



# GRACE MEDICAL HOME, INC. AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017





## REPORT OF INDEPENDENT AUDITOR

The Board of Directors  
Grace Medical Home, Inc. and Affiliates  
Orlando, Florida

We have audited the accompanying combined financial statements of Grace Medical Home, Inc. and Affiliates (collectively referred to herein as “the Organization”), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

### ***Management’s Responsibility for the Combined Financial Statements***

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

### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Grace Medical Home, Inc. and Affiliates as of December 31, 2017, the combined changes in its net assets, and its combined cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplemental combining statement of financial position as of December 31, 2017 and the related supplemental combining statement of activities for the year then ended 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 information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Batts Morrison Wales & Lee, P.A.*

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida  
October 18, 2018

**GRACE MEDICAL HOME, INC. AND AFFILIATES**

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2017

**ASSETS**

**ASSETS**

Cash and cash equivalents	\$ 1,812,167
Cash restricted for long-term purposes	19,294
Inventories	1,618,613
Unconditional promises to give	136,474
Property and equipment, net	2,950,011
Other assets	<u>9,983</u>

**Total assets** **\$ 6,546,542**

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 81,356
Note payable	<u>2,344,550</u>

**Total liabilities** **2,425,906**

**NET ASSETS**

Unrestricted	3,892,180
Temporarily restricted	<u>228,456</u>

**Total net assets** **4,120,636**

**Total liabilities and net assets** **\$ 6,546,542**

**GRACE MEDICAL HOME, INC. AND AFFILIATES**

COMBINED STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Special event revenue	\$ 283,140	\$ —	\$ 283,140
Direct event expenses	<u>(84,167)</u>	<u>—</u>	<u>(84,167)</u>
Net special event revenue	198,973	—	198,973
Noncash contributions	2,072,324	—	2,072,324
Unrestricted contributions	1,474,787	—	1,474,787
Temporarily restricted grant revenue	—	621,918	621,918
Temporarily restricted contributions	—	136,474	136,474
Rent income	165,283	—	165,283
Facility fee and other revenue	68,375	—	68,375
Unrestricted grant revenue	63,183	—	63,183
Net assets released from restrictions	<u>649,188</u>	<u>(649,188)</u>	<u>—</u>
<b>Total public support and revenue and net assets released from restrictions</b>	<b><u>4,692,113</u></b>	<b><u>109,204</u></b>	<b><u>4,801,317</u></b>
<b>EXPENSES</b>			
Program activities			
Medical services for the uninsured	<u>2,965,472</u>	<u>—</u>	<u>2,965,472</u>
Supporting activities			
General and administrative	282,965	—	282,965
Fundraising	<u>190,508</u>	<u>—</u>	<u>190,508</u>
Total supporting activities	<u>473,473</u>	<u>—</u>	<u>473,473</u>
<b>Total expenses</b>	<b><u>3,438,945</u></b>	<b><u>—</u></b>	<b><u>3,438,945</u></b>
<b>CHANGE IN NET ASSETS</b>	<b>1,253,168</b>	<b>109,204</b>	<b>1,362,372</b>
<b>NET ASSETS - Beginning of year</b>	<b><u>2,639,012</u></b>	<b><u>119,252</u></b>	<b><u>2,758,264</u></b>
<b>NET ASSETS - End of year</b>	<b><u>\$ 3,892,180</u></b>	<b><u>\$ 228,456</u></b>	<b><u>\$ 4,120,636</u></b>

The Accompanying Notes are an Integral  
Part of These Combined Financial Statements

# GRACE MEDICAL HOME, INC. AND AFFILIATES

## COMBINED STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2017

### OPERATING CASH FLOWS

Cash received from contributors and grantors	\$ 2,062,382
Cash received from special events	283,140
Rental income, facility fees, and other cash receipts	260,823
Cash paid for operating activities and costs	(2,131,216)
Interest paid	<u>(57,075)</u>

**Net operating cash flows** **418,054**

### INVESTING CASH FLOWS

Net investment in assets restricted for long-term purposes	(16,214)
Purchases of and improvements to property and equipment	<u>(2,900,925)</u>

**Net investing cash flows** **(2,917,139)**

### FINANCING CASH FLOWS

Proceeds from issuance of note payable	2,400,000
Repayments of note payable	(55,450)
Proceeds from contributions restricted for investment in property and equipment	<u>97,506</u>

**Net financing cash flows** **2,442,056**

**NET CHANGE IN CASH AND CASH EQUIVALENTS** **(57,029)**

**CASH AND CASH EQUIVALENTS - Beginning of year** **1,869,196**

**CASH AND CASH EQUIVALENTS - End of year** **\$ 1,812,167**

### RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS

Change in net assets	\$ 1,362,372
Adjustments to reconcile change in net assets to net operating cash flows	
Depreciation and amortization	71,843
Contributions restricted for investment in property and equipment	(97,506)
Change in inventories	(818,613)
Change in unconditional promises to give	(136,474)
Change in other assets	27,165
Change in accounts payable and accrued expenses	<u>9,267</u>

**Net operating cash flows** **\$ 418,054**

# GRACE MEDICAL HOME, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017

### **NOTE A – NATURE OF ACTIVITIES AND BASIS OF COMBINATION**

Grace Medical Home, Inc. (“the Organization”) is a not-for-profit Florida corporation formed to operate medical facilities and provide medical care for the working uninsured, in a manner that reflects the love of Jesus Christ by providing holistic, affordable, comprehensive, and excellent health care services. Such services may include medical care, dental care, chronic disease management, counseling, pharmaceutical services, laboratory services, physical and occupational therapies, and wellness services. The clinic is located in Orlando, Florida.

Grace Medical Home Foundation, Inc. (“the Foundation”) is a not-for-profit Florida corporation formed to provide supporting services to the Organization. The Foundation is supervised or controlled in connection with the Organization in that a majority of the members of the Foundation’s Board of Directors are required to be members of the Organization’s Board of Directors. The Foundation accomplishes its purpose by pursuing and administering both traditional donations and non-traditional donations such as real estate, charitable gift annuities, charitable remainder trusts, endowment funds, and other types of planned giving vehicles.

GMH Property Holdings, Inc. (“Properties”) is a not-for-profit Florida corporation formed to hold and manage real property in support of the Organization. Properties is supervised or controlled in connection with the Organization in that a majority of the members of Properties’ Board of Directors are required to be members of the Organization’s Board of Directors.

The Boards of Directors of the Organization, the Foundation, and Properties are appointed by Grace Medical Nominating Trust (“the Trust”), a trust solely established to protect the not-for-profit mission of the Organization. The Trust has no financial activity of its own.

In conformity with accounting principles generally accepted in the United States of America (“GAAP”), the combined financial statements of the Organization include the accounts of the Foundation and Properties, which are separate legal entities. All significant inter-organization accounts and transactions have been eliminated in combination.

### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Restricted and unrestricted revenue and support**

The Organization recognizes cash contributions as revenue when the contributions are received by the Organization. Contributions or grants received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as “net assets released from restrictions.”

#### **Donated services**

Various physicians, nurses, and medical support personnel donate services to the Organization. The estimated value of such services is based on the approximate salary cost of the volunteers and not on standard billable rates and is included in “noncash contributions,” “medical services for the uninsured,” and “general and administrative” expenses in the accompanying combined statement of activities.

#### **Facility fee revenue**

The Organization charges a nominal fee to patients which is used to subsidize the cost associated with operating the Organization’s facility.

#### **Cash and cash equivalents**

The Organization considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

# GRACE MEDICAL HOME, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017

### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Cash restricted for long-term purposes**

Cash restricted for long-term purposes consists of funds restricted by donors for the purchase of medical equipment.

#### **Inventories**

Inventories consist of donated medications and medical supplies which were not yet distributed to beneficiaries. Inventories are recorded at estimated fair value (at wholesale) on the date of the gift.

#### **Unconditional promises to give**

Unconditional promises to give are recognized as revenue and assets in the period in which the related promise is made. Unconditional promises to give are stated net of an allowance for doubtful accounts, if any. The Organization estimates the allowance for doubtful accounts based on an analysis of specific accounts, taking into consideration the age of the past due account and an assessment of the ability to pay. Accounts are considered past due when payments are not made in accordance with specified terms. Accounts are written off upon such time management determines the amounts are uncollectible.

#### **Property and equipment**

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. The Organization uses the straight-line method of depreciating and amortizing property and equipment over the expected useful lives of the related assets.

#### **Income taxes**

The Organization, Foundation, and Properties are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to Florida law. The Organization, Foundation, and Properties are further classified as public charities and not private foundations for federal tax purposes. Neither the Organization or Foundation have incurred unrelated business income taxes. Income taxes on unrelated business income generated by Properties are immaterial and are recognized as expenses when paid. As a result, no income tax provision or liability has been provided for in the accompanying combined financial statements.

#### **Use of estimates**

Management uses estimates and assumptions in preparing combined financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these combined financial statements include those related to the fair value of inventories, the useful lives of property and equipment, and the value of donated services, medications, and medical supplies. Actual results could differ from the estimates.

#### **Subsequent events**

The Organization has evaluated for possible financial reporting and disclosure subsequent events through October 18, 2018, the date as of which the combined financial statements were available to be issued.

### **NOTE C – CONCENTRATIONS**

The Organization maintains its cash and cash equivalents in deposit accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

As discussed in Note H, the Organization receives significant contributions of donated medications and medical supplies for use in operating its clinic, primarily from two donors. During 2017, the Organization received approximately 34% of its total revenue from these two donors.



# GRACE MEDICAL HOME, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017

### **NOTE C - CONCENTRATIONS (Continued)**

Volunteers donate significant amounts of time to the Organization to carry out program services and provide administrative support. The Organization hopes and expects to continue its relationship with these donors and volunteers and would be impacted financially if support was to diminish significantly or cease.

### **NOTE D - UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give are temporarily restricted for building improvements and are due as follows:

Less than one year	\$ 105,000
One to five years	<u>31,474</u>
Total	<u>\$ 136,474</u>

### **NOTE E - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

<u>Category</u>	
Land	\$ 700,209
Building	2,173,516
Furniture and equipment	338,275
Computer equipment and software	133,397
Leasehold improvements	<u>103,322</u>
Total	3,448,719
Less: Accumulated depreciation and amortization	<u>(498,708)</u>
Net property and equipment	<u>\$ 2,950,011</u>

Depreciation and amortization expense amounted to \$71,843 during 2017.

### **NOTE F - NOTE PAYABLE**

During 2017, Properties entered into a \$2,400,000 note payable agreement ("the note") with a financial institution. The note is payable in monthly installments of principal and interest at 4.75% per annum following a fifteen-year amortization schedule. The note is secured by mortgage and security agreement and matures in June 2024.

Total interest expense for 2017 amounted to \$57,075.

Subsequent to December 31, 2017, the outstanding note payable was paid in full.

# GRACE MEDICAL HOME, INC. AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017

### **NOTE G – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net asset activity during 2017 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Grants and</u> <u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Unconditional promises to give –				
building improvements	\$ —	\$ 136,474	\$ —	\$ 136,474
Health provider salaries	46,813	397,761	(410,856)	33,718
Technology and non-clinical needs	24,912	68,702	(71,675)	21,939
Medical equipment and supplies	3,080	97,506	(81,292)	19,294
Specialty medical services	25,418	15,000	(32,344)	8,074
Community outreach program	14,857	42,350	(50,569)	6,638
Other	4,172	599	(2,452)	2,319
	<u>419,152</u>	<u>758,392</u>	<u>(649,188)</u>	<u>528,356</u>
Total	<u>\$ 119,252</u>	<u>\$ 758,392</u>	<u>\$ (649,188)</u>	<u>\$ 228,456</u>

### **NOTE H – NONCASH CONTRIBUTIONS**

During 2017, the Organization received approximately \$1,630,000 of donated medications and medical supplies for use in operating its clinic. These noncash contributions are recognized as revenue at their estimated fair value on the date the gifts are received and are recognized as expenses when the related gifts are distributed to the end user or the date upon which the gifts expire. Pharmaceutical noncash contributions are generally valued using “wholesale acquisition cost” when available. The Organization considers the valuation practices used for donated medications and medical supplies to be consistent with industry standards.

Various physicians, nurses, and medical support personnel also donate services to the Organization. Contributed services meeting the criteria for revenue recognition in conformity with U.S. GAAP amounted to approximately \$442,000 in 2017, and are included in “noncash contributions” in the accompanying combined statement of activities. Of this amount, approximately \$416,000 and \$26,000 are recognized as “medical services for the uninsured” and “general and administrative” expenses, respectively. Volunteer services during 2017 not meeting the criteria for recognition in conformity with U.S. GAAP amounted to approximately \$55,000 (unaudited). The estimated value of such services is not reflected in the accompanying combined financial statements.

### **NOTE I – RELATED PARTY TRANSACTIONS**

The Organization is party to a monthly lease agreement for property owned by an individual who is a Trustee of the Trust. During 2017, the Organization made rent payments in the approximate amount of \$84,000 pursuant to this agreement.

### **NOTE J – RETIREMENT PLAN**

The Organization participates in a Section 403(b) defined contribution retirement plan (“the Plan”) which is available to eligible employees as defined in the Plan document. Employees may make elective deferral contributions to the Plan. The Organization makes a discretionary contribution to the Plan, as approved by the Board of Directors. Employees vest in employer contributions after completing five years of credited service. The Organization accrued a contribution of approximately \$13,000 to the Plan during 2017.

**SUPPLEMENTAL SCHEDULES**

**GRACE MEDICAL HOME, INC. AND AFFILIATES**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
December 31, 2017

	Grace Medical Home, Inc.	Grace Medical Home Foundation, Inc.	GMH Property Holdings, Inc.	Eliminations	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 946,089	\$ 810,539	\$ 55,539	\$ —	\$ 1,812,167
Cash restricted for long-term purposes	19,294	—	—	—	19,294
Inventories	1,618,613	—	—	—	1,618,613
Unconditional promises to give	136,474	—	—	—	136,474
Property and equipment, net	112,511	—	2,837,500	—	2,950,011
Other assets	47,348	—	—	(37,365)	9,983
<b>Total assets</b>	<b><u>\$ 2,880,329</u></b>	<b><u>\$ 810,539</u></b>	<b><u>\$ 2,893,039</u></b>	<b><u>\$ (37,365)</u></b>	<b><u>\$ 6,546,542</u></b>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 79,422	\$ 22,146	\$ 17,153	\$ (37,365)	\$ 81,356
Note payable	—	—	2,344,550	—	2,344,550
<b>Total liabilities</b>	<b><u>79,422</u></b>	<b><u>22,146</u></b>	<b><u>2,361,703</u></b>	<b><u>(37,365)</u></b>	<b><u>2,425,906</u></b>
<b>NET ASSETS</b>					
Unrestricted	2,572,451	788,393	531,336	—	3,892,180
Temporarily restricted	228,456	—	—	—	228,456
<b>Total net assets</b>	<b><u>2,800,907</u></b>	<b><u>788,393</u></b>	<b><u>531,336</u></b>	<b><u>—</u></b>	<b><u>4,120,636</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,880,329</u></b>	<b><u>\$ 810,539</u></b>	<b><u>\$ 2,893,039</u></b>	<b><u>\$ (37,365)</u></b>	<b><u>\$ 6,546,542</u></b>

See the Accompanying Report of Independent Auditor

# GRACE MEDICAL HOME, INC. AND AFFILIATES

## COMBINING STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2017

	Grace Medical Home, Inc.	Grace Medical Home Foundation, Inc.	GMH Property Holdings, Inc.	Eliminations	Total
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>					
Public support and operating revenue					
Special event revenue	\$ 283,140	\$ —	\$ —	\$ —	\$ 283,140
Direct event expenses	<u>(84,167)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(84,167)</u>
Net special event revenue	198,973	—	—	—	198,973
Noncash contributions	2,072,324	—	—	—	2,072,324
Contributions	1,474,787	—	—	—	1,474,787
Rent income	—	—	165,283	—	165,283
Facility fee and other revenue	97,382	5,984	—	(34,991)	68,375
Grant revenue	<u>63,183</u>	<u>400,000</u>	<u>491,014</u>	<u>(891,014)</u>	<u>63,183</u>
Total public support and operating revenue	3,906,649	405,984	656,297	(926,005)	4,042,925
Net assets released from time and use restrictions	<u>649,188</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>649,188</u>
Total public support and operating revenue and net assets released from time and use restrictions	<u>4,555,837</u>	<u>405,984</u>	<u>656,297</u>	<u>(926,005)</u>	<u>4,692,113</u>
Expenses					
Program activities	<u>2,963,773</u>	<u>13,103</u>	<u>8,675</u>	<u>(20,079)</u>	<u>2,965,472</u>
Supporting activities					
General and administrative	170,010	9,077	114,308	(10,430)	282,965
Fundraising	<u>190,371</u>	<u>2,641</u>	<u>1,978</u>	<u>(4,482)</u>	<u>190,508</u>
Total supporting activities	<u>360,381</u>	<u>11,718</u>	<u>116,286</u>	<u>(14,912)</u>	<u>473,473</u>
Intercompany grants	<u>461,014</u>	<u>430,000</u>	<u>—</u>	<u>(891,014)</u>	<u>—</u>
Total expenses	<u>3,785,168</u>	<u>454,821</u>	<u>124,961</u>	<u>(926,005)</u>	<u>3,438,945</u>
Change in unrestricted net assets	<u>770,669</u>	<u>(48,837)</u>	<u>531,336</u>	<u>—</u>	<u>1,253,168</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>					
Grant revenue	621,918	—	—	—	621,918
Contributions	136,474	—	—	—	136,474
Net assets released from time and use restrictions	<u>(649,188)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(649,188)</u>
Change in temporarily restricted net assets	<u>109,204</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>109,204</u>
<b>CHANGE IN NET ASSETS</b>	<b>879,873</b>	<b>(48,837)</b>	<b>531,336</b>	<b>—</b>	<b>1,362,372</b>
<b>NET ASSETS - Beginning of year</b>	<b><u>1,921,034</u></b>	<b><u>837,230</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>2,758,264</u></b>
<b>NET ASSETS - End of year</b>	<b><u>\$ 2,800,907</u></b>	<b><u>\$ 788,393</u></b>	<b><u>\$ 531,336</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 4,120,636</u></b>

See the Accompanying Report of Independent Auditor