499	22,873,064
Net assets released from restrictions	<u>9,792,325</u>	<u>(9,792,325)</u>	-
Total support and other revenues	28,256,890	(5,383,826)	22,873,064
Functional expenses			
Program services			
Clinic	16,377,917	-	16,377,917
Health Advisory Team	764,758	-	764,758
Community Services Programs	1,981,383	-	1,981,383
Faith & Health Ministry Resources	1,176,957	-	1,176,957
Perea Preschool	1,970,282	-	1,970,282
ECHO Program	<u>428,342</u>	<u>-</u>	<u>428,342</u>
Total program services	22,699,639	-	22,699,639
Fundraising	1,376,098	-	1,376,098
General and administrative	<u>762,829</u>	<u>-</u>	<u>762,829</u>
Total functional expenses	<u>24,838,566</u>	<u>-</u>	<u>24,838,566</u>
Increase (decrease) in net assets	3,418,324	(5,383,826)	(1,965,502)
Net assets at beginning of year	<u>17,805,275</u>	<u>30,802,766</u>	<u>48,608,041</u>
Net assets at end of year	<u>\$ 21,223,599</u>	<u>\$ 25,418,940</u>	<u>\$ 46,642,539</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	<u>456,232</u>	<u>263,580</u>	<u>719,812</u>
	14,696,932	5,431,167	20,128,099
Net assets released from restrictions	<u>6,522,790</u>	<u>(6,522,790)</u>	<u>-</u>
Total support and other revenues	21,219,722	(1,091,623)	20,128,099
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
Children's Program	726,477	-	726,477
Faith & Health Ministry Resources	1,426,847	-	1,426,847
Perea Preschool	1,835,399	-	1,835,399
ECHO Program	<u>526,399</u>	<u>-</u>	<u>526,399</u>
Total program services	21,486,006	-	21,486,006
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 Functional Expenses
For the Year Ended June 30, 2020

	Program Services										
	Integrated Health		Outreach					Total Program Services	Fundraising	General and Administrative	Totals
	Clinic	Health Advisory Team	Community Services Programs	Faith & Health Ministry Resources	Perea Preschool	ECHO Program					
Salaries	\$ 8,433,184	\$ 411,370	\$ 917,199	\$ 653,157	\$ 1,171,374	\$ 163,409	\$ 11,749,693	\$ 654,928	\$ 394,813	\$ 12,799,434	
Donated services	677,898	14,530	73,725	14,083	2,783	-	783,019	40,583	43,988	867,590	
Payroll taxes	567,056	29,663	65,255	46,063	84,938	11,604	804,579	45,441	25,458	875,478	
Employee benefits	1,114,862	54,290	125,564	90,559	198,742	22,994	1,607,011	84,440	48,932	1,740,383	
Insurance	91,434	4,252	11,663	5,642	8,273	-	121,264	6,301	21,052	148,617	
Staff development and recruitment	45,179	2,215	6,865	1,812	14,284	-	70,355	9,111	4,015	83,481	
Licenses and dues	38,391	416	8,359	1,925	3,030	-	52,121	2,007	1,564	55,692	
Supplies	921,867	1,693	54,803	5,025	130,534	119	1,114,041	4,157	7,723	1,125,921	
Printing and publications	28,917	4,481	8,362	12,339	1,258	3,243	58,600	51,610	3,528	113,738	
Postage	16,397	746	2,326	11,910	417	61	31,857	25,567	3,694	61,118	
Publicity and promotions	25,239	4,469	23,069	7,587	-	12,063	72,427	3,362	5,541	81,330	
Rent expense	1,093,143	50,820	128,009	78,483	44,917	-	1,395,372	75,261	35,700	1,506,333	
Utilities	278,963	12,969	32,709	15,497	24,266	-	364,404	19,206	9,130	392,740	
Telephone	42,031	2,923	11,012	5,177	4,343	2,556	68,042	3,831	8,925	80,798	
Security	-	-	-	-	11,984	-	11,984	-	-	11,984	
Repairs and maintenance	607,986	10,871	28,835	17,721	87,855	-	753,268	68,360	36,236	857,864	
Conferences and travel	51,898	3,265	22,016	28,321	8,668	14,415	128,583	10,584	3,273	142,440	
Professional services	344,199	9,234	250,212	63,889	108,048	143,834	919,416	27,529	38,447	985,392	
Special events	2,024	71	1,073	801	17,112	-	21,081	123,467	353	144,901	
Bad debt expense	72,437	63,827	-	-	-	-	136,264	-	-	136,264	
Other	248,795	11,362	28,201	33,318	4,065	54,044	379,785	16,828	19,399	416,012	
Total before depreciation and amortization	14,701,900	693,467	1,799,257	1,093,309	1,926,891	428,342	20,643,166	1,272,573	711,771	22,627,510	
Depreciation and amortization	1,676,017	71,291	182,126	83,648	43,391	-	2,056,473	103,525	51,058	2,211,056	
Total functional expenses	<u>\$ 16,377,917</u>	<u>\$ 764,758</u>	<u>\$ 1,981,383</u>	<u>\$ 1,176,957</u>	<u>\$ 1,970,282</u>	<u>\$ 428,342</u>	<u>\$ 22,699,639</u>	<u>\$ 1,376,098</u>	<u>\$ 762,829</u>	<u>\$ 24,838,566</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

	Program Services										
	Integrated Health			Outreach							
	Clinic	Health Advisory Team	Nutrition Hub	Children's Program	Faith & Health Ministry Resources	Perea Preschool	ECHO Program	Total Program Services	Fundraising	General and Administrative	Totals
Salaries	\$ 7,830,694	\$ 406,358	\$ 351,159	\$ 379,530	\$ 636,442	\$1,103,245	\$ 165,483	\$10,872,911	\$ 619,789	\$ 379,750	\$11,872,450
Donated services	670,928	8,883	31,158	49,429	16,753	6,505	-	783,656	30,560	333,216	1,147,432
Payroll taxes	547,328	40,402	30,894	26,534	47,424	81,295	20,648	794,525	43,479	23,847	861,851
Employee benefits	1,027,657	163,947	60,763	48,015	82,234	190,173	16,794	1,589,583	79,680	55,333	1,724,596
Insurance	82,506	3,857	4,308	4,809	5,448	3,414	-	104,342	5,523	18,786	128,651
Staff development and recruitment	48,822	5,498	1,824	4,071	2,123	12,065	96	74,499	2,477	3,539	80,515
Licenses and dues	38,895	4,832	4,217	3,939	1,701	2,679	-	56,263	3,130	2,227	61,620
Supplies	814,334	3,072	27,291	7,113	6,537	183,274	543	1,042,164	6,849	8,388	1,057,401
Printing and publications	40,774	14,830	2,110	1,783	59,700	1,403	7,616	128,216	53,323	5,461	187,000
Postage	16,654	5,284	863	975	14,905	298	340	39,319	22,438	3,764	65,521
Publicity and promotions	78,561	1,449	2,278	1,807	5,978	137	5,191	95,401	3,397	7,056	105,854
Rent expense	933,865	208,979	57,723	64,482	73,073	33,540	-	1,371,662	74,037	39,042	1,484,741
Utilities	230,835	51,952	16,572	16,063	18,203	17,347	-	350,972	18,443	9,870	379,285
Telephone	46,660	4,322	2,058	2,657	6,766	3,977	2,163	68,603	4,078	8,973	81,654
Security	-	-	-	-	-	18,796	-	18,796	-	-	18,796
Repairs and maintenance	625,741	11,707	18,582	11,136	18,956	80,771	-	766,893	69,170	37,800	873,863
Conferences and travel	93,938	9,237	3,146	1,065	51,527	12,407	43,043	214,363	6,725	2,760	223,848
Professional services	390,254	46,474	20,003	19,857	219,629	17,955	210,639	924,811	22,591	38,109	985,511
Special events	1,063	63	(34)	78	24,195	15,705	-	41,070	108,104	306	149,480
Bad debt expense	80,871	23,899	-	-	-	-	-	104,770	-	-	104,770
Other	<u>241,532</u>	<u>33,952</u>	<u>11,447</u>	<u>12,623</u>	<u>57,001</u>	<u>9,002</u>	<u>53,843</u>	<u>419,400</u>	<u>14,826</u>	<u>15,393</u>	<u>449,619</u>
Total before depreciation and amortization	13,841,912	1,048,997	646,362	655,966	1,348,595	1,793,988	526,399	19,862,219	1,188,619	993,620	22,044,458
Depreciation and amortization	<u>1,103,550</u>	<u>255,883</u>	<u>74,180</u>	<u>70,511</u>	<u>78,252</u>	<u>41,411</u>	<u>-</u>	<u>1,623,787</u>	<u>79,178</u>	<u>345,071</u>	<u>2,048,036</u>
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>\$21,486,006</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 Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (1,965,502)	\$ (3,964,395)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	2,211,056	2,048,036
Amortization of deferred lease incentive	(395,915)	(395,915)
Net realized and unrealized investment (gain) loss	1,494,354	(102,271)
Contributions restricted for long-term purposes	(2,182,044)	(2,481,775)
Bad debt expense	136,264	104,770
Gain on disposal of property	(647)	(10,241)
Changes in assets and liabilities		
Accounts and other receivables	(131,063)	(108,427)
Pledges receivable	2,315,040	(117,579)
Grants receivable	(52,089)	1,178
Prepays and other assets	(76)	140,952
Accounts payable	261,982	15,344
Accrued expenses and other liabilities	(306,542)	417,025
Refundable advances	133,838	-
Net cash provided by (used in) operating activities	<u>1,518,656</u>	<u>(4,453,298)</u>
Cash flows from investing activities:		
Purchases of investments	(14,907,422)	(8,396,318)
Purchases of property and equipment	(1,142,998)	(2,257,484)
Proceeds from sale of investments	15,868,005	11,684,159
Proceeds from sale of property and equipment	<u>8,995</u>	<u>100,000</u>
Net cash provided by (used in) investing activities	(173,420)	1,130,357
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	561,967	167,616
Term or performance	1,620,077	2,314,159
Proceeds from borrowings on lines of credit	2,930,837	1,500,000
Principal payments on lines of credit	(3,497,939)	(900,000)
Principal payments on capital leases	<u>(149,538)</u>	<u>(166,955)</u>
Net cash provided by financing activities	<u>1,465,404</u>	<u>2,914,820</u>
Net increase (decrease) in cash	2,810,640	(408,121)
Cash at beginning of year	<u>1,517,222</u>	<u>1,925,343</u>
Cash at end of year	<u>\$ 4,327,862</u>	<u>\$ 1,517,222</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, 2020 and 2019

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, 2020 and 2019

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 or barriers are substantially met. There were no unearned contributions related to conditional contributions received as of June 30, 2020 and 2019.

MEMPHIS Plan participant revenue and patient and member receipts are exchange transactions and are recognized in the month for which the coverage applies or when services are performed. 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 \$867,590 and \$1,147,432 in 2020 and 2019, 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, 2020 and 2019

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 and amortization are 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 and amortization expense totaled \$2,211,056 and \$2,048,036 in 2020 and 2019, respectively.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2020 and 2019

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, 2020 and 2019.

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 2017.

Events occurring after the reporting date

Management has evaluated events and transactions that have occurred between June 30, 2020 and October 29, 2020, 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

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 1 - Summary of significant accounting policies (continued)

Use of estimates (continued)

used include the estimated fair value of donated professional services, pledge receivable discounts, investments, and the estimated allowance for doubtful accounts and pledges receivable. Accordingly, actual results could differ from those estimates.

New accounting pronouncements

Effective July 1, 2019 the Organization adopted the provisions of FASB Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies and improves previous guidance about whether a transfer of assets is a contribution or an exchange transaction. The standard also clarifies whether a contribution is conditional. The ASU has been applied using the modified prospective basis for all grants and contracts that were not completed as of July 1, 2019 and had no impact on the Organization's accounting for contributions.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606). This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and is intended to improve and converge the financial reporting requirements for guidance in U.S. GAAP. The standard permits the use of either the retrospective or cumulative effect transition method.

In February 2016, 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.

In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842). The amendments in this update defer the effective date of ASU 2014-09 for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) for one year. These entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2019. Management has elected to defer adoption of ASC Topic 606 until July 1, 2020 and the Organization is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Organization has not yet selected a transition method nor has it determined the effects of the standard on its ongoing financial reporting. The amendments in this update also defer the effective date of ASU 2016-02 for entities in the "all other" category to fiscal years beginning after December 15, 2021. The Organization is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 2 - Accounts and other receivables

Accounts and other receivables consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accounts receivable - patients	\$ 169,091	\$ 221,607
MEMPHIS Plan	176,618	242,555
Accounts receivable - insurers	81,887	120,119
Other receivables	<u>161,800</u>	<u>113,485</u>
	589,396	697,766
Less allowance for doubtful accounts	<u>256,679</u>	<u>359,848</u>
Accounts and other receivables, net	<u>\$ 332,717</u>	<u>\$ 337,918</u>

Note 3 - Pledges receivable

Pledges receivable are summarized as follows as of June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Within one year	\$ 2,051,870	\$ 3,019,664
One to five years	<u>1,955,000</u>	<u>3,556,000</u>
Total unconditional promises to give	4,006,870	6,575,664
Less present value component	<u>85,903</u>	<u>339,657</u>
Pledges receivable, net	<u>\$ 3,920,967</u>	<u>\$ 6,236,007</u>

Pledges receivable have been discounted to their net present value using an annual rate of 1.29% in 2020 and 2.76% in 2019.

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, 2020 or 2019.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 4 - Liquidity and availability of resources

As of June 30, 2020 and 2019, the following represents the Organization's financial assets which are available to meet expenditures over the next twelve months:

	<u>2020</u>	<u>2019</u>
Cash	\$ 4,327,862	\$ 1,517,222
Accounts and other receivables, net	332,717	337,918
Pledges receivable, net	2,051,870	3,019,664
Grants receivable	240,864	188,775
Perea Preschool Program	1,906,801	2,185,000
Crosstown rent	2,199,697	2,199,697
Endowment earnings	<u>1,076,304</u>	<u>1,175,507</u>
Total financial assets available to meet expenditures over the next twelve months	<u>\$ 12,136,115</u>	<u>\$ 10,623,783</u>

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 \$2,150,000, which it could draw upon in the event of an unanticipated liquidity need. Additionally, Board designated net assets could be appropriated for liquidity needs.

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, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 4,469,875	\$ 6,083,972
Mutual funds - restricted	9,221,591	11,075,981
Hedge funds	7,424,916	8,464,633
Exchange-traded funds	2,164,744	-
Money market funds	5,231,379	5,092,038
Common stocks	<u>-</u>	<u>250,818</u>
Total	<u>\$ 28,512,505</u>	<u>\$ 30,967,442</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2020 and 2019

Note 5 - Investments (continued)

Investments as of June 30, 2020 and 2019 include restricted endowment funds of \$18,705,834 and \$18,143,867, respectively. As of June 30, 2020 and 2019, mutual and money market funds totaling \$9,221,591 and \$11,075,981, 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.

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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 6 - Fair value measurements (continued)

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, 2020 and 2019.

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.

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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 6 - Fair value measurements (continued)

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, 2020 and 2019.

Investments at Fair Value as of June 30, 2020				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
International	\$ 1,106,149	\$ -	\$ -	\$ 1,106,149
Bonds	2,318,695	-	-	2,318,695
Large cap	557,284	-	-	557,284
Small cap	<u>487,747</u>	<u>-</u>	<u>-</u>	<u>487,747</u>
Total mutual funds	4,469,875	-	-	4,469,875
Mutual funds - restricted				
International	4,700,584	-	-	4,700,584
Large-cap	2,369,457	-	-	2,369,457
Small-cap	<u>2,151,550</u>	<u>-</u>	<u>-</u>	<u>2,151,550</u>
Total mutual funds - restricted	9,221,591	-	-	9,221,591
Exchange-traded funds	2,164,744	-	-	2,164,744
Money market funds	<u>5,231,379</u>	<u>-</u>	<u>-</u>	<u>5,231,379</u>
Total	<u>\$ 21,087,589</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 21,087,589
Hedge funds measured at net asset value*				<u>7,424,916</u>
				<u>\$ 28,512,505</u>

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

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 6 - Fair value measurements (continued)

	Investments at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
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>

* In accordance with ASC 820, 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, 2020 and 2019.

	Common Stocks
Balances, July 1, 2018	\$ 249,954
Investment income	<u>864</u>
Balances, June 30, 2019	250,818
Investment income	496
Realized gain	9,354
Redemptions/sales	<u>(260,668)</u>
Balances, June 30, 2020	<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:	
2020	<u>\$ -</u>
2019	<u>\$ 864</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 6 - Fair value measurements (continued)

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

	Fair Value June 30, 2020	Fair Value June 30, 2019	Unfunded Commitments as of June 30, 2020	Redemption Frequency	Redemption Notice Period
Hedge funds:					
Cayman Islands	\$ 6,887,062	\$ 6,908,762	\$ -	Annually	90 Days
Domestic (1)	-	1,107,283	-	Annually	90 Days
Domestic (2)	537,854	448,588	-	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.
- 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 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

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2020 and 2019

Note 7 - Restricted investments (continued)

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, 2020 and 2019, the prefunded mutual funds plus the earnings thereon totaling \$9,221,591 and \$11,075,981, 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, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Building and leasehold improvements	\$ 22,692,648	\$ 20,276,495
Furniture and equipment	5,711,779	5,238,445
Building and land	343,052	343,052
Construction-in-progress	-	<u>1,721,458</u>
	<u>28,747,479</u>	<u>27,579,450</u>
Accumulated depreciation and amortization	<u>8,636,755</u>	<u>6,426,732</u>
Property and equipment, net	<u>\$ 20,110,724</u>	<u>\$ 21,152,718</u>

Note 9 - Lines of credit

In March 2018, the terms of the Center's line of credit with a financial institution were modified to decrease the line of credit from \$5,500,000 to \$4,500,000. Interest is payable monthly at the three-month LIBOR Rate plus 2.3% (2.65% as of June 30, 2020). 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 \$2,345,938 and \$3,600,000 as of June 30, 2020 and 2019, respectively. The line of credit is unsecured.

In March 2018, the Center entered into another \$3,000,000 revolving credit agreement with a financial institution. In May 2020, the terms of the agreement were modified to extend the maturity date of the line to March 2021. Interest is payable at the three-month LIBOR Rate plus 2.3% (2.65% as of June 30, 2020). The principal balance plus all accrued interest is due March 2021. Borrowings outstanding under the line of credit totaled \$850,000 and \$1,500,000 as of June 30, 2020 and 2019, respectively. The line of credit is unsecured.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 9 - Lines of credit (continued)

In August 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% (2.65% as of June 30, 2020). Principal and interest is payable monthly in the amount of \$32,313. The remaining principal balance plus all remaining accrued interest is due December 2024. Advances totaling \$1,530,837 have been made against the line of credit through June 30, 2020. Borrowings outstanding under the line of credit totaled \$1,336,960 as of June 30, 2020. The line of credit is unsecured.

Principal maturities of the lines of credit as of June 30, 2020 are as follows:

<u>Year</u>	
2021	\$ 2,137,753
2022	1,287,753
2023	933,691
2024	<u>173,701</u>
	<u>\$ 4,532,898</u>

Note 10 - Capital lease obligations

The Organization leases certain equipment under various capital lease agreements. The capital lease obligations are payable in monthly installments totaling approximately \$12,000 and expire at various dates through December 2024. 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. Amortization expense related to equipment under capital lease agreements is included in depreciation and amortization expense in the combined statements of functional expenses. The capitalized cost, less accumulated amortization, totaled \$268,865 and \$364,430 as of June 30, 2020 and 2019, respectively.

Future minimum lease payments under capital leases as of June 30, 2020, are as follows:

<u>Fiscal Year</u>	
2021	\$ 132,483
2022	75,063
2023	15,894
2024	<u>4,145</u>
Net minimum lease payments	227,585
Less amounts representing interest	<u>10,567</u>
Present value of future minimum lease payments	<u>\$ 217,018</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 11 - Operating leases

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.

The Organization has also entered into various other operating lease agreements for facilities and storage space expiring at various dates through March 2032. Rent expense for the years ended June 30, 2020 and 2019 totaled \$1,506,333 and \$1,484,741, respectively.

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

<u>Fiscal Year</u>	
2021	\$ 1,833,072
2022	1,833,072
2023	1,833,072
2024	1,833,072
2025	1,833,072
Thereafter	<u>12,373,236</u>
	<u>\$ 21,538,596</u>

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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 12 - Net assets (continued)

The following table summarizes net assets as of June 30, 2020.

	Without Donor Restrictions	With Donor Restrictions	Total
Operating funds:			
Undesignated	\$ 19,189,836	\$ -	\$ 19,189,836
Subject to expenditure for specified purpose:			
Crosstown project	-	4,076,923	4,076,923
Perea Preschool program	-	1,236,899	1,236,899
Endowment fund earnings -			
Programs & Services	-	786,484	786,484
Integrated Health	-	308,089	308,089
Advancement & Stewardship	-	250,000	250,000
ECHO	-	36,128	36,128
Outreach	-	18,583	18,583
Advancement & Stewardship	-	-	-
Endowment funds:	<u>2,033,763</u>	<u>18,705,834</u>	<u>20,739,597</u>
Total net assets	<u>\$ 21,223,599</u>	<u>\$ 25,418,940</u>	<u>\$ 46,642,539</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
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>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Crosstown project	\$ 4,839,639	\$ 2,601,813
Perea Preschool program	1,970,282	1,835,398
Endowment fund earnings -		
Programs and services	1,151,600	1,237,451
Integrated Health	1,215,741	229,797
ECHO	456,688	526,400
Advancement and stewardship	150,875	9,662
Outreach	7,500	29,499
Community Garden	<u>-</u>	<u>52,770</u>
Total	<u>\$ 9,792,325</u>	<u>\$ 6,522,790</u>

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, 2020 and 2019.

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, 2020 and 2019

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, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 19,492,318	\$ 19,492,318
Board-designated endowment funds	<u>2,033,763</u>	<u>-</u>	<u>2,033,763</u>
Total funds	<u>\$ 2,033,763</u>	<u>\$ 19,492,318</u>	<u>\$ 21,526,081</u>

Changes in endowment net assets for the fiscal year ended June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 2,033,763	\$ 21,476,373	\$ 23,510,136
Investment loss	-	(1,394,422)	(1,394,422)
Contributions	-	561,967	561,967
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,151,600)</u>	<u>(1,151,600)</u>
End of year	<u>\$ 2,033,763</u>	<u>\$ 19,492,318</u>	<u>\$ 21,526,081</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 15 - Endowment funds (continued)

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>

The portion of the endowment funds subject to time and purpose restrictions was \$786,484 and \$3,332,506 as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, endowment funds totaling \$674,540 and \$1,168,132, 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, 2020 and 2019.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

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 2020 and 2019, this percentage was five percent (5%). Accordingly, appropriations of endowment earnings totaled \$1,151,600 and \$1,237,451 in 2020 and 2019, 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 \$371,500 and \$339,000 for the years ended June 30, 2020 and 2019, respectively.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 17 - Paycheck Protection Program

In April 2020, the Center, Perea, and ECHO each applied for and received forgivable Paycheck Protection Program loans of \$2,400,000, \$275,000, and \$39,000, respectively. The loans originated under the guidelines of the Small Business Administration (SBA) Paycheck Protection Program and each carry an interest rate of 1%. Principal and interest payments for each loan are scheduled to begin in November 2020 with a final maturity of April 2022. Under the terms of the loans, and provisions of the Coronavirus Aid, Relief, and Economic Security Act, the loans are forgivable to the extent the proceeds are used for certain qualified costs during the twenty-four week period following the loan and certain employment levels are maintained. Through June 30, 2020, the Center has used \$2,335,403 of the proceeds on qualified costs and employment levels were maintained. Through June 30, 2020, Perea has used \$211,085 of the proceeds on qualified costs and employment levels were maintained. Through June 30, 2020, ECHO has used \$33,674 of the proceeds on qualified costs and employment levels were maintained. Consequently, conditional barriers to entitlement have been met and in accordance with ASC 958 these proceeds totaling \$2,580,162 have been reported as grant revenue on the statement of activities for the year ended June 30, 2020. The balances of the unused portion of the loans totaling \$64,597, \$63,915, and \$5,326 for the Center, Perea, and ECHO, respectively, as of June 30, 2020 are recorded as refundable advances in the combined statement of financial position. Subsequent to June 30, 2020, the Center, Perea, and ECHO each utilized the refundable advances for qualified purposes and recognized them as grant revenue. Additionally, formal requests for forgiveness will be submitted after the performance period outlined above and forgiveness is expected.

Note 18 - 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 Organization 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.

In early March 2020, there was a global outbreak of COVID-19 that has been classified as a pandemic. It has detrimentally affected workforces, economies, and financial markets globally. As a response to the pandemic, the Organization has altered its programs to respond to the needs of the community. Currently, the Organization remains in a strong financial position and as detailed in note 4, has liquidity to meet its operating needs. The resulting economic downturn and any potential future direct and indirect negative impact to the Organization and its operations cannot be

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2020 and 2019

Note 18 - Risks and uncertainties (continued)

determined, but they could have a prospective material impact. The impact could affect the collectability of receivables and promises to give, and result in a decline in revenues, and a decline in investment values. As described in note 17, the Center, Perea, and ECHO each received forgivable Paycheck Protection Program loans pursuant to the terms and conditions of the Coronavirus Aid, Relief, and Economic Security Act totaling \$2,400,000, \$275,000, and \$39,000, respectively. The loan proceeds have been used to pay payroll and other qualifying expenses under the terms of the program. Formal requests for forgiveness of the loans will be submitted after the performance period and management expects the loans will be forgiven. In addition, the Center received a COVID-19 community and faith-based health care safety net support grant from the State of Tennessee of approximately \$771,000, which will be used for qualifying expenses under the terms of the grant in fiscal year 2021. While the long-term impacts to the Organization are unknown, management does not believe the pandemic will significantly impact the ability of the Organization to continue as a going concern.

Note 19 - Supplemental cash flow information

Cash paid for interest totaled \$257,800 in 2020 and \$256,500 in 2019.

Non-cash financing activities

During 2020 and 2019, the Organization financed equipment totaling approximately \$34,000 and \$206,000, respectively, through capital leases.

SUPPLEMENTARY INFORMATION

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2020

Federal Agency/ Pass Through Agency	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	\$ 97,143
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	62958	102,618
Opioid State Targeted Response (STR) Community Response	93.788	61223	42,390
Opioid State Targeted Response (STR) Community Response	93.788	64393	<u>171,442</u>
Total Program 93.788			<u>213,832</u>
Total Department of Health and Human Services/ Tennessee Department of Mental Health and Substance Abuse Services			<u>316,450</u>
Total Federal Awards			<u>\$ 413,593</u>
<u>State Financial Assistance</u>			
Tennessee Department of Health			
Safety Net Grant - Primary Care Services for Uninsured Adult Tennesseans	N/A	Z-20-202053	\$ 511,951
Safety Net Grant - Emergency Dental Services for Uninsured Adult Tennesseans (as amended)	N/A	Z-20-200010	108,578
Tennessee Department of Mental Health and Substance Abuse Services			
Lifeline Peer Project	N/A	62991	<u>59,816</u>
Total State Financial Assistance			<u>\$ 680,345</u>

The accompanying notes are an integral part of this schedule.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance (Continued)
For the Year Ended June 30, 2020

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 (the "Schedule") summarizes the expenditures of the Organization under programs of the federal and state governments for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the *State of Tennessee Audit Manual*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note B - Grants receivable

Grants receivable from the State of Tennessee Department of Health totaling \$240,864 and \$188,775 as of June 30, 2020 and 2019, 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 year ended June 30, 2020.

All other federal and state awards are included in state financial assistance in the combined statement of activities for the year ended June 30, 2020.

Note D. Summary of Significant Accounting Policies

1. Expenditures reported in the Schedule are on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or limited as to reimbursement.
2. The Organization elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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**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***

Independent Auditor's Report

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, 2020 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 October 29, 2020.

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) as a basis for designing 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 financial statements. 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
October 29, 2020

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Prior Year Findings
For the Year Ended June 30, 2020

There were no prior year findings reported.