

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JANUARY 31, 2022 AND 2021

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JANUARY 31, 2022 AND 2021

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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>
Claudia Barajas	President
Amanda Lowe	Vice- President
Buddy Comer	Secretary
Barb Zipperian	Co-Treasurer
Riley MacDonald	Co-Treasurer
Angela Ballou	Member
JD Thomas	Member
Brian Haile	Ex-Officio Member
Luis Sura	Member
Brian Marshall	Member
John Zirker	Member
Brenda Morrow	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
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 AUDITS OF THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center"), which comprise the statements of financial position as of January 31, 2022 and 2021, and the related statements of operations and change in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements presented fairly, in all material respects, the financial position of the United Neighborhood Health Services, Inc. d/b/a Neighborhood Health as of January 31, 2022 and 2021, 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.

BASIS FOR OPINION

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern within one year after the due date that the financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Audit Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

REPORT ON SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and related notes on pages 25-26 and 28 is required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). The schedule of expenditures of state awards and related notes on pages 27 and 28 is required by the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee. The information is presented for purposes of additional analysis 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. Such 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER INFORMATION

Management is responsible for the other information included in the annual report. The other information comprises the introductory section on pages i and ii but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2022, on our considerations of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Center's 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.

K. Kraft CPAs PLLC

Nashville, Tennessee
July 29, 2022

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

STATEMENTS OF FINANCIAL POSITION

JANUARY 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,843,544	\$ 8,489,403
Patient accounts receivable	582,848	439,118
Grants receivable	1,435,299	1,151,205
Other receivables	592,477	653,228
Contracts receivable	283,913	346,240
Insurance receivable	500,000	1,900,000
Prepaid expenses and other current assets	289,783	316,897
TOTAL CURRENT ASSETS	<u>13,527,864</u>	<u>13,296,091</u>
Property and equipment, net	8,340,120	7,884,610
Insurance receivable	-	535,010
Other assets	5,971	5,971
TOTAL ASSETS	<u>\$ 21,873,955</u>	<u>\$ 21,721,682</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 562,594	\$ 249,405
Patients' refunds payable	103,070	90,671
Accrued expenses	54,227	43,724
Accrued compensation	774,559	689,519
Deferred grant revenue	118,956	132,754
Paycheck protection program loan	-	2,038,300
TOTAL CURRENT LIABILITIES	1,613,406	3,244,373
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Board designated for emergency reserve	2,638,706	2,631,465
Undesignated	17,621,843	15,845,844
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>20,260,549</u>	<u>18,477,309</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,873,955</u>	<u>\$ 21,721,682</u>

See accompanying notes to 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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
HHS grants	\$ 13,034,513	\$ 12,035,790
Patient services	4,683,617	4,154,654
Contract services	1,504,426	1,354,555
Donated in-kind revenue	1,436,262	913,914
Contributions	189,781	390,572
Primary care safety net services	1,208,708	1,140,701
Accountable care organization payments	564,694	485,149
Other revenues	<u>288,639</u>	<u>180,573</u>
TOTAL REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	<u>22,910,640</u>	<u>20,655,908</u>
FUNCTIONAL EXPENSES		
Program services	18,380,154	15,623,977
Management and general	<u>4,685,992</u>	<u>3,870,851</u>
TOTAL FUNCTIONAL EXPENSES	<u>23,066,146</u>	<u>19,494,828</u>
(LOSS) INCOME FROM OPERATIONS	<u>(155,506)</u>	<u>1,161,080</u>
NON-OPERATING INCOME (EXPENSE)		
Grant income	725,735	709,947
(Loss) gain from insurance claims, net	(611,034)	2,880,558
Gain on debt extinguishment	2,038,300	-
Loss on disposal of assets	(197,255)	-
Other loss	<u>(17,000)</u>	<u>(31,730)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>1,938,746</u>	<u>3,558,775</u>
CHANGE IN NET ASSETS	1,783,240	4,719,855
NET ASSETS - BEGINNING OF YEAR WITHOUT DONOR RESTRICTIONS	<u>18,477,309</u>	<u>13,757,454</u>
NET ASSETS - END OF YEAR WITHOUT DONOR RESTRICTIONS	<u>\$ 20,260,549</u>	<u>\$ 18,477,309</u>

See accompanying notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JANUARY 31, 2022 AND 2021

	2022			2021		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	\$ 9,986,710	\$ 2,927,696	\$ 12,914,406	\$ 8,682,457	\$ 2,492,580	\$ 11,175,037
Employee benefits	<u>2,009,736</u>	<u>589,172</u>	<u>2,598,908</u>	<u>1,847,560</u>	<u>530,402</u>	<u>2,377,962</u>
Total personnel expenses	<u>11,996,446</u>	<u>3,516,868</u>	<u>15,513,314</u>	<u>10,530,017</u>	<u>3,022,982</u>	<u>13,552,999</u>
Consumable supplies	407,880	141,237	549,117	294,767	102,069	396,836
Depreciation and amortization	491,051	117,816	608,867	644,835	117,291	762,126
Dues and subscriptions	145,287	42,592	187,879	87,011	24,972	111,983
Equipment and rental	45,472	10,910	56,382	38,294	6,965	45,259
Healthcare consultants and other contractual services	692,814	162,865	855,679	714,747	132,042	846,789
Insurance	44,547	13,060	57,607	51,887	14,891	66,778
Laboratory	658,967	-	658,967	264,816	-	264,816
Occupancy	431,161	103,447	534,608	436,974	79,483	516,457
Other	1,391,077	333,755	1,724,832	1,000,834	182,045	1,182,879
Pharmaceutical drugs	1,260,348	-	1,260,348	872,410	-	872,410
Printing, postage and publications	98,910	28,996	127,906	57,020	16,365	73,385
Professional services	344,472	115,895	460,367	245,781	82,691	328,472
Radiology	10,468	-	10,468	7,384	-	7,384
Repairs and maintenance	138,174	33,152	171,326	182,687	33,229	215,916
Staff training	105,455	30,915	136,370	51,310	14,726	66,036
Telephone	102,318	29,996	132,314	131,247	37,668	168,915
Travel, conferences and meetings	<u>15,307</u>	<u>4,488</u>	<u>19,795</u>	<u>11,956</u>	<u>3,432</u>	<u>15,388</u>
Total other operating expenses	<u>6,383,708</u>	<u>1,169,124</u>	<u>7,552,832</u>	<u>5,093,960</u>	<u>847,869</u>	<u>5,941,829</u>
TOTAL EXPENSES	<u>\$ 18,380,154</u>	<u>\$ 4,685,992</u>	<u>\$ 23,066,146</u>	<u>\$ 15,623,977</u>	<u>\$ 3,870,851</u>	<u>\$ 19,494,828</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from HHS grants	\$ 13,034,513	\$ 12,035,790
Receipts from and on behalf of patients	5,809,523	5,499,841
Receipts from contract services	1,565,177	1,336,852
Receipts from other revenue	1,277,974	724,243
Receipts from contributions	189,781	390,572
Payments to suppliers and contractors	(5,156,897)	(4,245,495)
Payments to or on behalf of employees	<u>(15,428,274)</u>	<u>(13,416,211)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,291,797</u>	<u>\$ 2,325,592</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(1,261,632)</u>	<u>(626,821)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,261,632)</u>	<u>(626,821)</u>
FINANCING ACTIVITIES		
Proceeds from long-term debt	-	2,038,300
Proceeds from insurance claims	<u>1,323,976</u>	<u>668,416</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,323,976</u>	<u>2,706,716</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,354,141	4,405,487
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>8,489,403</u>	<u>4,083,916</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,843,544</u>	<u>\$ 8,489,403</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
In-kind contributions and expenses	<u>\$ 1,436,262</u>	<u>\$ 913,914</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JANUARY 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Changes in net assets	\$ 1,783,240	\$ 4,719,855
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on debt extinguishment	(2,038,300)	-
Depreciation and amortization expense	608,867	762,126
Loss (gain) from insurance claims, net	611,034	(2,880,558)
Loss on disposal of property and equipment	197,255	-
(Increase) decrease in:		
Patient accounts receivable	(143,730)	337,068
Grants receivable	(284,094)	(619,696)
Other receivables	60,751	(17,703)
Contracts receivable	62,327	(158,358)
Prepaid expenses and other current assets	27,114	(107,003)
Increase (decrease) in:		
Accounts payable	313,189	97,212
Patients' refunds payable	12,399	(48,395)
Accrued expenses	10,503	30,085
Accrued compensation	85,040	136,788
Deferred grant revenue	(13,798)	74,171
TOTAL ADJUSTMENTS	<u>(491,443)</u>	<u>(2,394,263)</u>
NET CASH PROVIDED BY OPERATIONS ACTIVITIES	<u>\$ 1,291,797</u>	<u>\$ 2,325,592</u>

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

JANUARY 31, 2022 AND 2021

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, 2022 AND 2021

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 \$1,617,594 and \$1,796,558 for the years ended January 31, 2022 and 2021, respectively, and is included within patient services on the statements of operations and change in net assets. At January 31, 2022 and 2021 the Center had an outstanding receivable for the program of \$586,622 and \$632,040, which is included in other receivables on the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 and 2021 was \$118,956 and \$132,754, 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 implicit price concessions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 or 2021.

Donated In-Kind Revenue

Donated goods are recorded as revenue and either an asset or expense in the period received at fair value if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance non-financial assets or the donated service requires specialized skills, was performed by the donor who possesses such skills, and would have been purchased by the Center if not provided by the donor. Such services are recognized at fair value as revenue and expense in the period the services are performed.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 and 2021 were \$265,656 and \$292,887, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 and 2021 were \$459,855 and \$443,016, respectively, and are included in accrued compensation 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 or 2021.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Advertising costs for the years ended January 31, 2022 and 2021 were \$261,355 and \$40,228, respectively, and are included in other expenses in the accompanying statements of functional expenses.

Grants

At January 31, 2022 and 2021, the Center has been approved for conditional grants and contracts from governmental and not for profit entities in the aggregate amounts of \$11,403,238 and \$3,861,312, 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 years ended January 31, 2022 and 2021, the Center received \$804,111 and \$709,947, respectively, from Department of Health and Human Services ("HHS") Provider Relief Funds and other programs. During the years ended January 31, 2022 and 2021, the Center expended \$725,735 and \$709,947, respectively, of the funds received which is reported in non-operating income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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.

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 Center 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 July 29, 2022, the date the financial statements were available to be issued.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

NOTE 3 - CONTRACT BALANCES

Patient accounts receivable from contracts with customers consisted of the following as of January 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Beginning of year	<u>\$ 439,118</u>	<u>\$ 776,186</u>
End of year	<u>\$ 582,848</u>	<u>\$ 439,118</u>

At January 31, 2022 and 2021 estimated implicit price concessions of \$537,500 and \$448,187 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 9,843,544	\$ 8,489,403
Patient accounts receivable	582,848	439,118
Grants receivable	1,435,299	1,151,205
Other receivables	592,477	653,228
Contracts receivable	283,913	346,240
Insurance receivable	<u>500,000</u>	<u>1,900,000</u>
	<u>\$ 13,238,081</u>	<u>\$ 12,979,194</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, 2022 and 2021, the board of directors had designated \$2,638,706 and \$2,631,465, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 and 2021, donated space amounted to \$183,537 and \$217,075, 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, 2022 and 2021, vaccines contributed to the Center amounted to \$798,432 and \$524,567, 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. For the years ended January 31, 2022 and 2021, lab services contributed to the Center amounted to \$454,293 and \$172,272, respectively, and the offsetting expense is included in laboratory on the statements of functional expenses.

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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>Ratio</u>		<u>2021</u>	<u>Ratio</u>
Medicare	\$ 341,436	7.29	%	\$ 314,507	7.57
TennCare managed care	1,240,690	26.49		1,144,192	27.54
Other insurance	928,293	19.82		818,467	19.70
Self-pay patients	<u>2,173,198</u>	<u>46.40</u>		<u>1,877,488</u>	<u>45.19</u>
 Total	 <u>\$ 4,683,617</u>	 <u>100.00</u>	 %	 <u>\$ 4,154,654</u>	 <u>100.00</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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

For the year ended January 31, 2022 and 2021, the Center received the following grants from the HHS:

<u>2022</u>			
<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant Awarded</u>	<u>Operating Revenue</u>
H80CS00394	02/01/21 - 01/31/22	\$ 10,692,081	\$ 10,692,081
H8ECS38129	05/01/20 - 04/30/22	565,009	387,649
C8ECS44614	09/15/21 - 09/14/24	842,232	219,642
H8FCS40508	04/01/21 - 03/31/23	<u>9,012,250</u>	<u>1,735,141</u>
		<u>\$ 21,111,572</u>	<u>\$ 13,034,513</u>

<u>2021</u>			
<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	<u>108,045</u>	<u>108,045</u>
		<u>\$ 12,423,439</u>	<u>\$ 12,035,790</u>

As of January 31, 2022 and 2021, the Center had outstanding receivables from HHS of \$572,666 and \$393,045, respectively, and is included in grant receivables on the statements of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 1,218,743	\$ 1,218,743
Buildings and improvements	10,097,775	10,128,951
Leasehold improvements	681,693	688,004
Medical and dental equipment	788,691	950,406
Computer software	1,154,843	1,167,814
Automobiles	367,796	367,796
Furniture and equipment	437,850	958,777
Construction in progress	<u>1,599,437</u>	<u>380,739</u>
	16,346,828	15,861,230
Less: accumulated depreciation	<u>(8,006,708)</u>	<u>(7,976,620)</u>
	<u>\$ 8,340,120</u>	<u>\$ 7,884,610</u>

Depreciation and amortization expense related to these assets was \$608,867 and \$762,126 for the years ended January 31, 2022 and 2021, 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, 2022 are approximately \$552,000.

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, 2022 and 2021. 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 \$208,067 and \$176,396 for the years ended January 31, 2022 and 2021, respectively, and are included in employee benefits expense on the statements of functional expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 and 2021, respectively, amounted to \$138,232 and \$135,290, and is included in occupancy expense on the statements of functional expenses. See Note 5 for additional information regarding donated rent.

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, which expired on March 31, 2021. The line of credit was extended to June 2021 when it matured. The agreement was not renewed. The line bore interest at prime plus 0.5% and was secured by a blanket lien on all business assets, including all deposits maintained with the bank (to the extent permitted by law) and was 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, 2022.

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, 2022 AND 2021

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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 (“SBA”). The Center entered into a Paycheck Protection Program loan of \$2,038,300 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. By a letter dated July 15, 2021 from the Center’s lender, the full principal balance of \$2,038,300 has been forgiven by the SBA. As such, the Center has recognized a gain on debt extinguishment during the year ended January 31, 2022 on the statements of operations and change in net assets.

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 \$1,323,000 and \$668,000 of insurance proceeds related to the loss during the years ended January 31, 2022 and 2021, respectively. Renovations are taking place to fix the damage caused and are anticipated to be completed in the year ending January 31, 2023. Additional insurance proceeds of \$500,000 are expected to be received for reconstruction costs in the year ending January 31, 2023 as the Center completes the renovations and is recorded as a receivable at January 31, 2022.

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, 2022 and 2021, deposits exceeded the federally-insured limits by approximately \$6,157,000 and \$5,080,000, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JANUARY 31, 2022 AND 2021

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, 2022 and 2021 is as follows:

	<u>2022</u>		<u>2021</u>	
Medicare	15	%	15	%
TennCare managed care	33		22	
Other insurance	28		32	
Self pay patients	<u>24</u>		<u>31</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, 2022 and 2021 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.

ADDITIONAL INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JANUARY 31, 2022

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Contract/grant Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
Direct programs:						
U.S. Department of Health and Human Services:						
Health Center Program	93.224 ⁽¹⁾	H80CS00394	\$ 393,045	\$ 10,512,460	\$ 10,692,081	\$ 572,666
Health Center Program	93.224 - COVID-19 ⁽¹⁾	H8FCS40508	-	1,735,141	1,735,141	-
Grants for New and Expanded Services Under the Health Center Program	93.527 - COVID-19	H8ECS38129	-	387,649	387,649	-
Grants for Capital Development in Health Centers Provider Relief Fund and American Rescue Plan Rural Distribution	93.526	C8ECS44614	-	219,642	219,642	-
	93.498 - COVID-19	N/A	-	452,649	452,649	-
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461- COVID-19	N/A	-	28,548	28,548	-
Total Direct Programs			<u>393,045</u>	<u>13,336,089</u>	<u>13,515,710</u>	<u>572,666</u>
Passed through Tennessee Department of Health:						
Cancer and Control Programs for State, Territorial and Tribal Organizations	93.898	GR-21-68710-00	-	9,541	11,893	2,352
HIV Care Formula Grants	93.917	GR-18-55898	148,127	493,964	427,346	81,509
Passed through Tennessee Department of Mental Health and Substance Abuse Services:						
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DGA 65804_2020- 2021_035	12,092	359,636	355,200	7,656
Passed through Tennessee Department of Human Services:						
Community Based Two Generation Services	93.588	34530-75321	-	366,155	366,155	-

(continued on next page)

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JANUARY 31, 2022

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Assistance Listing Number</u>	<u>Contract/grant Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Receivable</u>
U.S. Department of Treasury: Passed through Tennessee Department of Human Services: Tennessee Community CARES Program	21.019 - COVID-19	H8ECS38129	<u>109,722</u>	<u>95,302</u>	<u>(14,420)</u>	<u>-</u>
Total Federal Awards			<u>\$ 662,986</u>	<u>\$ 14,660,687</u>	<u>\$ 14,661,884</u>	<u>\$ 664,183</u>

(1) Denotes a major program

Total Expenditures by Assistance Listing Number:

93.224	\$ 12,427,222
93.527	387,649
93.526	219,642
93.498	452,649
93.461	28,548
93.898	11,893
93.917	427,346
93.959	355,200
93.588	366,155
21.019	<u>(14,420)</u>
	<u>\$ 14,661,884</u>

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

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

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JANUARY 31, 2022

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
State Financial Assistance:						
Tennessee Department of Health:						
Primary Care Services to Uninsured Adults in Tennessee Ages 19-64 (FQHC) (1)	N/A	Z-21-201207-02	\$ 758,160	\$ 758,160	\$ -	\$ -
FQHC Care Coordination Services (1)	N/A	Z-22-245406	<u>-</u>	<u>346,075</u>	<u>1,208,708</u>	<u>862,633</u>
Total State Awards			<u>\$ 758,160</u>	<u>\$ 1,104,235</u>	<u>\$ 1,208,708</u>	<u>\$ 862,633</u>

(1) Based on revenues earned per award.

See accompanying notes to schedules of expenditures of federal and state 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, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the “Schedules”) includes the federal and state grant activity of the Center. The information in the Schedules 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”) and the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee. Because the Schedules present only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedules 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 - PASSED THROUGH TO SUBRECIPIENTS

The Center provided no federal awards to subrecipients.

NOTE 4 - PROVIDER RELIEF FUND

Based on guidance from the Department of Health and Human Services (“HHS”), the Provider Relief Funds (“PRF”) are reported on the SEFA as the funds are reported to HHS thru the Provider Relief Funding Portal. Therefore, the amount of PRF expenditures included on the SEFA at January 31, 2022 is based upon the PRF reporting portal guidelines for Period 1 and Period 2 reporting, as specified by HHS. Reporting Periods 1 and 2 includes PRF receipts from April 10, 2020 to December 31, 2020 for qualifying expenditures during the period of January 1, 2020 through December 31, 2021.

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 January 31, 2022, and the related statement of operations and change in net assets, functional expenses, cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 29, 2022.

REPORT ON 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 or significant deficiencies may exist that were not identified.

REPORT ON 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.

Kraft CPAs PLLC

Nashville, Tennessee
July 29, 2022

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

We have audited United Neighborhood Health Services, Inc. d/b/a Neighborhood Health's (the "Center") compliance with the types of compliance requirements identified as subject to audit in the *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, 2022. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the 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, 2022.

BASIS FOR OPINION ON EACH MAJOR FEDERAL PROGRAM

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and 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* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statues, regulations, rules and provisions of contracts or grant agreements applicable to the Center's federal programs.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF COMPLIANCE

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Kraft CPAs PLLC

Nashville, Tennessee
July 29, 2022

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JANUARY 31, 2022

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):

Assistance Listing Number(s)

Name of Federal Program or Cluster

Health Centers Cluster:
93.224

United States Department of Health and Human Services:
Consolidated Health Centers 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, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no audit findings in the prior or current year.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs in the prior or current year.