



GRACE MEDICAL HOME, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016





REPORT OF INDEPENDENT AUDITOR

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

We have audited the accompanying financial statements of Grace Medical Home, Inc. ("the Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Grace Medical Home, Inc. as of December 31, 2016, the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note I, during the year ended December 31, 2016, management determined that inventories of donated medications and medical supplies had reached a level that is material to the financial statements. Accordingly, the Organization recorded the estimated value of inventories at the beginning of the year of \$669,000 as an adjustment to unrestricted net assets. Our opinion is not modified with respect to this matter.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
August 21, 2017

BATTS MORRISON WALES & LEE, P.A. • CERTIFIED PUBLIC ACCOUNTANTS

NATIONAL HEADQUARTERS – ORLANDO
800.960.0803 • WWW.NONPROFITCPA.COM
KEEPING WATCH FOR NONPROFITS ACROSS THE UNITED STATES

GRACE MEDICAL HOME, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

ASSETS

Cash and cash equivalents	\$ 1,031,966
Cash restricted for long-term purposes	3,080
Inventories	800,000
Property and equipment, net	120,929
Other assets	<u>37,148</u>

Total assets \$ 1,993,123

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 62,122
Retirement plan contribution payable	<u>9,967</u>

Total liabilities 72,089

NET ASSETS

Unrestricted	1,801,782
Temporarily restricted	<u>119,252</u>

Total net assets 1,921,034

Total liabilities and net assets \$ 1,993,123

GRACE MEDICAL HOME, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS			
Special event revenue	\$ 270,143	\$ —	\$ 270,143
Direct event expenses	(64,228)	—	(64,228)
Net special event revenue	205,915	—	205,915
Noncash contributions	1,326,689	—	1,326,689
Unrestricted contributions	879,222	—	879,222
Unrestricted grant revenue	249,697	—	249,697
Temporarily restricted grant revenue	—	295,125	295,125
Temporarily restricted contributions	—	5,000	5,000
Facility fee and other revenue	76,820	—	76,820
Net assets released from restrictions	215,184	(215,184)	—
Total public support and revenue and net assets released from restrictions	2,953,527	84,941	3,038,468
EXPENSES			
Program activities			
Medical services for the uninsured	2,544,059	—	2,544,059
Supporting activities			
General and administrative	172,916	—	172,916
Fundraising	183,285	—	183,285
Total supporting activities	356,201	—	356,201
Grant to the Foundation	100,000	—	100,000
Total expenses	3,000,260	—	3,000,260
Change in unrestricted net assets	(46,733)	—	(46,733)
Change in temporarily restricted net assets	—	84,941	84,941
CHANGE IN NET ASSETS	(46,733)	84,941	38,208
NET ASSETS - Beginning of year, as originally reported	1,179,515	34,311	1,213,826
Prior period adjustment (See Note I)	669,000	—	669,000
NET ASSETS - Beginning of year, as restated	1,848,515	34,311	1,882,826
NET ASSETS - End of year	\$ 1,801,782	\$ 119,252	\$ 1,921,034

The Accompanying Notes are an Integral
Part of These Financial Statements

GRACE MEDICAL HOME, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2016

OPERATING CASH FLOWS	
Cash received from contributors and grantors	\$ 1,415,324
Cash received from special events	270,143
Facility fees received and other cash receipts	54,463
Cash paid for operating activities and costs	<u>(1,717,462)</u>
Net operating cash flows	<u>22,468</u>
 INVESTING CASH FLOWS	
Grant to the Foundation	(100,000)
Net investment in assets restricted for long-term purposes	(3,080)
Purchases of and improvements to property and equipment	<u>(13,053)</u>
Net investing cash flows	<u>(116,133)</u>
 FINANCING CASH FLOWS	
Proceeds from contributions restricted for investment in property and equipment	<u>13,720</u>
Net financing cash flows	<u>13,720</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(79,945)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,111,911</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 1,031,966</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS	
Change in net assets	\$ 38,208
Adjustments to reconcile change in net assets to net operating cash flows	
Grant to the Foundation	100,000
Depreciation and amortization	48,150
Contributions restricted for investment in property and equipment	(13,720)
Change in inventories	(131,000)
Change in other assets	(22,357)
Change in accounts payable and accrued expenses	1,352
Change in retirement plan contribution payable	<u>1,835</u>
Net operating cash flows	<u>\$ 22,468</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

GRACE MEDICAL HOME, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

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 accounts of the Foundation are not combined with those of the Organization for purposes of these financial statements. 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.

The Boards of Directors of the Organization and the Foundation 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

Contributions 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 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 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.

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.

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.

GRACE MEDICAL HOME, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Organization is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to Florida law. The Organization is further classified as a public charity and not a private foundation for federal tax purposes. The Organization has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying financial statements. The Organization has not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of estimates

Management uses estimates and assumptions in preparing 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 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.

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 F, the Organization receives significant contributions of donated medications and medical supplies for use in operating its clinic, primarily from two donors. During 2016, the Organization received approximately 35% of its total revenue from these two donors.

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 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<u>Category</u>	
Furniture and equipment	\$ 311,075
Computer equipment and software	133,397
Leasehold improvements	<u>103,322</u>
Total	547,794
Less: Accumulated depreciation and amortization	<u>(426,865)</u>
Net property and equipment	<u>\$ 120,929</u>

Depreciation expense amounted to \$48,150 during 2016.

GRACE MEDICAL HOME, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net asset activity during 2016 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>
Health provider salaries	\$ —	\$ 142,502	\$ (95,689)	\$ 46,813
Specialty medical services	14,532	28,000	(17,114)	25,418
Technology and non-clinical needs	297	33,770	(9,155)	24,912
Community outreach program	3,753	61,175	(50,071)	14,857
Other	12,664	1,210	(9,702)	4,172
Medical equipment and supplies	<u>3,065</u>	<u>33,468</u>	<u>(33,453)</u>	<u>3,080</u>
Total	<u>\$ 34,311</u>	<u>\$ 300,125</u>	<u>\$ (215,184)</u>	<u>\$ 119,252</u>

NOTE F – NONCASH CONTRIBUTIONS

During 2016, the Organization received approximately \$1,115,000 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 \$210,000 in 2016, and are included in “noncash contributions” in the accompanying statement of activities. Of this amount, approximately \$183,000 and \$27,000 are recognized as “medical services for the uninsured” and “general and administrative” expenses, respectively. Volunteer services during 2016 not meeting the criteria for recognition in conformity with U.S. GAAP amounted to approximately \$180,000 (unaudited). The estimated value of such services is not reflected in the accompanying financial statements.

NOTE G – OPERATING LEASES

The Organization is obligated under two operating lease agreements for its clinic offices. One lease agreement is with an entity owned by a Trustee of the Trust. The terms of this lease are favorable to the Organization, and the lease includes a \$1,450,000 purchase option (plus related costs) through January 2017, at which time the lease term became monthly. The second lease agreement is for property owned by an individual who is both a member of the Organization’s Board of Directors and a Trustee of the Trust. The terms of this lease are favorable to the Organization through January 2017, at which time the term became monthly. During 2016, the Organization made rent payments in the approximate amount of \$106,000 related to these leasing arrangements.

NOTE H – 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 \$9,967 to the Plan during 2016.

GRACE MEDICAL HOME, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I – PRIOR PERIOD ADJUSTMENT

During 2016, management determined that inventories of donated medications and medical supplies had reached a level that is material to the financial statements. Accordingly, the Organization recorded the estimated value of inventories at the beginning of the year of \$669,000 as an adjustment to unrestricted net assets. Value was determined using estimated quantities and wholesale value, adjusted for an allowance for obsolescence.

NOTE I – SUBSEQUENT EVENTS

Subsequent to December 31, 2016, GMH Property Holdings, Inc. (“Properties”), a not-for-profit Florida corporation, was 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.

In June 2017, Properties purchased real estate in Orlando, Florida, which will be renovated for use by the Organization. The Organization plans to conduct its activities at this property, which will serve as its new headquarters. Properties will lease the real estate to the Organization under a lease agreement with rent that is below fair rental value.

The Organization has evaluated for possible financial reporting and disclosure subsequent events through August 21, 2017, the date as of which the financial statements were available to be issued.