

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

*2019*

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

**Financial Statements**

**For the Years Ended  
January 31, 2019 and 2018**



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

Financial Statements

For the Years Ended January 31, 2019 and 2018

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

<b><u>Board Member Name</u></b>	<b><u>Title</u></b>
Claudia Barajas	President
Angela Ballou	Vice-President
Brenda Morrow	Secretary
Scott Mertie	Treasurer
Stephen Smith	Member
Carol Titus	Member
Buddy Comer	Member
Amanda Lowe	Member
Mary Owens	Member
Michael Johnson, Sr.	Member
Barb Zipperian	Member
Brian Haile	Ex-Officio Member

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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Members of Management

<b><u>Name</u></b>	<b><u>Title</u></b>
Brian Haile	Chief Executive Officer
Ivan Figueredo	Chief Financial Officer
Anthony Villanueva	Chief Information Officer
Rahaman Suara	Chief Clinical Officer
Bianca Granger	Chief Operating Officer
Michele Blackledge	Director of Oral Health Services
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, 2019 and 2018, and the related statements of operations and change in net assets without donor restriction, 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, 2019 and 2018, 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. 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)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, 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

June 28, 2019  
Chattanooga, Tennessee





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

Balance Sheets

January 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,636,616	\$ 6,444,283
Patient accounts receivable, net (Note 3)	660,457	547,306
Contracts receivable (Note 4)	196,081	132,717
Other receivables	1,364,093	821,312
Prepaid expenses and other current assets	145,872	130,299
Total current assets	<u>7,003,119</u>	<u>8,075,917</u>
Property and equipment, net (Note 5)	8,297,480	8,013,769
Other assets	<u>5,971</u>	<u>5,971</u>
Total assets	<u><u>\$ 15,306,570</u></u>	<u><u>\$ 16,095,657</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 308,893	\$ 347,662
Accrued compensation	938,019	872,865
Total current liabilities	<u>1,246,912</u>	<u>1,220,527</u>
Deferred revenue	<u>64,417</u>	<u>93,583</u>
Total liabilities	<u>1,311,329</u>	<u>1,314,110</u>
Net assets without donor restriction:		
Board designated for emergency reserve	2,295,727	1,800,000
Undesignated	<u>11,699,514</u>	<u>12,981,547</u>
Total net assets without donor restriction	<u>13,995,241</u>	<u>14,781,547</u>
Total liabilities and net assets without donor restriction	<u><u>\$ 15,306,570</u></u>	<u><u>\$ 16,095,657</u></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 Net Assets Without Donor Restriction

January 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenue without donor restriction:		
DHHS grants (Note 8)	\$ 10,237,656	\$ 10,241,495
Patient services, net (Note 9)	4,985,236	4,414,874
Contract services (Note 11)	1,401,266	1,295,299
Donated in-kind revenue (Note 13)	697,654	797,524
Contributions	175,426	328,161
Primary care safety net services (Note 9)	564,436	536,617
Accountable care organization payments (Note 9)	440,839	701,730
Other	73,355	38,992
Total revenue	<u>18,575,868</u>	<u>18,354,692</u>
Expenses:		
Salaries and benefits	13,072,682	11,588,487
Other than personnel services	5,528,459	5,253,819
Total expenses	<u>18,601,141</u>	<u>16,842,306</u>
Operating (loss) income before depreciation and nonoperating revenue	(25,273)	1,512,386
Depreciation	<u>761,033</u>	<u>737,336</u>
Operating (loss) income before nonoperating revenue	<u>(786,306)</u>	<u>775,050</u>
Nonoperating revenue:		
DHHS capital grants (Note 8)	<u>—</u>	<u>519,825</u>
Total nonoperating revenue	<u>—</u>	<u>519,825</u>
(Decrease) increase in net assets without donor restriction	(786,306)	1,294,875
Net assets:		
Beginning	<u>14,781,547</u>	<u>13,486,672</u>
Ending	<u>\$ 13,995,241</u>	<u>\$ 14,781,547</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Statements of Functional Expenses

	2019			2018		
	Program Services	General and Administrative	Total	Program Services	General and Administrative	Total
Salaries and wages	\$ 8,656,943	\$ 2,105,531	\$ 10,762,474	\$ 7,735,288	\$ 1,923,180	\$ 9,658,468
Fringe benefits	1,858,331	451,877	2,310,208	1,545,752	384,267	1,930,019
Healthcare consultants and other contractual services	800,241	210,987	1,011,228	681,078	117,308	798,386
Professional fees	417,253	128,002	545,255	354,381	60,107	414,488
Consumable supplies	427,450	123,130	550,580	569,839	93,240	663,079
Laboratory	107,139	—	107,139	140,667	—	140,667
Radiology	27,613	—	27,613	6,900	—	6,900
Pharmaceuticals	817,950	—	817,950	920,102	—	920,102
Occupancy	538,355	81,798	620,153	484,440	84,018	568,458
Insurance	50,863	7,904	58,767	45,570	7,828	53,398
Repairs and maintenance	76,057	11,556	87,613	71,326	12,370	83,696
Telephone	115,585	17,962	133,547	79,227	13,610	92,837
Travel, conferences and meetings	38,584	5,996	44,580	31,222	5,363	36,585
Dues and subscriptions	93,262	14,493	107,755	87,416	15,017	102,433
Printing, postage and publications	55,477	8,621	64,098	69,800	11,991	81,791
Staff training	161,686	25,126	186,812	186,659	32,065	218,724
Equipment rental	42,178	6,409	48,587	37,804	6,556	44,360
Other	969,478	147,304	1,116,782	875,989	151,926	1,027,915
Depreciation	15,254,445	3,346,696	18,601,141	13,923,460	2,918,846	16,842,306
	660,653	100,380	761,033	628,358	108,978	737,336
Total expenses	\$ 15,915,098	\$ 3,447,076	\$ 19,362,174	\$ 14,551,818	\$ 3,027,824	\$ 17,579,642

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.  
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Statements of Cash Flows

January 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from DHHS grants	\$ 10,175,194	\$ 10,152,738
Cash received from patient services	4,872,085	4,284,918
Cash received from contract services	1,308,736	1,265,177
Cash received from other	598,311	1,399,322
Cash received from contributions	110,134	328,161
Cash paid for personnel costs	(13,007,528)	(11,409,407)
Cash paid for other than personnel costs	<u>(4,819,855)</u>	<u>(4,414,218)</u>
Net cash (used for) provided by operating activities	<u>(762,923)</u>	<u>1,606,691</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(1,044,744)</u>	<u>(900,101)</u>
Net cash used for investing activities	<u>(1,044,744)</u>	<u>(900,101)</u>
Cash flows from financing activities:		
Proceeds from DHHS capital grants	<u>—</u>	<u>519,825</u>
Net cash provided by financing activities	<u>—</u>	<u>519,825</u>
Net (decrease) increase in cash	(1,807,667)	1,226,415
Cash and cash equivalents at beginning of year	<u>6,444,283</u>	<u>5,217,868</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,636,616</u></u>	<u><u>\$ 6,444,283</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)

January 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating (loss) income before nonoperating revenue to net cash (used for) provided by operating activities:		
Operating (loss) income before nonoperating revenue	\$ (786,306)	\$ 775,050
Adjustments to reconcile operating (loss) income before nonoperating revenue to net cash (used for) provided by operating activities:		
Depreciation expense	761,033	737,336
Provision for bad debts	902,802	686,157
(Increase) decrease in:		
Patient accounts receivable	(1,015,953)	(816,113)
Contracts receivable	(63,364)	(59,539)
Other receivables	(542,781)	33,226
Prepaid expenses and other current assets	(15,573)	(7,329)
Increase (decrease) in:		
Accounts payable and accrued expenses	(38,769)	49,406
Accrued compensation	65,154	179,080
Deferred revenue	(29,166)	29,417
	<u>(762,923)</u>	<u>1,606,691</u>
Net cash (used for) provided by operating activities	<u>\$ (762,923)</u>	<u>\$ 1,606,691</u>

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



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

January 31, 2019 and 2018

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 classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as net assets with donor restrictions and net assets without donor restrictions. Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets with donor restrictions are subject to donor-imposed stipulations. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restriction, which require the Center to provide specific services and, if not, the contributor is not obligated to provide these funds. There were no net assets with donor restrictions at January 31, 2019 or 2018.

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 nonoperating revenue without donor restriction. Cash received in excess of revenue recognized is recorded as refundable advances. At January 31, 2019 and 2018, the Center has been approved for conditional grants and contracts from governmental entities in the aggregate amounts of \$898,054 and \$763,202, 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, 2019 and 2018, 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 \$352,219 and \$300,007 as of January 31, 2019 and 2018, respectively, and is reflected as accrued compensation on the balance sheets.

Functional Allocation of Expenses

The costs of providing program service expense and other activities have been summarized on a functional basis in the statement of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Fringe benefits	% of salaries
Other consulting	Square footage
Occupancy	Square footage
Insurance	Full time equivalent
Repairs and maintenance	Square footage
Telephone	Full time equivalent
Travel, conferences and meetings	Full time equivalent
Dues and subscriptions	Full time equivalent
Printing, postage and publications	Full time equivalent
Staff training	Full time equivalent
Equipment rental	Square footage
Other	Square footage
Depreciation	Square footage

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 740-10), 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, 2019 or 2018.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Center has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 481,822	\$ 285,311
Private insurance	831,393	576,854
Self-pay	637,000	439,754
TennCare managed care plans	599,107	620,827
	<u>2,549,322</u>	<u>1,922,746</u>
Less allowance for doubtful accounts	<u>(1,888,865)</u>	<u>(1,375,440)</u>
Patient accounts receivable, net	<u>\$ 660,457</u>	<u>\$ 547,306</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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 29,600	\$ 29,600
Tennessee Department of Mental Health and Substance Abuse Services:		
Medication Assisted Treatment for Opioid Use	28,045	—
Adult Continuum of Care	1,105	20,248
Tennessee Department of Health:		
Ryan White HIV Core Medical and Support Services	71,967	41,154
State of Tennessee Health Care Innovation Initiative – Patient Centered Medical Home	14,218	—
NPS 340b Pharmacy Program	2,460	5,204
Nashville CARES – HIV Prevention Services	29,936	36,511
American Cancer Society	18,750	—
	<u>\$ 196,081</u>	<u>\$ 132,717</u>

NOTE 5      PROPERTY AND EQUIPMENT, NET

A summary of the property and equipment as of January 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,218,743	\$ 1,007,443
Buildings and building improvements	11,201,612	10,639,397
Medical and dental equipment	1,010,177	983,593
Office equipment	969,873	950,126
Automobiles	324,994	311,494
Computer equipment and software	1,131,919	1,131,919
	<u>15,857,318</u>	<u>15,023,972</u>
Less accumulated depreciation	(7,559,838)	(7,010,203)
	<u>\$ 8,297,480</u>	<u>\$ 8,013,769</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.

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Notes to the Financial Statements

(Continued)

NOTE 6 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, 2019 and 2018, the Center received \$1,964,120 and \$1,467,032, respectively.

NOTE 7 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 \$1,304,444 and \$5,966,576 at January 31, 2019 and 2018, respectively. The Center has not experienced any losses in such accounts. Management does not feel these funds are at risk.

NOTE 8 DHHS GRANTS

For the year ended January 31, 2019, 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>Revenue Recognized without Donor Restriction</u>
6 H80CS00394-17-12	02/01/18-01/31/19	\$ 10,420,265	\$ 10,237,656	\$ —	\$ 10,237,656
1 C8DCS29717-01-00	05/01/16-04/30/19	600,446	—	—	—
		<u>\$ 11,020,711</u>	<u>\$ 10,237,656</u>	<u>\$ —</u>	<u>\$ 10,237,656</u>

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>Revenue Recognized without Donor Restriction</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>

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 9 PATIENT SERVICE REVENUE

For the years ended January 31, 2019 and 2018, patient service revenue consisted of the following:

	<u>2019</u>	<u>2018</u>
Patient service revenue:		
Medicare	\$ 1,110,511	\$ 1,076,200
Private insurance	3,058,142	2,410,875
Self-pay	8,788,692	9,042,296
TennCare managed care	3,661,583	3,554,996
Total gross patient services revenue	<u>16,618,928</u>	<u>16,084,367</u>
Less contractual allowance	<u>(10,730,890)</u>	<u>(10,983,336)</u>
Patient service revenue (net of contractual allowances)	5,888,038	5,101,031
Provision for bad debts	<u>(902,802)</u>	<u>(686,157)</u>
Patient services, net	4,985,236	4,414,874
Tennessee Department of Health – Primary Care Safety Net Services Accountable care organization payments	<u>440,839</u>	<u>701,730</u>
Total patient service revenue	<u>\$ 5,990,511</u>	<u>\$ 5,653,221</u>

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 10 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, 2019 and 2018. Effective March 1, 2017, the 403(b) plan was restated to allow employer matching contributions to be made into the plan. For the years ended January 31, 2019 and 2018, employer matching contributions amounted to \$97,063 and \$77,422, respectively, and are included in fringe benefits expense on the statements of functional expenses.

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

Notes to the Financial Statements

(Continued)

NOTE 11 CONTRACT SERVICES

For the years ended January 31, 2019 and 2018, contract services revenue consisted of the following:

	<u>2019</u>	<u>2018</u>
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	\$ 355,200	\$ 355,200
Tennessee Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	—	68,071
Adult Continuum of Care Program	8,476	162,216
Medication Assisted Treatment for Opioid Use	169,150	—
U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services:		
Strong Start for Mothers and Newborns	—	5,708
Tennessee Primary Care Association:		
Disparate Population Health Services Program	—	17,099
Nashville CARES – HIV Prevention Services	182,866	219,677
Tennessee Department of Health:		
Ryan White HIV Core Medical and Support Services	422,834	88,881
Direct Relief Grant	29,167	164,167
American Cancer Society	37,500	37,500
NPS 340b Pharmacy Program	103,073	61,802
Interfaith Dental	25,000	—
Other	68,000	91,917
	<u>\$ 1,401,266</u>	<u>\$ 1,272,238</u>

NOTE 12 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 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

The Center leases space under various operating leases. Rent expense for the years ended January 31, 2019 and 2018, respectively, amounted to \$374,667 and \$370,469, 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>12,000</u>
	\$	<u>60,000</u>

NOTE 13 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, 2019 and 2018, donated space amounted to \$231,073, 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, 2019 and 2018, vaccines contributed to the Center amounted to \$466,581 and \$566,451, respectively, and the offsetting expense is included in pharmaceuticals on the statement of functional expenses.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Notes to the Financial Statements

(Continued)

NOTE 13 DONATED IN-KIND REVENUE (CONTINUED)

The Center receives an in-kind donation of lab services for its indigent patients from the lab supplier through waiver of the fees for certain patients who qualify. There is not cost or revenue recoded for these services but the estimated value is approximately \$300,000.

NOTE 14 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure within one year are as follows:

	2019	2018
Cash and cash equivalents	\$ 4,636,616	\$ 6,444,283
Patient accounts receivable, net	660,457	547,306
Contracts receivable	196,081	132,717
Other receivables	1,364,093	821,312
	<u>\$ 6,857,247</u>	<u>\$ 7,945,618</u>

As part of the Center's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center has a policy to maintain a balance of cash to meet 45 days of operating expenses.

NOTE 15 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 June 28, 2018.

On March 29, 2019, the Center entered into a \$600,000, ten-year note payable for renovations at the Welshwood Clinic, which was purchased during the 2019 fiscal year.

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, 2019 and 2018, and the related statements of operations and change in net assets without donor restriction, 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 June 28, 2019.

**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 June 28, 2019.

**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

June 28, 2019  
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, 2019. 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, 2019.

**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*

June 28, 2019  
Chattanooga, Tennessee





UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

d/b/a

NEIGHBORHOOD HEALTH

Schedule of Findings and Questioned Costs

Year Ended January 31, 2019

**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, 2019

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, 2019

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, 2019

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	\$ 10,237,656
<b>Total Direct Programs</b>			<u>10,237,656</u>
Passed through Tennessee Department of Health:			
Ryan White HIV Core Medical and Support Services	93.917	N/A	422,834
Passed through Tennessee Department of Mental Health and Substance Abuse Services:			
Adult Continuum of Care	93.959	N/A	8,476
Medication Assisted Treatment for Opioid Use	93.788	N/A	<u>169,150</u>
<b>Total Federal Awards</b>			<u>\$ 10,838,116</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.

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  
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Schedule of State Financial Assistance

January 31, 2019 and 2018

State Grantor	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures/ Revenues	Ending Receivable
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 N/A	Z-18-81439-00 Z-19-81439-00	\$ 177,448 —	\$ 177,448 393,483	\$ — 564,436	\$ — 170,953
			<u>\$ 177,448</u>	<u>\$ 570,931</u>	<u>\$ 564,436</u>	<u>\$ 170,953</u>

(1) Based on revenues earned per award.

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