

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.
D/B/A NEIGHBORHOOD HEALTH

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JANUARY 31, 2021 AND 2020

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JANUARY 31, 2021 AND 2020

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UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

NASHVILLE, TENNESSEE

MEMBERS OF THE BOARD OF DIRECTORS

<u>Board Member Name</u>	<u>Title</u>
Angela Ballou	President
Claudia Barajas	Vice- President
Amanda Lowe	Secretary
Barb Zipperian	Treasurer
Stephen Smith	Member
Carol Titus	Member
Buddy Comer	Member
Mary Owens	Member
JD Thomas	Member
Brian Haile	Ex-Officio Member
Luis Sura	Member
Brian Marshall	Member
John Zirker	Member
Brenda Morrow	Member
Riley MacDonald	Member
Rob Hennes	Member
Ashia Blake	Board intern
Caroline Erikson	Board intern

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

NASHVILLE, TENNESSEE

MEMBERS OF MANAGEMENT

<u>Name</u>	<u>Title</u>
Brian Haile	Chief Executive Officer
Ivan Figueredo	Chief Financial Officer
Anthony Villanueva	Chief Information Officer
Rahaman Suara	Chief Clinical Officer
Bianca Granger	Chief Operating Officer
Michele Blackledge	Director of Oral Health Services
Thelma Bigham	Human Resources Director
Mary Bufwack	Chief Executive Officer Emeritus



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
United Neighborhood Health Services, Inc. d/b/a Neighborhood Health
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center"), which comprise the statement of financial position as of January 31, 2021, and the related statements of operations and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 United Neighborhood Health Services, Inc. d/b/a Neighborhood Health as of January 31, 2021, and the related statements of operations and change in net assets, functional expenses, and cash flows for the year then ended and the related notes in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

2020 Financial Statements

The financial statements of the Center, as of and for the year ended January 31, 2020, were audited by other auditors whose report dated July 27, 2020, expressed an unmodified opinion on those statements.

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying introductory section on pages i and ii, the Schedule of Expenditures of Federal Awards on page 25 and the Schedule of Expenditures of State Awards on page 26 is presented for purposes of additional analysis as required by the State of Tennessee Audit Manual and the audit requirements of Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), and are not required parts 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 on pages 25 and 26 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 and State Awards are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section on pages i and ii has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2021 on our consideration of the Center’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 solely 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 the effectiveness of 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 Center’s internal control over financial reporting and compliance.

KrausCPAs PLLC

Nashville, Tennessee
August 30, 2021

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

STATEMENTS OF FINANCIAL POSITION

JANUARY 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,489,403	\$ 4,083,916
Patient accounts receivable	439,118	776,186
Grants receivable	1,151,205	531,509
Other receivables	653,228	635,525
Contracts receivable	346,240	187,882
Insurance receivable	1,900,000	-
Prepaid expenses and other current assets	<u>316,897</u>	<u>209,894</u>
TOTAL CURRENT ASSETS	13,296,091	6,424,912
Property and equipment, net	7,884,610	8,242,783
Insurance receivable	535,010	-
Other assets	<u>5,971</u>	<u>5,971</u>
TOTAL ASSETS	<u>\$ 21,721,682</u>	<u>\$ 14,673,666</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 249,404	\$ 152,193
Patients' refunds payable	90,671	139,066
Accrued expenses	43,724	13,639
Accrued compensation	689,519	552,731
Deferred grant revenue	132,754	58,583
Paycheck protection program loan	<u>2,038,301</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	3,244,373	916,212
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Board designated for emergency reserve	2,631,465	2,605,962
Undesignated	<u>15,845,844</u>	<u>11,151,492</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>18,477,309</u>	<u>13,757,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,721,682</u>	<u>\$ 14,673,666</u>

See accompanying notes to the financial statements.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

STATEMENTS OF OPERATIONS AND CHANGE IN NET ASSETS

FOR THE YEARS ENDED JANUARY 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
HHS grants	\$ 12,035,790	\$ 10,110,971
Patient services	4,154,654	5,150,257
Contract services	1,354,555	1,397,865
Donated in-kind revenue	741,642	963,806
Contributions	390,572	226,515
Primary care safety net services	1,140,701	679,473
Accountable care organization payments	485,149	472,962
Other revenues	<u>180,573</u>	<u>125,532</u>
TOTAL REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	<u>20,483,636</u>	<u>19,127,381</u>
FUNCTIONAL EXPENSES		
Program services	15,451,705	16,275,848
Management and general	<u>3,870,851</u>	<u>3,089,320</u>
TOTAL FUNCTIONAL EXPENSES	<u>19,322,556</u>	<u>19,365,168</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,161,080</u>	<u>(237,787)</u>
NON-OPERATING INCOME (EXPENSE)		
Grant revenue	709,947	-
Gain from insurance claims, net	2,880,558	-
Other loss	<u>(31,730)</u>	<u>-</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>3,558,775</u>	<u>-</u>
CHANGE IN NET ASSETS	4,719,855	(237,787)
NET ASSETS - BEGINNING OF YEAR WITHOUT DONOR RESTRICTIONS	<u>13,757,454</u>	<u>13,995,241</u>
NET ASSETS - END OF YEAR WITHOUT DONOR RESTRICTIONS	<u>\$ 18,477,309</u>	<u>\$ 13,757,454</u>

See accompanying notes to the financial statements.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JANUARY 31, 2021 AND 2020

	2021			2020		
	Program	Management and	Total	Program	Management and	Total
	Services	General		Services	General	
Salaries and wages	\$ 8,682,457	\$ 2,492,580	\$ 11,175,037	\$ 9,038,951	\$ 1,868,605	\$ 10,907,556
Employee benefits	1,847,560	530,402	2,377,962	1,914,042	395,650	2,309,692
 Total personnel expenses	10,530,017	3,022,982	13,552,999	10,952,993	2,264,255	13,217,248
 Consumable supplies	294,767	102,069	396,836	294,753	148,005	442,758
Depreciation and amortization	644,835	117,291	762,126	661,590	103,873	765,463
Dues and subscriptions	87,011	24,972	111,983	68,201	9,477	77,678
Equipment and rental	38,294	6,965	45,259	39,678	6,230	45,908
Healthcare consultants and other contractual services	714,747	132,042	846,789	760,188	170,977	931,165
Insurance	51,887	14,891	66,778	53,893	7,489	61,382
Interest	-	-	-	29,470	-	29,470
Laboratory	92,544	-	92,544	118,137	-	118,137
Occupancy	436,974	79,483	516,457	508,452	79,830	588,282
Other	1,000,834	182,045	1,182,879	835,170	131,139	966,309
Pharmaceutical drugs	872,410	-	872,410	1,100,566	-	1,100,566
Printing, postage and publications	57,020	16,365	73,385	63,695	8,850	72,545
Professional services	245,781	82,691	328,472	365,240	100,165	465,405
Radiology	7,384	-	7,384	11,818	-	11,818
Repairs and maintenance	182,687	33,229	215,916	98,617	15,484	114,101
Staff training	51,310	14,726	66,036	121,852	16,932	138,784
Telephone	131,247	37,668	168,915	142,806	19,843	162,649
Travel, conferences and meetings	11,956	3,432	15,388	48,729	6,771	55,500
 Total other operating expenses	4,921,688	847,869	5,769,557	5,322,855	825,065	6,147,920
 TOTAL EXPENSES	\$ 15,451,705	\$ 3,870,851	\$ 19,322,556	\$ 16,275,848	\$ 3,089,320	\$ 19,365,168

See accompanying notes to the financial statements.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED JANUARY 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from HHS grants	\$ 12,035,790	\$ 10,110,971
Receipts from and on behalf of patients	5,499,841	5,855,432
Receipts from contract services	1,336,852	1,780,119
Receipts from other revenue	14,296	413,299
Receipts from contributions	390,572	226,515
Payments to suppliers and contractors	(4,245,496)	(4,625,734)
Payments to or on behalf of employees	<u>(13,416,211)</u>	<u>(13,602,536)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,615,644</u>	<u>\$ 158,066</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(626,821)</u>	<u>(710,766)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(626,821)</u>	<u>(710,766)</u>
FINANCING ACTIVITIES		
Payments on long-term debt	-	(600,000)
Proceeds from non-operating grants	709,947	-
Proceeds from long-term debt	2,038,301	600,000
Proceeds from insurance claims	<u>668,416</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,416,664</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,405,487	(552,700)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,083,916</u>	<u>4,636,616</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,489,403</u>	<u>\$ 4,083,916</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 29,470</u>
In-kind contributions and expenses	<u>\$ 741,642</u>	<u>\$ 963,806</u>

See accompanying notes to the financial statements.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

STATEMENTS OF CASH FLOW (CONTINUED)

FOR THE YEARS ENDED JANUARY 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ 4,719,855	\$ (237,787)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	762,126	765,463
Gain from insurance claims, net	(2,880,558)	-
Grant income	(709,947)	(185,195)
Provision for doubtful accounts	383,906	727,706
(Increase) decrease in:		
Patient accounts receivable	(46,838)	(843,435)
Grants receivable	(619,696)	-
Other receivables	(17,703)	382,254
Contract receivables	(158,358)	8,199
Prepaid expenses and other current assets	(107,003)	(64,022)
Increase (decrease) in:		
Accounts payable	97,211	(130,992)
Patients' refunds payable	(48,395)	139,066
Accrued expenses	30,085	(12,069)
Accrued compensation	136,788	(385,288)
Deferred grant revenue	74,171	(5,834)
TOTAL ADJUSTMENTS	<u>(3,104,211)</u>	<u>395,853</u>
NET CASH PROVIDED BY OPERATIONS ACTIVITIES	<u>\$ 1,615,644</u>	<u>\$ 158,066</u>

See accompanying notes to the financial statements.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS

JANUARY 31, 2021 AND 2020

NOTE 1 - NATURE OF OPERATIONS

United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the “Center”) is a not for profit corporation that operates Federally Qualified Health Centers (“FQHC”) located in the State of Tennessee in Davidson, Trousdale and Wilson counties. The Center provides a broad range of primary health care services to a largely medically-underserved population.

The U.S. Department of Health and Human Services (the “HHS”) provides substantial support to the Center. The Center is obligated under the terms of the HHS grants to comply with specified conditions and program requirements set forth by the grantor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

Revenue Recognition

Patient Services

Patient service revenue is reported at the amount that reflects the consideration to which the Center expects to be entitled in exchange for providing patient care to patients, third-party payors and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Revenue is recognized as the performance obligations are satisfied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Patient Services (Continued)

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center believes that this method provides an accurate depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving care. The Center measures the performance obligation from commencement of service to the point when it is no longer required to provide services to the patient.

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center believes that this method provides an accurate depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving care. The Center measures the performance obligation from commencement of service to the point when it is no longer required to provide services to the patient.

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Center's policy, or implicit price concessions provided to uninsured patients. The Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Medicare and Medicaid

Medicare and Medicaid revenue are reimbursed to the Center at reimbursement rates determined for each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year in which the revisions are made.

TennCare Managed Care Wraparound Payments

The State of Tennessee provides additional payments to community health clinics to subsidize the cost of care to TennCare recipients above the payment amount made by the managed care Centers. The Center received \$1,796,558 and \$1,726,125 for the years ended January 31, 2021 and 2020, respectively, and is included within patient services on the statements of operations and change in net assets. At January 31, 2021 and 2020 the Center had an outstanding receivable for the program of \$632,040 and \$583,862, which is included in other receivables on the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Grants

Revenue from government grants and contract agreements, which are generally considered non-exchange transaction with conditions, are recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenue on the statements of financial position. Grants receivable are recorded when conditions have been satisfied but the payment has not yet been received. Deferred grant revenue at January 31, 2021 and 2020 was \$132,754 and \$58,583, respectively.

Other

The Center also enters into payment agreements with certain commercial insurance carriers, health maintenance companies, and preferred provider companies. The basis for payment to the entities under these agreements include discounts from established charges and prospectively-determined daily rates. Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Center's historical settlement activity. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Consistent with the Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Center has determined it has provided implicit price concessions to uninsured and underinsured patients. The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Center expects to collect based on its collection history with those patients.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Center also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Other (Continued)

The Center has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, other insurance, or patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Method of reimbursement

Contributions

Contributions are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as net assets with donor restrictions and net assets without donor restrictions. Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets with donor restrictions are subject to donor-imposed stipulations. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restriction, which require the Center to provide specific services and, if not, the contribution is reported as a net asset with donor restriction until the specific services have been provided. There were no net assets with donor restrictions at January 31, 2021 or 2020.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when originally purchased, excluding amounts limited as to use, to be cash equivalents. Cash and cash equivalents consist of deposit accounts with financial institutions and cash deposits with a financial services company.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Accounts Receivable

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Center has agreements with third-party payors that provide for payments at amounts different from its established rates. In valuing accounts receivables, management estimates contractual discounts from third party payors based on management's estimated reimbursement under agreements with those third-party payors. It is not the policy of the Center to place a patient on non-accrual basis. Patient accounts receivable due directly from patients have also been adjusted to fair value via estimated implicit price concessions to reflect the amount of consideration the Center expects to collect. The Center estimates implied price concessions based on a percentage of aged patient account balances and third-party payor receivables deemed to be uncollectible after all claims submission attempts have been exhausted or upon the expiration of the statutory contract terms with each payor. Accounts determined to be uncollectible are charged off against the allowance in the period of determination. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

The Center, like other health care providers, may be subject to investigations, regulatory action, lawsuits, and claims arising out of the conduct of its business, including the interpretation of laws and regulations governing the Medicare and Medicaid programs and other third-party payor agreements. At this time, no specific alleged violations, claims, or assessments are pending. Management intends to fully cooperate with any governmental agencies' requests for information. Noncompliance with laws and regulations can make the Center subject to regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid program.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Prepaid expenses as of January 31, 2021 and 2020 were \$292,887 and \$188,313, respectively.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are recorded at their estimated fair value in the statements of operations and change in net assets in the period donated. The Center capitalizes all purchases of property and equipment in excess of \$5,000.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation is recorded using accelerated and straight-line methods over the assets' estimated useful lives, except for leasehold improvements, which are depreciated over the shorter of their estimated useful lives or the respective lease term, as follows:

Land improvements	5 years
Buildings and improvements	15 to 40 years
Leasehold improvements	10 years or life of lease
Medical and dental equipment	5 years
Computer software	5 years
Automobiles	3 to 10 years
Furniture and equipment	5 years

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or improvements are capitalized.

The Center reviews the carrying value of property and improvements for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable, an evaluation of recoverability would be performed.

Compensated Absences

The Center's policy is to compensate employees for unused, earned vacation leave. Accumulated vacation pay is accrued as of the statements of financial position date because it is payable upon termination of employment if certain conditions are met. Compensated absences as of January 31, 2021 and 2020 were \$443,016 and \$345,019, respectively, and are included in accrued expenses in the accompanying statements of financial position.

Functional Expenses

Expenditures incurred in connection with the Center's operations and supporting services have been summarized on a functional basis in the statements of operations and change in net assets. The statements of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and management and general. Salaries and benefits are allocated based on estimates of time and effort. Insurance, telephone, travel, conferences, meetings, dues and subscriptions, printing, postage, publications, and staff training are allocated based on a review of full-time equivalents. Consulting, repairs and maintenance, occupancy, depreciation and amortization, equipment rental and other expenses are allocated based on utilized square footage.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Activity

The Center's primary purpose is to provide healthcare services through its acute care facilities. As such, activities related to the ongoing operations of the Center are classified as operating revenues. Operating revenues include those generated from direct patient care, related support services and miscellaneous revenues related to the operations of the Center. In addition, contributions that are used to support health-related activities are reported as operating revenue.

Income Taxes

The Center is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements. However, certain activity of the Center may be subject to unrelated business income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Center's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. The Center does not have any uncertain tax positions and did not record any penalties or interest associated with uncertain tax positions as of January 31, 2021 or 2020.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Advertising costs for the years ended January 31, 2021 and 2020 were \$40,228 and \$15,069 are included in other expenses in the accompanying statements of functional expenses.

Grants

At January 31, 2021 and 2020, the Center has been approved for conditional grants and contracts from governmental and not for profit entities in the aggregate amounts of \$12,035,790 and \$10,110,971, respectively, which have not been recorded in these financial statements. These grant contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the grantors are not obligated to expend the funds allotted under the grant contracts.

During the year ended January 31, 2021, the Center received \$709,947 from Department of Health and Human Services ("HHS") Provider Relief Funds and Medicaid programs. The Center has determined to have expended \$709,947 of the funds received which was reported in non-operating income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU” 2016-02), *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues.

In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard provides a number of practical expedients. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Center continues to assess the effect the guidance will have on its existing accounting policies and the financial statements and expects there will be an increase in assets and liabilities on the balance sheets at adoption due to the recognition of right-of-use assets and corresponding lease liabilities, which is expected to be material.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Company beginning on February 1, 2022. The Center is currently evaluating the impact of this new guidance on its financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. Such reclassifications had no effect on the results of operations or change in net assets as previously reported.

Events Occurring After Report Date

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through August 30, 2021, the date the financial statements were available to be issued.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 3 - CONTRACT BALANCES

Patient accounts receivable from contracts with customers consisted of the following as of January 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 776,186	\$ 660,457
End of year	<u>\$ 439,118</u>	<u>\$ 776,186</u>

At January 31, 2021 and 2020 estimated implicit price concessions of \$448,187 and \$770,851 have been recorded as reductions to patient accounts receivable for patient service revenues and the related accounts receivable to be recorded at the estimated amounts the Center expects to collect.

NOTE 4 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date consist of the following as of January 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 8,489,403	\$ 4,083,916
Patient accounts receivable	439,118	776,186
Grants receivable	1,151,205	531,509
Other receivables	653,228	635,525
Contracts receivable	346,240	187,882
Insurance receivable	<u>1,900,000</u>	<u>-</u>
	<u>\$ 12,979,194</u>	<u>\$ 6,215,018</u>

As part of the Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center has a policy to maintain a balance of cash to meet 45 days of operating expenses. At January 31, 2021 and 2020 the board of directors had designated \$2,631,465 and \$2,605,962, respectively, of the cash and cash equivalents above as an emergency reserve. Although the Center does not intend to spend from board designated emergency reserve these amounts could be made available if necessary.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 5 - DONATED IN-KIND REVENUE

The Center occupies four facilities that are separately owned by the Metropolitan Development Housing Agency, HCA Health Services of Tennessee, Inc., Nashville Rescue Mission and Nashville CARES. Donated space is recorded at fair value of the space donated. For the years ended January 31, 2021 and 2020, donated space amounted to \$217,075 and \$220,258, respectively, and the offsetting expense is included in occupancy expense on the statements of functional expenses.

The Center receives donated vaccines during the year. Donated vaccines are recorded at the fair market value of the vaccines that were received. For the years ended January 31, 2021 and 2020, vaccines contributed to the Center amounted to \$524,567 and \$743,548, respectively, and the offsetting expense is included in pharmaceuticals on the statements of functional expenses.

The Center receives an in-kind donation of lab services for its indigent patients from the lab supplier through waiver of fees for certain patients who qualify. The Company was unable to obtain the fair value of these donated lab services for the years ended January 31, 2021 and 2020, and accordingly, there is no revenue or related expense recorded for these services on the statements of operations and change in net assets.

NOTE 6 - DISAGGREGATION OF REVENUE

The Center disaggregates its revenue from contracts with customers by payor source, as the Center believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. Patient service revenue for the years ended January 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>Ratio</u>	<u>2020</u>	<u>Ratio</u>
Medicare	\$ 274,443	6.61 %	\$ 303,887	5.90 %
TennCare managed care	1,498,816	36.08	1,567,643	30.44
Other insurance	694,024	16.70	966,174	18.76
Self-pay patients	<u>1,687,372</u>	<u>40.61</u>	<u>2,312,553</u>	<u>44.90</u>
Total	<u>\$ 4,154,655</u>	<u>100.0 %</u>	<u>\$ 5,150,257</u>	<u>100.0 %</u>

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 7 - U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES OPERATING GRANTS

For the year ended January 31, 2021 and 2020, the Center received the following grants from the HHS:

2021			
<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant Awarded</u>	<u>Operating Revenue</u>
H80CS00394	02/01/20 - 01/31/21	\$ 10,292,260	\$ 10,292,260
H8DCS36039	04/01/20 - 03/31/21	1,458,125	1,458,125
H8ECS38129	05/01/20 - 04/30/21	565,009	177,360
H8CCS35302	03/15-20 - 03/14/21	108,045	108,045
		<u>\$ 12,257,014</u>	<u>\$ 12,035,790</u>
2020			
<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant Awarded</u>	<u>Operating Revenue</u>
H80CS00394	02/01/19-01/31/20	\$ 10,429,892	\$ 10,110,971
C8DCS29717	05/01/16-04/30/19	600,446	-
		<u>\$ 11,030,338</u>	<u>\$ 10,110,971</u>

As of January 31, 2021 and 2020, the Center had outstanding receivables from HHS of \$393,045 and \$288,937, respectively, and is included in grant receivables on the statements of financial position.

Subsequent to year end through the date the financial statements were available to be issued to the Center has received additional conditional grants totaling \$9,012,250 from HHS.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 1,218,743	\$ 1,218,743
Buildings and improvements	10,128,951	11,138,212
Leasehold improvements	688,004	717,671
Medical and dental equipment	950,406	1,032,077
Computer software	1,167,814	1,131,919
Automobiles	367,796	335,544
Furniture and equipment	958,777	969,873
Construction in progress	<u>380,739</u>	<u>24,041</u>
	15,861,230	16,568,080
Less: accumulated depreciation	<u>(7,976,620)</u>	<u>(8,325,297)</u>
	<u>\$ 7,884,610</u>	<u>\$ 8,242,783</u>

Depreciation and amortization expense related to these assets was \$762,126 and \$765,463 for the years ended January 31, 2021 and 2020, respectively.

Construction in-progress consists of costs to improve buildings and are estimated to be completed primarily during the year ended January 31, 2023. Total commitments on construction as of January 31, 2021 are approximately \$387,00.

In the event the HHS grants are terminated, HHS reserves the right to transfer all property and equipment purchased with grant funds to the Public Health Services.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Center sponsors a 403(b) defined-contribution plan covering substantially all employees. Employees may make contributions to the plan which are limited to a maximum annual amount as set periodically by the Internal Revenue Service. All employee contributions vest immediately. The Center is permitted to make non- elective contributions, but has not made any such contributions as of January 31, 2021 and 2020. Effective March 1, 2017, the 403(b) plan was restated to allow employer matching contributions to be made into the plan. Employer matching contributions amounted to \$176,396 and \$191,542 for the years ended January 31, 2021 and 2020, respectively, and are included in fringe benefits expense on the statements of functional expenses.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 10 - OPERATING LEASES

The Center leases space and medical equipment under various short term operating leases and cancelable leases. Rent expense for the years ended January 31, 2021 and 2020, respectively, amounted to \$135,290 and \$242,941, and is included in occupancy expense on the statements of functional expenses.

NOTE 11 - LINE OF CREDIT

The Center obtained a \$2,500,000 line of credit agreement with a bank during the year ended January 31, 2021 and expired on March 31, 2021. The line of credit was extended to June 2021 when it matured. The agreement was not renewed. The line bears interest at prime plus 0.5% and is secured by a blanket lien on all business assets, including all deposits maintained with the bank (to the extent permitted by law) and is governed by the additional terms and conditions contained in the Commercial Note (Agreement). There was no outstanding balance at January 31, 2021.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

The Center has contracted with various funding agencies to perform certain healthcare services and receives Medicare and other revenue from the federal government. Reimbursements received under these contracts and payments under Medicare are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for reimbursing the agencies for the amounts in question.

Legal Proceedings

The Center is party to various legal proceedings arising in the ordinary course of business. Management is unaware of any liabilities arising from such proceedings that would exceed the insurance coverage as of January 31, 2021.

Healthcare Industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Center and its subsidiaries are insured with respect to medical malpractice risk on a claims-made basis. The Center also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. Management is not aware of any claims against it or its subsidiaries which would have a material financial impact.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Healthcare Industry (Continued)

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Center is currently in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

COVID-19

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law. The CARES Act provides an economic relief package to many businesses in the US as a direct response to the adverse impacts of COVID-19. Additionally, the CARES Act provided for HHS to distribute funds from the Public Health and Social Services Emergency Fund (“Provider Relief Fund”) to healthcare providers that billed Medicare in 2019 and provided treatment to individuals with possible or actual cases of COVID-19 during 2020, amongst other various certifications required in the Act. The funds are distributed in multiple stages and are grant funds, not loans, to healthcare providers, and may not need to be repaid if the conditional terms for the uses of those funds are met. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Center is unable to attest to or comply with current or future terms and conditions, the Center's ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits. See Note 2. Within 30 days of receiving the payment, providers must sign an attestation confirming receipt of the funds and agreeing to the terms and conditions of payment.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

COVID-19 (Continued)

In addition, the Paycheck Protection Program was established under the CARES Act and administered by the Small Business Administration. The Center entered into a Paycheck Protection Program loan of \$2,038,301 in April 2020, which is fully forgivable if at least 60% of the funds are used for payroll costs, and if certain other terms are met. The Center received notification of loan forgiveness from the Small Business Administration during July 2021. The Center will not be responsible for any payments, and the balance of the loan will be reclassified to other income on the statements of operations and change in net assets at the time forgiveness is granted.

Tornado

On March 3, 2020, the Center lost one of its largest medical and dental clinics as a result of a tornado resulting in an impairment loss of \$222,868 for the year ended January 31, 2021. The Center received approximately \$660,000 of insurance proceeds related to the loss during the year ended January 31, 2021. Renovations are taking place to fix the damage caused and are anticipated to be completed in 2023. Additional insurance proceeds of \$2,435,010 are expected as the Center completes the renovations. Management estimates that approximately \$1,900,000 will be received for reconstruction costs in the year ending January 31, 2022 and the remaining \$535,010 when the reconstruction project is completed in the fiscal year ending January 31, 2023.

NOTE 13 - CREDIT RISK AND OTHER CONCENTRATIONS

Financial instruments that potentially subject the Center to concentrations of credit risk are cash and accounts receivable. The Center's policy is to place cash in highly-rated financial institutions. The Center grants credit without collateral to its patient most of who are insured under third-party payor agreements.

Cash Deposits

The Center maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Center's cash balances may, at times, exceed statutory limits. The Center has not experienced any losses in such accounts, and management considers this to be a normal business risk. At January 31, 2021 and 2020, deposits exceeded the federally-insured limits by approximately \$5,080,000 and \$2,303,000, respectively.

UNITED NEIGHBORHOOD HEALTH SERVICES D/B/A NEIGHBORHOOD HEALTH

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2021 AND 2020

NOTE 13 - CREDIT RISK AND OTHER CONCENTRATIONS (CONTINUED)

Payor Mix of Patient Accounts Receivable

Concentration of credit risk relating to patient accounts receivable is limited to some extent by the diversity and number of patients and payors. The mix of accounts receivable from patients, third party payors and others as of January 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Medicare	15 %	17 %
TennCare managed care	22	19
Other insurance	34	35
Self pay patients	<u>29</u>	<u>29</u>
Total	<u>100 %</u>	<u>100 %</u>

In addition to patient accounts receivable, a significant portion of the Center's outstanding receivables as of January 31, 2021 and 2020 are from governmental agencies, as such, management believes it represents negligible credit risk.

NOTE 14 - MEDICAL MALPRACTICE INSURANCE

The Center maintains medical malpractice coverage, through an insurer, that complies with the Federal Tort Claims Act ("FTCA"). FTCA limits malpractice awards to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of their responsibilities under grant-related activities.

The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

NOTE 15 - SUBSEQUENT EVENTS

During February 2021, one of the Center's vendors informed them of a data breach in their information systems. As a result, certain personal sensitive information of about 1,500 patients of the Center's was potentially exposed. Management does not anticipate that any liability in excess of insurance coverage will be incurred.

On June 22, 2021, the Center notified the U.S. Department of Health and Human Services ("HHS") of the incident. During August 2021, HHS requested certain additional information from the Center's management. Management provided the requested information to HHS and is waiting to determine if HHS has additional inquiries or whether the regulator plans to close its investigation.

ADDITIONAL INFORMATION

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. d/b/a NEIGHBORHOOD HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass-through Grantor/Program Title	YEAR ENDED JANUARY 31, 2021					
	CFDA Number	Contract/grant Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
Direct programs:						
U.S Department of Health and Human Services:						
Health Center Cluster Program	93.224 ⁽¹⁾	H80CS00394	\$ 288,937	\$ 10,188,152	\$ 10,292,260	\$ 393,045
Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding	93.224 - COVID-19 ⁽¹⁾	H8DCS36039	-	1,458,125	1,458,125	-
FY 2020 Expanding Capacity for Coronavirus Testing (ECT)	93.224 - COVID-19 ⁽¹⁾	H8ECS38129	-	177,360	177,360	-
FY 2020 Coronavirus Supplemental Funding for Health Centers	93.224 - COVID-19 ⁽¹⁾	H8CCS35302	-	108,045	108,045	-
HRSA COVID-19 Uninsured Program	93.461- COVID-19	N/A	-	10,741	10,741	-
Total Direct Programs			288,937	11,942,423	12,046,531	393,045
Passed through Tennessee Department of Health:						
Breast & Cervical Screening Program	93.898	34347-70321	-	3,927	3,927	-
Ryan White HIV Core Medical and Support Services	93.917	GR185589804	88,413	463,263	522,977	148,127
Passed through Tennessee Department of Mental Health						
Adult Continuum of Care	93.959	DGA 65804_2020- 2021_035	5,895	179,476	185,673	12,092
U.S. Department of Treasury						
Passed through Tennessee Department of Human Services:						
Tennessee Community CARES Program	21.019 - COVID-19 ⁽¹⁾	H8ECS38129	-	147,576	257,298	109,722
Total Federal Awards *			\$ 383,245	\$ 12,736,665	\$ 13,016,406	\$ 662,986

* Excludes amounts received under the HHS Provider Relief Fund in accordance with guidance published by U.S Department of Health and Human Services.

(1) Tested as major program under Title 2, CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

See accompanying notes to the schedules of expenditures of federal and state financial awards.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. d/b/a NEIGHBORHOOD HEALTH

SCHEDULE OF EXPENDITURES OF STATE AWARDS

YEAR ENDED JANUARY 31, 2021

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Receivable</u>
State Financial Assistance:						
U.S. Department of Health and Human Services:						
Passed through Tennessee Department of Health:						
Primary Care Services to Uninsured Adults (1)	N/A	Z-20-201207-01	\$ 242,572	\$ 242,572	\$ -	\$ -
	N/A	Z-21-201207-02	<u>-</u>	<u>382,541</u>	<u>1,140,701</u>	<u>758,160</u>
 Total State Awards			<u>\$ 242,572</u>	<u>\$ 625,113</u>	<u>\$ 1,140,701</u>	<u>\$ 758,160</u>

(1) Based on revenues earned per award.

See accompanying notes to the schedules of expenditures of federal and state financial awards.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JANUARY 31, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected to use the 10-percent de minimis indirect cost rate allowed under the uniform guidance.

NOTE 3 - FEDERAL EXPENDITURES

Of the federal expenditures presented in this schedule, the Center did not expend any federal awards in the form of non-cash assistance, insurance in effect during the period and loans or loan guarantees, including interest subsidies, outstanding at year end.

NOTE 4 - PASSED THROUGH TO SUBRECIPIENTS

The Center provided no federal awards to subrecipients.

NOTE 5 - PROVIDER RELIEF FUND

Based on guidance at the time that the Federal Single Audit and SEFA were available to be issued, the Department of Health and Human Services (“HHS”) has issued guidance related to reporting of Provider Relief Funding Portal, which is the source of information required to be disclosed on the SEFA, that indicated the funds were to be excluded from the Federal Single Audit and SEFA. Per HHS guidance, the Provider Relief funds are to be included in future single audits as the Provider Relief Funds are reported to HHS thru the Provider Relief Funding Portal. Further clarification to guidance related to reporting expenditures charged to the Relief Fund could result in changes to the expenditure amounts the Center is able to recognize.

OTHER REPORTS

INDEPENDENT AUDITOR'S 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

The Board of Directors
United Neighborhood Health Services, Inc. d/b/a Neighborhood Health
Nashville, Tennessee

We have audited, 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, the financial statement of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center") which comprises the statements of financial position as of and for the year ended January 31, 2021, and the related statement of operations and changes in net assets, functional expenses, cash flows and the related notes to the financial statement, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated August 30, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting ("internal control") as a basis for designing 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center’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 financial statements. 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.

KraftCPAs PLLC

Nashville, Tennessee
August 30, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

The Board of Directors
United Neighborhood Health Services, Inc. d/b/a Neighborhood Health
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center"), with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on each of the Center's major federal programs for the year ended January 31, 2021. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

MANAGEMENT'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Center'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 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("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 Center'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 Center's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Center 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 January 31, 2021.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Center 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 Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 Center'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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

KraftCPAs PLLC

Nashville, Tennessee
August 30, 2021

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JANUARY 31, 2021

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Are any material weaknesses identified? _____ Yes X No
- Are any significant deficiencies identified? _____ Yes X None Reported
- Is any noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Are any material weaknesses identified? _____ Yes X No
- Are any significant deficiencies identified? _____ Yes X 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 X No

Identification of major program(s):

CFDA Number(s)

Name of Federal Program or Cluster

Health Centers Cluster:

United States Department of Health and Human Services:

93.224

Consolidated Health Centers Program

21.019

Tennessee Community CARES Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JANUARY 31, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

UNITED NEIGHBORHOOD HEALTH SERVICES, INC. D/B/A NEIGHBORHOOD HEALTH

SUMMARY SCHEDULE OF PRIOR YEAR'S FINDINGS

YEAR ENDED JANUARY 31, 2021

FINANCIAL STATEMENT FINDINGS

No prior year findings reported.