

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

*2017*

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

**Financial Statements**

**For the Years Ended  
January 31, 2017 and 2016**

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

Financial Statements

For the Years Ended January 31, 2017 and 2016

Table of Contents

	<u>Page</u>
MEMBERS OF THE BOARD OF DIRECTORS	1
MEMBERS OF MANAGEMENT	2
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
Balance Sheets	6
Statements of Operations and Change in Unrestricted Net Assets	7
Statement of Functional Expenses	8
Statements of Cash Flows	9
NOTES TO THE FINANCIAL STATEMENTS	11
INTERNAL CONTROL AND COMPLIANCE SECTION:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing         Standards</i>	20
Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	22
Schedule of Findings and Questioned Costs	25
Summary Schedule of Prior Year's Findings	27
Schedule of Expenditures of Federal Awards	28
Schedule of State Financial Assistance	29

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

Members of the Board of Directors

<b><u>Board Member Name</u></b>	<b><u>Title</u></b>
Brenda Morrow	President
Leigh Binkley	Vice-President
Claudia Barajas	Secretary
Scott Mertie	Treasurer
Glenn Hunter	Member
Mary Robertson	Member
Angela Ballou	Member
Buddy Comer	Member
Ken McKnight	Member
Mary Owens	Member
Michael Johnson, Sr.	Member
Heather Piper	Member
Candice Haynes	Member
Mary Bufwack	Ex-Officio Member
Samuel Parish	Ex-Officio Member

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Members of Management

<b><u>Name</u></b>	<b><u>Title</u></b>
Mary Bufwack	Chief Executive Officer
Ivan Figueredo	Chief Financial Officer
Anthony Villanueva	Chief Information Officer
Samuel Parish	Chief Medical Officer
Pamela Brillhart	Chief Operating Officer
Michele Blackledge	Director of Oral Health Services
Victoria Mathis	Director of Quality Improvement and Staff Development
Thelma Bigham	Human Resources Director
Grant Guiley	Integrated Health Director

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
United Neighborhood Health Services, Inc. d/b/a Neighborhood Health

***Report on the Financial Statements***

We have audited the accompanying financial statements of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (hereinafter the "Center"), which comprise the balance sheets as of January 31, 2017 and 2016, and the related statements of operations and change in unrestricted net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***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, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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 is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The lists of Members of the Board of Directors and Members of Management is information required by the Comptroller of the State of Tennessee. This information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

The accompanying Schedule of State Financial Assistance 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2017, 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 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 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.

May 24, 2017  
Chattanooga, Tennessee



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

Balance Sheets

January 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,217,868	\$ 5,132,438
Patient accounts receivable, net (Note 3)	417,350	268,041
Contracts receivable (Note 4)	73,178	87,200
Other receivables	854,538	802,453
Prepaid expenses and other current assets	122,970	94,771
Total current assets	<u>6,685,904</u>	<u>6,384,903</u>
Property and equipment, net (Note 7)	7,851,004	7,327,322
Other assets	<u>5,971</u>	<u>5,971</u>
Total assets	<u><u>\$ 14,542,879</u></u>	<u><u>\$ 13,718,196</u></u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 298,256	\$ 140,248
Accrued compensation	693,785	559,364
Total current liabilities	<u>992,041</u>	<u>699,612</u>
Deferred revenue	<u>64,166</u>	<u>67,424</u>
Total liabilities	<u>1,056,207</u>	<u>767,036</u>
Unrestricted net assets:		
Board designated for emergency reserve	1,800,000	1,500,000
Undesignated	<u>11,686,672</u>	<u>11,451,160</u>
Total unrestricted net assets	<u>13,486,672</u>	<u>12,951,160</u>
Total liabilities and unrestricted net assets	<u><u>\$ 14,542,879</u></u>	<u><u>\$ 13,718,196</u></u>

The accompanying notes are an integral part of these financial statements.



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

Statements of Operations and Change in Unrestricted Net Assets

Years Ended January 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted revenue:		
DHHS grants (Note 13)	\$ 8,831,181	\$ 8,002,590
Patient services, net (Note 8)	4,282,885	3,323,592
Contract services (Note 9)	1,216,369	953,323
Donated in-kind revenue (Note 12)	2,688,039	1,803,993
Contributions	86,225	57,716
Primary care safety net services (Note 8)	691,224	614,922
EHR meaningful use	131,924	152,614
Other	47,941	64,506
Total revenue	<u>17,975,788</u>	<u>14,973,256</u>
Expenses:		
Salaries and benefits	10,211,057	8,871,965
Other than personnel services	6,821,094	5,355,588
Interest	—	693
Total expenses	<u>17,032,151</u>	<u>14,228,246</u>
Operating income before depreciation and nonoperating revenue	943,637	745,010
Depreciation	<u>638,746</u>	<u>609,941</u>
Operating income before nonoperating revenue	<u>304,891</u>	<u>135,069</u>
Nonoperating revenue:		
DHHS capital grants (Note 13)	230,621	543,561
Gain on disposal of assets	—	1,358,489
Total nonoperating revenue	<u>230,621</u>	<u>1,902,050</u>
Increase in unrestricted net assets	535,512	2,037,119
Net assets:		
Beginning	<u>12,951,160</u>	<u>10,914,041</u>
Ending	<u>\$ 13,486,672</u>	<u>\$ 12,951,160</u>

The accompanying notes are an integral part of these financial statements.

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

Statement of Functional Expenses

Year Ended January 31, 2017

	Program Services	General and Administrative	Total
Salaries and wages	\$ 6,820,052	\$ 1,785,550	\$ 8,605,602
Fringe benefits	1,272,323	333,132	1,605,455
Healthcare consultants and other			
contractual services	528,913	104,281	633,194
Professional fees	330,651	88,759	419,410
Consumable supplies	401,615	109,542	511,157
Laboratory	365,024	—	365,024
Radiology	5,447	—	5,447
Pharmaceuticals	2,640,979	—	2,640,979
Occupancy	532,726	94,305	627,031
Insurance	31,806	5,817	37,623
Repairs and maintenance	87,220	15,440	102,660
Telephone	71,413	13,059	84,472
Travel, conferences and meetings	53,256	9,739	62,995
Dues and subscriptions	79,278	14,498	93,776
Printing, postage and publications	125,634	22,975	148,609
Staff training	151,110	27,634	178,744
Equipment rental	24,559	4,348	28,907
Other	748,554	132,512	881,066
	<u>14,270,560</u>	<u>2,761,591</u>	<u>17,032,151</u>
Depreciation	542,679	96,067	638,746
	<u>14,813,239</u>	<u>2,857,658</u>	<u>17,670,897</u>
Total expenses	<u>\$ 14,813,239</u>	<u>\$ 2,857,658</u>	<u>\$ 17,670,897</u>

The accompanying notes are an integral part of these financial statements.

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

Statements of Cash Flows

Years Ended January 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from DHHS grants	\$ 8,874,164	\$ 7,934,976
Cash received from patient services	4,133,576	3,408,552
Cash received from contract services	1,227,133	1,115,353
Cash received from other	608,712	652,677
Cash received from contributions	86,225	57,716
Cash received from EHR meaningful use payments	167,309	148,751
Cash paid for interest	—	(693)
Cash paid for personnel costs	(10,076,636)	(8,799,203)
Cash paid for other than personnel costs	(4,003,246)	(3,687,438)
	<u>1,017,237</u>	<u>830,691</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(1,162,428)	(1,574,544)
Proceeds from sale of property and equipment	—	1,800,000
	<u>(1,162,428)</u>	<u>225,456</u>
Net cash (used for) provided by investing activities		
Cash flows from financing activities:		
Proceeds from DHHS capital grants	230,621	543,561
Principal payments of long-term debt	—	(267,879)
	<u>230,621</u>	<u>275,682</u>
Net cash provided by financing activities		
Net increase in cash	85,430	1,331,829
Cash and cash equivalents at beginning of year	<u>5,132,438</u>	<u>3,800,609</u>
Cash and cash equivalents at end of year	<u>\$ 5,217,868</u>	<u>\$ 5,132,438</u>

The accompanying notes are an integral part of these financial statements.

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

Statements of Cash Flows (continued)

Years Ended January 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income before nonoperating revenue to net cash provided by operating activities:		
Operating income before nonoperating revenue	\$ 304,891	\$ 135,069
Adjustments to reconcile operating income before nonoperating revenue to net cash provided by operating activities:		
Depreciation expense	638,746	609,941
Provision for bad debts	428,147	425,303
(Increase) decrease in:		
Patient accounts receivable	(577,456)	(340,343)
Contracts receivable	14,022	153,697
Other receivables	(52,085)	(98,228)
Prepaid expenses and other current assets	(28,199)	(12,914)
Increase (decrease) in:		
Accounts payable and accrued expenses	158,008	(122,929)
Accrued compensation	134,421	72,762
Deferred revenue	(3,258)	8,333
	<u>\$ 1,017,237</u>	<u>\$ 830,691</u>
Net cash provided by operating activities	<u>\$ 1,017,237</u>	<u>\$ 830,691</u>

The accompanying notes are an integral part of these financial statements.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

January 31, 2017 and 2016

NOTE 1 ORGANIZATION

United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the “Center”), operates primary care centers 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 “DHHS”) provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Cash and Cash Equivalents

The Center considers all highly-liquid investments with original maturity dates of three months or less at the time of purchase to be cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable are reported at their outstanding balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical factors related to specific payors’ ability to pay and current economic trends. The Center writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Patient Service Revenue

Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other patient services revenue is recorded at published charges with contractual allowances deducted to arrive at net patient services revenue.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years for equipment and vehicles, and 15 to 40 years for building and improvements. The Center capitalizes all purchases of property and equipment in excess of \$5,000.

Contributions

Contributions are recorded as either temporarily- or permanently-restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily-restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in unrestricted net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue, which require the Center to provide specific services and, if not, the contributor is not obligated to provide these funds. There were no restricted net assets at January 31, 2017 or 2016.

Government Grants

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue. Cash received in excess of revenue recognized is recorded as refundable advances. At January 31, 2017 and 2016, the Center has received conditional grants and contracts from governmental entities in the aggregate amounts of \$1,348,950 and \$328,000, respectively, which have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Interest Income

Interest earned on nonfederal funds is recorded as income on an accrual basis. Interest earned on federal funds is recorded as a payable to the Public Health Service (the "PHS") in compliance with OMB Circular A-110. For the years ended January 31, 2017 and 2016, the Center had not earned any material interest income on federal funds.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Paid Time Off

Employees can earn paid time off based on a formula outlined in the employee handbook. This formula is based on status (exempt or non-exempt) and length of employment with the Center. Employees are also compensated for absences related to illness; however, these benefits are not vested and therefore not accrued. Accrued vacation was \$295,021 and \$253,445 as of January 31, 2017 and 2016, respectively, and is reflected as accrued compensation on the balance sheets.

Income Taxes

The Center was incorporated as a not-for-profit corporation under the laws of the State of Tennessee and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

The Center has adopted FASB ASC 740-10 “*Accounting for Uncertainty in Income Taxes*” (FASB ASC 740-1), which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions within the financial statements. The Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. 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, 2017 or 2016.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2017 and 2016, respectively:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 186,192	\$ 125,109
Private insurance	423,051	260,352
Self-pay	267,842	262,192
TennCare managed care plans	509,656	472,740
	<u>1,386,741</u>	<u>1,120,393</u>
Less allowance for doubtful accounts	<u>(969,391)</u>	<u>(852,352)</u>
	<u>\$ 417,350</u>	<u>\$ 268,041</u>

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

Notes to the Financial Statements

(Continued)

NOTE 4      CONTRACTS RECEIVABLE

Contracts receivable consisted of the following as of January 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 29,600	\$ 29,591
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	23,590	10,574
Adult Continuum of Care	12,836	27,732
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	5,392	18,289
Nashville CARES – HIV Prevention Services	1,760	1,014
	\$ 73,178	\$ 87,200

NOTE 5      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 organizations. During the periods ended January 31, 2017 and 2016, the Center received \$1,585,302 and \$1,286,731, respectively.

NOTE 6      CONCENTRATION OF CREDIT RISK

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. Deposits exceeded the federally-insured limits by \$4,994,029 and \$4,923,247 at January 31, 2017 and 2016, respectively. The Center has not experienced any losses in such accounts. Management does not feel these funds are at risk.



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

Notes to the Financial Statements

(Continued)

NOTE 7 PROPERTY AND EQUIPMENT, NET

A summary of the property and equipment as of January 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,007,443	\$ 749,417
Buildings and building improvements	9,911,374	8,989,316
Medical and dental equipment	765,615	652,663
Office equipment	950,126	925,482
Automobiles	311,494	300,090
Computer equipment and software	1,131,919	1,036,010
Construction in progress	45,902	603,360
	<u>14,123,873</u>	<u>13,256,338</u>
Less accumulated depreciation	<u>(6,272,869)</u>	<u>(5,929,016)</u>
	<u>\$ 7,851,004</u>	<u>\$ 7,327,322</u>

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the Public Health Services (“PHS”) or third parties.

NOTE 8 PATIENT SERVICE REVENUE

For the years ended January 31, 2017 and 2016, patient service revenue consisted of the following:

	<u>2017</u>	<u>2016</u>
Patient service revenue:		
Medicare	\$ 887,689	\$ 670,432
Private insurance	2,173,172	1,327,752
Self-pay	7,328,861	6,095,345
TennCare managed care	3,376,543	2,849,575
Total gross patient services revenue	<u>13,766,265</u>	<u>10,943,104</u>
Less contractual allowance	<u>(9,063,308)</u>	<u>(7,194,209)</u>
Patient service revenue (net of contractual allowances)	4,702,957	3,748,895
Provision for bad debts	<u>(428,147)</u>	<u>(425,303)</u>
Patient services, net	4,282,885	3,323,592
Tennessee Department of Health – Primary Care Safety Net Services	<u>691,224</u>	<u>614,922</u>
Total patient service revenue	<u>\$ 4,974,109</u>	<u>\$ 3,938,514</u>

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

Notes to the Financial Statements

(Continued)

NOTE 8 PATIENT SERVICES, NET (CONTINUED)

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.

NOTE 9 CONTRACT SERVICES

For the years ended January 31, 2017 and 2016, contract services revenue consisted of the following:

	<u>2017</u>	<u>2016</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 355,208	\$ 333,196
United Healthcare Plan of the River Valley, Inc: Pay-For-Value Program	53,142	18,025
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	121,229	174,416
Adult Continuum of Care Program	158,726	124,058
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	163,669	230,947
Tennessee Primary Care Association:		
Disparate Population Health Services Program	119,141	—
Nashville CARES – HIV Prevention Services	113,272	1,014
Other	131,982	71,667
	\$ 1,216,369	\$ 953,323

NOTE 10 COMMITMENTS AND CONTINGENCIES

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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

The Center leases space under various operating leases. Rent expense for the years ended January 31, 2017 and 2016, respectively, amounted to \$411,279 and \$330,618, and is included in occupancy expense on the statement of functional expenses. Future minimum lease payments under noncancelable leases are as follows:

Year ending January 31,

2018	\$	12,000
2019		12,000
2020		12,000
2021		12,000
2022		12,000
		<hr/>
	\$	<u>60,000</u>

NOTE 11 DEFINED CONTRIBUTION 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. Employer-matching contributions were not allowed under the plan. The Center is permitted to make non-elective contributions, but has not made any such contributions as of January 31, 2017 and 2016. The Center sponsored a 401(k) plan which was frozen by the Center's management on June 9, 2014. In January 2016, all of the 401(k) plan assets were transferred into the 403(b) plan, and the 401(k) plan was subsequently terminated.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 12 DONATED IN-KIND REVENUE

The Center occupies three facilities that are separately owned by the Metropolitan Development Housing Agency, HCA Health Services of Tennessee, Inc. and Nashville Rescue Mission. Donated space is recorded at fair value of the space donated. For the years ended January 31, 2017 and 2016, donated space amounted to \$222,473 and \$179,474, respectively, and the offsetting expense is included in occupancy expense on the statement 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, 2017 and 2016, vaccines contributed to the Center amounted to \$2,438,707 and \$1,545,039, respectively, and the offsetting expense is included in pharmaceuticals on the statement of functional expenses.

The Center receives donated laboratory services which are recorded at the fair market value of the services received. For the years ended January 31, 2017 and 2016, services contributed to the Center amounted to \$26,859 and \$79,480, respectively, and the offsetting expense is included in laboratory on the statement of functional expenses.

NOTE 13 DHHS GRANTS

For the year ended January 31, 2017, the Center received the following grants from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue</u>	<u>Unrestricted Revenue Recognized</u>
6 H80CS00394-15-12	02/01/16-01/31/17	\$ 9,708,326	\$ 8,831,181	\$ 150,000	\$ 8,981,181
1 C8DCS29717-01-00	05/01/16-04/30/19	600,446	—	80,621	80,621
		<u>\$ 10,308,772</u>	<u>\$ 8,831,181</u>	<u>\$ 230,621</u>	<u>\$ 9,061,802</u>

For the year ended January 31, 2016, the Center received the following grants from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue</u>	<u>Unrestricted Revenue Recognized</u>
6 H80CS00394-14-12	02/01/15-01/31/16	\$ 8,293,032	\$ 8,002,590	\$ —	\$ 8,002,590
6 C8ACS23803-01-04	05/01/12-04/30/15	1,098,463	—	77,644	77,644
4 C12CS22038-01-03	07/01/11-6/30/15	500,000	—	465,917	465,917
		<u>\$ 9,891,495</u>	<u>\$ 8,002,590</u>	<u>\$ 543,561</u>	<u>\$ 8,546,151</u>

Nonoperating revenue represents amounts used for capital expenditures.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 14 SUBSEQUENT EVENTS

The Center evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation was performed through the date the financial statements were available to be issued, which is May 24, 2017.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Board of Directors  
United Neighborhood Health Services, Inc. d/b/a Neighborhood Health

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center"), a nonprofit organization, which comprise the balance sheets as of January 31, 2017 and 2016, and the related statements of operations and change in unrestricted net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2017.

**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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 in a timely manner. 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

**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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Center in a separate letter dated May 24, 2017.

**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 result of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 24, 2017  
Chattanooga, Tennessee





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

To the Board of Directors  
United Neighborhood Health Services, Inc. d/b/a Neighborhood Health

**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, 2017. 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.

**Auditors' 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.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM  
GUIDANCE (CONTINUED)

**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, 2017.

**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.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM  
GUIDANCE (CONTINUED)

**Report on Internal Control over Compliance (continued)**

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.

May 24, 2017  
Chattanooga, Tennessee



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Schedule of Findings and Questioned Costs

Year Ended January 31, 2017

**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   ✓   No
- Are any significant deficiencies identified?        Yes   ✓   None Reported
- Is any noncompliance material to financial statements noted?        Yes   ✓   No

***Federal Awards***

Internal control over major programs:

- Are any material weaknesses identified?        Yes   ✓   No
- Are any significant deficiencies identified?        Yes   ✓   None Reported

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

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

Identification of major program(s):

CFDA 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

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

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2017

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

\$750,000

Auditee qualified as low-risk auditee?

           Yes

  ✓   No

**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, 2017

*Audit Finding Reference:* 2016-001

*Status of Prior Finding:* Finding was corrected according to action plan during the 2017 fiscal year.

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

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Federal Expenditures
U.S Department of Health and Human Services:			
Direct programs:			
Health Center Cluster Program	93.224	N/A	\$ 8,981,181
Health Infrastructure Investment Program	93.526	N/A	80,621
<b>Total Direct Programs</b>			<u>9,061,802</u>
Passed through Centers for Medicare and Medicaid Services:			
Strong Start for Mothers and Newborns	93.611	N/A	163,669
Passed through Tennessee Department of Mental Health and Substance Abuse Services:			
Adult Continuum of Care	93.959	N/A	158,726
Screening, Brief Intervention and Referral to Treatment (SBIRT)	93.243	N/A	121,229
<b>Total Federal Awards</b>			<u>\$ 9,505,426</u>

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 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 3 SUBRECIPIENTS

The Center provided no federal awards to subrecipients.

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

Schedule of State Financial Assistance

<u>State Grantor</u>	Year Ended January 31, 2017					
	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures/ Revenues</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	GE-16-46710-00	\$ 197,539	\$ 197,539	\$ —	\$ —
	N/A	Z-17-140254-00	—	467,644	691,224	223,580
			<u>\$ 197,539</u>	<u>\$ 665,183</u>	<u>\$ 691,224</u>	<u>\$ 223,580</u>

(1) Based on revenues earned per award.