

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Combined Financial Statements
and Supplemental Information
For the Years Ended June 30, 2022 and 2021

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, 2022

Board of Trustees

T. Michael Glenn, Chairman
Michelle Borninkhof
Rob Carter
Edward Dobbs
Steve Fracchia
Dr. Kathleen Forbes
Dr. Alisa Haushalter
Dr. Saju Joy
Andrew R. McCarroll
Dr. G. Scott Morris
Dr. Douglas Scarboro
John W. Stokes, Jr.
Reverend Dr. J. Lawrence Turner
The Rev. Dorothy Sanders Wells
Dr. Philip A. Wenk
Barbara C. Williamson
McLean Wilson

Management

Dr. G. Scott Morris, M.D., M Div., Chief Executive Officer and President
Jenny Bartlett-Prescott, Chief Operating Officer
Jennie Robbins, Chief Financial Officer and Secretary
Lois McFarland, Senior Director of Human Resources
Dr. Susan Nelson, M.D., Medical Director
Aarti Bowman, Director, Development
Sherronda Rhyan, Director, Finance



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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited 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 statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Organization as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary and Other 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 Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Tennessee Audit Manual* and the Roster of Board of Trustees and Management are presented for purposes of additional analysis and are 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 supplementary information shown as the schedule of expenditures of federal awards and state financial assistance 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

The other information shown as the Roster of Board of Trustees and Management has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on the Roster of Board of Trustees and Management.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2022, 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 the Organization's 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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

Memphis, Tennessee
December 7, 2022

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Combined Statements of Financial Position
June 30, 2022 and 2021

	<u>Assets</u>	
	2022	2021
Assets		
Cash	\$ 8,174,857	\$ 7,799,992
Accounts and other receivables, net	444,498	487,730
Pledges receivable, net	2,368,645	2,283,337
Grants receivable	680,342	438,125
Investments	22,293,798	23,482,550
Restricted investments	10,285,272	13,300,134
Prepaid expenses	9,838	15,149
Property and equipment, net	<u>15,515,800</u>	<u>17,928,726</u>
	<u>\$ 59,773,050</u>	<u>\$ 65,735,743</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Lines of credit	\$ 554,835	\$ 2,442,596
Accounts payable	212,215	246,371
Accrued payroll and related benefits	901,954	709,304
Other accrued expenses	70,826	95,439
Deferred revenue	131,225	150,750
Capital lease obligations	368,675	91,673
Deferred lease incentive	<u>3,860,169</u>	<u>4,256,083</u>
Total liabilities	6,099,899	7,992,216
Commitments and contingencies		
Net assets		
Without donor restrictions		
Undesignated	28,000,054	26,103,270
Designated by the Board for endowment	<u>2,033,763</u>	<u>2,033,763</u>
	30,033,817	28,137,033
With donor restrictions	<u>23,639,334</u>	<u>29,606,494</u>
Total net assets	<u>53,673,151</u>	<u>57,743,527</u>
	<u>\$ 59,773,050</u>	<u>\$ 65,735,743</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and other revenues			
Contributions and grants - CHC	\$ 13,411,959	\$ 3,301,438	\$ 16,713,397
Contributions and grants - ECHO	-	50,000	50,000
State financial assistance	1,555,998	-	1,555,998
Federal grants	243,904	486,000	729,904
Contributions of nonfinancial assets	721,240	-	721,240
MEMPHIS Plan	1,691,724	-	1,691,724
Patient and member receipts	2,260,956	-	2,260,956
Third-party reimbursements	616,441	-	616,441
Dividend and interest income	115,362	589,451	704,813
Net realized and unrealized investment loss	(373,338)	(4,307,248)	(4,680,586)
Special events	183,246	-	183,246
Outreach	2,096	-	2,096
Nutrition Hub	45,224	-	45,224
Other	450,112	-	450,112
	<u>20,924,924</u>	<u>119,641</u>	<u>21,044,565</u>
Net assets released from restrictions	<u>6,086,801</u>	<u>(6,086,801)</u>	<u>-</u>
Total support and other revenues	27,011,725	(5,967,160)	21,044,565
Functional expenses			
Program services			
Clinic	19,113,632	-	19,113,632
Health Advisory Team	581,707	-	581,707
Community Services Programs	2,403,055	-	2,403,055
Faith & Health Ministry Resources	224,310	-	224,310
ECHO Program	377,622	-	377,622
Total program services	<u>22,700,326</u>	<u>-</u>	<u>22,700,326</u>
Fundraising	1,650,846	-	1,650,846
General and administrative	<u>763,769</u>	<u>-</u>	<u>763,769</u>
Total functional expenses	<u>25,114,941</u>	<u>-</u>	<u>25,114,941</u>
Increase (decrease) in net assets	1,896,784	(5,967,160)	(4,070,376)
Net assets at beginning of year	<u>28,137,033</u>	<u>29,606,494</u>	<u>57,743,527</u>
Net assets at end of year	<u>\$ 30,033,817</u>	<u>\$ 23,639,334</u>	<u>\$ 53,673,151</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and other revenues			
Contributions and grants - CHC	\$ 11,848,446	\$ 4,749,297	\$ 16,597,743
Contributions and grants - Perea	-	451,973	451,973
Contributions and grants - ECHO	-	520,576	520,576
State financial assistance	2,642,346	-	2,642,346
Federal grants	2,419,759	55,291	2,475,050
Contributions of nonfinancial assets	765,498	-	765,498
MEMPHIS Plan	1,860,590	-	1,860,590
Patient and member receipts	2,121,748	-	2,121,748
Third-party reimbursements	520,596	-	520,596
Dividend and interest income	111,879	460,945	572,824
Net realized and unrealized investment gain	980,374	6,909,222	7,889,596
Special events	111,990	-	111,990
Outreach	29,739	-	29,739
Nutrition Hub	41,931	-	41,931
Other	<u>387,738</u>	<u>611,969</u>	<u>999,707</u>
	<u>23,842,634</u>	<u>13,759,273</u>	<u>37,601,907</u>
Net assets released from restrictions	<u>9,571,719</u>	<u>(9,571,719)</u>	<u>-</u>
Total support and other revenues	33,414,353	4,187,554	37,601,907
Functional expenses			
Program services			
Clinic	18,181,938	-	18,181,938
Health Advisory Team	650,817	-	650,817
Community Services Programs	2,335,768	-	2,335,768
Faith & Health Ministry Resources	656,871	-	656,871
Perea Preschool	1,933,946	-	1,933,946
ECHO Program	<u>358,348</u>	<u>-</u>	<u>358,348</u>
Total program services	24,117,688	-	24,117,688
Fundraising	1,344,169	-	1,344,169
General and administrative	<u>1,039,062</u>	<u>-</u>	<u>1,039,062</u>
Total functional expenses	<u>26,500,919</u>	<u>-</u>	<u>26,500,919</u>
Increase in net assets	6,913,434	4,187,554	11,100,988
Net assets at beginning of year	<u>21,223,599</u>	<u>25,418,940</u>	<u>46,642,539</u>
Net assets at end of year	<u>\$ 28,137,033</u>	<u>\$ 29,606,494</u>	<u>\$ 57,743,527</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, 2022

	Program Services					Total Program Services	Fundraising	General and Administrative	Totals
	Integrated Health		Outreach						
	Clinic	Health Advisory Team	Community Services Programs	Faith & Health Ministry Resources	ECHO Program				
Salaries	\$ 9,471,403	\$ 293,284	\$ 984,802	\$ 112,402	\$ 170,423	\$ 11,032,314	\$ 848,486	\$ 358,721	\$ 12,239,521
Contributed services	621,803	6,239	40,888	1,945	-	670,875	28,889	21,476	721,240
Payroll taxes	681,305	21,397	73,343	7,864	12,303	796,212	60,715	25,707	882,634
Employee benefits	1,227,617	29,779	144,316	20,581	20,885	1,443,178	83,775	43,087	1,570,040
Insurance	85,282	3,288	11,363	1,651	-	101,584	6,336	19,045	126,965
Staff development and recruitment	43,055	2,961	5,917	405	267	52,605	24,188	3,519	80,312
Licenses and dues	42,859	817	3,738	703	-	48,117	1,351	1,402	50,870
Supplies	1,240,530	1,803	103,635	1,202	836	1,348,006	5,872	9,530	1,363,408
Printing and publications	27,079	2,891	15,993	582	1,487	48,032	37,460	3,311	88,803
Postage	15,541	593	2,067	298	18	18,517	13,438	3,435	35,390
Publicity and promotions	51,725	6,370	118,110	989	5,357	182,551	4,857	11,406	198,814
Rent expense	1,121,974	43,483	157,130	21,753	-	1,344,340	83,683	36,629	1,464,652
Utilities	249,800	9,688	34,507	4,844	-	298,839	18,643	8,325	325,807
Telephone	61,647	2,775	12,465	1,972	2,941	81,800	4,671	12,598	99,069
Repairs and maintenance	848,335	16,097	47,467	5,748	224	917,871	84,733	65,725	1,068,329
Conferences and travel	70,618	484	32,247	3,322	8,682	115,353	3,664	2,144	121,161
Professional services	606,861	50,305	371,553	4,964	154,199	1,187,882	130,362	57,281	1,375,525
Special events	2,612	33	118	17	-	2,780	81,608	199	84,587
Bad debt expense	175,970	21,667	2,567	-	-	200,204	1,000	-	201,204
Other	756,609	7,488	25,825	3,754	-	793,676	14,398	33,323	841,397
Total before depreciation and amortization	17,402,625	521,442	2,188,051	194,996	377,622	20,684,736	1,538,129	716,863	22,939,728
Depreciation and amortization	1,711,007	60,265	215,004	29,314	-	2,015,590	112,717	46,906	2,175,213
Total functional expenses	<u>\$ 19,113,632</u>	<u>\$ 581,707</u>	<u>\$ 2,403,055</u>	<u>\$ 224,310</u>	<u>\$ 377,622</u>	<u>\$ 22,700,326</u>	<u>\$ 1,650,846</u>	<u>\$ 763,769</u>	<u>\$ 25,114,941</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, 2021

	Program Services						Total Program Services	Fundraising	General and Administrative	Totals
	Integrated Health		Outreach							
	Clinic	Health Advisory Team	Community Services Programs	Faith & Health Ministry Resources	Perea Preschool	ECHO Program				
Salaries	\$ 8,797,422	\$ 321,480	\$ 983,405	\$ 366,910	\$ 1,108,292	\$ 100,043	\$ 11,677,552	\$ 635,016	\$ 367,441	\$ 12,680,009
Contributed services	659,066	7,720	53,242	4,187	-	-	724,215	20,247	21,037	765,499
Payroll taxes	561,913	22,560	68,973	27,369	78,554	7,445	766,814	45,463	24,855	837,132
Employee benefits	1,164,676	38,149	154,469	50,869	177,609	13,521	1,599,293	78,490	48,941	1,726,724
Insurance	71,833	3,272	9,622	2,019	5,613	-	92,359	5,043	16,198	113,600
Staff development and recruitment	51,195	2,770	7,110	2,251	22,102	37	85,465	6,429	5,412	97,306
Licenses and dues	43,600	676	2,359	162	2,144	44	48,985	1,842	1,296	52,123
Supplies	1,145,674	1,971	94,872	1,223	127,187	140	1,371,067	12,236	7,391	1,390,694
Printing and publications	21,139	2,598	13,119	347	452	1,668	39,323	34,594	2,782	76,699
Postage	14,632	647	2,004	1,949	175	42	19,449	7,027	3,201	29,677
Publicity and promotions	20,935	936	26,274	216	-	3,942	52,303	2,946	4,634	59,883
Rent expense	1,113,171	50,983	145,382	56,060	41,324	-	1,406,920	77,735	40,011	1,524,666
Utilities	253,012	11,605	33,803	8,706	21,919	-	329,045	17,644	8,740	355,429
Telephone	44,647	2,234	13,740	2,944	12,123	2,599	78,287	3,530	9,180	90,997
Security	-	-	-	-	5,967	-	5,967	-	-	5,967
Repairs and maintenance	697,162	13,054	41,852	7,976	92,631	-	852,675	71,768	43,177	967,620
Conferences and travel	48,127	1,232	34,198	2,766	4,552	675	91,550	3,926	4,543	100,019
Professional services	513,293	18,385	258,297	12,159	25,055	228,145	1,082,334	127,039	46,775	1,256,148
Special events	840	15	43	31	6,003	-	6,932	8,916	73	15,921
Bad debt expense	107,318	29,326	-	-	-	-	136,644	-	100,000	236,644
Other	<u>1,098,774</u>	<u>49,485</u>	<u>145,321</u>	<u>55,592</u>	<u>157,870</u>	<u>47</u>	<u>1,507,089</u>	<u>76,242</u>	<u>230,851</u>	<u>1,814,182</u>
Total before depreciation and amortization	16,428,429	579,098	2,115,085	603,736	1,889,572	358,348	21,974,268	1,236,133	986,538	24,196,939
Depreciation and amortization	<u>1,753,509</u>	<u>71,719</u>	<u>220,683</u>	<u>53,135</u>	<u>44,374</u>	<u>-</u>	<u>2,143,420</u>	<u>108,036</u>	<u>52,524</u>	<u>2,303,980</u>
Total functional expenses	<u>\$ 18,181,938</u>	<u>\$ 650,817</u>	<u>\$ 2,335,768</u>	<u>\$ 656,871</u>	<u>\$ 1,933,946</u>	<u>\$ 358,348</u>	<u>\$ 24,117,688</u>	<u>\$ 1,344,169</u>	<u>\$ 1,039,062</u>	<u>\$ 26,500,919</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (4,070,376)	\$ 11,100,988
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	2,175,213	2,303,980
Amortization of deferred lease incentive	(395,914)	(395,915)
Net realized and unrealized investment (gain) loss	3,975,773	(8,462,420)
Contributions restricted for long-term purposes	(1,592,427)	(3,699,575)
Bad debt expense	201,204	236,644
Loss on disposal of property	757,593	146,104
Changes in assets and liabilities		
Accounts and other receivables	(157,972)	(391,657)
Pledges receivable	(85,308)	1,637,630
Grants receivable	(242,217)	(197,261)
Prepaid expenses	5,311	24,298
Accounts payable	(34,156)	(59,539)
Accrued expenses and other liabilities	148,512	(45,392)
Refundable advances	-	(133,838)
Net cash provided by operating activities	<u>685,236</u>	<u>2,064,047</u>
Cash flows from investing activities:		
Purchases of investments	(7,880,788)	(8,565,444)
Purchases of property and equipment	(145,307)	(268,086)
Proceeds from sale of investments	<u>8,108,629</u>	<u>8,757,685</u>
Net cash provided by (used in) investing activities	82,534	(75,845)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	400,149	371,475
Term or performance	1,192,278	3,328,100
Principal payments on lines of credit	(1,887,761)	(2,090,302)
Principal payments on capital leases	<u>(97,571)</u>	<u>(125,345)</u>
Net cash provided by (used in) financing activities	<u>(392,905)</u>	<u>1,483,928</u>
Net increase in cash	374,865	3,472,130
Cash at beginning of year	<u>7,799,992</u>	<u>4,327,862</u>
Cash at end of year	<u>\$ 8,174,857</u>	<u>\$ 7,799,992</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, 2022 and 2021

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, a 501(c)(3) not-for-profit entity, 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 released control of Perea effective June 30, 2021. 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 is 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. All significant intercompany balances and transactions have been eliminated in the combination.

On May 5, 2021, the Board of the Organization adopted a joint resolution to release control of Perea Preschool effective June 30, 2021. Perea Elementary School will have common management and control of the Perea Preschool. The Organization no longer combines Perea Preschool with its financial statements after June 30, 2021.

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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2022 and 2021

Note 1 - Summary of significant accounting policies (continued)

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, foundations, federal grants, and state financial assistance.

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 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, 2022 or June 30, 2021.

Memphis Plan participant revenue and patient and member receipts revenue are exchange transactions and are recognized as revenue as performance obligations are satisfied. A performance obligation is a promise in the contract with a customer to transfer a distinct good or service to a customer. The contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied, either at a point in time or over time.

The Organization's performance obligation for MEMPHIS Plan participant revenue is providing coverage on a monthly basis, and it recognizes revenue over time as the performance obligation is satisfied.

The Organization's performance obligation for patient and member receipts revenue is providing services to the patient. Revenue is recognized at a point in time when the services are provided. 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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 1 - Summary of significant accounting policies (continued)

Contributed nonfinancial assets

Contributed nonfinancial assets recognized within support and other revenues in the combined statements of activities consists of contributed services of \$721,240 and \$765,498 for the years ended June 2022 and 2021, respectively. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

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.

Contributed services are valued and are reported at their estimated fair value in the combined financial statements. The Center uses data from the United States Bureau of Labor Statistics to estimate fair values. 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. Contributed professional services recognized in the combined financial statements include medical and non-medical services that were provided on-site.

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.

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 discount on those amounts is computed using a risk-adjusted interest rate, and amortization of the discount 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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 1 - Summary of significant accounting policies (continued)

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. 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 \$2,175,213 and \$2,303,980 in 2022 and 2021, respectively.

Long-lived assets

The Organization recognizes impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired. There were no such losses recognized for the years ended June 30, 2022 and 2021.

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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 1 - Summary of significant accounting policies (continued)

Functional allocation of expenses

Program services, fundraising, and general and administrative expenses have been allocated by function based upon management's estimate of the costs relating to each function. Directly identifiable expenses are classified as program services, fundraising, or general and administrative. Expenses related to more than one function are allocated on the basis of management's estimates. General and administrative expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

Income taxes

The Center 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 2019.

Events occurring after the reporting date

Management has evaluated events and transactions that have occurred between June 30, 2022 and December 7, 2022, 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 contributed services, pledge receivable discounts, fair value of 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, 2021, the Organization retrospectively adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 provides guidance to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 1 - Summary of significant accounting policies (continued)

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This update increases transparency and comparability among organizations by recognizing right-of-use assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. For nonpublic entities, the amendments in this update are effective for fiscal years beginnings after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the effects of adoption of this accounting standard update.

ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326), is an update to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update are effective for fiscal years beginning after December 15, 2022 for nonpublic entities. The Organization is currently evaluating the effects of adoption of this accounting standard update.

Note 2 - Accounts and other receivables

Accounts and other receivables consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Accounts receivable - patients	\$ 403,333	\$ 253,816
MEMPHIS Plan	176,152	147,898
Accounts receivable - insurers	116,955	116,538
Other receivables	<u>19,441</u>	<u>187,204</u>
	715,881	705,456
Less allowance for doubtful accounts	<u>271,383</u>	<u>217,726</u>
Accounts and other receivables, net	<u>\$ 444,498</u>	<u>\$ 487,730</u>

Note 3 - Pledges receivable

Pledges receivable are summarized as follows as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 1,135,000	\$ 1,352,000
One to five years	<u>1,365,482</u>	<u>1,008,370</u>
Total unconditional promises to give	2,500,482	2,360,370
Less present value component	<u>131,837</u>	<u>77,033</u>
Pledges receivable, net	<u>\$ 2,368,645</u>	<u>\$ 2,283,337</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 3 - Pledges receivable (continued)

Pledges receivable have been discounted to their net present value using an annual rate of 3.01% in 2022 and 1.87% in 2021.

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, 2022 or 2021.

Note 4 - Liquidity and availability of resources

As of June 30, 2022 and 2021, the following represents the Organization's financial assets which are available to meet expenditures over the next twelve months:

	2022	2021
Cash	\$ 8,174,857	\$ 7,799,992
Accounts and other receivables, net	444,498	487,730
Pledges receivable, net	1,135,000	1,352,000
Grants receivable	680,342	438,125
Crosstown rent	2,200,697	2,200,697
Endowment earnings	1,156,705	1,140,067
Total financial assets available to meet expenditures over the next twelve months	\$ 13,792,099	\$ 13,418,611

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 of approximately \$2,950,000, 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, 2022 and 2021 is summarized as follows:

	2022	2021
Mutual funds	\$ 3,544,322	\$ 4,766,235
Mutual funds - restricted	10,285,272	13,300,134
Hedge funds	9,025,854	9,102,680
Exchange-traded funds	2,347,920	2,975,284
Money market funds	7,375,702	6,638,351
Total	\$ 32,579,070	\$ 36,782,684

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2022 and 2021

Note 5 - Investments (continued)

Investments as of June 30, 2022 and 2021 include restricted endowment funds of \$19,477,458 and \$19,077,306, respectively. As of June 30, 2022 and 2021, mutual and money market funds totaling \$10,285,272 and \$13,300,134, 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, 2022 and 2021

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, 2022 and 2021.

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.

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.

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, 2022 and 2021.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 6 - Fair value measurements (continued)

Investments at Fair Value as of June 30, 2022				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Bonds	\$ 1,790,090	\$ -	\$ -	\$ 1,790,090
International	882,118	-	-	882,118
Small cap	438,325	-	-	438,325
Large cap	<u>433,789</u>	-	-	<u>433,789</u>
Total mutual funds	3,544,322	-	-	3,544,322
Mutual funds - restricted				
International	4,989,025	-	-	4,989,025
Small cap	2,661,494	-	-	2,661,494
Large cap	<u>2,634,753</u>	-	-	<u>2,634,753</u>
Total mutual funds - restricted	10,285,272	-	-	10,285,272
Exchange-traded funds	2,347,920	-	-	2,347,920
Money market funds	<u>7,375,702</u>	-	-	<u>7,375,702</u>
Total	<u>\$ 23,553,216</u>	<u>\$ -</u>	<u>\$ -</u>	23,553,216
Hedge funds measured at net asset value*				<u>9,025,854</u>
				<u>\$ 32,579,070</u>

Investments at Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Mutual funds				
Bonds	\$ 1,965,148	\$ -	\$ -	\$ 1,965,148
International	1,400,211	-	-	1,400,211
Small cap	702,703	-	-	702,703
Large cap	<u>698,173</u>	-	-	<u>698,173</u>
Total mutual funds	4,766,235	-	-	4,766,235
Mutual funds - restricted				
International	6,362,410	-	-	6,362,410
Large cap	3,617,491	-	-	3,617,491
Small cap	<u>3,320,233</u>	-	-	<u>3,320,233</u>
Total mutual funds - restricted	13,300,134	-	-	13,300,134

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 6 - Fair value measurements (continued)

	Investments at Fair Value as of June 30, 2021			
(continued)	Level 1	Level 2	Level 3	Total
Exchange-traded funds	\$ 2,975,284	\$ -	\$ -	\$ 2,975,284
Money market funds	<u>6,638,351</u>	<u>-</u>	<u>-</u>	<u>6,638,351</u>
Total	<u>\$ 27,680,004</u>	<u>\$ -</u>	<u>\$ -</u>	27,680,004
Hedge funds measured at net asset value*				<u>9,102,680</u>
				<u>\$ 36,782,684</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 provides information related to the investments that are valued based on NAV:

	Fair Value June 30, 2022	Fair Value June 30, 2021	Unfunded Commitments as of June 30, 2022	Redemption Frequency	Redemption Notice Period
Hedge funds:					
Cayman Islands	\$ 7,651,805	\$ 7,941,613	\$ -	Annually	90 Days
Domestic	1,374,049	1,161,067	-	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 - 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.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued) June 30, 2022 and 2021

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 advance 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, 2022 and 2021, the prefunded mutual funds plus the earnings thereon totaling \$10,285,272 and \$13,300,134, 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, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Building and leasehold improvements	\$ 20,950,674	\$ 22,613,828
Furniture and equipment	5,786,755	5,627,596
Building and land	73,289	343,052
Construction in progress	475	-
	<u>26,811,193</u>	<u>28,584,476</u>
Less accumulated depreciation and amortization	<u>11,295,393</u>	<u>10,655,750</u>
Property and equipment, net	<u>\$ 15,515,800</u>	<u>\$ 17,928,726</u>

Note 9 - Lines of credit

The Center has a \$4,500,000 line of credit with a financial institution. Interest is payable monthly at the three-month LIBOR Rate plus 2.3% (3.27% as of June 30, 2022). The principal balance is due in annual payments of \$900,000, with the final payment due March 2023. Borrowings outstanding under the line of credit totaled \$345,905 and \$1,345,911 as of June 30, 2022 and 2021, respectively. The line of credit is unsecured.

In March 2018, the Center entered into a \$3,000,000 revolving credit agreement with a financial institution. In March 2022, the terms of the agreement were modified to extend the maturity date of the line to March 2023. Interest is payable at the three-month LIBOR Rate plus 2.3% (3.27% as of June 30, 2022). The principal balance plus all accrued interest is due March 2023. Borrowings outstanding under the line of credit totaled \$47,476 and \$347,478 as of June 30, 2022 and 2021, respectively. The line of credit is unsecured.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

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% (3.27% as of June 30, 2022). 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 were made against this line of credit. Borrowings outstanding under the line of credit totaled \$161,454 and \$749,207 as of June 30, 2022 and 2021, respectively. The line of credit is unsecured.

Principal maturities of the lines of credit as of June 30, 2022 are \$554,835 for the year ending June 30, 2023.

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 \$9,000 and expire at various dates through November 2026. 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 \$376,565 and \$122,491 as of June 30, 2022 and 2021, respectively.

Future minimum lease payments under capital leases as of June 30, 2022, are as follows:

<u>Fiscal Year</u>	
2023	\$ 105,213
2024	91,364
2025	86,532
2026	83,332
2027	<u>20,054</u>
Net minimum lease payments	386,495
Less amounts representing interest	<u>17,820</u>
Present value of future minimum lease payments	\$ <u><u>368,675</u></u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

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, 2022 and 2021 totaled \$1,464,652 and \$1,524,666, respectively.

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

<u>Fiscal Year</u>	
2023	\$ 1,833,100
2024	1,833,100
2025	1,833,100
2026	1,833,100
2027	1,833,100
Thereafter	<u>8,707,100</u>
	<u>\$ 17,872,600</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, 2022 and 2021

Note 12 - Net assets (continued)

The following table summarizes net assets as of June 30, 2022.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating funds:			
Undesignated	\$ 28,000,054	\$ -	\$ 28,000,054
Subject to expenditure for specified purpose:			
Endowment fund earnings -			
Programs & Services	-	2,141,838	2,141,838
Crosstown project	-	1,324,048	1,324,048
Gap year program	-	441,120	441,120
Integrated Health	-	254,870	254,870
Endowment funds	<u>2,033,763</u>	<u>19,477,458</u>	<u>21,511,221</u>
Total net assets	<u>\$ 30,033,817</u>	<u>\$ 23,639,334</u>	<u>\$ 53,673,151</u>

The following table summarizes net assets as of June 30, 2021.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating funds:			
Undesignated	\$ 26,103,270	\$ -	\$ 26,103,270
Subject to expenditure for specified purpose:			
Endowment fund earnings -			
Programs & Services	-	7,016,339	7,016,339
Crosstown project	-	2,786,660	2,786,660
Perea Preschool program	-	458,494	458,494
ECHO	-	198,353	198,353
Integrated Health	-	69,342	69,342
Endowment funds	<u>2,033,763</u>	<u>19,077,306</u>	<u>21,111,069</u>
Total net assets	<u>\$ 28,137,033</u>	<u>\$ 29,606,494</u>	<u>\$ 57,743,527</u>

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

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, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Crosstown project	\$ 3,508,445	\$ 3,874,303
Endowment fund earnings - Programs and services	1,156,705	1,140,067
Perea Preschool program	458,494	1,897,882
Integrated health	369,684	2,025,062
General and administrative	300,000	-
ECHO	248,353	358,351
Gap year program	44,880	-
Outreach	240	25,804
Advancement and stewardship	<u>-</u>	<u>250,250</u>
Total	<u>\$ 6,086,801</u>	<u>\$ 9,571,719</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, 2022 and 2021.

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, 2022 and 2021

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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 21,619,296	\$ 21,619,296
Board-designated endowment funds	2,033,763	-	2,033,763
Total funds	\$ 2,033,763	\$ 21,619,296	\$ 23,653,059

Changes in endowment net assets for the fiscal year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 2,033,763	\$ 26,093,645	\$ 28,127,408
Investment gain(loss)	-	(3,717,793)	(3,717,793)
Contributions	-	400,149	400,149
Appropriation of endowment assets for expenditure	-	(1,156,705)	(1,156,705)
End of year	\$ 2,033,763	\$ 21,619,296	\$ 23,653,059

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 15 - Endowment funds (continued)

Endowment net asset composition by type of fund as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 26,093,645	\$ 26,093,645
Board-designated endowment funds	2,033,763	-	2,033,763
Total funds	\$ 2,033,763	\$ 26,093,645	\$ 28,127,408

Changes in endowment net assets for the fiscal year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	\$ 2,033,763	\$ 19,492,318	\$ 21,526,081
Investment gain	-	7,369,919	7,369,919
Contributions	-	371,475	371,475
Appropriation of endowment assets for expenditure	-	(1,140,067)	(1,140,067)
End of year	\$ 2,033,763	\$ 26,093,645	\$ 28,127,408

The portion of the endowment funds subject to time and purpose restrictions was \$2,141,838 and \$7,016,339 as of June 30, 2022 and 2021, respectively. As of June 30, 2022 and 2021, endowment funds totaling \$1,387,149 and \$4,753,082, 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, 2022 and 2021.

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

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 15 - Endowment funds (continued)

Return objectives and risk parameters (continued)

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 2022 and 2021, this percentage was five percent (5%). Accordingly, appropriations of endowment earnings totaled \$1,156,705 and \$1,140,067 in 2022 and 2021, 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 \$373,300 and \$377,100 for the years ended June 30, 2022 and 2021, respectively.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 17 - Paycheck Protection Program loans

In April 2020, the Center, Perea, and ECHO each applied for and received forgivable Paycheck Protection Program (PPP) loans of \$2,400,000, \$275,000, and \$39,000, respectively. Under the terms of the loans and provisions of the Coronavirus Aid, Relief, and Economic Security Act the loans were forgivable to the extent the proceeds were used for certain qualified costs during the twenty-four week period following the loan and certain employment levels were maintained. PPP loan proceeds totaling \$2,580,162 were reported as grant revenue on the statement of activities for the year ended June 30, 2020. As of June 30, 2020, the balances of the unused portion of the loans totaled \$64,597, \$63,915, and \$5,326, for the Center, Perea, and ECHO respectively. During the year ended June 30, 2021, these remaining proceeds were used on qualified costs and employment levels were maintained. As a result, proceeds totaling \$133,838 were reported as grant revenue on the statement of activities for the year ended June 30, 2021. In April 2021, the SBA granted forgiveness of the full amounts of Perea's and ECHO's PPP loans, and in September 2021, the SBA granted forgiveness of the full amount of the Center's PPP loan.

In February 2021, the Center applied for and received a second forgivable PPP loan of \$2,000,000. The second loan had the same terms and conditions as the first PPP loan but with a final maturity of February 2026. Through June 30, 2021, the Center had used all of the proceeds on qualified costs and employment levels were maintained. Consequently, conditional barriers to entitlement were met and the proceeds of \$2,000,000 were reported as grant revenue on the statement of activities for the year ended June 30, 2021. In April 2022, the SBA granted forgiveness of the full amount of the Center's second PPP loan.

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 Organization 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 resulted in changes in global supply and demand of certain materials, products, and services; labor shortages; and increased inflation. As a response to the pandemic, the Organization has altered its programs to respond to the needs of the community. The resulting economic downturn and any potential future direct and indirect negative impact to the Organization and its operations cannot be determined,

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Combined Financial Statements (Continued)
June 30, 2022 and 2021

Note 18 - Risks and uncertainties (continued)

but they could have a prospective material impact. The impact could affect the collectability of receivables and result in a decline in revenues and a decline in investment values. 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 \$52,900 in 2022 and \$103,800 in 2021.

Non-cash financing activities

During 2022, the Organization financed equipment totaling approximately \$375,000 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, 2022

Federal Agency/ Pass Through Agency	Assistance Listing Number	Contract/ Agreement Number	Expenditures
<u>Federal Awards</u>			
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services Administration/ Tennessee Department of Mental Health and Substance Abuse Services			
Federal Block Grants for Prevention and Treatment of Substance Abuse	93.959	33901	111,352
Opioid State Targeted Response (STR) Community Response	93.788	N/A	231,532
Opioid State Targeted Response (STR) Coalition	93.788	N/A	<u>127,266</u>
Subtotal Program 93.788	93.788		<u>358,798</u>
Centers for Disease Control and Prevention/ Tennessee Department of Health			
Immunization Cooperative Agreements	93.268	34352-91022	196,980
Comprehensive HIV Prevention Programs for Health Departments	93.940	34349-99622	26,826
Tennessee Department of Health/Sostento, Inc.			
Community-Based Workforce to increase COVID- 19 Vaccinations in Underserved Communities	93.011	N/A	20,000
Tennessee Department of Health			
Injury Prevention and Control Research and State and Community Based Programs	93.136	34301-36922	<u>15,948</u>
Total Federal Awards			\$ <u><u>729,904</u></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, 2022

Federal Agency/ Pass Through Agency	Assistance Listing Number	Contract/ Agreement Number	Expenditures
<u>State Financial Assistance</u>			
Tennessee Department of Health			
Safety Net Grant - Primary Care Services for Uninsured Adult Tennesseans	N/A	34352-22022	\$ 991,520
Safety Net Grant - Emergency Dental Services for Uninsured Adult Tennesseans (as amended)	N/A	34352-23622	449,644
Immunization Cooperative Agreements	N/A	N/A	10,000
HIV and HCV Prevention Syringe Services Program	N/A	34349-99621	44,870
Tennessee Department of Mental Health and Substance Abuse Services			
Lifeline Peer Project	N/A	N/A	<u>59,964</u>
Total State Financial Assistance			<u>\$ 1,555,998</u>

The accompanying notes are an integral part of this schedule.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2022

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, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and 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 totaling \$680,342 and \$438,125 as of June 30, 2022 and 2021, respectively, are included in the accompanying combined statements of financial position.

Note C. 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 the 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 Auditors' 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 entity, Empowering Community Healthcare Outreach (collectively, the "Organization"), which comprise the Organization's combined statement of financial position as of June 30, 2022 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 December 7, 2022.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

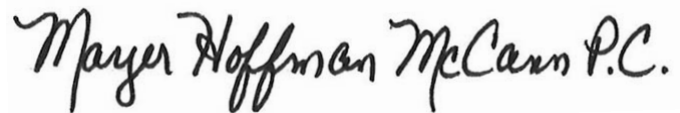
As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined 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*.

Organization's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the other auditing procedures applies in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
December 7, 2022

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Findings and Responses
Year Ended June 30, 2022

Findings

Significant Deficiency in Internal Control over Financial Reporting

2022-001 - Applying Provisions of Grant Agreements to Financial Reporting

Criteria: The Organization should review all significant grant agreements for restrictions, conditions, or other provisions impacting the recording of the grant in the financial statements.

Condition: During the course of our audit, we identified one grant that contained donor restrictions for which the Organization recorded the entire grant as being without donor restrictions. We identified another grant that was a government grant that was conditional upon eligible expenditures being incurred for which the Organization recorded revenue for the entire grant even though eligible expenditures had only been incurred for a portion of the full grant amount.

Cause: The provisions of these grant agreements were not properly applied to the financial reporting of the grants by the Organization.

Potential Effect: If restrictions reflected in grant agreements are not properly evaluated, the Organization's net assets may be misclassified between those with donor restrictions and those without donor restrictions. If conditions reflected in grant agreements are not properly evaluated, the Organization may record grant revenue earlier than allowable under accounting principles generally accepted in the United States of America.

Recommendation: The Organization should review the provisions of all significant grant agreements to determine that the financial reporting of the grant reflects the impact of any restrictions, conditions, or other provisions.

Views of responsible officials: All pledges and grants are reviewed and documented by management prior to recording in the Fundraising Database. The first pledge/grant referenced had a small portion of its gift donor designated to a specific budget item and it was assumed that all funds would have been utilized within the first year of the pledge award. The second grant was fully booked as a pledge and not a grant. Due to funding clarification and reporting understanding with these COVID funds this was booked using pledge guidelines rather than our processes for a reimbursable grant over 2 fiscal years. Moving forward management will review all grants and pledges booked with leadership from both Finance and Development prior to financials being issued.

CHURCH HEALTH CENTER OF MEMPHIS, INC.

Schedule of Prior Year Findings
Year Ended June 30, 2022

There were no prior year findings reported.