

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

2018

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

Financial Statements

**For the Years Ended
January 31, 2018 and 2017**

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

Financial Statements

For the Years Ended January 31, 2018 and 2017

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UNITED NEIGHBORHOOD HEALTH SERVICES, INC.
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Members of the Board of Directors

<u>Board Member Name</u>	<u>Title</u>
Brenda Morrow	President
Claudia Barajas	Vice-President
Angela Ballou	Secretary
Scott Mertie	Treasurer
Christopher Salzar-Fields	Member
Carol Titus	Member
Buddy Comer	Member
Ken McKnight	Member
Mary Owens	Member
Michael Johnson, Sr.	Member
Heather Piper	Member
Brian Haile	Ex-Officio Member
Samuel Parish	Ex-Officio Member

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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Members of Management

<u>Name</u>	<u>Title</u>
Brian Haile	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
Mary Bufwack	Chief Executive Officer Emeritus

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, 2018 and 2017, 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, 2018 and 2017, 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 July 26, 2018, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Mathoney Stees & Associates PC

July 26, 2018
Chattanooga, Tennessee



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

January 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,444,283	\$ 5,217,868
Patient accounts receivable, net (Note 3)	547,306	417,350
Contracts receivable (Note 4)	132,717	73,178
Other receivables	821,312	854,538
Prepaid expenses and other current assets	130,299	122,970
Total current assets	<u>8,075,917</u>	<u>6,685,904</u>
Property and equipment, net (Note 7)	8,013,769	7,851,004
Other assets	<u>5,971</u>	<u>5,971</u>
Total assets	<u>\$ 16,095,657</u>	<u>\$ 14,542,879</u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 347,662	\$ 298,256
Accrued compensation	872,865	693,785
Total current liabilities	<u>1,220,527</u>	<u>992,041</u>
Deferred revenue	<u>93,583</u>	<u>64,166</u>
Total liabilities	<u>1,314,110</u>	<u>1,056,207</u>
Unrestricted net assets:		
Board designated for emergency reserve	1,800,000	1,800,000
Undesignated	12,981,547	11,686,672
Total unrestricted net assets	<u>14,781,547</u>	<u>13,486,672</u>
Total liabilities and unrestricted net assets	<u>\$ 16,095,657</u>	<u>\$ 14,542,879</u>

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

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

Years Ended January 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenue:		
DHHS grants (Note 13)	\$ 10,241,495	\$ 8,831,181
Patient services, net (Note 8)	4,414,874	4,282,885
Contract services (Note 9)	1,295,299	1,167,645
Donated in-kind revenue (Note 12)	797,524	2,688,039
Contributions	328,161	86,225
Primary care safety net services (Note 8)	536,617	691,224
Accountable care organization payments (Note 8)	701,730	48,724
EHR meaningful use	—	131,924
Other	38,992	47,941
Total revenue	<u>18,354,692</u>	<u>17,975,788</u>
Expenses:		
Salaries and benefits	11,588,487	10,211,057
Other than personnel services	5,253,819	6,821,094
Total expenses	<u>16,842,306</u>	<u>17,032,151</u>
Operating income before depreciation and nonoperating revenue	1,512,386	943,637
Depreciation	<u>737,336</u>	<u>638,746</u>
Operating income before nonoperating revenue	<u>775,050</u>	<u>304,891</u>
Nonoperating revenue:		
DHHS capital grants (Note 13)	519,825	230,621
Total nonoperating revenue	<u>519,825</u>	<u>230,621</u>
Increase in unrestricted net assets	1,294,875	535,512
Net assets:		
Beginning	<u>13,486,672</u>	<u>12,951,160</u>
Ending	<u>\$ 14,781,547</u>	<u>\$ 13,486,672</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, 2018

	Program Services	General and Administrative	Total
Salaries and wages	\$ 7,735,288	\$ 1,923,180	\$ 9,658,468
Fringe benefits	1,545,752	384,267	1,930,019
Healthcare consultants and other			
contractual services	681,078	117,308	798,386
Professional fees	354,381	60,107	414,488
Consumable supplies	569,839	93,240	663,079
Laboratory	140,667	—	140,667
Radiology	6,900	—	6,900
Pharmaceuticals	920,102	—	920,102
Occupancy	484,440	84,018	568,458
Insurance	45,570	7,828	53,398
Repairs and maintenance	71,326	12,370	83,696
Telephone	79,227	13,610	92,837
Travel, conferences and meetings	31,222	5,363	36,585
Dues and subscriptions	87,416	15,017	102,433
Printing, postage and publications	69,800	11,991	81,791
Staff training	186,659	32,065	218,724
Equipment rental	37,804	6,556	44,360
Other	875,989	151,926	1,027,915
	<u>13,923,460</u>	<u>2,918,846</u>	<u>16,842,306</u>
Depreciation	<u>628,358</u>	<u>108,978</u>	<u>737,336</u>
Total expenses	<u>\$ 14,551,818</u>	<u>\$ 3,027,824</u>	<u>\$ 17,579,642</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from DHHS grants	\$ 10,152,738	\$ 8,874,164
Cash received from patient services	4,284,918	4,133,576
Cash received from contract services	1,265,177	1,178,409
Cash received from other	1,399,322	657,436
Cash received from contributions	328,161	86,225
Cash received from EHR meaningful use payments	—	167,309
Cash paid for personnel costs	(11,409,407)	(10,076,636)
Cash paid for other than personnel costs	<u>(4,414,218)</u>	<u>(4,003,246)</u>
Net cash provided by operating activities	<u>1,606,691</u>	<u>1,017,237</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(900,101)</u>	<u>(1,162,428)</u>
Net cash used for investing activities	<u>(900,101)</u>	<u>(1,162,428)</u>
Cash flows from financing activities:		
Proceeds from DHHS capital grants	<u>519,825</u>	<u>230,621</u>
Net cash provided by financing activities	<u>519,825</u>	<u>230,621</u>
Net increase in cash	1,226,415	85,430
Cash and cash equivalents at beginning of year	<u>5,217,868</u>	<u>5,132,438</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,444,283</u></u>	<u><u>\$ 5,217,868</u></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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income before nonoperating revenue to net cash provided by operating activities:		
Operating income before nonoperating revenue	\$ 775,050	\$ 304,891
Adjustments to reconcile operating income before nonoperating revenue to net cash provided by operating activities:		
Depreciation expense	737,336	638,746
Provision for bad debts	686,157	428,147
(Increase) decrease in:		
Patient accounts receivable	(816,113)	(577,456)
Contracts receivable	(59,539)	14,022
Other receivables	33,226	(52,085)
Prepaid expenses and other current assets	(7,329)	(28,199)
Increase (decrease) in:		
Accounts payable and accrued expenses	49,406	158,008
Accrued compensation	179,080	134,421
Deferred revenue	29,417	(3,258)
	<u>\$ 1,606,691</u>	<u>\$ 1,017,237</u>
Net cash provided by operating activities	<u>\$ 1,606,691</u>	<u>\$ 1,017,237</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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Notes to the Financial Statements

January 31, 2018 and 2017

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.

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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, 2018 or 2017.

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, 2018 and 2017, the Center has received conditional grants and contracts from governmental entities in the aggregate amounts of \$763,202 and \$1,348,950, 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, 2018 and 2017, the Center had not earned any material interest income on federal funds.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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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 \$300,007 and \$295,021 as of January 31, 2018 and 2017, 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, 2018 or 2017.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 285,311	\$ 186,192
Private insurance	576,854	423,051
Self-pay	439,754	267,842
TennCare managed care plans	<u>620,827</u>	<u>509,656</u>
	1,922,746	1,386,741
Less allowance for doubtful accounts	<u>(1,375,440)</u>	<u>(969,391)</u>
	<u>\$ 547,306</u>	<u>\$ 417,350</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

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Notes to the Financial Statements

(Continued)

NOTE 4 CONTRACTS RECEIVABLE

Contracts receivable consisted of the following as of January 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 29,600	\$ 29,600
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	—	23,590
Adult Continuum of Care	20,248	12,836
Tennessee Department of Health:		
Ryan White HIV Core Medical and Support Services	41,154	—
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	—	5,392
NPS 340b Pharmacy Program	5,204	—
Nashville CARES – HIV Prevention Services	36,511	1,760
	<u>\$ 132,717</u>	<u>\$ 73,178</u>

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, 2018 and 2017, the Center received \$1,467,032 and \$1,585,302, 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 \$5,966,576 and \$4,994,029 at January 31, 2018 and 2017, 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.
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Notes to the Financial Statements

(Continued)

NOTE 7 PROPERTY AND EQUIPMENT, NET

A summary of the property and equipment as of January 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,007,443	\$ 1,007,443
Buildings and building improvements	10,639,397	9,911,374
Medical and dental equipment	983,593	765,615
Office equipment	950,126	950,126
Automobiles	311,494	311,494
Computer equipment and software	1,131,919	1,131,919
Construction in progress	—	45,902
	<u>15,023,972</u>	<u>14,123,873</u>
Less accumulated depreciation	<u>(7,010,203)</u>	<u>(6,272,869)</u>
	<u>\$ 8,013,769</u>	<u>\$ 7,851,004</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, 2018 and 2017, patient service revenue consisted of the following:

	<u>2018</u>	<u>2017</u>
Patient service revenue:		
Medicare	\$ 1,076,200	\$ 887,689
Private insurance	2,410,875	2,173,172
Self-pay	9,042,296	7,359,361
TennCare managed care	3,554,996	3,376,543
Total gross patient services revenue	<u>16,084,367</u>	<u>13,796,765</u>
Less contractual allowance	<u>(10,983,336)</u>	<u>(9,085,733)</u>
Patient service revenue (net of contractual allowances)	5,101,031	4,711,032
Provision for bad debts	<u>(686,157)</u>	<u>(428,147)</u>
Patient services, net	4,414,874	4,282,885
Tennessee Department of Health – Primary Care Safety Net Services	536,617	691,224
Accountable Care Organization Payments	<u>701,730</u>	<u>48,724</u>
Total patient service revenue	<u>\$ 5,653,221</u>	<u>\$ 5,022,833</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.
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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, 2018 and 2017, contract services revenue consisted of the following:

	<u>2018</u>	<u>2017</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 355,200	\$ 355,208
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	68,071	121,229
Adult Continuum of Care Program	162,216	158,726
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	5,708	163,669
Tennessee Primary Care Association:		
Disparate Population Health Services Program	17,099	119,141
Nashville CARES – HIV Prevention Services	219,677	113,272
Tennessee Department of Health:		
Ryan White HIV Core Medical and Support Services	88,881	—
Direct Relief Grant	164,167	—
American Cancer Society	37,500	—
NPS 340b Pharmacy Program	61,802	—
Other	91,917	83,258
	<u>\$ 1,295,299</u>	<u>\$ 1,167,645</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

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Notes to the Financial Statements

(Continued)

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.

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, 2018 and 2017, respectively, amounted to \$370,469 and \$411,279, 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,

2019	\$	12,000
2020		12,000
2021		12,000
2022		12,000
2023		12,000
	\$	<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. The Center is permitted to make non-elective contributions, but has not made any such contributions as of January 31, 2018 and 2017. Effective March 1, 2017, the 403(b) plan was restated to allow employer matching contributions to be made into the plan. For the year ended January 31, 2018, employer matching contributions amounted to \$77,422, and are included in fringe benefits expense on the statement of functional expenses.

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 four facilities that are separately owned by the Metropolitan Development Housing Agency, HCA Health Services of Tennessee, Inc., Nashville Rescue Mission, and Nashville CARES. Donated space is recorded at fair value of the space donated. For the years ended January 31, 2018 and 2017, donated space amounted to \$231,073 and \$222,473, 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, 2018 and 2017, vaccines contributed to the Center amounted to \$566,451 and \$2,438,707, 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. No donated laboratory services were received for the year ended January 31, 2018. For the year ended January 31, 2017, services contributed to the Center amounted to \$26,859, and the offsetting expense is included in laboratory on the statement of functional expenses.

NOTE 13 DHHS GRANTS

For the year ended January 31, 2018, 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 H80CS00394-16-07	02/01/17-01/31/18	\$ 10,229,795	\$ 10,241,495	\$ —	\$ 10,241,495
1 C8DCS29717-01-00	05/01/16-04/30/19	600,446	—	519,825	519,825
		<u>\$ 10,830,241</u>	<u>\$ 10,241,495</u>	<u>\$ 519,825</u>	<u>\$ 10,761,320</u>

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>

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 July 26, 2018.

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, 2018 and 2017, 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 July 26, 2018.

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 July 26, 2018.

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.

Mathoney Stees & Associates PC

July 26, 2018
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, 2018. 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, 2018.

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.

Mathoney Stees & Associates PC

July 26, 2018
Chattanooga, Tennessee



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Schedule of Findings and Questioned Costs

Year Ended January 31, 2018

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, 2018

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, 2018

PRIOR YEAR FINDINGS

No prior year findings were noted.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2018

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	\$ 10,241,495
Health Infrastructure Investment Program	93.526	N/A	519,825
Total Direct Programs			<u>10,761,320</u>
Passed through Centers for Medicare and Medicaid Services:			
Strong Start for Mothers and Newborns	93.611	N/A	5,708
Passed through Tennessee Department of Health:			
Ryan White HIV Core Medical and Support Services	93.917	N/A	88,881
Passed through Tennessee Department of Mental Health and Substance Abuse Services:			
Adult Continuum of Care	93.959	N/A	162,216
Screening, Brief Intervention and Referral to Treatment (SBIRT)	93.243	N/A	<u>68,071</u>
Total Federal Awards			<u>\$ 11,086,196</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 Expenditures of Federal Awards (Continued)

Year Ended January 31, 2018

NOTE 4 INDIRECT COST RATE

The Center has elected to use the 10-percent de minimis indirect cost rate allowed under the uniform guidance.

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

Schedule of State Financial Assistance

Year Ended January 31, 2018

<u>State Grantor</u>	<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	Z-17-140254-00	\$ 223,580	\$ 223,580	\$ —	\$ —
	N/A	Z-18-81439-00	—	359,289	536,617	177,328
			<u>\$ 223,580</u>	<u>\$ 582,869</u>	<u>\$ 536,617</u>	<u>\$ 177,328</u>

(1) Based on revenues earned per award.