

Consolidated Financial Statements

Interfaith Health Clinic, Inc.

*Years ended June 30, 2020 and 2019
with Independent Auditor's Report*

Interfaith Health Clinic, Inc.
Consolidated Financial Statements
Years ended June 30, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Interfaith Health Clinic, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Interfaith Health Clinic, Inc. (the Clinic) and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Interfaith Health Clinic, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interfaith Health Clinic, Inc. and its subsidiary as of June 30, 2020 and 2019, and the 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.

Coulter & Justus, P.C.

Knoxville, Tennessee
December 18, 2020

Interfaith Health Clinic, Inc.

Consolidated Statements of Financial Position

| | June 30 | |
|---|----------------------------|----------------------------|
| | 2020 | 2019 |
| Assets | | |
| Current assets: | | |
| Cash | \$ 968,531 | \$ 588,908 |
| Receivables for unconditional promises to give, less allowance uncollectible accounts of \$0 in 2020 and \$1,400 in 2019 | 424,038 | 396,786 |
| Accounts receivable, less allowance for uncollectible accounts of \$5,000 for 2020 and \$0 for 2019 | 4,337 | 5,815 |
| Inventory, less reserve for expiration of \$20,000 for 2020 and 2019 | 98,516 | 106,744 |
| Prepaid expenses and other current assets | 35,020 | 12,147 |
| Total current assets | <u>1,530,442</u> | 1,110,400 |
| Property and equipment: | | |
| Land | 167,509 | 167,509 |
| Buildings and improvements | 1,225,732 | 1,216,472 |
| Equipment | 582,807 | 537,548 |
| | <u>1,976,048</u> | 1,921,529 |
| Less accumulated depreciation | 1,424,554 | 1,369,557 |
| Net property and equipment | <u>551,494</u> | 551,972 |
| Restricted cash | 45,820 | 130,050 |
| Assets whose use is limited - marketable securities | 1,084,039 | - |
| Long-term receivables for unconditional promises to give | 5,000 | 16,400 |
| Beneficial interest in assets held by others | 66,916 | 64,429 |
| Total assets | <u><u>\$ 3,283,711</u></u> | <u><u>\$ 1,873,251</u></u> |

Interfaith Health Clinic, Inc.

Consolidated Statements of Financial Position (continued)

| | June 30 | |
|---------------------------------------|----------------------------|----------------------------|
| | 2020 | 2019 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 50,560 | \$ 14,393 |
| Accrued salaries and related expenses | 69,433 | 67,975 |
| Grant payable | 266,250 | 250,000 |
| Total current liabilities | <u>386,243</u> | 332,368 |
| Long-term debt | 305,447 | - |
| Total liabilities | <u>691,690</u> | 332,368 |
| Net assets: | | |
| Net assets without donor restrictions | 1,128,267 | 1,103,056 |
| Net assets with donor restrictions | 1,463,754 | 437,827 |
| Total net assets | <u>2,592,021</u> | 1,540,883 |
| | | |
| Total liabilities and net assets | <u><u>\$ 3,283,711</u></u> | <u><u>\$ 1,873,251</u></u> |

See accompanying Notes to Consolidated Financial Statements.

Interfaith Health Clinic, Inc.

Consolidated Statements of Activities

| | Year ended June 30 | |
|---|---------------------------|---------------------|
| | 2020 | 2019 |
| Changes in net assets without donor restrictions | | |
| Revenues: | | |
| Contributions and grants | \$ 1,532,536 | \$ 1,233,287 |
| Net patient service revenue | 275,545 | 267,267 |
| Contributed services and supplies | 1,877,305 | 1,798,010 |
| Investment income | 20,720 | 943 |
| Other income | 22,324 | 67,005 |
| Total revenues without donor restrictions | <u>3,728,430</u> | 3,366,512 |
| Net assets released from restrictions: | | |
| Satisfaction of program and time restrictions | 272,654 | 325,061 |
| Total revenues and support without donor restrictions | <u>4,001,084</u> | 3,691,573 |
| Expenses: | | |
| Program services | 3,408,597 | 3,103,270 |
| Management and general | 285,992 | 243,715 |
| Fundraising | 249,227 | 292,359 |
| Total expenses | <u>3,943,816</u> | 3,639,344 |
| Unrealized gain interest in assets held by others | 2,487 | 3,397 |
| Unrealized loss on marketable securities | <u>(34,544)</u> | - |
| Increase in net assets without donor restrictions | 25,211 | 55,626 |
| Changes in net assets with donor restrictions: | | |
| Contributions | 1,298,581 | 247,050 |
| Net assets released from restrictions: | | |
| Satisfaction of program and time restrictions | (272,654) | (325,061) |
| Increase (decrease) in net assets with donor restrictions | <u>1,025,927</u> | (78,011) |
| Increase (decrease) in total net assets | 1,051,138 | (22,385) |
| Net assets at beginning of year | 1,540,883 | 1,563,268 |
| Net assets at end of year | <u>\$ 2,592,021</u> | <u>\$ 1,540,883</u> |

See accompanying Notes to Consolidated Financial Statements.

InterFaith Health Clinic, Inc.

Consolidated Statement of Functional Expenses

Year ended June 30, 2020

| | Program Services | Management and General | Fundraising | Total |
|-----------------------------------|-----------------------------|---------------------------------------|--------------------|---------------------|
| Salaries, wages and benefits | \$ 1,112,025 | \$ 208,265 | \$ 194,991 | \$ 1,515,281 |
| Contributed services and supplies | 1,885,446 | - | - | 1,885,446 |
| Postage | 6,742 | 1,293 | 1,200 | 9,235 |
| Printing | 6,165 | 1,182 | 1,098 | 8,445 |
| Telephone | 21,226 | 4,071 | 3,780 | 29,077 |
| Supplies - Office | 6,683 | 1,282 | 1,190 | 9,155 |
| Supplies - Program | 132,201 | - | - | 132,201 |
| Conferences/training/travel | 475 | 795 | 600 | 1,870 |
| Professional services | 37,917 | 47,933 | - | 85,850 |
| Public relations | - | - | 30,279 | 30,279 |
| Insurance | 13,706 | 7,097 | - | 20,803 |
| Maintenance | 69,654 | - | - | 69,654 |
| Utilities | 20,035 | 3,842 | 3,568 | 27,445 |
| Dues and subscriptions | 8,525 | - | 3,020 | 11,545 |
| Property taxes | 7,134 | 1,368 | 1,271 | 9,773 |
| Rental | 17,640 | - | - | 17,640 |
| Bad debt expense | 16,804 | - | - | 16,804 |
| Depreciation | 40,147 | 7,699 | 7,150 | 54,996 |
| Miscellaneous | 6,072 | 1,165 | 1,080 | 8,317 |
| Total | \$ 3,408,597 | \$ 285,992 | \$ 249,227 | \$ 3,943,816 |

See accompanying Notes to Consolidated Financial Statements.

InterFaith Health Clinic, Inc.

Consolidated Statement of Functional Expenses

Year ended June 30, 2019

| | Program Services | Management and General | Fundraising | Total |
|-----------------------------------|-----------------------------|---------------------------------------|--------------------|---------------------|
| Salaries, wages and benefits | \$ 943,275 | \$ 166,824 | \$ 201,370 | \$ 1,311,469 |
| Contributed services and supplies | 1,798,117 | - | - | 1,798,117 |
| Postage | 5,768 | 1,041 | 1,202 | 8,011 |
| Printing | 9,084 | 1,640 | 1,893 | 12,617 |
| Telephone | 18,809 | 3,396 | 3,918 | 26,123 |
| Supplies - Office | 7,771 | 1,403 | 1,619 | 10,793 |
| Supplies - Program | 66,666 | - | - | 66,666 |
| Conferences/training/travel | 4,069 | 1,150 | 75 | 5,294 |
| Professional services | 44,130 | 47,279 | - | 91,409 |
| Public relations | - | - | 65,739 | 65,739 |
| Insurance | 29,576 | 7,164 | - | 36,740 |
| Maintenance | 71,833 | - | - | 71,833 |
| Utilities | 19,001 | 3,431 | 3,958 | 26,390 |
| Dues and subscriptions | 8,616 | - | 600 | 9,216 |
| Property taxes | 6,543 | 1,181 | 1,364 | 9,088 |
| Rental | 14,095 | - | - | 14,095 |
| Bad debt expense | 4,931 | - | - | 4,931 |
| Depreciation | 42,403 | 7,656 | 8,834 | 58,893 |
| Miscellaneous | 8,583 | 1,550 | 1,787 | 11,920 |
| Total | \$ 3,103,270 | \$ 243,715 | \$ 292,359 | \$ 3,639,344 |

See accompanying Notes to Consolidated Financial Statements.

InterFaith Health Clinic, Inc.

Consolidated Statements of Cash Flows

| | Year ended June 30 | |
|--|---------------------------|-------------|
| | 2020 | 2019 |
| Operating activities | | |
| Increase (decrease) in net assets | \$ 1,051,138 | \$ (22,385) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 54,996 | 58,893 |
| Unrealized loss on investments | 34,544 | - |
| Provision for uncollectible accounts | 3,600 | 4,931 |
| Provision for expired inventory | - | 8,000 |
| Contributions received for endowment | (1,037,350) | (130,050) |
| Contribution of property and equipment | - | (24,934) |
| Change in beneficial interest in assets held by others | (2,487) | (1,559) |
| Changes in operating assets and liabilities: | | |
| Receivables for unconditional promises to give | (14,452) | 222,376 |
| Accounts receivable | (3,522) | 1,612 |
| Inventory | 8,228 | 16,313 |
| Prepaid expenses and other assets | (22,873) | 9,108 |
| Accounts payable and accrued expenses | 36,167 | (18,582) |
| Accrued salaries and related expenses | 1,458 | (3,458) |
| Grant payable | 16,250 | 250,000 |
| Net cash provided by operating activities | 125,697 | 370,265 |
| Investing activities | | |
| Purchases of marketable securities | (1,118,583) | - |
| Purchases of property and equipment | (54,518) | (26,271) |
| Net cash used in investing activities | (1,173,101) | (26,271) |
| Financing activities | | |
| Contributions restricted for purchasing equipment | - | 15,000 |
| Contributions received for endowment | 1,037,350 | 115,050 |
| Proceeds from issuance of long-term debt | 305,447 | - |
| Net cash provided by financing activities | 1,342,797 | 130,050 |
| Net increase in cash and restricted cash | 295,393 | 474,044 |
| Cash and restricted cash at beginning of year | 718,958 | 244,914 |
| Cash and restricted cash at end of year | \$ 1,014,351 | \$ 718,958 |

See accompanying Notes to Consolidated Financial Statements.

Interfaith Health Clinic, Inc.
Notes to Consolidated Financial Statements
June 30, 2020

1. Operations and Significant Accounting Policies

Operations

Interfaith Health Clinic, Inc. is a not-for-profit corporation organized to provide primary healthcare services to the working poor and medically uninsured as well as other individuals in the Knox County, Tennessee area whose primary healthcare needs are not met by other community services.

Interfaith Health Clinic Inc. is the sole corporate member of the Interfaith Health Clinic Foundation (the Foundation). The Foundation has had limited activity in recent years, primarily related to endowment contributions and beneficial interest in assets by others.

The accompanying consolidated financial statements include the accounts of Interfaith Health Clinic, Inc. and Interfaith Health Clinic Foundation. These entities are collectively referred to herein as (the Clinic) unless otherwise noted. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting and Presentation

The consolidated financial statements of the Clinic are prepared in accordance with accounting principles generally accepted in the United States of America and provide for the accrual basis of accounting. The consolidated financial statements have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into two classes as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets with Donor Restrictions: Net assets subject to donor or grantor restrictions. Some donor-restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash, Cash Equivalents and Restricted Cash

The Clinic considers highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Restricted cash at June 30, 2020 consists of \$45,820 donated to the Vaughn Endowment (*Note 6*). At June 30, 2019, restricted cash included \$15,000 donated for the purchase of dental equipment and \$115,050 contributed to establish the Vaughn Endowment (*Note 6*). The total of cash and restricted cash included in the consolidated statement of cash flows at June 30, 2020 and 2019 is \$1,014,351 and \$718,958, respectively.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

1. Operations and Significant Accounting Policies (continued)

Assets Whose use is Limited - Marketable Securities

Assets whose use is limited include marketable securities held by the Clinic to satisfy the donor-restricted endowment (*Note 6*). Marketable securities are recorded at fair values based upon quoted market prices (*Note 3*).

Inventory

Inventory consists of donated pharmaceuticals, recorded at estimated market value based on the date of donation. A reserve for expiration has also been established by management. Expiration losses, when realized in prior years, have been within the range of the Clinic's expectations.

Property and Equipment

Property and equipment is stated on the basis of cost, if purchased, or fair value, if the asset is donated. Repairs and maintenance costs are expensed as incurred, while significant asset purchases and improvements are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years for equipment and ten to twenty years for buildings and improvements.

Property and equipment donated with explicit donor stipulations regarding their use and contributions of cash or other assets that must be used to acquire property and equipment, are reported as restricted contributions. Absent explicit donor stipulations regarding how these assets are to be used or how long those assets must be maintained, the Clinic reports expiration of the donor's restrictions when the donated assets are placed in service.

Net Patient Service Revenue and Accounts Receivable

Patient service revenue is reported on the accrual basis in the period in which services are provided, at rates that reflect the amount expected to be collected. Accounts receivable are recorded at the net expected reimbursement or are otherwise reduced to a net expected reimbursement through the allowance for uncollectible accounts which is estimated by management based on a review of aging and collections. Credit losses, when realized, have been within the range of the Clinic's expectations. During 2019, the Clinic wrote off all receivables for which an allowance had been provided. It is the Clinic's policy not to require collateral on accounts receivable.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

1. Operations and Significant Accounting Policies (continued)

Contributions and Unconditional Promises to Give

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as revenues and support with donor restrictions. When a donor restriction expires in a subsequent fiscal year, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as net assets without donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are recorded at their estimated fair value. Unconditional promises to give that are to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts consider the risks associated with those promises to give as determined at the time the promises to give are made. Amortization of the discount is recorded as contribution revenue and recognized in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized as revenue in the period that the condition is met. An allowance is made for uncollectible promises to give based upon management's judgment, past collection experience and other relevant factors.

Contributions from board members, affiliates of board members or employees and organizations that have employees serving on the Clinic's board were approximately \$1,259,000 in 2020 and \$105,000 in 2019.

Charity Care Services

The Clinic's established policies define charity care as those services provided to patients who are unable to pay the established charges. Such patients are identified based on financial information obtained from the patient and considers generally recognized poverty income levels. Charges at established rates related to charity care are not included in the net patient service revenue. These charges were approximately \$1,650,000 and \$1,642,000 in 2020 and 2019, respectively. Costs associated with providing charity care were approximately \$1,550,000 and \$1,351,000 in 2020 and 2019, respectively. These costs were determined using a ratio of charity care charges to gross charges, which was then applied to total expenses. The cost of charity care does not include contributed services and supplies which are recorded separately as contributions or fundraising expenses.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

1. Operations and Significant Accounting Policies (continued)

Contributed Services and Supplies

Significant donated services and supplies contributed to the Clinic consist of work performed by volunteer medical and other professionals and pharmaceuticals provided by local area medical providers and other sources. Contributed services are recorded as revenues and expenses at their estimated fair market values if the services received create or enhance nonfinancial assets or if they require specialized skills that, if not performed by volunteers, would otherwise need to be purchased. Contributed services recognized as revenue and expenses were \$116,346 in 2020 and \$115,150 in 2019.

Functional Expenses

Expenses have been allocated between program and supporting services primarily on the basis of specific identification. Supporting services include management and general and fundraising expenses.

Income Taxes

The Internal Revenue Service has ruled the Health Clinic is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

Use of Estimates

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

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

1. Operations and Significant Accounting Policies (continued)

Liquidity and Availability of Resources

The Clinic has a policy to generally structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

As of June 30, 2020, the Clinic has approximately \$1,409,000 of financial assets. Those financial assets include approximately \$969,000 of cash, accounts receivable of \$16,000 and unconditional promises to give of \$424,000 available to meet cash needs for general expenditures that will be available within one year of the statement of financial position date. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Unconditional promises to give of approximately \$295,000 are subject to implied time restrictions but are expected to be collected within one year. Other receivables are also expected to be collected within one year of the statement of financial position date.

As of June 30, 2020, the Clinic has \$45,820 of cash and \$1,084,039 of marketable securities that are subject to donor restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

Recently Adopted Accounting Standard

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The ASU requires changes in the Clinic's restricted cash to be classified as either operating activities, investing activities or financing activities in the Consolidated Statement of Cash Flows, depending on the nature of the activities that gave rise to the restriction. The Clinic adopted ASU 2016-18 during 2020 which resulted in a decrease of \$130,050 in net cash flows used by investing activities from what was previously reported for the year ended June 30, 2019.

The Clinic adopted ASU 2018-08, *Not-for-Profit Entities* effective July 1, 2019. This new standard was issued to clarify and improve accounting guidance for determining whether transactions should be accounted for as contributions or as exchange transactions and whether a contribution is conditional, as well as provide for additional disclosures. This ASU has been applied retrospectively to all periods presented; however, no cumulative adjustment to net assets was necessary as a result of initial application.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

1. Operations and Significant Accounting Policies (continued)

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The FASB subsequently issued other ASUs related to ASU 2014-09, which deferred the effective date and made certain clarifications to ASU 2014-09. This new standard and its subsequent amendments require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. ASU 2014-09, as amended, is effective for the Clinic for fiscal years beginning after December 15, 2019. The Clinic is currently evaluating the effect this new standard will have on its financial statements.

Subsequent Events

In preparation of the accompanying consolidated financial statements, subsequent events that have occurred since June 30, 2020 have been evaluated through December 18, 2020, the date the financial statements were available for issuance.

Reclassifications

Certain amounts in 2019 have been reclassified to conform to 2020 classifications.

2. Receivables for Unconditional Promises to Give

Receivables for unconditional promises to give that are due to be collected at June 30:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|-------------------------|------------------|
| Due in less than one year | \$424,038 | \$396,786 |
| Due in one to four years | 5,000 | 16,400 |
| Total contributions receivable | <u>\$429,038</u> | <u>\$413,186</u> |

As of June 30, 2020, \$160,000 of the total unconditional promises to give was due from United Way and is expected to be received within one year.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

3. Fair Value of Financial Instruments

Fair value is measured using a framework which prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy (in order of priority) are described below:

| | |
|---------|--|
| Level 1 | Quoted prices in active markets for identical investments. |
| Level 2 | Significant other observable inputs. |
| Level 3 | Significant unobservable inputs. |

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The Clinic's marketable securities are reported at fair values determined as follows:

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

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. 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 at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Clinic's investments at fair value as of June 30, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|--------------------|----------------|----------------|--------------------|
| Domestic equity | \$ 315,057 | \$ – | \$ – | \$ 315,057 |
| International equity | 187,867 | – | – | 187,867 |
| Fixed income | 581,115 | – | – | 581,115 |
| Total investments at fair value | <u>\$1,084,039</u> | <u>\$ –</u> | <u>\$ –</u> | <u>\$1,084,039</u> |

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

4. Beneficial Interest in Assets Held by Others

A portion of the Clinic's endowment investments are held by the East Tennessee Foundation (ET Foundation), an external foundation. Assets permanently transferred to an external foundation in which the resource provider names itself as the beneficiary are reported as a beneficial interest in assets held by others. The Clinic has granted variance power to ET Foundation for these contributed assets. The contributed assets are valued at fair value and are periodically remeasured, with the changes in value recognized in the statements of activities.

The fair value of these assets held for the benefit of the Clinic was \$66,916 at June 30, 2020 and \$64,429 at June 30, 2019. The earnings are distributed to the Clinic based on ET Foundation's discretion or the applicable spending policy. Income from the investment is to be used for operations and therefore is reported as unrestricted.

5. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------------|------------------|
| Purchase of equipment | \$ — | \$ 15,000 |
| Vaughn Endowment | 1,153,583 | 115,050 |
| Subject to the passage of time | 300,048 | 297,654 |
| Beneficial interest in assets held by others | 10,123 | 10,123 |
| Total net assets with donor restrictions | <u>\$1,463,754</u> | <u>\$437,827</u> |

6. Endowments

The Clinic has both donor-restricted endowment funds and funds designated by the Board to function as endowments to be held indefinitely. Net assets associated with these funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The funds held at the ET Foundation (*Note 4*) were established to support the general operations of the Clinic. The Emmet P. "Buck" and Linda Vaughn Endowment (Vaughn Endowment) was also established to support the Clinic's operations. The Vaughn Endowment includes all marketable securities and restricted cash as of June 30, 2020.

The Clinic's endowment net asset composition by type of fund as of June 30 is as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------------|------------------|
| Donor-restricted: | | |
| ET Foundation | \$ 10,123 | \$ 10,123 |
| Vaughn Endowment | 1,153,583 | 115,050 |
| Board-designated (held at ET Foundation) | 56,793 | 54,306 |
| Total | <u>\$1,220,499</u> | <u>\$179,479</u> |

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

6. Endowments (continued)

The change in board-designated endowments is related to the change in market value of investments. The change in the Vaughn Endowment is related to additional contributions received during the year. No appropriations of endowment assets for expenditure were made in 2020 and 2019.

Interpretation of Relevant Law

The Clinic intends to protect the spending power of gifts to the donor-restricted endowment fund while enhancing the continued growth of the endowment. In order to accomplish this, the Clinic intends to preserve the fair value of all gifts as of the gift date and classifies as net assets with donor restrictions the original value of the gifts donated to establish the endowment and the original value of all subsequent gifts to the endowment.

Return Objectives and Risk Parameters

The Clinic has adopted investment and spending parameters for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the spending power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Clinic must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under these parameters, the endowment assets are invested in a manner that, after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk. The Clinic expects its endowment funds, over time, to provide an average rate of return approximating the spending rate plus inflation less fees annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Clinic 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 Clinic targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

6. Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Clinic has established certain expectations for making appropriations; however, no appropriations have been approved or made as of June 30, 2020. The Clinic expects its endowment to grow at an average rate of return that would consider the spending rate plus inflation less any fees, which is consistent with the Clinic's objective to maintain the spending power of the endowment assets held in perpetuity or for the specified term as well as to provide growth through new gifts.

7. Long-Term Debt

In April 2020, as part of the Coronavirus Aid Relief and Economic Security Act (CARES Act), the Clinic received a Paycheck Protection Program Loan (the PPP loan) through the United States Small Business Administration 7(a) Loan Program of \$305,447. The Clinic expects to be eligible to apply for PPP loan forgiveness subject to certain qualifications and will continue to record the obligation as debt until forgiveness is approved. In the event the PPP loan is not ultimately forgiven, the loan will be payable in monthly installments with an interest of 1% beginning no later than July 2021 with the entire balance due by April 2022.

8. Pension Plan

The Clinic has a 401(k) profit sharing plan (the Plan) for all eligible employees. Under the Plan, employees may contribute up to 100% of their annual compensation, subject to overall IRS limitations. The Plan allows for discretionary employer match and additional contributions. The Clinic did not make discretionary contributions for the years ended June 30, 2020 and 2019.

9. Professional and General Liability Insurance

The Clinic utilizes a professional and general liability insurance program which includes a program of basic coverage and is administered by an insurance carrier. The professional liability insurance coverage is through a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Interfaith Health Clinic, Inc.

Notes to Consolidated Financial Statements (continued)

10. Humana Foundation Grant

During both the current year and prior year, the Clinic was awarded a grant from the Humana Foundation. The intent of this grant is to fund a program that would address access to nutritious food for the Clinic's patients and other underserved individuals in the community. Under the grant, the Clinic is responsible for enrolling its patients and other eligible individuals in the program, data collection and certain administrative functions; however, the majority of the funds received are to be passed through to another organization. The Clinic received \$965,000 in 2020 and \$1,020,000 in 2019 under this grant; however, as the Clinic was not granted variance power (power to redirect the use of transferred assets), these funds were treated as agency transactions rather than a contribution. As of June 30, 2020 and 2019, the Clinic has remitted \$820,750 and \$692,500, respectively, of the proceeds to a for profit entity that was also named in the grant. The Clinic has recorded grant revenue of \$128,000 in 2020 and \$77,500 in 2019 for the services performed directly by the Clinic. The remaining \$266,250 as of June 30, 2020 and \$250,000 as of June 30, 2019 is recorded as a grant payable.

11. Uncertainties

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the United States of America and created uncertainties in the economy. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The ultimate impact of the pandemic on the Clinic's results of operations, financial position, liquidity, or capital resources cannot be reasonably estimated at this time.