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January 22, 2020

The Board of Directors of  
Baptist Memorial College of Health Sciences, Inc.  
1003 Monroe Avenue  
Memphis, TN 38104

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Baptist Memorial College of Health Sciences, Inc. (the "College") as of and for the year ended September 30, 2019 (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated January 22, 2020.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the College is responsible.

This report is intended solely for information and use of management, the Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

A handwritten signature in black ink that reads "Deloitte &amp; Touche LLP". The signature is stylized, with the "D" being particularly large and the "&amp;" symbol being prominent.

cc: The Management of the College

## **Our Responsibility Under Generally Accepted Auditing Standards**

Our responsibility under generally accepted auditing standards has been described in our engagement letter dated August 13, 2019, a copy of which has been provided to you as Appendix A. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on the fairness of the presentation of the College's financial statements for the year ended September 30, 2019, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **Significant Accounting Policies**

The College's significant accounting policies are set forth in Note 1 to the College's 2019 financial statements.

On October 1, 2018, the College adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, (ASC 606) applying the modified retrospective method to all contracts existing on October 1, 2018. Results for operating periods beginning after October 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the College's historical accounting under ASC Topic 605, *Revenue Recognition*. ASC 606 did not have a material impact on the College's results of operations on a prospective basis, other than the impact of the presentation of the provision for uncollectible receivables on the statement of operations and changes in net assets, as this is recorded as a direct reduction to revenues and is not presented as a separate line item.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, the guidance also expands the quantitative and qualitative disclosures

regarding liquidity and availability of resources and requires expenses to be reported by both natural and functional classification in one location. The College applied the changes retrospectively to all periods presented.

We are not aware of any other significant changes in previously adopted accounting policies or their application during the year ended September 30, 2019.

We have evaluated the significant qualitative aspects of the College's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the College's 2019 financial statements include deferred tuition revenue. The basis for our conclusions as to the reasonableness of this estimate when considered in the context of the financial statements taken as a whole, as expressed in our auditors' report on the financial statements, is our understanding and testing of the process used by management to develop the estimate.

During the year ended September 30, 2019, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

### **Uncorrected Misstatements**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. There were no uncorrected misstatements or disclosure items passed identified during our audit.

### **Material Corrected Misstatements**

There were no material misstatements that were brought to the attention of management as a result of our audit procedures.

### **Disagreements with Management**

We have not had any disagreements with management related to matters that are material to the College's 2019 financial statements.

### **Our Views About Significant Matters That Were the Subject of Consultation with Other Accountants**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2019.

**Significant Findings or Issues Discussed, or Subject of Correspondence, with Management Prior to Our Initial Engagement or Retention**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

**Other Significant Findings or Issues Arising from the Audit Discussed, or Subject of Correspondence, with Management**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

**Significant Difficulties Encountered in Performing the Audit**

In our judgment, we received the full cooperation of the College's management and staff and had unrestricted access to the College's senior management in the performance of our audit.

**Management's Representations**

We have made specific inquiries of the College's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the College is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix B, a copy of the representation letter we obtained from management.

\* \* \* \* \*

- *Appendix A: Engagement Letter*
- *Appendix B: Representations from Management*



## APPENDIX A

Deloitte & Touche LLP  
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Memphis, TN 38119 0112  
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August 13, 2019

Dr. Betty Sue McGarvey  
President  
Baptist Memorial College of Health Sciences, Inc.  
1003 Monroe Avenue  
Memphis, Tennessee

Dear Dr. McGarvey:

Deloitte & Touche LLP ("D&T" or "we" or "us") is pleased to serve as independent auditors for Baptist Memorial College of Health Sciences, Inc. (the "College" or "you" or "your"). Mr. Jonathan Pennington will be responsible for the services that we perform for the College hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the College on issues as they arise throughout the year. Hence, we hope that you will call Mr. Pennington whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such terms and conditions shall be effective as of the date of the commencement of such services.

### **Audit of Financial Statements and Other Reporting**

Our engagement is to perform an audit in accordance with (1) auditing standards generally accepted in the United States of America ("generally accepted auditing standards"), and (2) the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("generally accepted government auditing standards") (generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the "Auditing Standards"), and (3) the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("OMB Uniform Guidance"). The objectives of an audit conducted in accordance with the Auditing Standards and OMB Uniform Guidance are to:

- Express an opinion on whether the College's financial statements which are composed of the statements of financial position as of September 30, 2019, and the related statements of activities and changes in net assets, and cash flows for the year then ending, and the related notes to the financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, for the year ending September 30, 2019 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and perform specified procedures on the required supplementary information for the year ending September 30, 2019.

- Express an opinion on whether the supplementary information that accompanies the financial statements, including the schedule of expenditures of federal awards, is fairly stated, in all material respects, in relation to the financial statements as a whole
- Report on the College's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ending September 30, 2019, based on an audit of financial statements performed in accordance with generally accepted government auditing standards.
- Express an opinion on the College's compliance with requirements applicable to each major program and report on the College's internal control over compliance in accordance with OMB Uniform Guidance.

Appendix A contains a description of the auditor's responsibilities and the scope of an audit in accordance with the Auditing Standards and OMB Uniform Guidance.

#### **D&T Reports**

We expect to issue written reports upon the completion of our audit. Our ability to express any opinion or to issue any report as a result of this engagement and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our reports. If, for any reason, we are unable to complete our audit or are unable to form or have not formed any opinion, we may decline to express any opinion or decline to issue any report as a result of this engagement. If we are unable to complete our audit, or if any report to be issued by D&T as a result of this engagement requires modification, the reasons for this will be discussed with the board of directors of Baptist Memorial College of Health Sciences, Inc. (the "Board of Directors") and the College's management.

#### **Management's Responsibilities**

Appendix B describes management's responsibilities.

#### **Responsibility of the Board of Directors**

As independent auditors of the College, we acknowledge that the Board of Directors is directly responsible for the appointment, compensation, and oversight of our work, and accordingly, except as otherwise specifically noted, we will report directly to the Board of Directors. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities as subcontractors in connection with this engagement, have been approved by the Board of Directors in accordance with the Board of Directors' established preapproval policies and procedures.

#### **Communications with the Board of Directors**

Appendix C describes various matters that we are required by the Auditing Standards and OMB Uniform Guidance to communicate with the Board of Directors and management.



### **Fees**

The estimated fees for the audit of the College's financial statements and report on the College's compliance with OMB Uniform Guidance are included within the estimated fees stated in the engagement letter dated August 13, 2019, for Baptist Memorial Health Care Corporation for the year ending September 30, 2019.

### **Access to Working Papers by Regulators**

We may be requested or required by a regulator of the College, including but not limited to a federal agency, the Comptroller General of the United States, or representatives of the United States Government Accountability Office (GAO) (each, a "Regulator") to provide access to working papers related to this engagement. In the event of any such request or requirement, we will notify you prior to providing such access unless applicable law or regulation prohibits such notice. The working papers for this engagement are the property of D&T and constitute D&T's confidential information. We may request confidential treatment of our working papers. Access to our working papers will be provided under the supervision of D&T's personnel and upon request we may provide copies of working papers to a Regulator. The College hereby consents, where consent is required, to D&T providing access to working papers and copies thereof to a Regulator. Fees for professional services relating to such access, plus related expenses, will be billed in addition to the estimated fees outlined herein. The working papers related to this engagement will be retained by us for a minimum of three years from the dates of the reports issued, or such longer period as required to satisfy legal and administrative requirements.

### **Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites**

If the College intends to publish or otherwise reproduce in any document any report issued as a result of this engagement, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the College agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of any of our reports, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of any of our reports in any such document would constitute the reissuance of such reports. The College also agrees that its management will notify us and obtain our approval prior to including any of our reports on an electronic site.

Notwithstanding the foregoing, the College may post our report to an internal use only electronic site, or to its external electronic site at [www.baptistonline.org](http://www.baptistonline.org) after we have issued our report, provided that any such electronic site is controlled by the College, is for informational purposes only, and is not associated to or referenced in a document in electronic form that contains other information in addition to the audited financial statements (e.g., a debt or equity offering circular, a private placement memorandum, or other similar offering), and, provided that the College's financial statements (the complete financial statements and related notes thereto for all periods to which our report relates) and our report thereon are reproduced in their entirety and that the College understands and agrees that we will not be associated with any other information contained on any such electronic site.

Dr. Betty Sue McGarvey  
August 13, 2019  
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Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the College. Any request by the College to reissue any report issued as a result of this engagement, to consent to any such report's inclusion or incorporation by reference in an offering or other document, or to agree to any such report's inclusion on an electronic site, except as provided herein will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any procedures that would need to be performed in connection with any such request. Should D&T agree to perform such procedures, fees for such procedures would be subject to the mutual agreement of the College and D&T.

#### **Other Services**

Professional arrangements for additional engagements (such as, the review or preparation of income tax returns, employee benefit plan audits, etc.) will be described in separate engagement letters.

\* \* \* \* \*

The parties acknowledge and agree that D&T is being engaged under this engagement letter to provide only the services described herein. Should the College or the Board of Directors request, and should D&T agree to provide, services (including audit services) beyond those described herein, such services will constitute a separate engagement and will be governed by a separate engagement letter.

This engagement letter, including Appendices A through E attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes any other prior or contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.



Dr. Betty Sue McGarvey  
August 13, 2019  
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If the above terms are acceptable and the services described are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Yours truly,

 Delia T. Torche

Accepted and agreed to by  
Baptist Memorial College of Health Sciences, Inc.:

By: Betty Sue McGarvey

Title: President

Date: August 22, 2019

cc: The Board of Directors of Baptist Memorial College of Health Sciences, Inc.

## **APPENDIX A**

### **AUDITOR'S RESPONSIBILITIES AND SCOPE OF AN AUDIT IN ACCORDANCE WITH THE AUDITING STANDARDS AND OMB UNIFORM GUIDANCE**

This Appendix A is part of the engagement letter dated August 13, 2019, between Deloitte & Touche LLP and Baptist Memorial College of Health Sciences, Inc.

#### **Auditor's Responsibilities**

Our responsibilities under the Auditing Standards and OMB Uniform Guidance include forming and expressing opinions and reporting on certain matters as described in the *Audit of Financial Statements and Other Reporting* section of this engagement letter. The audit of the financial statements and our reporting on other matters do not relieve management or the Board of Directors of their responsibilities.

#### **Scope of an Audit and Other Reporting**

The Auditing Standards and OMB Uniform Guidance require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement, whether caused by fraud or error. However, because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards and OMB Uniform Guidance. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by fraud or error, that are not material to the financial statements as a whole are detected.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we consider internal control relevant to the College'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 College's internal control. 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.

An audit also includes tests of the College's compliance with certain provisions of laws, regulations, contracts, and grant agreements. However, our objective is not to provide an opinion on compliance with those provisions, and accordingly, we will not express such an opinion.

As part of the audit, we will be alert to situations or transactions that could be indicative of abuse as defined by generally accepted government auditing standards, which involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. The

determination of abuse is subjective; generally accepted government auditing standards do not require us to provide reasonable assurance of detecting abuse, and we will not design the audit to detect abuse. However, if we become aware of abuse that could be quantitatively or qualitatively material to the financial statements, we will apply procedures specifically directed to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives. Under generally accepted government auditing standards, we may be required to directly report known or likely fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse to outside parties.

Generally accepted accounting principles provide for certain required supplementary information (RSI), such as a management's discussion and analysis, to accompany the College's financial statements. As part of the audit, we will apply certain limited procedures to the College's RSI, which will consist principally of inquiries of management about the methods of preparing the information. We will disclaim an opinion on the RSI, unless (1) some of the RSI is omitted, (2) the measurement or presentation of the RSI departs materially from the prescribed guidelines, or (3) we have unresolved doubts about whether the RSI is measured or presented in accordance with prescribed guidelines.

Supplementary information other than RSI, such as, the schedule of expenditures of federal awards, also accompany the College's financial statements. We will subject supplementary information that is financially oriented to the audit procedures applied in the audit of the financial statements and express an opinion on whether such information is fairly stated, in all material respects, in relation to the College's financial statements as a whole. We will disclaim an opinion on supplementary information that comprises nonaccounting information or accounting information that is not directly related to the financial statements.

### **Scope of a Single Audit**

An audit in accordance with OMB Uniform Guidance includes (1) determining which federal programs should be considered major programs and thus be included within the scope of the audit; (2) evaluating the overall presentation of the schedule of expenditures of federal awards in relation to the financial statements as a whole; (3) evaluating the items to be included in the schedule of findings and questioned costs and the reasonableness of the summary schedule of prior-year findings; (4) obtaining and reporting the views of responsible officials concerning the findings, conclusions, and recommendations, as well as their planned corrective actions; (5) preparing a schedule of findings and questioned costs; and (6) completing and signing the auditor-prepared sections of OMB Data Collection Form that summarizes our audit findings.

We will plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that are applicable to the College's major federal programs could have a direct and material effect on each of its major federal programs. The audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. The audit does not provide a legal determination on the College's compliance with those requirements.

As part of the audit of the College's compliance with the requirements of major federal programs, we will obtain an understanding of the College's internal control related to administering major federal programs, and we will assess risk as required by OMB Uniform Guidance for the purpose of establishing the nature, timing, and extent of audit procedures necessary for expressing an opinion concerning compliance with laws and regulations related to major federal award programs.

## **APPENDIX B**

### **MANAGEMENT'S RESPONSIBILITIES**

This Appendix B is part of the engagement letter dated August 13, 2019, between Deloitte & Touche LLP and Baptist Memorial College of Health Sciences, Inc.

#### **Financial Statements, Internal Control, and Compliance**

Management is responsible for the preparation, fair presentation, and overall accuracy of the financial statements in accordance with generally accepted accounting principles and all accompanying information in accordance with prescribed guidelines or applicable criteria. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies
- Designing, implementing, and maintaining effective internal control relevant to (1) the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error and (2) compliance with laws, regulations, and provisions of contracts or grant agreements
- Identifying and ensuring that the College complies with the laws and regulations applicable to its activities and the provisions of contracts or grant agreements, and informing us of all instances of identified or suspected fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse
- Providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and all accompanying supplementary information, such as records, documentation, and other matters, (2) additional information that we may request from management for the purpose of our audit, and (3) unrestricted access to personnel within the College from whom we determine it necessary to obtain audit evidence
- Taking timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report
- Having a process to track the status of audit findings and recommendations
- Identifying for us previous audits, attestation engagements, and other studies related to the objectives of our audit and whether related recommendations have been implemented.
- Providing its view on our current reported findings, conclusions, and recommendations, as well as its planned corrective actions, for our reports. The corrective action plan that the College develops for its reporting package may fully or partially satisfy this responsibility.
- Submitting the reporting package and OMB Data Collection Form to the Federal Audit Clearinghouse.

Management is also responsible for (1) preparing supplementary information other than RSI, such as, the schedule of expenditures of federal awards in accordance with the applicable criteria, (2) including our report on the supplementary information in any document that contains such information and that indicates that D&T has reported on such information, and (3) presenting the supplementary information with the College's audited financial statements.

D&T will use Baptist Memorial Healthcare Corporation corporate internal auditors to perform audit procedures under our direction, supervision, and review ("direct assistance"). In connection therewith, management acknowledges and agrees that (1) the internal auditors that will provide direct assistance to us will be allowed to follow our instructions, and (2) the College will not intervene in the work performed by such internal auditors for us.

### **Management's Representations**

We will make specific inquiries of the College's management about the representations (1) embodied in the financial statements and accompanying information, (2) regarding the effectiveness of internal control, and (3) regarding the College's compliance with laws, regulations, and the provisions of contracts and grant agreements. In addition, we will request that management provide us with the written representations the College is required to provide to its independent auditors under the Auditing Standards. The responses to those inquiries and the written representations of management are part of the evidential matter that D&T will rely on in forming its opinion on the College's financial statements and reporting on accompanying information. Because of the importance of management's representations, the College agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

### **Process for Obtaining Preapproval of Services**

Management is responsible for the coordination of obtaining the preapproval of the Board of Directors, in accordance with the Board of Directors' preapproval process, for any services to be provided by D&T to the College.

### **Independence Matters**

In connection with our engagement, D&T, management, and the Board of Directors will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. D&T will communicate to its partners, principals, and employees that the College is an attest client. Management of the College will ensure that the College, together with its subsidiaries and other entities that comprise the College for purposes of the consolidated financial statements, has policies and procedures in place for the purpose of ensuring that neither the College nor any such subsidiary or other entity will act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (AICPA), generally accepted government auditing standards, or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mr. Pennington.

In connection with the foregoing paragraph, the College agrees to furnish to D&T and keep D&T updated with respect to a corporate tree that identifies the legal names of the College's affiliates, as defined in AICPA *Code of Professional Conduct* Interpretation No. 101-18 (e.g., parents, subsidiaries, investors, or investees) ("College Affiliates"), together with the ownership relationship among such entities. Such information will be maintained in a database accessible by D&T in connection with their compliance with AICPA or other applicable independence rules.

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA *Code of Professional Conduct*. Management of the College will ensure that the College, together with its subsidiaries and other entities that comprise the College for purposes of the consolidated financial statements, also has policies and procedures in place for purposes of ensuring that D&T's independence will not be impaired by hiring a former or current D&T partner, principal, or professional employee in a key position that would cause a violation of the AICPA *Code of Professional Conduct*, generally accepted government auditing standards, or other applicable independence rules. Any employment opportunities with the College for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Pennington before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding sections entitled "Independence Matters" and "Process for Obtaining Preapproval of Services," "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu Limited, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu Limited and its member firms; and, in all cases, any successor or assignee.

## **APPENDIX C**

### **COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

This Appendix C is part of the engagement letter dated August 13, 2019, between Deloitte & Touche LLP and Baptist Memorial College of Health Sciences, Inc.

We are responsible for communicating with the Board of Directors significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of the Board of Directors in overseeing the financial reporting process.

In connection with the foregoing, we will communicate to the Board of Directors any fraud we identify or suspect that involves (1) management, (2) employees of the College who have significant roles in internal control, or (3) other employees of the College when the fraud results in a material misstatement of the financial statements. In addition, we will communicate with the Board of Directors any other matters related to fraud that are, in our professional judgment, relevant to their responsibilities. We will communicate to management any fraud perpetrated by lower-level employees of which we become aware that does not result in a material misstatement of the financial statements; however, we will not communicate such matters to the Board of Directors, unless otherwise directed by the Board of Directors.

In addition, as required by generally accepted government auditing standards, our report on the College's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will include any findings of material noncompliance of such provisions, fraud, and material abuse that we have identified during our audit.

We will also communicate, in writing, to management and the Board of Directors any significant deficiencies or material weaknesses in internal control (as defined in generally accepted auditing standards) that we have identified during the audit, including those that were remediated during the audit.

We will also communicate certain matters to management and the Board of Directors, including our responsibilities for testing and reporting on the College's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts or grant agreements, both for the financial statement audit and single audit. In addition, we will communicate to management and the Board of Directors the following matters, if any are identified during our audit: material noncompliance with provisions of laws, regulations, contracts or grant agreements related to major federal programs; certain known questioned costs; known fraud affecting federal awards; abuse that is material to a federal program; and other federal award audit findings as required by generally accepted government auditing standards and OMB Uniform Guidance.

We are not required to design procedures for the purpose of identifying other matters to communicate with the Board of Directors. However, we will communicate to the Board of Directors matters required by the Auditing Standards and OMB Uniform Guidance.

We may also communicate to management and the Board of Directors on internal control, compliance, or other matters we observe and possible ways to improve the College's operational efficiency and effectiveness or otherwise improve its internal control or other policies and procedures.



## APPENDIX D

### GENERAL BUSINESS TERMS

This Appendix D is part of the engagement letter to which these terms are attached (the engagement letter, including its appendices, the "engagement letter") dated August 13, 2019, between Deloitte & Touche LLP and Baptist Memorial College of Health Sciences, Inc.

1. Independent Contractor. D&T is an independent contractor and D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the College, Baptist Memorial Healthcare Corporation, or the Board of Directors.
2. Survival. The agreements and undertakings of the College contained in the engagement letter will survive the completion or termination of this engagement.
3. Assignment and Subcontracting. Except as provided below, no party may assign any of its rights or obligations (including, without limitation, interests or claims) relating to this engagement without the prior written consent of the other parties. The College hereby consents to D&T subcontracting a portion of its services under this engagement to any affiliate or related entity, whether located within or outside of the United States. Professional services performed hereunder by any of D&T's affiliates or related entities shall be invoiced as professional fees, and any related expenses shall be invoiced as expenses, unless otherwise agreed.
4. Severability. If any term of the engagement letter is unenforceable, such term shall not affect the other terms, but such unenforceable term shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.
5. Force Majeure. No party shall be deemed to be in breach of the engagement letter as a result of any delays or non-performance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.
6. Protection of Personal Information. To the extent that Miss. Code Ann. Section 75-24-29 is applicable to D&T in its performance of the services under the engagement letter, then to the extent that any information obtained by D&T from or on behalf of the College or its employees in connection with the performance of services under the engagement letter is information that relates to a resident of Mississippi and constitutes "Personal Information" as defined in Miss. Code Ann. Section 75-24-29(2)(b) (as may be amended) (hereinafter "Mississippi PII") and if D&T confirms a "Breach of security" (as defined in Miss. Code Ann. Section 75-24-29(2)(a)) that compromises the security or confidentiality of such Mississippi PII under D&T's possession, custody, or control, then D&T shall notify the College of such Breach of security in accordance with Miss. Code Ann. 75-24-29(4). To the extent that Tenn. Code Ann. Section 47-18-2107 is applicable to D&T in its performance of the services under the engagement letter, then to the extent that any information obtained by D&T from or on behalf of the College or its employees in connection with performance of services under the engagement letter relates to a resident of Tennessee and constitutes "Personal Information" as defined in Tenn. Code Ann. Section 47-18-2107(a)(3) (as may be amended) (hereinafter

"Tennessee PII"), and if D&T confirms a "Breach of the security of the system" (as defined in Tenn. Code Ann. Section 47-18-2107(a)(1)) that compromises the security or confidentiality of such Tennessee PII under D&T's possession, custody, or control, then D&T shall notify the College of such Breach of the security of the system in accordance with Tenn. Code Ann. Section 47-18-2107(c) (as may be amended).

D&T acknowledges that all information provided to it by the College pursuant to this Agreement constitutes confidential and proprietary information ("Confidential Information"). The Confidential Information will most likely include information relating to the College's financial matters, sales, marketing, operations, customers, strategic plans and other business and operations matters. The term Confidential Information does not include information which (1) is or becomes generally available to the public; (2) was known to D&T prior to its disclosure by the College; (3) becomes available to D&T on a non-confidential basis from a source other than the College; (4) is independently ascertainable by or on behalf of D&T or developed by or on behalf of D&T who did not use or rely upon the Confidential Information; or (5) is required to be disclosed by law or regulation, or to respond to governmental inquiries, administrative or judicial action or in accordance with applicable professional standards or rules, or in connection with litigation or arbitration pertaining hereto. D&T agrees to use reasonable efforts to keep the Confidential Information confidential and shall instruct its respective contractors and subcontractors to keep the Confidential Information confidential. D&T shall not intentionally disclose the Confidential Information to any person except as permitted by this Agreement or as may be required by law or regulation, or to respond to governmental inquiries, judicial or administrative process or in accordance with applicable professional standards or rules, or in connection with litigation or arbitration pertaining hereto. In the event that D&T shall be requested or required by law or regulation, or to respond to governmental inquiries, judicial or administrative process or in accordance with applicable professional standards or rules, or in connection with litigation or arbitration pertaining hereto to disclose any Confidential Information supplied by the College, to the extent permitted by law or regulation or practical under the circumstances, D&T shall provide the College with prompt notice of such request so that the College may seek an appropriate protective order, seek to quash the requirement for the release of information or waive compliance with the provisions of this Agreement. Upon the written request of the College, D&T shall promptly return such Confidential Information any and all copies or reproductions of any documentation or materials containing any Confidential Information provided by the College. Notwithstanding the foregoing, D&T may keep copies of the Confidential Information on file for archival purposes, or in accordance with document retention policies or to comply with applicable law.

7. Confidentiality. To the extent that, in connection with this engagement, D&T comes into possession of any confidential information of the College, D&T shall not disclose such information to any third party without the College's consent, using at least the same degree of care as it employs in maintaining in confidence its own confidential information of a similar nature, but in no event less than a reasonable degree of care. The College hereby consents to D&T disclosing such information (1) as may be required by law or regulation, or to respond to governmental inquiries, or in accordance with applicable professional standards or rules, or in connection with litigation or arbitration pertaining hereto; (2) to the extent such information (i) is or becomes publicly available other than as the result of a disclosure in breach hereof, (ii) becomes available to D&T on a nonconfidential basis from a source that D&T believes is not prohibited from disclosing such information to D&T, (iii) is already known by D&T without any obligation of confidentiality with respect thereto, or (iv) is developed by

D&T independently of any disclosures made to D&T hereunder; or (3) to contractors providing administrative, infrastructure, and other support services to D&T and subcontractors providing services in connection with this engagement, in each case, whether located within or outside of the United States, provided that such contractors and subcontractors have agreed to be bound by confidentiality obligations similar to those in this paragraph.

8. Dispute Resolution. Any controversy or claim between the parties arising out of or relating to the engagement letter or this engagement (a "Dispute") shall be resolved by mediation or binding arbitration as set forth in the Dispute Resolution Provision attached hereto as Appendix E and made a part hereof.

## APPENDIX E

### DISPUTE RESOLUTION PROVISION

This Appendix E is part of the engagement letter dated August 13, 2019, between Deloitte & Touche LLP and Baptist Memorial College of Health Sciences, Inc.

This Dispute Resolution Provision sets forth the dispute resolution process and procedures applicable to the resolution of Disputes and shall apply to the fullest extent of the law, whether in contract, statute, tort (such as *negligence*), or otherwise.

**Mediation:** All Disputes shall be first submitted to nonbinding confidential mediation by written notice to the parties, and shall be treated as compromise and settlement negotiations under the standards set forth in the Federal Rules of Evidence and all applicable state counterparts, together with any applicable statutes protecting the confidentiality of mediations or settlement discussions. If the parties cannot agree on a mediator, the International Institute for Conflict Prevention and Resolution ("CPR"), at the written request of a party, shall designate a mediator.

**Arbitration Procedures:** If a Dispute has not been resolved within 90 days after the effective date of the written notice beginning the mediation process (or such longer period, if the parties so agree in writing), the mediation shall terminate and the Dispute shall be settled by binding arbitration to be held in Memphis, Tennessee. The arbitration shall be solely between the parties and shall be conducted in accordance with the CPR Rules for Non-Administered Arbitration that are in effect at the time of the commencement of the arbitration, except to the extent modified by this Dispute Resolution Provision (the "Rules").

The arbitration shall be conducted before a panel of three arbitrators. Each of the College and Deloitte & Touche LLP shall designate one arbitrator in accordance with the "screened" appointment procedure provided in the Rules and the two party-designated arbitrators shall jointly select the third in accordance with the Rules. No arbitrator may serve on the panel unless he or she has agreed in writing to enforce the terms of the engagement letter (including its appendices) to which this Dispute Resolution Provision is attached and to abide by the terms of this Dispute Resolution Provision. Except with respect to the interpretation and enforcement of these arbitration procedures (which shall be governed by the Federal Arbitration Act), the arbitrators shall apply the laws of the State of Tennessee (without giving effect to its choice of law principles) in connection with the Dispute. The arbitrators shall have no power to award punitive, exemplary or other damages not based on a party's actual damages (and the parties expressly waive their right to receive such damages). The arbitrators may render a summary disposition relative to all or some of the issues, provided that the responding party has had an adequate opportunity to respond to any such application for such disposition. Discovery shall be conducted in accordance with the Rules.

All aspects of the arbitration shall be treated as confidential, as provided in the Rules. Before making any disclosure permitted by the Rules, a party shall give written notice to all other parties and afford such parties a reasonable opportunity to protect their interests. Further, judgment on the arbitrators' award may be entered in any court having jurisdiction.

**Costs:** Each party shall bear its own costs in both the mediation and the arbitration; however, the parties shall share the fees and expenses of both the mediators and the arbitrators equally.



# BAPTIST COLLEGE

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## O F H E A L T H S C I E N C E S

January 22, 2020

Deloitte & Touche LLP  
6075 Poplar Ave, Suite 350  
Memphis, TN 38119

We are providing this letter in connection with your audit of the compliance requirements of the federal award programs or the Department of Financial Aid (the "Department") or the Baptist Memorial College of Health Sciences (the "College") for the year ended September 30, 2019.

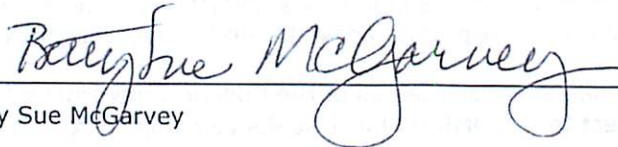
1. We are responsible for the compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of Title 2 U.S. Code or Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance") and the provisions of grants and contracts relating to the College's operations. We are responsible for establishing and maintaining the components or internal control relating to our activities, in order to achieve the objectives of: providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
2. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on its federal programs.
3. No subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period have occurred subsequent to September 30, 2019.
4. No instances of noncompliance with direct and material compliance requirements have occurred subsequent to September 30, 2019.
5. No changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the College with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2019.
6. Department management has charged costs to federal awards in accordance with applicable cost principles.
7. The reporting package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.51 2(3)(c) does not contain protected personally identifiable information.

8. Department management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
9. The Department has made available to you all financial records and related data for all financial transactions of the Department. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Department and provide the audit trail to be used in a review of accountability. Information in federal financial reports and claims for advances and reimbursements is supported by the books and records from which the financial statements have been prepared.
10. The Department has obligated, expended, received, and used public funds of the College in accordance with the purpose for which such funds have been appropriated or otherwise authorized by local, state, or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by local, state, or federal law.
11. Money or similar assets handled by the Department on behalf of the College or Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law.
12. The Department has identified and disclosed all of the College's government programs and related activities subject to the OMB Uniform Guidance compliance audit.
13. The Department has identified and disclosed to you the requirements of federal statutes, regulations, and terms and conditions of federal awards that are considered to have a direct and material effect on each major federal program under audit.
14. We have identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
15. The Department has complied, in all material respects, with the direct and material requirements identified above in connection with federal awards.
16. We have identified and disclosed interpretations of any compliance requirements that have varying interpretations.
17. The Department has made available all documentation related to compliance with direct and material requirements, including information related to federal program financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
18. The Department has identified and disclosed all amounts questioned and all known noncompliance with direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies or pass-through entities concerning possible noncompliance related to the objectives of the audit.



Except where otherwise stated below, matters less than \$110,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

19. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses subsequent to September 30, 2019.
20. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by the Department has been discovered.
21. No events have occurred subsequent to September 30, 2019 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.



Betty Sue McGarvey

President – Baptist Memorial College of Health Sciences



Leanne Smith

Vice President, Financial and Business Services - Baptist  
Memorial College of Health Sciences



Joanna Darden

Director, Financial Aid - Baptist Memorial College of  
Health Sciences





# BAPTIST COLLEGE

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## O F H E A L T H S C I E N C E S

January 22, 2020

Deloitte & Touche LLP  
6075 Poplar Ave,  
Suite 350  
Memphis, TN  
38119

We are providing this letter in connection with your audits of the statements of financial position of the Baptist Memorial College of Health Sciences, Inc. (a Tennessee nonprofit corporation) (the "College"), as of September 30, 2019 and 2018, and the related statements or activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, changes in net assets, and cash flows of the College in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of financial position, activities and changes in net assets, and cash flows in conformity with GAAP.
- b. 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
  - To prevent and detect fraud

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - b. Federal awards expenditures have been charged in accordance with applicable cost principles.

- c. Revenues, contributions, and income are appropriately classified in the statement of activities and changes in net assets within the appropriate financial statement line item and appropriately allocated between unrestricted and temporary restricted scholarship.
  - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - e. Required supplementary information is measured and presented within prescribed guidelines.
  - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
2. The College has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The College has provided you:
- a. All minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - b. All financial records and related data for all financial transactions of the College and for all funds administered by the College. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the College and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
- a. Action taken by the College's management that contravenes the provisions of federal laws and Tennessee laws and regulations, or of contracts and grants applicable to the College.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. The College has provided to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the College involving:

- a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others, when the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the College's financial statements communicated by employees, former employees, analysts, regulators, or others.
  8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.
  9. Significant assumptions used by us in making accounting estimates are reasonable.
  10. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements/or Federal Awards ("OMB Uniform Guidance")*. We have identified and disclosed all of the College's government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
  11. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and the provisions of grants and contracts relating to the College's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The College is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
  12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
  13. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
  14. No events have occurred subsequent to September 30, 2019 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
  15. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2019.

16. No changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the College with regard to significant deficiencies and material weaknesses in internal control over compliance subsequent to September 30, 2019.
17. We believe the effects of the uncorrected financial statement misstatement detected in the current year that relate to the prior year presented, which is a \$108,162 entry to remove an accrual of construction in progress cost, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2019 taken as a whole.
18. Federal awards expenditures have been charged in accordance with applicable cost principles.
19. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
20. We have disclosed all contracts or other agreements with service organizations.
21. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
22. We have:
  - a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program under audit.
  - b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through Entity, as applicable.
  - e. Identified and disclosed all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or

any communications from federal awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.

- f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
  - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
- 23. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
- 24. We believe that internal control over the receipt and recording of contributions is adequate.
- 25. We have included in the financial statements all assets and liabilities under the College's control.
- 26. The College has maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.
- 27. Our governing board's interpretation concerning whether laws place restrictions on the net appreciation of donor-restricted endowments is appropriate under GAAP.
- 28. Our basis for allocating functional expenses is by support services.
- 29. We believe that any reclassification between net asset classes is correct.
- 30. The College has considered any potential unrelated business income tax items.
- 31. Investments held by endowments are properly valued.
- 32. The College adopted FASB ASC 606, *Revenue from Contracts with Customers*, and FASB ASC 340-40, *Other Assets and Deferred Costs — Contracts with Customers*, on October 1, 2018. The College adopted the provisions of ASC 606 using the modified retrospective method of adoption and has appropriately recorded the cumulative effect of adoption as of October 1, 2018. We confirm the following representations made to you as part of your audit procedures on the adoption of FASB ASC 606 and FASB ASC 340-40:
  - a. We have appropriately identified and disclosed to you all of the relevant contracts with customers within the scope of FASB ASC 606 and FASB ASC 340-40.
  - b. We have considered all implicit and explicit promised goods and services in the contract in identifying whether a separate performance obligation exists in accordance with FASB ASC 606.
  - c. We have considered and fully disclosed to you all sales terms, including all fixed consideration, variable consideration, significant financing components, noncash consideration, and consideration payable to customers, in determining the transaction price in accordance with FASB ASC 606. We have properly identified, disclosed to you, and accounted for any anticipated concessions.
  - d. We have allocated the transaction price to each performance obligation on a relative stand-alone selling price based on observable stand-alone prices unless an allocation exception has been met.

- e. We have appropriately accounted for consideration received under a valid contract with the customer as a contract liability when we have not yet transferred control of the related goods or services to the customer.
  - f. We confirm the completeness and accuracy of the disclosures required by FASB ASC 606 and FASB ASC 340-40.
32. In February 2016, the FASB issued ASU No. 2016-02, Leases, which will require a lessee to recognize lease liabilities and a right-of-use asset for all leases on the balance sheet and to disclose key information about the entity's leasing arrangements. This ASU is effective for annual reporting periods beginning after December 15, 2018, and requires modified retrospective approach for all leases existing at, or entered into after, the date of initial adoption, with an option to elect to use certain transition relief. The College will adopt this ASU on October 1, 2019, and is currently evaluating the impact of adoption on its financial statements.
33. Baptist Memorial Health Care Corporation ("BMHCC") operates a cash management system for the College and other affiliates (the "Participants"). The College has deposited amounts in the BMHCC cash management system, and these deposits are considered investments held by BMHCC in the accompanying statements of financial position. These funds are generally available in cash to the Participants upon demand. As of September 30, 2019, the total amount of funds included in the BMHCC Investment portfolio is \$464,689,000 and the College's interest in the portfolio is approximately 9.6%.

Realized gains and losses from the BMHCC investment portfolio are allocated to the College in 2019 based on its average pro rata balance in the BMHCC portfolio, and realized gains and losses in 2019 were allocated to the College based on its average pro rata balance in the BMHCC portfolio adjusted for impacts due to a recent acquisition of a hospital system in Mississippi by BMHCC. These amounts are included in the accompanying statements of activities to arrive at revenues over expenses. The realized gains allocated to the College for the years ended September 30, 2019 and 2018, were \$1,614,000 and \$148,000, respectively. The unrealized gains and losses from the BMHCC investment portfolio are allocated to the College in 2019 based on its average pro rata balance in the BMHCC portfolio, and the unrealized gains and losses in 2019 were allocated to the College based on its average pro rata balance in the BMHCC portfolio adjusted for impacts due to a recent acquisition of a hospital system in Mississippi by BMHCC. These amounts are included below revenues over expenses as a change in net assets on the accompanying statements of activities and changes in net assets. The unrealized net gains allocated to the College for the years ended September 30, 2019 and 2018, were \$700,000 and \$2,700,000, respectively. The College earned approximately \$1,223,000 and \$935,000 in investment income under the BMHCC cash management system in 2019 and 2018, respectively.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statements of financial position.

Except where otherwise stated below, matters less than \$230,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

- 34. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 35. The College has no plans or intentions that may affect the carrying

value or classification of assets and liabilities.

**36. Regarding related parties:**

- a. We have disclosed to you the identity of the College's related parties and all the related-party relationships and transactions of which we are aware.
- b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

**37. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:**

- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
- b. The effect of the change would be material to the financial statements.

**38. There are no:**

- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.

**39. The College has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.**

**40. The College has complied with all aspects of contractual agreements that may affect the financial statements.**

**41. No department or agency of the College has reported a material instance of noncompliance to us.**


**42. We have identified all uncertain tax positions, and the recognition and measurement of tax positions is in accordance with FASB ASC 740, *Income Taxes*, and is based upon the facts, circumstances, and information available as of the reporting date. The disclosures related to the accounting for unrecognized tax benefits are complete and in accordance with FASB ASC 740.**

**43. We have disclosed to you all communications with tax authorities and/or communications with outside tax authorities.**



44. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of net assets, we believe that:
- a. The measurement methods, including the related assumptions, used in determining fair value were appropriate, consistent with market participant assumptions where available without undue cost and effort and were consistently applied.
  - b. The completeness and adequacy of the disclosures related to fair values are in accordance with GAAP.
  - c. No events have occurred after September 30, 2019, but before January 22, 2020 the date the financial statements were available to be issued that require adjustment to the fair value measurements and disclosures included in the financial statements.
45. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
46. Receivables recorded in the financial statements represent valid claims against debtors for services rendered or their charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
47. Quantitative and qualitative information regarding the implicit price concessions has been properly disclosed in the financial statements.
48. All impaired loans receivables have been properly recorded and disclosed in the financial statements.
49. We believe that all expenditures that have been deferred to future periods are recoverable.
50. We have no intention of terminating our 403(b) plan or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of our plan to which we contribute.
51. We do not plan to make frequent amendments to our 403(b) plan.
52. We have disclosed to you all new or changes to the existing 403(b) plan.
53. The College's net position is properly classified as with donor restrictions and/or without donor restrictions based on the existence or absence of donor-imposed restrictions. Also, the College has maintained an appropriate composition of net assets in amounts needed to comply with all donor restrictions.
54. Regarding supplementary information:
- a. We are responsible for the fair presentation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("OMB Uniform Guidance").

- b. We believe the Schedule of Expenditures of Federal Awards, including its form and content is fairly presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("OMB Uniform Guidance").
  - c. The method of presentation of the Schedule of Expenditures of Federal Awards has not changed from that used in the prior period.
55. No events have occurred after September 30, 2019, but before January 22, 2020, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.



Betty Sue McGarvey

President – Baptist Memorial College of Health Sciences



Leanne Smith

Vice President, Financial and Business Services - Baptist  
Memorial College of Health Sciences

# Baptist Memorial College of Health Sciences, Inc.

Financial Statements as of and for the  
Years Ended September 30, 2019 and 2018,  
Supplemental Information for the  
Year Ended September 30, 2019, and  
Independent Auditors' Reports

# **BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Baptist Memorial College of Health Sciences, Inc.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Baptist Memorial College of Health Sciences, Inc. (a Tennessee nonprofit corporation) (the College), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities and changes in net assets, and cash flows for the years 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 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 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 the College as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2020, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte : Touche LLP". The signature is written in a cursive, stylized font.

January 22, 2020

# **BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

## **STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2019 AND 2018 (Amounts in thousands)**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40	\$ 41
Investments held by BMHCC (Note 4)	44,829	43,244
Other receivables—net	451	665
Prepaid expenses	455	461
Due from affiliates—net	<u>1,123</u>	<u>-</u>
Total current assets	46,898	44,411
STUDENT LOANS RECEIVABLE—Net of estimated uncollectible loans of approximately \$96 and \$94 in 2019 and 2018, respectively	-	-
PROPERTY AND EQUIPMENT—Net	<u>2,355</u>	<u>1,695</u>
TOTAL	<u>\$49,253</u>	<u>\$46,106</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accrued expenses	\$ 1,197	\$ 612
Accrued compensation	558	461
Refundable deposits	33	34
Deferred revenue	4,190	4,416
Due to affiliates—net	<u>-</u>	<u>81</u>
Total current liabilities	<u>5,978</u>	<u>5,604</u>
WORKERS' COMPENSATION RESERVE	<u>40</u>	<u>56</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS:		
Without donor restrictions	42,255	39,523
With donor restrictions	<u>980</u>	<u>923</u>
Total net assets	<u>43,235</u>	<u>40,446</u>
TOTAL	<u>\$49,253</u>	<u>\$46,106</u>

See notes to financial statements.



# **BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

## **STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (Amounts in thousands)**

	<b>2019</b>			<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE, CONTRIBUTIONS, AND INCOME:</b>						
Revenue	\$17,502	\$ -	\$17,502	\$18,803	\$ -	\$18,803
Contributions	85	222	307	16	190	206
Investment income	1,223	34	1,257	935	24	959
Net assets released from restrictions	236	(236)	-	208	(208)	-
Total revenue, contributions, and income	<u>19,046</u>	<u>20</u>	<u>19,066</u>	<u>19,962</u>	<u>6</u>	<u>19,968</u>
<b>EXPENSES:</b>						
Salaries and benefits	13,210	-	13,210	12,967	-	12,967
Supplies and other	3,922	-	3,922	3,522	-	3,522
Professional fees	38	-	38	44	-	44
Depreciation	459	-	459	511	-	511
Provision for uncollectible receivables	-	-	-	74	-	74
Total expenses	<u>17,629</u>	<u>-</u>	<u>17,629</u>	<u>17,118</u>	<u>-</u>	<u>17,118</u>
<b>INCOME FROM OPERATIONS</b>	<b>1,417</b>	<b>20</b>	<b>1,437</b>	<b>2,844</b>	<b>6</b>	<b>2,850</b>
<b>NET REALIZED GAINS ON BMHCC INVESTMENT PORTFOLIO ALLOCATED TO THE COLLEGE</b>	<b>1,614</b>	<b>38</b>	<b>1,652</b>	<b>148</b>	<b>12</b>	<b>160</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>3,031</b>	<b>58</b>	<b>3,089</b>	<b>2,992</b>	<b>18</b>	<b>3,010</b>
<b>NET UNREALIZED GAINS ON BMHCC INVESTMENT PORTFOLIO ALLOCATED TO THE COLLEGE</b>	<b>700</b>	<b>-</b>	<b>700</b>	<b>2,700</b>	<b>-</b>	<b>2,700</b>
<b>TRANSFERS TO AFFILIATE—Net</b>	<b>(1,000)</b>	<b>-</b>	<b>(1,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE IN NET ASSETS</b>	<b>2,731</b>	<b>58</b>	<b>2,789</b>	<b>5,692</b>	<b>18</b>	<b>5,710</b>
<b>NET ASSETS—Beginning of year</b>	<b>39,523</b>	<b>923</b>	<b>40,446</b>	<b>33,831</b>	<b>905</b>	<b>34,736</b>
<b>NET ASSETS—End of year</b>	<b><u>\$42,254</u></b>	<b><u>\$ 981</u></b>	<b><u>\$43,235</u></b>	<b><u>\$39,523</u></b>	<b><u>\$ 923</u></b>	<b><u>\$40,446</u></b>

See notes to financial statements.

**BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018****(Amounts in thousands)**

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	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 2,789	\$ 5,710
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	459	511
Recognized Loss of BMHCC investment portfolio allocated to the College	-	322
Provision for uncollectible receivables	-	74
Net unrealized gains on BMHCC investment portfolio allocated to the College	(700)	(2,700)
Transfers to Affiliate	1,000	-
Changes in:		
Other receivables	214	776
Prepaid expenses	6	(218)
Due to affiliates—net	-	198
Accrued expenses and refundable deposits	115	343
Accrued compensation	97	32
Deferred revenue	(226)	54
Workers' compensation reserve	<u>(16)</u>	<u>37</u>
Net cash provided by operating activities	<u>3,738</u>	<u>5,139</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net purchase of investments	(885)	(3,389)
Purchase of property and equipment	(1,100)	(1,867)
Due from affiliates—net	<u>(1,754)</u>	<u>-</u>
Net cash used in investing activities	<u>(3,739)</u>	<u>(5,256)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1)</b>	<b>(117)</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u><b>41</b></u>	<u><b>158</b></u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u><b>\$ 40</b></u>	<u><b>\$ 41</b></u>

See notes to financial statements.

# **BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Incorporation and Affiliation**—Baptist Memorial College of Health Sciences, Inc. (a Tennessee nonprofit corporation) (the College) was incorporated on December 13, 1994. Baptist Memorial Hospital (BMH) is the sole member of the College. BMH does business as Baptist Memorial Hospital—Memphis (BMH—Memphis), Baptist Memorial Hospital for Women, and Baptist Memorial Hospital—Collierville (collectively, the Hospitals). Both the College and BMH are part of Baptist Memorial Health Care Corporation (BMHCC); the various entities comprising BMHCC are referred to herein as the “Affiliates.”

**Basis of Presentation**—The statements of financial position reflect the operating assets and liabilities of the College. All amounts in the statements of activities and changes in net assets have been taken from the separate records or identified costs maintained by the College, and include certain corporate expenses consisting primarily of insurance premiums (see Note 7). These corporate expenses are allocated based on management’s estimate of matching such expenses with the benefit received by the College. The accompanying financial statements have been prepared on an accrual basis of accounting from the separate records maintained by the College, and may not necessarily be indicative of the conditions that would have existed or the results of operations if the College had been operated on a stand-alone basis.

For reporting purposes, the College classifies net assets, revenues, expenses, gains, and losses based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions**—Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

**Net Assets With Donor Restrictions**—Amounts subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the passage of time or purpose. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity. Donor imposed stipulations are released when a stipulation expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. \$980,000 and \$923,000 of net assets with donor restrictions are for student financial assistance, as of September 30, 2019 and 2018, respectively.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**—The College considers certificates of deposit, overnight reverse purchase agreements, and other highly liquid investments with original maturities of less than three months to be cash equivalents.

**Investments Held by BMHCC**—These amounts are invested in a pooled investment portfolio maintained and managed by BMHCC. BMHCC invests these amounts in equity and debt securities with readily determinable fair values. The funds invested in this pool are generally available upon demand to the College, and as a result, the College has classified these amounts as current (see Note 4).

**Scholarship Fund**—The College provides assistance to students in the form of scholarships to finance the costs of tuition, housing, etc. Funding has been contributed by the affiliate, Baptist Memorial Health Care Foundation (the Foundation), and is recorded as net assets with donor restrictions in the accompanying statements of financial position.

**Property and Equipment**—Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives. Real property additions incurred on behalf of BMH—Memphis are initially recorded in construction in progress by the College and transferred to BMH—Memphis when placed in service (see Note 6).

**Due from/to Affiliates—Net**—BMHCC makes payments on behalf of the College for general operating purposes. The amounts included in due to Affiliates represent payments to be made to BMHCC. The College and BMHCC settle these obligations on a monthly basis. In the current year, the College paid more to BMHCC than was paid on their behalf, and therefore, the excess amount was considered a due from affiliate.

*Adoption of ASC Topic 606, Revenue from Contracts with Customers*—On October 1, 2018, the College adopted Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, (ASC 606) applying the modified retrospective method to all contracts existing on October 1, 2018. Results for operating periods beginning after October 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with BMHCC's historical accounting under ASC Topic 605, *Revenue Recognition* (ASC 605). ASC 606 did not have a material impact on its operations on a prospective basis, other than the impact of the presentation of the statement of operations and changes in net assets, as the provision for uncollectible receivables will be recorded as a direct reduction to revenues and will not be presented as a separate line item.

**Revenue Recognition**—The College receives revenue from the following main sources: student tuition and fees; patient services provided by students; contributions; investment income; and when applicable, an educational grant from BMH—Memphis (see Note 7).

Tuition revenue is reported net of scholarships released from net assets with donor restrictions. Tuition for all students is billed in advance of each semester and recorded as deferred revenue. The revenue is recognized over the appropriate semester. Patient services provided by students, contributions, investment income, and when applicable, an educational grant from BMH—Memphis are recognized at a point in time based on the date of the transaction.

**Student Loans**—Student Loans are reported net of allowances for amounts deemed uncollectible, which are determined on a specific identification basis.

**Other Receivables**—Other Receivables, including amounts due from students for tuition are reported net of implicit price concessions. Prior to the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*, other receivables were reported net of allowances for amounts deemed uncollectible in the amount of \$252,000.

**Income Taxes**—The College is a nonprofit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

As of September 30, 2019, the College had not identified any uncertain tax positions under FASB ASC Topic 740, *Income Taxes*, requiring adjustments to its financial statements. In the event the College were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the financial statements as interest expense. Generally, tax years 2015 through 2019 are open to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in process.

**Fair Value Measurements**—The College follows the authoritative guidance contained in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. Fair value is generally defined as the exit price at which an asset or liability could be exchanged in a current transaction between willing unrelated parties, other than in a forced liquidation or sale. The guidance establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data, and requires disclosures for assets and liabilities measured at fair value based on their level in the hierarchy.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

**Level 1**—Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

**Level 2**—Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

**Level 3**—Unobservable inputs reflecting management's own assumption about the inputs used in pricing the asset or liability at the measurement date.

**Recent Accounting Pronouncements**—In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will require a lessee to recognize lease liabilities and a right-of-use asset for all leases on the balance sheet and to disclose key information about the entity's leasing arrangements. This ASU is effective for annual reporting periods beginning after December 15, 2018, and requires modified retrospective approach for all leases existing at, or entered into after, the date of initial adoption, with an option to elect to use certain transition relief. The College will adopt this ASU on October 1, 2019, and is currently evaluating the impact of adoption on its financial statements.

**Newly Adopted Accounting Pronouncements**—In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net

assets and permanently restricted net assets. Additionally, the guidance also expands the quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both natural and functional classification in one location. The Hospital applied the changes retrospectively to all periods presented.

**Subsequent Events**—Management has evaluated events and transactions that have occurred between September 30, 2018, and January 22, 2020, which is the date that the financial statements were available to be issued for possible recognition or disclosure in the financial statements.

## 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<b>2019</b>
Financial assets at year-end:	
Cash and cash equivalent	\$ 40
Investment Held by BMHCC	44,829
Patient receivable—net	<u>451</u>
Financial assets available to meet general expenditures within one year	<u>\$45,320</u>

The College manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. In addition, cash in excess of daily requirements are invested in investments held by BMHCC.

Additionally, the College has a board-designated endowment of \$30,047,000, as of September 30, 2019. Although the College does not intend to spend from its board-designated endowment fund, (other than amounts appropriated for general expenditure by the board of directors), these funds could be made available if necessary (See Note 7).

## 3. REVENUE AND OTHER SUPPORT

The following represents the components of total revenue, contributions, and income. Student tuition and fee revenues are presented net of implicit price concessions.

	<b>2019</b>
Tuition and fees	\$ 14,100
Contributions	307
Investment income	1,257
Other	<u>3,402</u>
Total	<u>\$19,066</u>

The following represents components of total revenue, contributions, and income. Student tuition and fee revenue was presented before the provision for bad debts.

	<b>2018</b>
Tuition and fees	\$ 14,482
Contributions	206
Investment income	959
Other	<u>4,321</u>
<b>Total</b>	<b><u>\$ 19,968</u></b>

The College received federal funding of approximately \$11,187,000 and \$12,235,000 in 2019 and 2018, respectively, for financial aid, with a significant portion of these awards being recorded as revenue in the accompanying statements of activities and changes in net assets. The Title IV Student Financial Assistance Programs that the College participates in are the Federal Pell Grant Program, the Federal Direct Student Loan Program, the Federal Supplemental Educational Opportunity Grant Program, and the Federal Work Study Program. College students provide various services to BMH patients. If the patient is eligible for Medicare, BMH bills Medicare for all services provided to the patient. When Medicare reimburses the Hospitals, the portion of the funds applicable services provided by students is distributed to the College. This is reflected in revenues in the statements of activities and changes in net assets.

The College and BMH are mutually reliant upon each other. The College provides BMH with nursing and allied health practitioners, and BMH provides the College with significant financial support (see Note 7).

#### **4. INVESTMENTS HELD BY BMHCC**

BMHCC operates a cash management system for the College and other affiliates of BMHCC (the Participants). The College has deposited amounts in the BMHCC cash management system, and these deposits are considered investments held by BMHCC in the accompanying statements of financial position. These funds are generally available in cash to the Participants upon demand. As of September 30, 2019, the total amount of funds included in the BMHCC investment portfolio is \$464,689,000, and the College's interest in the portfolio is approximately 9.6%.

Realized gains and losses from the BMHCC investment portfolio are allocated to the College in 2019 based on its average pro rata balance in the BMHCC portfolio, and realized gains and losses in 2018 were allocated to the College based on its average pro rata balance in the BMHCC portfolio adjusted for impacts due to a recent acquisition of a hospital system in Mississippi by BMHCC. These amounts are included in the accompanying statements of activities to arrive at revenues over expenses. The net realized gains allocated to the College for the years ended September 30, 2019 and 2018, were \$1,614,000 and \$148,000, respectively. The unrealized gains and losses from the BMHCC investment portfolio are allocated to the College in 2019 based on its average pro rata balance in the BMHCC portfolio, and the unrealized gains and losses in 2018 were allocated to the College based on its average pro rata balance in the BMHCC portfolio adjusted for impacts due to a recent acquisition of a hospital system in Mississippi by BMHCC. These amounts are included below revenues over expenses as a change in net assets on the accompanying statements of activities and changes in net assets. The unrealized net gains allocated to

the College for the years ended September 30, 2019 and 2018, were \$700,000 and \$2,700,000, respectively. The College earned approximately \$1,223,000 and \$935,000 in investment income under the BMHCC cash management system in 2019 and 2018, respectively.

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statements of financial position.

**Marketable Equity Securities**—For the years ended September 30, 2019 and 2018, BMHCC records declines in market value of the common stock and corporate obligation portions of the portfolio (marketable equity securities) below its cost as an unrealized loss in the net unrealized gains on BMHCC investment portfolio allocated to the College in the statements of activities and changes in net assets. BMHCC believes that the stocks owned represent financially sound companies, and over time, will experience growth in earnings and dividends resulting in long-term price appreciation. BMHCC intends to hold these stocks for a period of time sufficient to experience the recovery of fair value. BMHCC believes that some of the securities will not recover their value and, therefore, BMHCC recognized the loss. There was no other than temporary impairment recorded for the year end September 30, 2019, and for the year end September 30, 2018, the College recognized \$322,000, loss in the net realized gains on BMHCC investment portfolio allocated to the College in the statements of activities and changes in net assets.

**Investment and Equity Securities Carried at Cost**—BMHCC's investment portfolio does not include any private securities that would be carried at cost. All investments in equity securities have public market values and are actively traded.

## 5. FAIR VALUE MEASUREMENTS

The College's investments held by BMHCC are presented by asset class and fair value hierarchy levels as of September 30, 2019, are as follows (in thousands):

	<u>Fair Value Measurements as of September 30, 2019, Using</u>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Assets—investments held by BMHCC:				
Cash	\$ 3,434	\$ -	\$ -	\$ 3,434
US government debt obligations	-	1,456	-	1,456
Corporate obligations	-	14,782	-	14,782
Municipal obligations	-	1,129	-	1,129
Common stocks	18,767	-	-	18,767
Mutual funds	<u>5,261</u>	<u>-</u>	<u>-</u>	<u>5,261</u>
	<u>\$27,462</u>	<u>\$17,367</u>	<u>\$ -</u>	<u>\$44,829</u>



The College's investments held by BMHCC are presented by asset class and fair value hierarchy levels as of September 30, 2018, are as follows (in thousands):

<b>Fair Value Measurements as of September 30, 2018, Using</b>				
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets—investments held by BMHCC:</b>				
Cash	\$ 1,911	\$ -	\$ -	\$ 1,911
US government debt obligations	-	2,100	-	2,100
Corporate obligations	-	12,854	-	12,854
Municipal obligations	-	1,498	-	1,498
Common stocks	20,096	-	-	20,096
Mutual funds	<u>4,785</u>	<u>-</u>	<u>-</u>	<u>4,785</u>
	<u>\$26,792</u>	<u>\$16,452</u>	<u>\$ -</u>	<u>\$43,244</u>

There were no significant transfers among Level 1, Level 2, or Level 3 assets during the years ended September 30, 2019 and 2018.

Common and preferred stock and common stock mutual funds are valued using quoted prices in principal active markets for identical assets as of the valuation date were used (Level 1).

Certain government and corporate debt securities are valued using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks (Level 2).

The carrying amounts of cash, other receivables, prepaid expenses, and accrued expenses approximate fair value based on their short-term nature.

## **6. PROPERTY AND EQUIPMENT**

Property and equipment as of September 30, 2019 and 2018, were composed of the following (in thousands):

	<b>Useful Lives</b>	<b>2019</b>	<b>2018</b>
Building improvements	20 years	\$ 6	\$ 6
Equipment	3–15 years	7,959	7,845
Leasehold improvements	15 years	798	798
Construction in progress		<u>920</u>	<u>165</u>
Total property and equipment		9,683	8,814
Less accumulated depreciation		<u>(7,328)</u>	<u>(7,119)</u>
Property and equipment—net		<u>\$ 2,355</u>	<u>\$ 1,695</u>

During 2019 and 2018, the College transferred property in the amount of approximately \$450,000 and \$1,652,000, respectively, to BMH—Memphis, representing real property improvements to the facilities that the College leases from BMH—Memphis (see Note 7). These transfers are settled through due to (from) affiliates in the accompanying statements of financial position.

The College has property and equipment expenditures totaling approximately \$603,000 and \$134,000 in accrued expense in the accompanying statement of financial position as of September 30, 2019 and 2018, respectively, and has excluded these amounts in determining cash flows.

## **7. RELATED-PARTY TRANSACTIONS**

The College receives contributions from the Foundation to fund certain scholarship programs. The amounts contributed for scholarships in 2019 and 2018 were approximately \$220,000 and \$180,000, respectively and is included in net assets with donor restriction contributions in the accompanying statements of activities and changes in net assets.

The College periodically makes contributions to a quasi-endowment fund, a specific-purpose account, at the Foundation that is to be used to offset future fund needs of the College and to cover any operational shortfalls. The College contributed \$1,000,000 into this account in 2019, but did not make a contribution in 2018. The balance in the quasi endowment fund held at the Foundation as of September 30, 2019 and 2018, was \$30,047,000 and \$25,513,000, respectively.

In addition to the quasi endowment fund, other funds held by the Foundation and designated for use by the College totaled \$61,718,000. A certain portion of these funds are designated to cover other scholarships and tuition deferral, which is a financial assistance program for students who agree to a work commitment at a BMHCC hospital in exchange for tuition assistance while attending the College.

As of September 30, 2019 and 2018, the College is owed \$210,000 and \$224,000 from the Foundation for tuition pertaining to senior students who are employed by BMHCC after graduation, respectively. This amount is included in other receivables in the statements of financial position.

The College paid BMH—Memphis \$1 during 2019 and 2018 for facility lease expenses and related services. The current lease arrangement will continue through September 30, 2020, at \$1 per year. This is included in supplies and other in the accompanying statements of activities and changes in net assets.

There were no capital contributions in 2019 and 2018.

The College receives funds from BMH related to student services provided to the Hospitals' patients (see Note 3). The College received approximately \$3,402,000 and \$4,321,000 in Medicare reimbursements from BMH in 2019 and 2018, respectively, and this is included in revenues in the accompanying statements of activities and changes in net assets.

**Insurance Programs**—The College's insurance coverage for general and professional liability, employee health, and workers' compensation is managed by BMHCC through an occurrence basis, pooled risk program. Risk management functions are managed on a system-wide basis by BMHCC. Premiums are allocated based on its claims history and other factors. For its insurance coverage, the College paid to BMHCC premiums of

approximately \$1,155,000 and \$1,280,000 in 2019 and 2018, respectively. This is included in salaries and benefits in the accompanying statements of activities and changes in net assets. Except as noted below, the College's insured losses are covered through the BMHCC-pooled risk program, subject to certain limitations through excess coverage. Should the pooled insurance premiums be insufficient to cover losses of the Participants in the pool, the College may be assessed additional premiums.

**Professional and General Liability**—BMHCC has procured excess hospital and general liability insurance through Berkley Medical Excess Underwriters, LLC on a claims-made basis. As of September 30, 2019, BMHCC's deductible is the first \$5,000,00 per claim, plus defense costs for the Tennessee and Mississippi facilities. In Arkansas, the deductible is the first \$1,000,000 per claim. The policy has liability limits of \$25,000,000 per occurrence for the Tennessee, Mississippi, and Arkansas facilities.

**Workers' Compensation**—BMHCC is self-insured for workers' compensation liability for the first \$1,000,000 per accident in the states of Arkansas, Mississippi, and Tennessee, and has excess coverage up to applicable statutory limits for each state on a claims-made basis.

**Employee Health**—BMHCC is self-insured for health insurance provided to its employees.

**Employment Practices Liability (EPL)**—BMHCC is self-insured for EPL for the first \$350,000 per claim. BMHCC has EPL coverage as part of the directors' and officers' liability policy, which has a \$10,000,000 limit.

The College receives benefits resulting from the purchasing and negotiating power of BMHCC in the form of discounts on purchases of certain supplies and equipment.

## **8. DEFINED CONTRIBUTION PLAN**

The College sponsors a 403(b) defined contribution employee benefit plan administered through the Guidestone Financial Resources of the Southern Baptist Convention. All employees who are at least 21 years of age and have completed 1,000 hours of service during a 12-month period are eligible to participate. Participants may make matched tax-deferred contributions of 2% to 5% of eligible earnings, as defined. These contributions are then matched on a graduated scale based on years of service from 50% of eligible contributions up to 150% of eligible contributions by the College, up to 5% of the Participants' annual base salaries. Participants may also make unmatched tax-deferred contributions up to applicable Internal Revenue Service limitations. Participants vest in the College's matching contributions 20% after two years of service, with additional subsequent annual vesting of 20% up to 100% after six years of service. During 2019 and 2018, the College's matching contribution approximated \$428,000 and \$422,000, respectively, and is recorded in salaries and benefits within the statement of activities and change in net assets.

## **9. COMMITMENTS AND CONTINGENCIES**

Due to the College's affiliation with BMHCC, the College is included in the BMHCC's self-insurance program (see Note 7). BMHCC is self-insured for comprehensive, general, and hospital malpractice liability risks. Professional actuaries are retained to determine funding requirements. The amounts funded are included in BMHCC's self-insurance trust account that is administered by a trustee. The portion of the workers' compensation insurance reserve attributed to the College has been included in the accompanying

statements of financial position. BMHCC has agreed to reimburse the College for any general liability and/or malpractice losses.

# **10. FUNCTIONAL AND NATURAL EXPENSES**

The costs of providing program and support activities for students have been summarized on a functional basis in the table below. The expenses are directly attributable to a specific activity and only the operation and maintenance amounts were allocated based on prorata share of total expenses contributed by the applicable program or activity. Depreciation expense on equipment is allocated to institutional supporting activities as individual departments are not responsible for depreciation.

<b>Expense Category</b>	<b>Method of Allocation</b>
Salaries and Wages	Actual salaries and wages
Employee benefits	Actual cost of benefits
Operating expenses	Actual expenses incurred
Depreciation	Actual depreciation

Expenses related to providing these services for the years ended September 30, 2019 and 2018, were as follows (in thousands):

	<b>For the Years Ended September 30, 2019</b>				
	<b>Program Activities</b>			<b>Supporting Activities</b>	
	<b>Instruction</b>	<b>Academic Support</b>	<b>Student Services</b>	<b>Institutional Support</b>	<b>Total</b>
Salaries and wages	\$ 6,813	\$ 1,067	\$ 1,893	\$ 994	\$ 10,767
Benefits	1,505	204	426	308	2,443
Operating expenses*	1,184	877	1,189	710	3,960
Depreciation	-	-	-	459	459
<b>Total</b>	<b>\$ 9,502</b>	<b>\$ 2,148</b>	<b>\$ 3,508</b>	<b>\$ 2,471</b>	<b>\$ 17,629</b>

\* Includes Supplies and Other and Professional Fees

**For the Years Ended September 30, 2018**

	<b>Program Activities</b>			<b>Supporting Activities</b>	
	<b>Instruction</b>	<b>Academic Support</b>	<b>Student Services</b>	<b>Institutional Support</b>	<b>Total</b>
Salaries and wages	\$ 6,687	\$ 1,053	\$ 1,736	\$ 923	\$ 10,399
Benefits	1,505	229	423	411	2,568
Operating expenses*	1,016	768	1,191	665	3,640
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>511</u>	<u>511</u>
<b>Total</b>	<b><u>\$ 9,208</u></b>	<b><u>\$ 2,050</u></b>	<b><u>\$ 3,350</u></b>	<b><u>\$ 2,510</u></b>	<b><u>\$ 17,118</u></b>

\*Includes Supplies and other, Professional fees, and Provision for uncollectible receivables

\* \* \* \* \*

## **SUPPLEMENTAL INFORMATION**

**BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019  
(Amounts in thousands)**

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<b>Federal Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance (CFDA) Number</b>	<b>Federal Expenditures</b>
STUDENT FINANCIAL AID CLUSTER*		
US DEPARTMENT OF EDUCATION:		
Federal Supplemental Educational Opportunity Grant Program	84.007	\$ 64
Federal Pell Grant Program	84.063	2,300
Federal Work Study Program	84.033	60
Federal Direct Student Loans	84.268	<u>8,763</u>
Total Student Financial Aid Cluster*		<u>11,187</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$11,187</u>

\*Denotes major program

See notes to schedule of expenditures of federal awards.

# **BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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### **1. BASIS OF PRESENTATION**

The schedule of expenditures of federal awards (SEFA) includes the federal award activity of the College under programs of the federal government for the year ended September 30, 2019. The information in the SEFA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, activities and changes in net assets, or cash flows of the College.

Federal CFDA numbers are from the Catalog of Federal Domestic Assistance published by the Office of Management and Budget and the General Services Administration. For the year ended September 30, 2019, the College did not provide any amounts to subrecipients.

### **2. BASIS OF ACCOUNTING**

The SEFA has been prepared in accordance with the accrual basis of accounting and with accounting principles generally accepted in the United States of America, and is consistent with the preparation of the College's financial statements. An award is considered expended when the activity related to the award occurs. The activity generally pertains to events requiring compliance with laws, regulations, and the provisions of related agreements. The College only includes direct costs in federal expenditures, accordingly, it has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying SEFA.

The College participates in Federal Direct Student Loans, a program that makes interest-subsidized or unsubsidized Stafford loans available to students, or PLUS loans available to graduate or professional students or to parents of dependent students. Loan funds are provided by the US Department of Education, and the College is responsible only for the performance of certain administrative duties with respect to Federal Direct Student Loans, and accordingly, these loans are not included in the financial statements.

The Federal Pell Grant Program provides grants to eligible undergraduate students and is intended to provide a foundation of financial aid. Grant funds are provided by the US Department of Education, and the College is responsible only for the performance of certain administrative duties with respect to the Federal Pell Grant Program.



Expenditures for federal student financial aid programs are recognized as incurred and include earnings for the Federal Work Study Program and Federal Supplemental Educational Opportunity Grant Program, where applicable.

\* \* \* \* \*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Baptist Memorial College of Health Sciences, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Baptist Memorial College of Health Sciences, Inc. (a Tennessee nonprofit corporation) (the College), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte Touche LLP". The signature is written in a cursive, flowing style.

January 22, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Baptist Memorial College of Health Sciences, Inc.:

**Report on Compliance for Each Major Federal Program**

We have audited Baptist Memorial College of Health Sciences, Inc.'s (a Tennessee nonprofit corporation) (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2019. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 US *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

## **Opinion on Compliance for Each Major Federal Program**

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

## **Report on Internal Control over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the College as of and for the year ended September 30, 2019, and have issued our report thereon dated January 22, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the

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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLP*

January 22, 2020

# **BAPTIST MEMORIAL COLLEGE OF HEALTH SCIENCES, INC.**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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### **SECTION I—SUMMARY OF AUDITORS' RESULTS**

#### **FINANCIAL STATEMENTS:**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes ☒ No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes ☒ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes ☒ No

#### **FEDERAL AWARDS:**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes ☒ No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes ☒ No

#### **IDENTIFICATION OF MAJOR PROGRAMS:**

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
Various	Student Financial Aid Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

### **SECTION II—FINANCIAL STATEMENT FINDINGS SECTION**

There were no findings related to the financial statements for the year ended September 30, 2019.

### **SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

No matters were identified as findings for the year ended September 30, 2019.



SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR END SEPTEMBER 30, 2019

No audit findings reported in prior year.