

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

*2015*

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

**Financial Statements**

**For the Years Ended  
January 31, 2015 and 2014**

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

Financial Statements

For the Years Ended January 31, 2015 and 2014

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## INTRODUCTION

### **Background**

United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the “Center”), operates primary care centers located in the State of Tennessee in the counties of Davidson and Trousdale. The Center provides a broad range of primary health care services to a largely medically underserved population.

### **Scope of Audit**

The financial audit of the Center was performed 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audit covered the 12-month period ended January 31, 2015, and fieldwork was performed during the period from April 13, 2015 to April 17, 2015.

The following were the principal objectives of the organization-wide audit:

- The expression of an opinion on the balance sheets as of January 31, 2015 and 2014, and the related statements of operations and change in unrestricted net assets, and cash flows for the years then ended; The statement of functional expenses, which is not considered a basic financial statement, is presented only for the year ended January 31, 2015, and is presented only for the purpose of additional analysis.
- The expression of an opinion on the schedule of expenditures of federal awards for the year ended January 31, 2015;
- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2015;
- The assessment of the Center’s internal accounting and administrative control structures;
- The performance of cost validations of transaction costs on a test basis;
- The assessment, on a test basis, of the Center’s compliance with the prescribed U.S. Department of Health and Human Services (“DHHS”) cost principles (45 CFR 74, as amended, subpart Q) for selected functional types of costs; and
- To ascertain whether costs claimed for funding under specific grants are fairly presented in conformity with the terms of the grants and related U.S. Department of Health and Human Services cost principles.

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 balance sheets of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health, (hereinafter the "Center") as of January 31, 2015 and 2014, and the related statements of operations and change in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

***Auditors' Responsibility***

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

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



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Auditors' Responsibility (Continued)***

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health as of January 31, 2015 and 2014, 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***

#### **Required 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 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards 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 other 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.

#### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of State Financial Assistance and Statement of Functional Expenses are presented for purposes of additional analysis and are 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2015, 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* and should be considered in assessing the results of our audit.

July 1, 2015  
Chattanooga, Tennessee



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

Balance Sheets

January 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,800,609	\$ 2,671,463
Patient accounts receivable, net (Note 3)	353,001	322,812
Contracts receivable (Note 4)	240,897	90,498
Other receivables	704,225	633,342
Prepaid expenses and other current assets	81,857	94,684
Total current assets	<u>5,180,589</u>	<u>3,812,799</u>
Property and equipment, net (Note 6)	6,804,230	6,941,943
Other assets	<u>5,971</u>	<u>5,971</u>
Total assets	<u>\$ 11,990,790</u>	<u>\$ 10,760,713</u>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Current maturities of long-term debt (Note 8)	\$ 25,520	\$ 55,072
Accounts payable and accrued expenses	263,177	187,441
Accrued compensation	486,602	456,623
Total current liabilities	<u>775,299</u>	<u>699,136</u>
Deferred revenue	59,091	—
Long-term debt, less current maturities (Note 8)	<u>242,359</u>	<u>269,773</u>
Total liabilities	<u>1,076,749</u>	<u>968,909</u>
Unrestricted net assets:		
Board designated for emergency reserve	1,500,000	—
Undesignated	<u>9,414,041</u>	<u>9,791,804</u>
Total unrestricted net assets	<u>10,914,041</u>	<u>9,791,804</u>
Total liabilities and unrestricted net assets	<u>\$ 11,990,790</u>	<u>\$ 10,760,713</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
d/b/a  
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Statements of Operations and Change in Unrestricted Net Assets

Years Ended January 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenue:		
DHHS grants (Note 9)	\$ 7,431,556	\$ 6,738,674
Patient services, net (Note 7)	3,227,844	2,991,452
Contract services (Note 12)	1,194,441	1,282,127
Donated in-kind revenue (Note 10)	1,756,974	789,426
Contributions	61,799	40,388
Primary care safety net services (Note 7)	637,947	581,363
EHR meaningful use	231,980	206,888
Other	38,905	77,034
Total revenue	<u>14,581,446</u>	<u>12,707,352</u>
Expenses:		
Salaries and benefits	8,001,941	7,319,145
Other than personnel services	5,220,895	3,884,495
Interest	13,748	8,355
Total expenses	<u>13,236,584</u>	<u>11,211,995</u>
Operating income before depreciation and nonoperating revenue	1,344,862	1,495,357
Depreciation	<u>589,605</u>	<u>572,477</u>
Operating income before nonoperating revenue	<u>755,257</u>	<u>922,880</u>
Nonoperating revenue:		
DHHS capital grants (Note 9)	366,980	1,012,812
Total nonoperating revenue	<u>366,980</u>	<u>1,012,812</u>
Increase in unrestricted net assets	1,122,237	1,935,692
Net assets:		
Beginning	<u>9,791,804</u>	<u>7,856,112</u>
Ending	<u>\$ 10,914,041</u>	<u>\$ 9,791,804</u>

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



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Statement of Functional Expenses

Year Ended January 31, 2015

	Program Services	General and Administrative	Total
Salaries and wages	\$ 5,197,408	\$ 1,498,289	\$ 6,695,697
Fringe benefits	1,013,907	292,337	1,306,244
Healthcare consultants and other			
contractual services	753,109	95,534	848,643
Professional fees	318,232	137,656	455,888
Consumable supplies	123,749	147,389	271,138
Laboratory	320,428	—	320,428
Pharmaceuticals	1,686,824	—	1,686,824
Occupancy	433,465	46,882	480,347
Insurance	52,242	10,632	62,874
Repairs and maintenance	80,010	8,654	88,664
Telephone	61,585	12,533	74,118
Travel, conferences and meetings	47,156	9,597	56,753
Dues and subscriptions	78,375	15,950	94,325
Printing, postage and publications	59,342	12,077	71,419
Staff training	66,707	13,576	80,283
Equipment rental	21,575	2,333	23,908
Interest	13,748	—	13,748
Other	546,207	59,076	605,283
	<u>10,874,069</u>	<u>2,362,515</u>	<u>13,236,584</u>
Depreciation	532,060	57,545	589,605
	<u>11,406,129</u>	<u>2,420,060</u>	<u>13,826,189</u>
Total expenses	<u>\$ 11,406,129</u>	<u>\$ 2,420,060</u>	<u>\$ 13,826,189</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Statements of Cash Flows

Years Ended January 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from DHHS grants	\$ 7,443,881	\$ 6,726,349
Cash received from patient services	3,197,655	2,944,652
Cash received from contract services	1,103,133	1,200,838
Cash received from other	625,875	728,706
Cash received from contributions	61,799	40,388
Cash received from EHR meaningful use payments	199,749	191,250
Cash paid for interest	(13,748)	(8,355)
Cash paid for personnel costs	(7,971,962)	(7,235,069)
Cash paid for other than personnel costs	<u>(3,375,358)</u>	<u>(3,269,872)</u>
Net cash provided by operating activities	<u>1,271,024</u>	<u>1,318,887</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(451,892)</u>	<u>(1,732,954)</u>
Net cash used for investing activities	<u>(451,892)</u>	<u>(1,732,954)</u>
Cash flows from financing activities:		
Proceeds from DHHS capital grants	366,980	1,012,812
Proceeds from long-term debt	—	300,000
Principal payments of long-term debt	<u>(56,966)</u>	<u>(83,467)</u>
Net cash provided by financing activities	<u>310,014</u>	<u>1,229,345</u>
Net increase in cash	1,129,146	815,278
Cash and cash equivalents at beginning of year	<u>2,671,463</u>	<u>1,856,185</u>
Cash and cash equivalents at end of year	<u>\$ 3,800,609</u>	<u>\$ 2,671,463</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Statements of Cash Flows (continued)

Years Ended January 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income before nonoperating revenue to net cash provided by operating activities:		
Operating income before nonoperating revenue	\$ 755,257	\$ 922,880
Adjustments to reconcile operating income before nonoperating revenue to net cash provided by operating activities:		
Depreciation expense	589,605	572,477
Provision for bad debts	411,781	389,266
(Increase) decrease in:		
Patient accounts receivable	(441,970)	(436,066)
Contracts receivable	(150,399)	117,873
Other receivables	(70,883)	42,483
Prepaid expenses and other current assets	12,827	(507)
Other assets	—	(5,971)
Increase (decrease) in:		
Accounts payable and accrued expenses	75,736	(168,325)
Accrued compensation	29,979	83,939
Deferred revenue	59,091	(199,162)
	<u>\$ 1,271,024</u>	<u>\$ 1,318,887</u>
Net cash provided by operating activities	<u>\$ 1,271,024</u>	<u>\$ 1,318,887</u>
<b><i>Supplemental disclosure information:</i></b>		
Noncash donations of dental equipment	<u>\$ 65,212</u>	<u>\$ —</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, 2015

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 the counties of Davidson and Trousdale. 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 5 to 10 years for equipment and vehicles, and 30 years for building and improvements. The Center capitalizes all purchases of property and equipment in excess of \$1,000.

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. These contributions 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, 2015 or 2014.

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, 2015 and 2014, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$432,975 and \$1,279,606, 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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

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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 \$231,114 and \$207,951 as of January 31, 2015 and 2014, 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 as of January 31, 2015 or 2014. As of January 31, 2015 and 2014, the Center did not record any penalties or interest associated with uncertain tax positions. The federal and state tax returns of the Center for the years prior to 2012 are not subject to examination by the taxing authority.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 204,019	\$ 338,411
Private insurance	308,259	173,661
Self-pay	178,808	203,182
TennCare managed care plans	257,190	455,550
	<u>948,276</u>	<u>1,170,804</u>
Less allowance for doubtful accounts	<u>(595,275)</u>	<u>(847,992)</u>
	<u>\$ 353,001</u>	<u>\$ 322,812</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Notes to the Financial Statements

(Continued)

NOTE 4      CONTRACTS RECEIVABLE

Contracts receivable consisted of the following as of January 31, 2015 and 2014, respectively:

	<u>2015</u>	<u>2014</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 59,190	\$ 29,591
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	22,000	10,849
Adult Continuum of Care	16,140	31,845
United Healthcare Plan of the River Valley, Inc.:		
Pay-For-Value Program	130,475	—
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	13,092	18,213
	\$ 240,897	\$ 90,498

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, 2015 and 2014, the Center received \$1,170,537 and \$1,164,300, respectively.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Notes to the Financial Statements

(Continued)

NOTE 6 PROPERTY AND EQUIPMENT, NET

A summary of the property and equipment as of January 31, 2015 and 2014, respectively, is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 749,417	\$ 749,417
Buildings and building improvements	8,082,228	6,728,979
Medical and dental equipment	607,723	525,265
Office equipment	918,355	888,877
Automobiles	300,090	300,090
Computer equipment and software	1,007,542	975,655
Construction in progress	457,947	1,503,126
	<u>12,123,302</u>	<u>11,671,409</u>
Less accumulated depreciation	<u>(5,319,072)</u>	<u>(4,729,466)</u>
	<u>\$ 6,804,230</u>	<u>\$ 6,941,943</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 7 PATIENT SERVICES, NET

For the years ended January 31, 2015 and 2014, respectively, patient service revenue consisted of the following:

	<u>2015</u>	<u>2014</u>
Patient service revenue:		
Medicare	\$ 609,195	\$ 607,069
Private insurance	1,052,263	649,691
Self-pay	5,944,820	5,765,953
TennCare managed care	2,677,247	2,490,620
Total gross patient services revenue	<u>10,283,525</u>	<u>9,513,333</u>
Less contractual allowance	<u>(6,643,900)</u>	<u>(6,132,615)</u>
	3,639,625	3,380,718
Tennessee Department of Health – Primary Care Safety Net Services	<u>637,947</u>	<u>581,363</u>
Patient service revenue (net of contractual allowances)	4,277,572	3,962,081
Provision for bad debts	<u>(411,781)</u>	<u>(389,266)</u>
Patient services, net	<u>\$ 3,865,791</u>	<u>\$ 3,572,815</u>



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Notes to the Financial Statements

(Continued)

NOTE 7 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 8 LONG-TERM DEBT

Long-term debt consisted of the following at January 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<p>The Center entered into a loan agreement on June 9, 2009, in the amount of \$350,000 to purchase land and a building. The note matured on July 1, 2014. The note required payments in 60 monthly installments of \$6,605, including interest at 5%. The note is secured by property at 1223 Dickerson Pike, Nashville, Tennessee 37207.</p>	\$ —	\$ 32,719
<p>The Center entered into a loan agreement on October 3, 2013, in the amount of \$300,000 to purchase a building. The note matures on October 3, 2023, with interest and principal payments in 120 monthly installments of \$3,141, including interest at 4.65%. The note is secured by property at 3904 Gallatin Pike, Nashville, Tennessee 37216.</p>	267,879	292,126
<p style="padding-left: 40px;">Less current maturities</p>	<u>(25,520)</u>	<u>(55,072)</u>
<p>Long-term portion</p>	<u>\$ 242,359</u>	<u>\$ 269,773</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Notes to the Financial Statements

(Continued)

NOTE 8 LONG-TERM DEBT (CONTINUED)

The aggregate amount of principal payments on long-term debt during the years following January 31, 2015, is as follows:

Year ending January 31,

2016	\$ 25,520
2017	26,717
2018	28,037
2019	29,388
2020	30,803
Thereafter	<u>127,414</u>
	<u>\$ 267,879</u>

NOTE 9 DHHS GRANTS

For the year ended January 31, 2015, 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 H80CS00394-13-08	02/01/14-01/31/15	\$ 7,447,892	\$ 7,431,556	\$ —	\$ 7,431,556
6 C8ACS23803-01-04	05/01/12-04/30/15	1,224,816	—	266,422	266,422
4 C12CS22038-01-03	07/01/11-12/31/14	500,000		2,500	2,500
1 C8BCS23967-01-00	05/01/12-04/30/14	500,000	—	98,058	98,058
		<u>\$ 9,672,708</u>	<u>\$ 7,431,556</u>	<u>\$ 366,980</u>	<u>\$ 7,798,536</u>

For the year ended January 31, 2014, 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 H80CS00394-12-14	02/01/13-01/31/14	\$ 7,028,833	\$ 6,738,674	\$ —	\$ 6,738,674
1 C8ACS23803-01-00	05/01/12-04/30/15	1,224,816	—	646,152	646,152
1 C8BCS23967-01-00	05/01/12-04/30/14	500,000	—	398,243	398,243
		<u>\$ 8,753,649</u>	<u>\$ 6,738,674</u>	<u>\$ 1,012,812</u>	<u>\$ 7,751,486</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 10 DONATED IN-KIND REVENUE

The Center occupies two facilities that are separately owned by the Metropolitan Development Housing Agency and Nashville Rescue Mission. Donated space is recorded at fair value of the space donated. For the years ended January 31, 2015 and 2014, donated space amounted to \$179,474 and \$161,234, 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, 2015 and 2014, vaccines contributed to the Center amounted to \$1,472,288 and \$588,192, 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 each of the years ended January 31, 2015 and 2014, services contributed to the Center amounted to \$40,000, and the offsetting expense is included in laboratory on the statement of functional expenses.

The Center received donated dental equipment which is recorded at the fair market value of the equipment received. For the year ended January 31, 2015, donated equipment amounted to \$65,212, and the offsetting expense is included in medical and dental equipment on the balance sheets.

NOTE 11 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 \$3,772,285 and \$2,764,158 at January 31, 2015 and 2014, 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 12 CONTRACT SERVICES

For the years ended January 31, 2015 and 2014, contract services revenue consisted of the following:

	<u>2015</u>	<u>2014</u>
U.S. Corporation for National Health Service:		
National Association of Community Health Centers: AmeriCorps	\$ —	\$ 37,763
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	355,150	358,141
United Healthcare Plan of the River Valley, Inc: Pay-For-Value Program	209,281	183,745
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	140,932	36,402
Adult Continuum of Care Program	174,583	166,638
Magdalene, Oasis, Room in the Inn's Campus for Human Development:		
PNP Collaborative Program	—	7,095
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	206,552	147,321
United Way of Metropolitan Nashville	29,896	106,485
Bristol-Myers Squibb Foundation, Inc.	—	147,239
Other	78,047	91,298
	<u>\$ 1,194,441</u>	<u>\$ 1,282,127</u>

NOTE 13 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 13 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 employment included 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, 2015 and 2014, respectively, amounted to \$301,198 and \$267,537, 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,

2016	\$ 105,200
2017	82,330
2018	29,978
2019	12,000
2020	12,000
	<hr/>
	\$ 241,508
	<hr/>

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 July 1, 2015.

An offer has been made to purchase 1501 12th Avenue South (Edgehill Clinic) for \$1.8 million. The agreement is contingent upon the Federal Bureau's approval of the transfer of federal interest and closing the Edgehill clinic. As of year-end, the Center has not entered into a sales agreement. The Center has the option to declare the deal null and void without penalty until August 1, 2016, if all approvals are not in place.

INTERNAL CONTROL AND COMPLIANCE SECTION



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 the financial statements of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health, (the "Center"), a nonprofit organization, as of and for the year ended January 31, 2015, and have issued our report thereon dated July 1, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Center's internal control over financial reporting.

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



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 of 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 July 1, 2015.

Restricted Use

The purpose of this 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. This 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. Accordingly, this report is not suitable for any other purpose.

July 1, 2015  
Chattanooga, Tennessee





INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

**Compliance**

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 Circular A-133 *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, 2015. 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**

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the Center's compliance with the applicable compliance requirements based on our compliance audit.

We conducted our compliance audit 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance 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. A compliance 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 compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on the Center's compliance with those requirements.

**Opinion**

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, 2015.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(CONTINUED)

**Internal Control over Compliance**

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our compliance audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, 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 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 in a timely manner. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Restricted Use**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

July 1, 2015  
Chattanooga, Tennessee



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Schedule of Findings and Questioned Costs

Year Ended January 31, 2015

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

*Financial Statements*

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?        Yes   ✓   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?        Yes   ✓   None Reported
- Noncompliance material to financial statements noted?        Yes   ✓   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?        Yes   ✓   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?        Yes   ✓   None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        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, 2015

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

\$300,000

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

Status of Prior Year's Findings

Year Ended January 31, 2015

PRIOR YEAR FINDINGS

No prior year findings were noted.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION -  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying schedule of expenditures of federal awards of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center"), for the year ended January 31, 2015.

**Management's Responsibility**

This schedule of expenditures of federal awards is the responsibility of the Center's management.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the schedule of expenditures of federal awards of the Center based on our audit.

We conducted our audit 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of expenditures of federal awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of expenditures of federal awards. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health in conformity with accounting principles generally accepted in the United States of America.

July 1, 2015



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

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal 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	Not Applicable	\$ 7,431,556
Capital Development Program	93.526	Not Applicable	364,480
Affordable Care Act Grants for School-Based Health Centers Capital Program	93.501	Not Applicable	<u>2,500</u>
<b>Subtotal Health Centers Cluster</b>			<u>7,798,536</u>
Passed through Centers for Medicare and Medicaid Services:			
Strong Start for Mothers and Newborns	93.611	Not Available	206,552
Passed through Tennessee Department of Mental Health and Substance Abuse Services:			
Adult Continuum of Care	93.959	Not Available	174,583
Screening, Brief Intervention and Referral to Treatment (SBIRT)	93.243	Not Available	<u>140,932</u>
<b>Total Federal Awards</b>			<u>\$ 8,320,603</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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 SUBRECIPIENTS

Of the federal expenditures presented in this schedule, the Center provided no federal awards to subrecipients.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION —  
SCHEDULE OF STATE FINANCIAL ASSISTANCE

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

We have audited the financial statements of United Neighborhood Health Services, Inc. d/b/a Neighborhood Health (the "Center"), as of and for the year ended January 31, 2015, and have issued our report thereon dated July 1, 2015, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of State Financial Assistance is presented for the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

July 1, 2015





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

Schedule of State Financial Assistance

<u>State Grantor</u>	Year Ended January 31, 2015					
	<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	GR-14-31397-00	\$ 170,459	\$ 284,198	\$ 113,739	\$ —
	N/A	GR-15-42913-00	—	308,500	524,208	215,708
			<u>\$ 170,459</u>	<u>\$ 592,698</u>	<u>\$ 637,947</u>	<u>\$ 215,708</u>

(1) Based on revenues earned per award.