

WEST TENNESSEE HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

WEST TENNESSEE HEALTHCARE FOUNDATION, INC.
AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS
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JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
West Tennessee Healthcare Foundation, Inc.
Jackson, Tennessee

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of West Tennessee Healthcare Foundation, Inc. and Subsidiary (collectively, the "Foundation") (a nonprofit organization), 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 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 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.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Tennessee Healthcare Foundation, Inc. and 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.

Krupp CPAs PLLC

Nashville, Tennessee

January 26, 2021

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,979,922	\$ 2,132,379
Grants receivable	126,099	146,046
Contributions receivable	22,750	1,000,000
Prepaid expenses	24,868	21,705
Investments	37,735,258	37,564,099
Property and equipment, net	<u>840,688</u>	<u>867,755</u>
TOTAL ASSETS	<u><u>\$ 40,729,585</u></u>	<u><u>\$ 41,731,984</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 169,659	\$ 119,331
Grants payable	55,577	37,731
Annuity gift liabilities	<u>28,395</u>	<u>39,375</u>
TOTAL LIABILITIES	<u>253,631</u>	<u>196,437</u>
NET ASSETS		
Net assets without donor restrictions	10,361,060	10,282,978
Net assets with donor restrictions	<u>30,114,894</u>	<u>31,252,569</u>
TOTAL NET ASSETS	<u>40,475,954</u>	<u>41,535,547</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 40,729,585</u></u>	<u><u>\$ 41,731,984</u></u>

See accompanying notes to financial statements.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>		
	<u>Net Assets</u>	<u>Net Assets</u>	
	<u>Without Donor</u>	<u>With Donor</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants	\$ 571,474	\$ -	\$ 571,474
Contributions	963,754	3,070,728	4,034,482
In-kind contributions	467,482	-	467,482
Investment income, net	199,066	70,188	269,254
Fundraising events	223,942	-	223,942
Less: donor direct benefits	(86,217)	-	(86,217)
Change in annuity value	-	-	-
Net assets released resulting from satisfaction of donor restrictions	<u>4,278,591</u>	<u>(4,278,591)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,618,092</u>	<u>(1,137,675)</u>	<u>5,480,417</u>
EXPENSES			
Program services:			
Grants and other programs	5,836,656	-	5,836,656
Supporting services:			
Management and general	387,458	-	387,458
Fundraising	<u>315,896</u>	<u>-</u>	<u>315,896</u>
Total supporting services	<u>703,354</u>	<u>-</u>	<u>703,354</u>
TOTAL EXPENSES	<u>6,540,010</u>	<u>-</u>	<u>6,540,010</u>
CHANGE IN NET ASSETS	78,082	(1,137,675)	(1,059,593)
NET ASSETS - BEGINNING OF YEAR	<u>10,282,978</u>	<u>31,252,569</u>	<u>41,535,547</u>
NET ASSETS - END OF YEAR	<u>\$ 10,361,060</u>	<u>\$ 30,114,894</u>	<u>\$ 40,475,954</u>

See accompanying notes to financial statements.

2019		
Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
\$ 484,644	\$ -	\$ 484,644
3,559,002	5,100,367	8,659,369
432,032	-	432,032
180,675	796,421	977,096
296,533	-	296,533
(92,832)	-	(92,832)
1,042	-	1,042
<u>4,248,430</u>	<u>(4,248,430)</u>	<u>-</u>
<u>9,109,526</u>	<u>1,648,358</u>	<u>10,757,884</u>
6,679,218	-	6,679,218
432,763	-	432,763
<u>771,482</u>	<u>-</u>	<u>771,482</u>
<u>1,204,245</u>	<u>-</u>	<u>1,204,245</u>
<u>7,883,463</u>	<u>-</u>	<u>7,883,463</u>
1,226,063	1,648,358	2,874,421
<u>9,056,915</u>	<u>29,604,211</u>	<u>38,661,126</u>
<u>\$ 10,282,978</u>	<u>\$ 31,252,569</u>	<u>\$ 41,535,547</u>

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Program Services	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Grants	\$ 4,335,554	\$ -	\$ -	\$ -	\$ 4,335,554
Salaries	105,673	163,019	93,573	256,592	362,265
Payroll taxes and benefits	15,083	23,268	13,356	36,624	51,707
Charitable fund event expenses	-	-	154,137	154,137	154,137
Advertising and public relations	30,148	597	3,693	4,290	34,438
Community leadership	1,197	1,226	1,500	2,726	3,923
Contract personnel	188,474	-	-	-	188,474
Depreciation	11,909	13,263	1,895	15,158	27,067
Donor development	77	4,732	7,510	12,242	12,319
Dues and subscriptions	2,746	7,243	220	7,463	10,209
Education	87,506	13,155	303	13,458	100,964
Food	40,838	2,968	2,670	5,638	46,476
Foundation event expenses	-	-	86,217	86,217	86,217
Insurance	2,629	7,964	-	7,964	10,593
Miscellaneous expense	3,063	27,230	-	27,230	30,293
Other professional fees	282,970	88,032	4,477	92,509	375,479
Printing	1,974	2,198	314	2,512	4,486
Professional development	7,463	2,514	-	2,514	9,977
Charitable fund program expenses	337,196	-	-	-	337,196
Repairs and maintenance	33	37	5	42	75
Supplies	289,519	10,866	30,090	40,956	330,475
Tax expense	-	1,406	-	1,406	1,406
Telephone and communication	8,201	9,133	1,305	10,438	18,639
Travel	9,492	1,215	-	1,215	10,707
Occupancy	70,208	2,155	100	2,255	72,463
Utilities	4,703	5,237	748	5,985	10,688
TOTAL FUNCTIONAL EXPENSES	5,836,656	387,458	402,113	789,571	6,626,227
Less expenses netted against revenues on the consolidated statement of activities - direct benefits to donors	-	-	(86,217)	(86,217)	(86,217)
TOTAL EXPENSES REPORTED UNDER SUPPORTING SERVICES	\$ 5,836,656	\$ 387,458	\$ 315,896	\$ 703,354	\$ 6,540,010

See accompanying notes to financial statements.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Supporting Services			Total Supporting Services	Total
	Program Services	Management and General	Fundraising		
Grants	\$ 5,073,973	\$ -	\$ -	\$ -	\$ 5,073,973
Salaries	99,081	152,850	87,736	240,586	339,667
Payroll taxes and benefits	13,631	21,028	12,069	33,097	46,728
Charitable fund event expenses	-	-	550,931	550,931	550,931
Advertising and public relations	13,783	2,475	-	2,475	16,258
Community leadership	3,415	2,536	534	3,070	6,485
Contract personnel	93,953	65,682	52,264	117,946	211,899
Depreciation	11,909	13,263	1,895	15,158	27,067
Donor development	8,837	11,024	5,318	16,342	25,179
Dues and subscriptions	1,030	8,731	8	8,739	9,769
Education	90,415	5,030	573	5,603	96,018
Food	25,472	398	2,153	2,551	28,023
Foundation event expenses	-	-	92,832	92,832	92,832
Insurance	3,642	3,730	-	3,730	7,372
Legal fees	863	13,981	-	13,981	14,844
Miscellaneous expense	7,799	32,264	-	32,264	40,063
Other professional fees	434,847	59,054	2,102	61,156	496,003
Printing	2,937	3,271	468	3,739	6,676
Professional development	1,120	3,891	150	4,041	5,161
Charitable fund program expenses	373,081	-	-	-	373,081
Repairs and maintenance	702	782	112	894	1,596
Supplies	362,823	12,992	53,529	66,521	429,344
Tax expense	-	6,810	-	6,810	6,810
Telephone and communication	4,584	5,105	730	5,835	10,419
Travel	45,602	1,497	-	1,497	47,099
Utilities	5,719	6,369	910	7,279	12,998
	6,679,218	432,763	864,314	1,297,077	7,976,295
TOTAL FUNCTIONAL EXPENSES					
Less expenses netted against revenues on the consolidated statement of activities - direct benefits to donors	-	-	(92,832)	(92,832)	(92,832)
TOTAL EXPENSES REPORTED UNDER SUPPORTING SERVICES	\$ 6,679,218	\$ 432,763	\$ 771,482	\$ 1,204,245	\$ 7,883,463

See accompanying notes to financial statements.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Change in net assets	\$ (1,059,593)	\$ 2,874,421
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	27,067	27,067
Noncash contributions of investments	(599,187)	(1,982,633)
Net realized and unrealized gains on investments	507,652	(212,973)
(Increase) decrease in:		
Grants receivable	19,947	(64,516)
Contributions receivable	977,250	(296,680)
Prepaid expenses	(3,163)	(20)
Increase (decrease) in:		
Accounts payable	50,328	(588,745)
Grants payable	17,846	37,731
Annuity gift liabilities	<u>(10,980)</u>	<u>(12,089)</u>
 TOTAL ADJUSTMENTS	 <u>986,760</u>	 <u>(3,092,858)</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u>(72,833)</u>	 <u>(218,437)</u>
 INVESTING ACTIVITIES		
Sale of investments	18,892,213	11,796,321
Purchase of investments	<u>(18,971,837)</u>	<u>(10,876,828)</u>
 NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	 <u>(79,624)</u>	 <u>919,493</u>
 (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (152,457)	 701,056
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>2,132,379</u>	 <u>1,431,323</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 1,979,922</u>	 <u>\$ 2,132,379</u>

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 1 - GENERAL

West Tennessee Healthcare Foundation, Inc. (the “Foundation”) is a non-profit organized exclusively for charitable, educational and scientific purposes within the meaning of Section 501 (c)(3) of the Internal Revenue Code (“IRC”). The Foundation’s goal is to assist the purposes of West Tennessee Healthcare in its ministry of healing and its service as a health center for the community. The Foundation is comprised of local chapters in Bolivar, Camden, Dyersburg/Dyer County, Humboldt, Martin/Weakley County, Milan and Trenton, Tennessee, and is an affiliate of the Jackson Madison County General Hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements present the financial position and changes in net assets of the Foundation on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

The consolidated financial statements include the accounts of The Foundation Charitable Holdings, LLC, a single-member limited liability company formed to hold real estate donated to the Foundation. There are no significant transactions between the entities.

Resources are classified as net assets without donor restrictions and net assets with donor restrictions, based on the existence or absence of donor-imposed restrictions, as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation’s management and the Board of Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions are recognized when cash, securities, other assets or unconditional promises to give or notification of a beneficial interest is received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome. The Foundation did not receive any conditional promises to give in the years ending June 30, 2020 or 2019.

The Foundation receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grants received in advance of the expenditure are recorded as deferred revenue.

The Foundation reports gifts of equipment, materials, or facilities (in-kind contributions) at their fair value in the period received as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

A substantial number of volunteers have donated significant amounts of their time to the Foundation's program services and fundraising activities; however, no amounts have been shown in the accompanying consolidated financial statements for donated services by volunteers since there is no objective basis by which to measure the value of such services. Donated services that require specialized skills and would be purchased if not provided by the donor are recognized as support and expenses based on the estimated fair value of the services received.

Endowment Funds

The Foundation has both donor-restricted endowment funds and funds designated by the board to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's donor-restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

Interpretation of applicable law - The Board of Trustees has interpreted UPMIFA 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 contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation 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 the investments
- The investment policies of the Foundation

Spending policy - The Foundation has established a 4% spending target. The objective of this policy is to provide a stable flow of income to be used to support the mission of the fund while protecting the real value of the endowment over time. The policy uses a long-term spending rate target combined with a “smoothing rule,” which adjusts spending in a given year gradually in response to changes in the endowment market value. Endowments that are established shall calculate a 4% distribution rate in the first year following the establishment. According to the smoothing rule, each individual endowment fund will spend 80% of the previous year’s distribution, adjusted for inflation, plus 20% of the targeted long-term spending rate applied to the market value of the entire endowment fund for the previous three years. The strategy is designed to mitigate the impact of short-term market volatility on the flow of funds to support the purposes of the endowment fund. Funds will be notified of the amounts on or around August 1. Any growth above the amount available for spending in the current year will be included in the total endowment value for future years. A waiting period of a minimum of six months, prior to fiscal year end, will apply to all new endowments before any spending is allowed.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

Investment return objective, risk parameters and strategies - The specific objective for Foundation assets shall be to achieve an average annual rate of return over a five-year period of the Consumer Price Index plus 6%. The Foundation recognizes that higher returns involve some volatility and has indicated a willingness to tolerate fluctuations between -15% and +30% in a given year with a 95% probability and with a mean expected return of the Consumer Price Index plus 6%. Due to the Foundation's relatively long-term investment horizon, the Foundation has determined that up to 20% of the assets can be invested in illiquid investments. Such investments may only include deferred annuities, bank certificates of deposit with extended maturities and donated investments that include real estate, unit investment trusts and limited partnerships. Pooled vehicles that offer liquidity inside of one month will not be considered illiquid.

Annuity Gift Liabilities

Annuity gift liabilities represent the present value of gift annuities to be paid to beneficiaries according to terms of the respective agreements.

Investments

Investments are carried at fair value (money market funds and other short-term investments, corporate bonds, equities, government securities, and mutual funds - generally at quoted market prices; composite and liquid alternative funds, investment partnership interests, private equity funds and hedge funds - based on net asset value). Net realized and unrealized gains and losses are recognized currently in the consolidated statement of activities.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash and cash equivalents that are designated for long-term investment are included in "Investments" in the consolidated statement of financial position.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. All contributions receivable as of June 30, 2020 and 2019 were due within one year. An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. In management's opinion, no allowance for uncollectible contributions was necessary as of June 30, 2020 or 2019.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are reported at cost. Donated equipment is recorded as a contribution at estimated fair value determined as of the date of receipt. The Foundation's policy is to capitalize purchases with a cost of \$1,000 or more and an expected useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of individual assets (buildings - thirty years; furniture and equipment - two to seven years). When depreciable assets are sold, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized.

Fair Value Measurements

The Foundation classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs).

An asset's or liability'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.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis:

Money market funds, short-term investments and equities - These investments are valued at the closing price reported on the active market on which the individual funds are traded.

Government securities - Securities for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded. These investments also include securities valued on the basis of information provided by pricing services that employ valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements.

Mutual funds - Investments in these funds are valued using the net asset value per unit as quoted in active markets at the valuation date.

Composite and liquid alternative funds - These investments are valued based on net asset value when a majority of the underlying assets in the fund are valued at net asset value. When the underlying investments held in these funds are comprised of Level 1 and Level 2 investments, the Foundation values the investment based on those underlying securities which are determined daily based on the Foundation's share in the fund.

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Partnership interests and private equity funds - These investments are valued at the Foundation's capital account balance as reported by the fund's general partner. The capital account balance represents the net asset value of the Foundation's share in the fund, which approximates fair value.

Hedge funds - Hedge funds are reported at the net asset value (or its equivalent) of the Foundation's share in the fund as calculated in the fund's audited financial statements, which approximates fair value.

There have been no changes in the methodologies used since the prior year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation 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 estimate of fair value at the reporting date.

Program and Supporting Services

The following program and supporting services classifications are included in the accompanying consolidated financial statements:

Program Services - includes grants and the cost of activities carried out to fulfill the Foundation's mission to provide support to nonprofit organizations.

Supporting Services:

Management and General - relates to the overall direction of the organization. These expenses are not identifiable with a particular program but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, investment management and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include creation and distribution of fundraising materials.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and benefits, depreciation, utilities, supplies, telephone and communication, printing and other miscellaneous expense. These expenses are allocated based on an estimate of the time and effort incurred.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

The Foundation files U.S. federal Forms 990 and 990-T for organizations exempt from income tax. In addition, the Foundation files an income tax return in the State of Tennessee.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and certain reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

On June 1, 2019, the Foundation adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contributions as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. The adoption of this ASU did not materially impact the consolidated financial statements and related disclosures.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, and in June 2020, in response to the COVID-19 pandemic, the FASB issued ASU 2020-05, allowing certain entities to defer implementation of ASU 2014-09 for an additional year. As a result of the issuance of ASU 2020-05, the Foundation will defer the implementation of ASU 2014-09 for an additional year. The Foundation is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact of this new standard on its consolidated financial statements.

Events Occurring after Reporting Date

The Foundation has evaluated events and transactions that occurred between June 30, 2020 and January 26, 2021, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following as of June 30:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,979,922	\$ 2,132,379
Grants receivable	126,099	146,046
Contributions receivable	22,750	1,000,000
Investments	<u>37,735,258</u>	<u>37,564,099</u>
Total financial assets	<u>39,864,029</u>	<u>40,842,524</u>
Less amounts not available to be used within one year:		
Annuity gift liabilities	(28,395)	(39,375)
Board-designated endowment funds	(2,329,508)	(2,460,997)
Donor advised funds	(3,108,454)	(3,549,075)
Net assets with donor restrictions:		
Donor restricted endowment funds	(23,799,363)	(24,458,979)
Other funds with donor or other designations	<u>(6,315,531)</u>	<u>(6,793,590)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 4,282,778</u>	<u>\$ 3,540,508</u>

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Board-designated endowment funds can be made available for general expenditure at the discretion of the Foundation's Board of Trustees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash accounts at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The Foundation’s cash balances may, at times, exceed statutory limits. The Foundation has not experienced any losses in such accounts and management considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Foundation’s securities is covered by the Securities Investor Protection Corporation (“SIPC”), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

Contributions received from three sources comprised approximately 49% and 49% of total contributions received for the year ended June 30, 2020 and 2019, respectively. Contributions receivable is comprised of one donor at June 30, 2020 and 2019, respectively.

NOTE 5 - INVESTMENTS

Investments consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Money market funds and other short-term investments	\$ 416,723	\$ 1,238,547
Equities	780,227	421,107
Government securities	1,770,745	2,071,647
Mutual funds	15,261,469	13,889,609
Fixed income composite fund	3,873,433	3,171,401
Equity composite fund	2,831,140	3,745,392
Real return composite fund	2,533,035	2,595,913
Liquid alternative fund	575,279	3,116,478
Alternative investments	<u>9,693,207</u>	<u>7,314,005</u>
	<u>\$ 37,735,258</u>	<u>\$ 37,564,099</u>

WEST TENNESSEE HEALTHCARE FOUNDATION, INC. AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 348,000	\$ 348,000
Buildings	812,000	812,000
Furniture, fixtures and equipment	<u>67,000</u>	<u>67,000</u>
	1,227,000	1,227,000
Less: Accumulated depreciation	<u>(386,312)</u>	<u>(359,245)</u>
	<u>\$ 840,688</u>	<u>\$ 867,755</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 7 - FAIR VALUE MEASUREMENTS

The following table sets forth the Foundation's major categories of assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30:

	2020			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial assets:				
Investments:				
Money market funds and other short-term investments	\$ 416,723	\$ 416,723	\$ -	\$ -
Equities:				
Consumer goods	328,492	328,492	-	-
Energy	20,997	20,997	-	-
Financial	57,285	57,285	-	-
Healthcare	36,524	36,524	-	-
Industrial goods	8,783	8,783	-	-
Insurance	-	-	-	-
Others	28,753	28,753	-	-
Services	152,640	152,640	-	-
Technology	120,762	120,762	-	-
Transportation and travel	25,991	25,991	-	-
Government securities	1,770,745	-	1,770,745	-
Mutual funds:				
Large blend	3,930,307	3,930,307	-	-
Small blend	147,933	147,933	-	-
Mid-cap blend	133,998	133,998	-	-
Foreign growth	1,933,112	1,933,112	-	-
Foreign blend	26,920	26,920	-	-
Intermediate-term bond	697,309	697,309	-	-
Market Neutral	28,852	28,852	-	-
Multisector bond	1,764,601	1,764,601	-	-
World bond	169,039	169,039	-	-
Emerging markets bond	106,042	106,042	-	-
High yield bond	1,894,466	1,894,466	-	-
Preferred stock	1,906	1,906	-	-
Multialternative	29,434	29,434	-	-
World large stock	4,397,550	4,397,550	-	-
Fixed income composite fund	3,873,433	-	3,873,433	-
Equity composite fund	2,831,140	-	2,831,140	-
Real return composite fund	2,533,035	-	2,533,035	-
Liquid alternative fund				
Total investments in the fair value hierarchy	575,279	-	575,279	-
	<u>28,042,051</u>	<u>16,458,419</u>	<u>11,583,632</u>	<u>-</u>
Partnership interests	2,347,513			
Private equity	2,002,675			
Hedge funds	5,343,019			
Total investments measured at net asset value (a)	<u>9,693,207</u>			
Total financial assets	<u>\$ 37,735,258</u>	<u>\$ 16,458,419</u>	<u>\$ 11,583,632</u>	<u>\$ -</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2019			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial assets:				
Investments:				
Money market funds and other short-term investments	\$ 1,238,547	\$ 1,238,547	\$ -	\$ -
Equities:				
Consumer goods	247,677	247,677	-	-
Energy	18,854	18,854	-	-
Financial	32,712	32,712	-	-
Healthcare	15,136	15,136	-	-
Industrial goods	3,407	3,407	-	-
Insurance	6,186	6,186	-	-
Others	18,634	18,634	-	-
Services	6,613	6,613	-	-
Technology	48,698	48,698	-	-
Transportation and travel	23,190	23,190	-	-
Government securities	2,071,647	-	2,071,647	-
Mutual funds:				
Large blend	3,836,601	3,836,601	-	-
Small blend	56,711	56,711	-	-
Mid-cap blend	59,676	59,676	-	-
Foreign growth	2,037,310	2,037,310	-	-
Intermediate-term bond	290,150	290,150	-	-
Multisector bond	1,978,691	1,978,691	-	-
World bond	9,949	9,949	-	-
Emerging markets bond	10,882	10,882	-	-
High yield bond	21,231	21,231	-	-
World large stock	5,588,408	5,588,408	-	-
Fixed income composite fund	3,171,401	-	3,171,401	-
Equity composite fund	3,745,392	-	3,745,392	-
Real return composite fund	2,595,913	-	2,595,913	-
Liquid alternative fund	3,116,478	-	3,116,478	-
Total investments in the fair value hierarchy	<u>30,250,094</u>	<u>15,549,263</u>	<u>14,700,831</u>	<u>-</u>
Partnership interests	2,694,767			
Private equity	1,783,391			
Hedge funds	2,835,847			
Total investments measured at net asset value (a)	<u>7,314,005</u>			
Total financial assets	<u>\$ 37,564,099</u>	<u>\$ 15,549,263</u>	<u>\$ 14,700,831</u>	<u>\$ -</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

(a) *In accordance with Accounting Standards Codification Subtopic 820-10, certain investments that were measured at fair value using the net asset value per share (or the equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the investments at fair value presented in the consolidated statement of financial position.*

Fair value of investments in certain entities that calculate net asset value per share (or its equivalent) are as follows:

	Fair Value 2020	Fair Value 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice
Partnership interests	\$ 2,347,513	\$ 2,694,767	\$ -	quarterly	60 days
Private equity	\$ 2,002,675	\$ 1,783,391	\$ -	quarterly	60 days
Hedge funds	\$ 5,343,019	\$ 2,835,847	\$ -	quarterly	100 days

A summary of the investment strategies for significant investments follows:

Partnership

The Foundation holds investments with a fair value of approximately \$2,347,000 and \$2,695,000 at June 30, 2020 and 2019, respectively in UBS Trumbull Property Income Fund, LP. The investment objective of the fund is an open-end real estate debt fund which offers a combination of fixed returns and participation in the cash flows and market value changes of the underlying commercial real estate investments.

Private Equity Funds

The Foundation holds investments with a fair value of approximately \$969,000 and \$1,023,000 at June 30, 2020 and 2019, respectively in Partners Group Private Equity Master Fund, LLC. The investment objective of the fund is to seek attractive long-term capital appreciation by investing in a globally diversified portfolio of private equity and debt investments.

The Foundation holds investments with a fair value of approximately \$733,000 and \$760,000 at June 30, 2020 and 2019, respectively in Commerce Street Carlyle Private Equity Fund I, LP. The investment objective of the fund is to provide investors with attractive exposure to private equity investment opportunities across multiple geographies, including the United States, Asia, and Europe.

The Foundation holds investments with a fair value of approximately \$300,000 and \$0 at June 30, 2020 and 2019, respectively in Solus SPC Offshore Fund LTD. The investment objective of the fund is to invest in distressed debt securities in order to achieve higher than average market returns over longer time frames.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

Hedge Funds

The Foundation holds investments with a fair value of approximately \$5,343,000 and \$2,835,000 at June 30, 2020 and 2019, respectively in Highland Direct Hedged Equity Fund, LTD. The investment objective of the fund is to provide long-term total return with reduced volatility and reduced correlation to the conventional stock and bond markets by utilizing a broad array of trading and investment strategies.

NOTE 8 - ENDOWMENT

As of June 30, the Foundation had the following endowment net asset composition by type of fund:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 2,329,508	\$ -	\$ 2,329,508
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	21,247,638	21,247,638
Accumulated investment gains	-	2,551,725	2,551,725
	\$ 2,329,508	\$ 23,799,363	\$ 26,128,871
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 2,460,997	\$ -	\$ 2,460,997
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	21,052,089	21,052,089
Accumulated investment gains	-	3,406,890	3,406,890
	\$ 2,460,997	\$ 24,458,979	\$ 26,919,976

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 8 - ENDOWMENT (CONTINUED)

A schedule of changes in endowment net assets follows for the year ended June 30:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets at June 30, 2019	\$ 2,460,997	\$ 24,458,979	\$ 26,919,976
Investment income, net	(22,537)	36,348	13,811
Contributions during the year	2,644	355,981	358,625
Transfers	(111,596)	(192,154)	(303,750)
Amounts appropriated for expenditure	-	(859,791)	(859,791)
Endowment assets at June 30, 2020	\$ 2,329,508	\$ 23,799,363	\$ 26,128,871
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment assets at June 30, 2018	\$ 2,519,457	\$ 24,957,857	\$ 27,477,314
Investment income, net	47,469	774,840	822,309
Contributions during the year	3,875	181,181	185,056
Transfers	(109,804)	(45,223)	(155,027)
Amounts appropriated for expenditure	-	(1,409,676)	(1,409,676)
Endowment assets at June 30, 2019	\$ 2,460,997	\$ 24,458,979	\$ 26,919,976

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At June 30, 2020, funds with original gift values of \$4,651,255, fair values of \$4,401,061 and deficiencies of \$250,194 were reported in net assets with donor restrictions. At June 30, 2019, funds with original gift values of \$1,162,331, fair values of \$1,122,650 and deficiencies of \$39,681 were reported in net assets with donor restrictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 9 - TRANSACTIONS WITH JACKSON MADISON COUNTY GENERAL HOSPITAL

During the years ended June 30, Jackson Madison County General Hospital (“JMCGH”) furnished various services to the Foundation. The Foundation has recorded these services as in-kind revenue and expense in the accompanying consolidated statement of activities. The amounts recorded are summarized as follows:

	<u>2020</u>	<u>2019</u>
Salaries and benefits	\$ 362,265	\$ 339,667
Supplies	16,753	5,671
Administration and other	<u>88,463</u>	<u>86,694</u>
	<u>\$ 467,481</u>	<u>\$ 432,032</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets as of June 30, are comprised of the following:

	2020	2019
Net assets without donor restrictions:		
Undesignated	\$ 4,923,098	\$ 4,272,906
Board-designated endowment funds	2,329,508	2,460,997
Donor advised funds	3,108,454	3,549,075
Total net assets without donor restrictions	10,361,060	10,282,978
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Addiction	80,427	74,909
Animal welfare	107,300	143,689
Arts and culture	30,071	14,968
Community and economic development	933,761	923,891
Disaster relief	110,368	53,708
Education	1,457,568	1,569,204
Health	2,898,948	3,310,465
Human services	342,118	327,404
International relations	114,019	69,008
Other	-	19,655
Public safety	6,657	48,304
Youth	234,294	238,385
	6,315,531	6,793,590
Endowments:		
Animal welfare	237,016	237,475
Arts and culture	195,472	197,847
Community and economic development	5,035,729	4,745,667
Education	5,172,969	5,287,964
Health	5,742,368	5,978,679
Human services	470,098	486,600
Youth	7,186,597	7,564,428
Underwater endowments	(240,886)	(39,681)
	23,799,363	24,458,979
Total net assets with donor restrictions	30,114,894	31,252,569
Total net assets	\$ 40,475,954	\$ 41,535,547

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 11 - COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Foundation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, management is continuing to evaluate the evolving situation and will implement appropriate countermeasures as needed.