

FRONTIER HEALTH
CONSOLIDATED FINANCIAL REPORT
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Frontier Health
Gray, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Frontier Health (a nonprofit organization) and affiliate (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frontier Health and affiliate as of June 30, 2016, and the changes in their net assets and cash flows for the year then ended in accordance 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 consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the Comptroller of the Treasury, State of Tennessee, and is also not a required part of the consolidated financial statements. The other additional schedules listed under other supplementary information in the table of contents are presented for purposes of additional analysis as required by local funding agencies and are also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 October 18, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Organization's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
October 18, 2016

FRONTIER HEALTH
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,730,983
Net patient accounts receivable, less allowance for uncollectible accounts of \$282,700 and contractual allowance of \$906,005	4,309,476
Grants receivable	1,706,461
Other receivables, less allowance for uncollectible accounts of \$428,813	929,203
Inventories	128,793
Prepaid expenses	637,421
Total current assets	<u>11,442,337</u>
ASSETS LIMITED AS TO USE	
Sunhouse M/R VHDA deposits	44,639
Self-insurance deposits	95,581
Investments designated for capital improvements	4,268,210
Deposits	11,936
Total assets limited as to use	<u>4,420,366</u>
PROPERTY AND EQUIPMENT	
Land and improvements	3,020,381
Buildings and improvements	23,923,528
Equipment and vehicles	10,090,140
Construction in progress	222,537
Total property and equipment	<u>37,256,586</u>
Less: accumulated depreciation	<u>23,583,268</u>
	<u>13,673,318</u>
INVESTMENTS	
	<u>20,506,608</u>
Total assets	<u><u>\$ 50,042,629</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 825,643
Current maturities of long-term debt	17,884
Accrued salaries and related expenses	5,715,476
Unearned revenue	345,725
Total current liabilities	<u>6,904,728</u>
LONG-TERM DEBT, less current maturities	
	<u>92,682</u>
Total liabilities	<u>6,997,410</u>
UNRESTRICTED NET ASSETS	
	<u>43,045,219</u>
Total liabilities and net assets	<u><u>\$ 50,042,629</u></u>

The Notes to Consolidated Financial Statements
are an integral part of this statement.

FRONTIER HEALTH
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

REVENUES, GAINS, AND OTHER SUPPORT

Net patient service revenue	\$ 26,234,330
Net premium revenue	1,694,810
State of Tennessee grants	14,666,695
State of Virginia grants	3,993,660
Fees – contracted services	3,682,163
Local support	1,111,850
Contributions	415,574
Other	326,876
Investment return	281,547
Other gains	11,384
	<hr/>
Total revenues, gains, and other support	52,418,889
	<hr/>

EXPENSES

Tennessee services:	
Mental health outpatient	17,118,083
Substance abuse outpatient	3,743,358
Intellectual disabilities	1,423,511
Drop-in centers	567,124
Residential	10,571,323
Rehabilitation	544,524
Other	1,113,130
Virginia services:	
Mental health services	6,525,630
Substance abuse services	1,467,340
Mental intellectual disabilities	4,015,179
Administrative and general	5,713,591
	<hr/>
Total expenses	52,802,793
	<hr/>
Change in unrestricted net assets	(383,904)

NET ASSETS, UNRESTRICTED

Beginning	43,429,123
	<hr/>
Ending	\$ 43,045,219
	<hr/> <hr/>

FRONTIER HEALTH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year Ended June 30, 2016

	Tennessee Mental Health Outpatient	Tennessee Substance Abuse Outpatient	Tennessee Intellectual Disabilities	Tennessee Drop-In Centers	Tennessee Residential	Tennessee Rehabilitation
EXPENSES						
Personnel:						
Salaries and wages	\$ 10,781,715	\$ 2,400,486	\$ 797,013	\$ 281,265	\$ 6,431,262	\$ 339,852
Employee benefits and payroll taxes	2,819,030	645,639	192,286	67,670	1,583,428	85,672
Total personnel expenses	13,600,745	3,046,125	989,299	348,935	8,014,690	425,524
Other:						
Professional fees	1,038,405	47,909	11,712	2,556	357,233	13,793
Supplies	291,283	78,658	57,754	47,551	1,043,321	16,149
Telephone	308,166	82,535	47,334	28,176	150,714	13,842
Postage and shipping	26,300	4,153	1,224	718	6,523	572
Occupancy	538,730	106,011	126,164	35,849	414,126	19,223
Equipment rental and maintenance	32,204	6,618	9,191	975	26,955	1,365
Printing and publications	98,708	21,370	3,006	3,665	21,574	2,890
Travel	389,556	81,941	48,139	24,254	108,407	12,181
Conferences and meetings	61,278	10,880	1,651	11,396	7,806	4,621
Interest	-	-	-	-	9,813	-
Insurance	162,875	21,762	6,095	2,948	35,505	1,733
Specific assistance to individuals	157,994	139,302	-	-	52,606	1,070
Depreciation	378,139	91,996	121,696	59,988	304,333	29,404
Dues	10,840	834	246	113	3,489	426
Bad Debts	22,860	3,264	-	-	14,228	1,731
Total nonpersonnel expenses	3,517,338	697,233	434,212	218,189	2,556,633	119,000
TOTAL DIRECT PROGRAM EXPENSE	17,118,083	3,743,358	1,423,511	567,124	10,571,323	544,524
Administrative expenses	2,114,992	481,026	161,047	74,333	1,245,238	69,536
TOTAL DIRECT AND ADMINISTRATIVE EXPENSES	<u>\$ 19,233,075</u>	<u>\$ 4,224,384</u>	<u>\$ 1,584,558</u>	<u>\$ 641,457</u>	<u>\$ 11,816,561</u>	<u>\$ 614,060</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Tennessee Other	Virginia Mental Health Services	Virginia Substance Abuse Services	Virginia Mental Intellectual Disabilities	Administrative and General	Total
\$ 378,059	\$ 3,650,349	\$ 780,833	\$ 2,299,494	\$ 2,435,330	\$ 30,575,658
94,250	957,700	203,661	585,613	809,550	8,044,499
472,309	4,608,049	984,494	2,885,107	3,244,880	38,620,157
75,404	568,559	206,868	54,427	958,342	3,335,208
347,111	175,231	60,639	210,027	164,815	2,492,539
14,575	141,690	30,889	64,182	127,136	1,009,239
1,102	6,876	1,582	3,129	35,267	87,446
145,000	317,898	61,037	140,751	194,492	2,099,281
3,362	18,166	3,519	6,906	4,782	114,043
2,710	22,513	4,873	10,212	40,548	232,069
13,649	89,264	36,451	97,232	48,409	949,483
22,826	27,076	19,768	14,365	22,652	204,319
-	-	-	-	-	9,813
723	41,746	9,125	18,642	431,504	732,658
-	264,304	2,811	407,598	-	1,025,685
13,007	217,319	41,339	101,329	370,810	1,729,360
1,353	2,584	652	1,305	69,954	91,796
(1)	24,355	3,293	(33)	-	69,697
640,821	1,917,581	482,846	1,130,072	2,468,711	14,182,636
1,113,130	6,525,630	1,467,340	4,015,179	5,713,591	52,802,793
55,949	814,002	179,562	517,906	-	-
\$ 1,169,079	\$ 7,339,632	\$ 1,646,902	\$ 4,533,085	\$ 5,713,591	\$ 52,802,793

FRONTIER HEALTH
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (383,904)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,729,360
Gain on sales of property and equipment	(11,383)
Net realized gains on sale of investments	(171,213)
Net unrealized loss on investments	614,882
Changes in operating assets and liabilities:	
Patient accounts receivable	(61,043)
Grants receivable	166,882
Other receivables	76,396
Inventories	7,907
Prepaid expenses	(12,972)
Deposits	(1,341)
Assets limited as to use	85,602
Accounts payable and accrued expenses	(463,183)
Accrued salaries and related expenses	258,748
Unearned revenue	320,521
	<hr/>
Net cash provided by operating activities	<u>2,155,259</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(731,750)
Proceeds from sale of property and equipment	33,929
Proceeds from maturities, calls, and sales of investments	11,768,028
Purchases of investments	(12,829,167)
	<hr/>
Net cash used in investing activities	<u>(1,758,960)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on long-term debt	(16,464)
	<hr/>
Net increase in cash and cash equivalents	379,835

CASH AND CASH EQUIVALENTS

Beginning	<u>3,351,148</u>
Ending	<u><u>\$ 3,730,983</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for interest	<u><u>\$ 9,927</u></u>
In-kind facility rental donations	<u><u>\$ 82,600</u></u>

FRONTIER HEALTH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities:

Frontier Health (“Frontier”) is a private not-for-profit organization with over 60 facilities across its region. Headquartered in Washington County, Tennessee, Frontier offers an array of services in the areas of mental health, family violence, mental retardation, vocational rehabilitation, developmental disabilities, and substance abuse. Frontier’s primary service area includes eight counties in Northeast Tennessee – Hancock, Hawkins, Greene, Washington, Unicoi, Carter, Johnson and Sullivan counties and four counties in Southwest Virginia – Lee, Wise, Scott, and Washington counties and the City of Norton, Virginia. Frontier employs more than a thousand individuals from these service areas to provide the wide array of services offered.

Frontier Health Foundation solicits, receives, holds, administers, invests, and disburses funds to be used for and on behalf of Frontier’s programs.

Principles of consolidation:

The consolidated financial statements include the accounts of Frontier Health and the Frontier Health Foundation (collectively, the “Organization”). All significant inter-entity transactions and balances have been eliminated in the consolidation.

Basis of Accounting and Financial Reporting:

The consolidated financial statements of the Organization have been prepared in accordance with the accounting principles generally accepted in the United States of America. The financial statements present information regarding the Organization’s financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated by donor restrictions.

Unrestricted net assets – net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may be met by actions of the Organization or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Organization.

The Organization currently has no temporarily or permanently restricted net assets.

Cash and cash equivalents:

The Organization considers highly liquid investments with a maturity of three months or less to be cash equivalents. Accounts in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, cash balances may exceed these limits; however, the Organization does not believe it is subject to any significant credit risk as a result of these deposits.

FRONTIER HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Net patient service revenue and accounts receivable:

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

Accounts receivable are recorded at the net expected reimbursement or are otherwise reduced to a net expected reimbursement through the allowances for contractual adjustments and uncollectible accounts.

Inventories:

Inventories consist primarily of psychiatric testing supplies, marketing merchandise, raw materials for the vocational rehabilitation training program, and donated household items for resale at the thrift store. Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Household items donated to the organization's thrift store are recorded at their estimated fair value.

Assets limited as to use:

Assets limited as to use include funds set aside by the Board of Directors for specific purposes, over which the Board retains control and may at its discretion subsequently use for other purposes. Other assets limited as to use include certain restricted deposit accounts, which are required by a regulatory agreement with VHDA to be held in a separate bank account.

Property and equipment:

Property and equipment are carried at cost if purchased or at fair market value if donated. Expenditures for improvements and betterments which substantially increase the useful lives of existing property and equipment are capitalized; maintenance, repairs, and minor renewals are expensed. Land, buildings, improvements, construction, and equipment that have a useful life of two years or more are capitalized, including those acquired through capital leases. Furniture and equipment with a unit cost of \$1,000 or more are capitalized. Leasehold improvements (including painting) with a cost exceeding \$2,500 are capitalized. The Organization provides for depreciation using the straight-line method over the estimated useful lives of the related assets. Interest expense incurred on debt related to capital improvements is capitalized as part of the actual construction costs.

(Continued)

FRONTIER HEALTH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Donated property and equipment:

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair values. Investments in fixed annuities are carried at initial cost of the investment plus accumulated earnings, as reported by the issuer of the contract. Other investments without readily determinable fair values are included at cost in the statement of financial position.

Paid time off:

Employees of the Organization are entitled to paid time off, a program of integrating paid vacation, holidays, and sick leave, depending on length of service. The estimated amount of compensation for future absences has been recorded as a liability in the accompanying financial statements. The Organization recognizes the costs of paid time off as a salary expense.

Grants:

For grant awards that are on a cost reimbursement basis, revenue is recognized to the extent cost has been incurred. Any excess of expenditures over revenues is reflected as grant funds receivable to the maximum reimbursable amount allowed and any excess of revenues over expenditures is reflected as unearned revenues.

In-kind support:

The Organization records various types of in-kind support including contributed facilities, equipment, and food. Contributed professional services are recognized if the services received either create or enhance property and equipment assets or are services provided by individuals possessing specialized skills that would need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received.

Additionally, a large number of people have contributed significant amounts of time to the activities of the Organization. The financial statements do not reflect the value of these contributed services because they do not meet the two recognition criteria described above.

(Continued)

FRONTIER HEALTH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Premium revenue:

The Organization has agreements with various companies as well as behavioral health organizations to provide mental health services to subscribing participants. Under these arrangements, the Organization receives monthly capitation payments based on the number of plan participants, regardless of services performed. Premium revenue is recognized in the month that coverage for services is provided.

Charity care:

The Organization accepts all patients regardless of their ability to pay. The Organization's established policies define charity services as those services provided to patients who are unable to pay and for which no payment is expected. In assessing a patient's inability to pay, the Organization utilizes generally recognized poverty income levels. Charges at established rates related to charity are not included in net patient service revenue.

Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes:

Both Frontier and the Foundation are exempt from income tax under Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes has been included in the accompanying financial statements.

Estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Subsequent events:

The Organization has evaluated subsequent events through October 18, 2016, the date which the financial statements were available to be issued.

FRONTIER HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

Note 2. Investments

Investments consist of the following:

Investments carried at fair value	
Fixed income bond	\$ 142,551
Fixed annuity contracts	6,465,470
Mutual funds	5,804,836
Exchange traded funds	3,005,036
U.S. Government securities	3,461,114
Certificates of deposit	5,890,311
	<u>24,769,318</u>
Other investments carried at cost	
PHP of the Tri-Cities, LLC	2,000
Highlands Physicians	3,500
	<u>5,500</u>
Total investments	<u>\$ 24,774,818</u>

Investments are reported on the statement of financial position as follows:

Assets limited as to use – capital improvements	\$ 4,268,210
Investments	<u>20,506,608</u>
Total investments	<u>\$ 24,774,818</u>

Investment return is summarized as:

Interest and dividend income	\$ 725,216
Net realized gains on sale of securities	171,213
Net unrealized losses	<u>(614,882)</u>
Total investment return	<u>\$ 281,547</u>

The Organization has internally designated \$4,268,210 of the total investments for capital improvements and \$20,506,608 as long-term investments based on the Organization's investment plan, reinvestment intention and intended use of the funds. The Organization does not anticipate using the internally designated long-term investments to meet operating expenses, capital expenditures or any other obligations due in the next year.

(Continued)

FRONTIER HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

Note 2. Investments (Continued)

Fixed annuity contracts:

At June 30, 2016, investments in fixed annuities consisted of an initial cost of \$5,875,510. The annuities provide for fixed rates of return, but such guarantees are dependent upon the solvency of the issuer. If the contracts are not held to maturity various charges may apply, therefore the carrying value may vary from the surrender value. The accumulated investment value and cash surrender value at June 30, 2016 was \$6,465,470 and \$6,138,235, respectively.

Note 3. Line of Credit

The Organization has a \$5,000,000 bank line of credit which matures December 31, 2016. Amounts borrowed under this agreement bear interest at the greater of one month LIBOR plus 2.50% subject to a minimum floor of 3% (3% at June 30, 2016). At June 30, 2016, there was no outstanding balance on this line of credit. The line is secured by certain real and personal property and the Organization's accounts receivable.

Note 4. Long-Term Debt

Long-term debt consists of the following:

Virginia Housing Development Authority (VHDA) due in monthly installments of \$2,199 including interest at 8.3% to August 1, 2021, collateralized by land and building. Amortization payments are collected by VHDA through offsets against subsidy payments.	\$ 110,566
Less current maturities	<u>(17,884)</u>
Long-term portion	<u><u>\$ 92,682</u></u>

Future aggregate maturities required on long-term debt are as follows:

2017	\$ 17,884
2018	19,426
2019	21,101
2020	22,921
2021	24,897
Thereafter	<u>4,337</u>
	<u><u>\$ 110,566</u></u>

(Continued)

FRONTIER HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

Note 5. Net Patient Service and Premium Revenues

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the statement of activities is as follows:

Outpatient service charges	\$ 55,941,582
Less:	
Third-party contractual adjustments, charity care, and other discounts	<u>(29,707,252)</u>
Net patient service revenue	<u>\$ 26,234,330</u>

The Organization renders services to patients under contractual arrangements with the Medicare, TennCare, and Medicaid programs. The Medicare program pays for costs of outpatient services according to prospectively determined rates, fee schedules and on the basis of reasonable costs, subject to certain limitations. The TennCare and Medicaid programs reimburse the Organization on the basis of prospectively determined rates and per diem amounts. Amounts earned under these contractual arrangements are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made in the financial statements for any adjustments which may result from such reviews.

The Organization has also entered into agreements with certain commercial insurance companies and other organizations which provide reimbursement for services in the form of prospectively determined rates, per diems, and discounts from established charges. In addition to grant funding for specific services, the Organization participates in fee-for-service contract arrangements with the State of Tennessee for specific other services. In recent years, the State has changed the funding method for various services from grants to fee-for-service contracts administered by behavioral health organizations.

The approximate percentages of gross patient service charges in 2016 derived from arrangements with Medicare, Medicaid, and TennCare are 4%, 18%, and 41%, respectively.

The approximate percentages of net patient accounts receivable from TennCare and the State of Tennessee (all arrangements except TennCare), are 28% and 10%, respectively, at June 30, 2016.

Note 6. Employee Benefit Plans

Retirement plan:

The Organization offers both an employee-funded 403(b) tax deferred annuity and an employer-funded, 401(a) qualified retirement plan. Employees are eligible to make contributions to the tax deferred annuity plan upon employment. After two years of service (1,000 hours per year) the Organization makes a discretionary contribution to the defined contribution plan based on the participant's compensation. The Organization elected to contribute four percent (4%) for the fiscal year ended June 30, 2016. In addition, the Organization contributes \$0.50 for every \$1.00 an employee contributes to the tax deferred annuity up to a total match of three percent (3%) of the employee's compensation.

(Continued)

FRONTIER HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

Note 6. Employee Benefit Plans (Continued)

Retirement plan: (Continued)

The Organization also offers a section 457(b) plan, which is designed to benefit a select group of management and other highly compensated employees as selected by the employer. The plan permits the eligible employee to defer a portion of future compensation up to the maximum allowable by law. The Board of Directors determines the amount of the contribution on an annual basis. The Organization elected to contribute eight percent (8%) for the plan year ended December 31, 2016.

The total retirement expense for the fiscal year ended June 30, 2016 was \$1,323,683.

State unemployment insurance:

The Organization has elected to be a reimbursing employer to the Tennessee Department of Employment Security for all disbursements made on valid claims for unemployment insurance. For the fiscal year ended June 30, 2016, claims incurred were \$29,282.

Self-insured group health coverage:

The Organization is self-insured for a portion of group health coverage it provides to its employees. An employee who retires and meets certain age and consecutive years of service requirements is eligible to retain group health coverage at the same contribution level as a full-time active employee of the employer until the age of 65 or until the employee is eligible for a Medicare program or other federally funded program, whichever occurs first. The maximum exposure to the Organization under the plan is approximately \$110,000 per insured person annually. For the fiscal year ended June 30, 2016, total claims paid totaled \$3,958,488.

Claims incurred but not reported at June 30, 2016 were estimated to be \$763,770.

Note 7. Operating Leases

The Organization leases certain buildings under noncancellable operating leases with terms of one year or more. Future minimum lease payments under these lease arrangements are as follows:

Year Ending June 30,	
2017	\$ 192,375
2018	53,700
2019	30,000
2020	24,000
2021	24,000
	<u>\$ 324,075</u>

Rent expense under terms of the operating leases for buildings was \$289,720 for the year ended June 30, 2016.

(Continued)

FRONTIER HEALTH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

Note 8. Contingencies

The Organization may be involved in potential lawsuits arising in the normal course of business. It is management's belief that any liability resulting from such lawsuits would not be material in relation to the Organization's financial position.

State restricted buildings:

The Organization owns three outpatient treatment centers located on Waverly Road in Kingsport, Tennessee, Charlotte Taylor Center in Elizabethton, Tennessee and Holston Drive in Greeneville, Tennessee whereby the ownership is subject to a condition imposed by the State of Tennessee (the State). The condition maintains that each location be used solely as a mental health facility. In the event of failure to do so, the real estate shall revert to the State, at the State's option. At June 30, 2016, the net carrying value of these properties was \$838,381.

The Organization paid twenty-five percent of the total cost of construction of an addition to the Organization's outpatient facility on Midway Street, located in Bristol, Tennessee, in accordance with an agreement with the State of Tennessee Department of Mental Health and Mental Retardation (the Department) whereby the Department paid for the remaining seventy-five percent. The facility must be used to provide mental health programs supported by the Department. If the Organization becomes unable to comply with the provisions of the agreement, it has agreed to lease the facility to the State of Tennessee for ninety-nine years at \$1.00 per year. At June 30, 2016, the net carrying value of this property was \$336,708.

The Organization owns a non-hospital facility, offering twenty-four hour intensive, short-term stabilization for medically stable Tennessee adults eighteen years of age and over whereby the ownership is subject to a condition imposed by the State of Tennessee. The condition maintains that the facility will be used solely for this purpose and for an affordability period of fifteen years from the date funds were disbursed to the grant recipient. In the event of default, the State of Tennessee can demand repayment of the grant which is \$433,302. At June 30, 2016, the net carrying value of this property was \$546,659.

The Organization owns a non-hospital facility offering twenty-four hour intensive, long-term support services for Tennessee adults eighteen years of age who meet certain eligibility requirements and whereby the ownership is subject to a condition imposed by the State of Tennessee. The condition maintains that the facility will be used solely for the purpose and for an affordability period of fifteen years from the date funds were disbursed to the grant recipient. In the event of default, the State of Tennessee can demand repayment of the grant which is \$300,000. At June 30, 2016, the net carrying value of this property was \$565,620.

FRONTIER HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

Note 9. Related Parties

The Organization serves as the management agent for seventeen HUD facilities, one of which is owned by Frontier Health, and the results of which operations are included in these financial statements. The other sixteen HUD facilities are owned by separate non-profit corporations and the results of their operations are reported separately by those corporations. Members of Frontier Health's senior management serve as board of directors on thirteen of these sixteen HUD facilities. These HUD facilities have agreed to reimburse Frontier Health for any administrative and other operational costs incurred, which have been paid on behalf of these HUD facilities by Frontier Health. As of June 30, 2016, a receivable of \$597,914 (net of an allowance for uncollectible accounts of \$428,813) is due from the sixteen separately owned HUD facilities.

Note 10. Fair Value Measurements

Authoritative guidance establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. There have been no changes in the techniques and inputs used since the prior year. The three levels are described as follows:

Level 1 – quoted prices in active markets for identical securities.

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.). Municipal bonds and certificates of deposit are usually valued using references to similar instruments, adjusting for differences in interest rates or credit risk as appropriate.

Level 3 – significant unobservable inputs that are not corroborated by observable market data. Annuities are valued using accumulated investment values provided by the issuers; such accumulated values are generally based upon the returns of other underlying investments or indexes, and may include a guaranteed return component. The accumulated value is considered to be approximately equivalent to fair value.

The summary of inputs used to value the Organization's investments as of June 30 is as follows:

	Fair Value Measurements			
	Fair Value	(Level 1)	(Level 2)	(Level 3)
Fixed income bonds	\$ 142,551	\$ -	\$ 142,551	\$ -
Fixed annuity contracts	6,465,470	-	-	6,465,470
Mutual funds	5,804,836	5,804,836	-	-
Exchange traded funds	3,005,036	3,005,036	-	-
U.S. Government securities	3,461,114	3,461,114	-	-
Certificates of deposit	5,890,311	-	5,890,311	-
	<u>\$ 24,769,318</u>	<u>\$ 12,270,986</u>	<u>\$ 6,032,862</u>	<u>\$ 6,465,470</u>

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Pass-through programs from:			
Tennessee Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	R300	\$ 22,063
School Breakfast Program	10.553	R300	19,217
			<hr/>
Total U.S. Department of Agriculture			41,280
			<hr/>
<u>U.S. Department of Health and Human Services</u>			
Direct programs:			
Basic Center Grant			
Runaway and Homeless Youth Program (10/01/15 to 09/29/16)	93.623	90-CY673701	150,000
Runaway and Homeless Youth Program (09/30/14 to 09/29/15)	93.623	90-CY642103	48,494
			<hr/>
			198,494
Pass-through programs from:			
East TN Human Resource Agency			
HIV Prevention Activities Health Department Based			
HIV/AIDS Prevention	93.940	N/A	55,589
HIV Care Formula Grants			
Ryan White	93.917	N/A	93,944
Tennessee Department of Children's Services			
Community Based Child Abuse Prevention Grants			
Child Abuse Prevention Services	93.590	44879	14,705
Block Grants for Prevention and Treatment of Substance Abuse			
Planning District One Behavioral Health Services			
SA FBG Alcohol/Drug Trmt	93.959	N/A	447,451
SA FBG SARPOS	93.959	N/A	31,963
SA FBG Women	93.959	N/A	24,070
SA FBG Prevention	93.959	N/A	118,208
SA FBG Prevention One-Time	93.959	N/A	1,725
			<hr/>
			623,417
Tennessee Department of Mental Health & Substance Abuse			
Adolescent Substance Use Disorders Svc Program	93.959	46821	372,415
Adult Continuum of Care	93.959	DGA 45367_2015-2016_009	1,101,955
HIV/AIDS Early Intervention Services Program	93.959	46794	141,235
Tennessee Prevention Network	93.959	DGA 45372_2015-2016_008	159,990
Women's Services	93.959	DGA 45373_2015-2016_005	313,449
			<hr/>
			2,089,044
			<hr/>
			2,712,461

(Continued)

The Notes to Schedule of Expenditures of Federal
Awards are an integral part of this statement.

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services (Continued)			
Pass-through programs from: (Continued)			
Tennessee Department of Mental Health & Substance Abuse			
Projects of Regional and National Significance			
Cooperative Agreement to Benefit Homeless Ind Enh (09/30/15 to 09/29/16)	93.243	48201	168,764
System of Care – Expansion Initiative (10/01/14 to 09/30/15)	93.243	43291	49,187
System of Care – Expansion Initiative (10/01/15 to 09/30/16)	93.243	47925	104,183
			322,134
Block Grants for Community Mental Health Services			
Planning District One Behavioral Health Services			
MH FBG SED C&A	93.958	N/A	44,996
MH FBG SMI (Restricted Funds)	93.958	N/A	63,268
			108,264
Tennessee Department of Mental Health & Substance Abuse			
Community Supportive Housing	93.958	46839	296,444
Better Attitudes and Skills in Children (B.A.S.I.C.) & TA	93.958	46867	296,557
Community Targeted Transitional Support	93.958	46956	55,500
Older Adult Program	93.958	47000	70,000
Planned Respite Services	93.958	46896	81,112
Regional Intervention Program	93.958	47064	137,130
			936,743
			1,045,007
Total U.S. Department of Health and Human Services			4,442,334
U.S. Department of Education			
Pass-through programs from:			
Planning District One Behavioral Health Services			
Special Education – Grants for Infants and Families			
Early Intervention Part C – FY2016	84.181	N/A	55,476
Early Intervention Part C – FY2016 – One-Time Funds	84.181	N/A	6,088
			61,564
Tennessee Department of Mental Health & Substance Abuse			
Special Communication Cluster (IDEA)			
Special Education – Grants to States (IDEA, Part B)			
School-Based Mental Health Liaison (SBMHL)			
Expanded	84.027	47024	130,000
Total U.S. Department of Education			191,564

(Continued)

The Notes to Schedule of Expenditures of Federal
Awards are an integral part of this statement.

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through programs from:			
Virginia Housing Development Authority			
Supportive Housing for the Elderly (Section 202)	14.157	N/A	110,566
Section 8 Project – Based Cluster			
Lower Income Housing Assistance Program			
Section 8 Moderate Rehabilitation	14.856	N/A	<u>37,263</u>
			147,829
Tennessee Housing Development Agency			
Emergency Solutions Grants Program			
ESG – Emergency Shelter Program	14.231	45222	11,392
Tennessee Department of Health			
Provision of Housing Opportunities for Persons with AIDS (HOPWA)	14.241	GR-12-35774-06	<u>98,173</u>
Total U.S. Department of Housing and Urban Development			<u>257,394</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,932,572</u></u>

FRONTIER HEALTH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS June 30, 2016

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Frontier Health under programs of the federal government for the year ended June 30, 2016 on the accrual basis.

Note 2. Virginia Housing Development Authority (VHDA)

Section 202 Mortgage Assistance is the balance of the note payable to VHDA at June 30, 2016. Amortization payments are collected by VHDA through offsets against subsidy payments.

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other Additions (Deductions)</u>	<u>Balance June 30, 2016</u>	
TN DEPT OF MHSAS								
GRANTOR: TN DEPARTMENT OF MENTAL								
HEALTH AND SUBSTANCE ABUSE SERVICES								
07/01/14 – 06/30/15 FORENSIC SERVICE – FY2015	DGA-41146-003	STATE	\$ (7,850)	\$ 7,850	\$ -	\$ -	\$ -	(2)
07/01/14 – 06/30/15 FORENSIC SERVICE – FY2015	DGA-41146-003	STATE	(10,065)	10,065	-	-	-	(2)
07/01/14 – 06/30/15 DROP/CONS/TRANSP	41770	STATE	(104,773)	104,773	-	-	-	(2)
07/01/14 – 06/30/15 HOME/SETH	41892	STATE	(2,868)	2,868	-	-	-	(2)
07/01/14 – 06/30/15 SBMHL	41846	STATE	(25,003)	25,003	-	-	-	(2)
07/01/14 – 06/30/15 CRISIS STABILIZATION UNIT	42450	STATE	(123,071)	123,071	-	-	-	(2)
07/01/14 – 06/30/15 MOBILE CRISIS	42450	STATE	(35,174)	35,174	-	-	-	(2)
07/01/14 – 06/30/15 CRISIS DIVERSIONARY	42450	STATE	(11,958)	11,958	-	-	-	(2)
07/01/14 – 06/30/15 CRISIS WALK IN	42450	STATE	(4,214)	4,214	-	-	-	(2)
07/01/14 – 06/30/15 CRISIS RASS	42450	STATE	(22,941)	22,941	-	-	-	(2)
07/01/14 – 06/30/15 C&Y MOBILE CRISIS	42571	STATE	(4,859)	4,859	-	-	-	(2)
07/01/14 – 06/30/15 TARGETED TRANS. SUPP	42001	STATE	(9,923)	9,923	-	-	-	(2)
07/01/14 – 06/30/15 C&Y HOMELESS	42140	STATE	(999)	999	-	-	-	(2)
07/01/14 – 06/30/15 COMMUNITY HOUSING	42007	STATE	(11,238)	11,238	-	-	-	(2)
07/01/14 – 06/30/15 COMMUNITY HOUSING	42008	STATE	(6,746)	6,746	-	-	-	(2)
07/01/14 – 06/30/15 CRISIS RESPITE	42450	STATE	(7,766)	7,766	-	-	-	(2)
07/01/14 – 06/30/15 PEER WELLNESS	41787	STATE	(13,472)	13,472	-	-	-	(2)
07/01/14 – 06/30/15 SEP INITIATIVE	41765	STATE	(10,040)	10,040	-	-	-	(2)
07/01/14 – 06/30/15 SULL. RECOVERY COURT	42052	STATE	-	-	-	-	-	(2)
07/01/14 – 06/30/15 WASH RECOVERY COURT	42061	STATE	(8,811)	8,811	-	-	-	(2)
07/01/14 – 06/30/15 ILTSSP	42002	STATE	(246,188)	246,188	-	-	-	(2)
07/01/15 – 06/30/16 FORENSICS SERVICE-FY2016	DGA -45371-03	STATE	-	87,950	103,550	-	(15,600)	(2)
07/01/15 – 06/30/16 FORENSICS SERVICE-FY2016	DGA-45371-03	STATE	-	-	9,538	-	(9,538)	(2)

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Year Ended June 30, 2016

	Grant Number	CFDA Number	Balance June 30, 2015	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2016	
07/01/15 – 06/30/16 TTS	47099	STATE	\$ -	\$ 126,500	\$ 126,500	\$ -	\$ -	(2)
07/01/15 – 06/30/16 DROP/CONS/TRANSP	46796	STATE	-	391,343	449,284	-	(57,941)	(2)
07/01/15 – 06/30/16 HOMELESS	47025	STATE	-	33,012	37,006	-	(3,994)	(2)
07/01/15 – 06/30/16 SBMHL	47024	STATE	-	174,221	200,000	-	(25,779)	(2)
07/01/15 – 06/30/16 MOBILE CRISIS	46976	STATE	-	386,920	422,094	-	(35,174)	(2)
07/01/15 – 06/30/16 CRISIS WALK IN	46976	STATE	-	27,858	29,725	-	(1,867)	(2)
07/01/15 – 06/30/16 CRISIS STABILIZATION UNIT	46976	STATE	-	1,353,780	1,476,851	-	(123,071)	(2)
07/01/15 – 06/30/16 CRISIS DIVERSIONARY	46976	STATE	-	127,088	137,154	-	(10,066)	(2)
07/01/15 – 06/30/16 MOBILE CRISIS C&Y	46976	STATE	-	69,137	75,422	-	(6,285)	(2)
07/01/15 – 06/30/16 CRISIS RESPITE	46976	STATE	-	32,257	44,254	-	(11,997)	(2)
07/01/15 – 06/30/16 REGIONAL HOUSING	46963	STATE	-	87,195	93,294	-	(6,099)	(2)
07/01/15 – 06/30/16 ILTSSP	46948	STATE	-	637,446	864,843	-	(227,397)	(2)
07/01/15 – 06/30/16 PEER WELLNESS	46231	STATE	-	106,885	122,813	-	(15,928)	(2)
07/01/15 – 06/30/16 SEP	46875	STATE	-	95,250	113,250	-	(18,000)	(2)
07/01/15 – 06/30/16 REC. DRUG CT-WASH	46873	STATE	-	69,662	70,000	-	(338)	(2)
07/01/15 – 06/30/16 REC. DRUG CT-SULL	46874	STATE	-	65,528	70,000	-	(4,472)	(2)
07/01/15 – 06/30/16 COMM SUPP HOUSING	46839	STATE	-	61,815	67,435	-	(5,620)	(2)
07/01/15 – 06/30/16 CTTS	46956	STATE	-	4,738	8,000	-	(3,262)	(2)
07/01/14 – 06/30/15 SPOT	41164	STATE	-	-	-	-	-	(2)
07/01/14 – 06/30/15 MMCD	41092	STATE	-	-	-	-	-	(2)
07/01/14 – 06/30/15 ADAT – IP	41951	STATE	(22,740)	22,740	-	-	-	(2)
07/01/14 – 06/30/15 CRIMINAL JUSTICE LS	40985	STATE	(5,585)	5,585	-	-	-	(2)
07/01/14 – 06/30/15 MMCD	42419	STATE	(30,458)	30,458	-	-	-	(2)
07/01/14 – 06/30/15 CRIMINAL JUSTICE BH	42419	STATE	(36,288)	36,288	-	-	-	(2)
07/01/15 – 06/30/16 ADAT – I/P	42421	STATE	-	19,676	21,714	-	(2,038)	(2)
07/01/15 – 06/30/16 BOPP	42420	STATE	-	107,943	114,258	-	(6,315)	(2)
07/01/15 – 06/30/16 SPOT	42422	STATE	-	22,572	22,572	-	-	(2)
07/01/15 – 06/30/16 MMCD	46734	STATE	-	489,480	499,980	-	(10,500)	(2)

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other Additions (Deductions)</u>	<u>Balance June 30, 2016</u>
07/01/15 – 06/30/16 CRIMINAL JUSTICE BH ST	46747	STATE	\$ -	\$ 86,442	\$ 99,308	\$ -	\$ (12,866) ⁽²⁾
07/01/15 – 06/30/16 CRIMINAL JUSTICE BH LS	46747	STATE	-	418,759	466,436	-	(47,677) ⁽²⁾
07/01/14 – 06/30/15 SAFETY NET	DGA-41134-006	STATE	(270,128)	270,128	-	-	- ⁽²⁾
07/01/15 – 06/30/16 SAFETY NET	36420	STATE	-	2,344,114	2,570,000	-	(225,886) ⁽²⁾
HEARING IMPAIRED							
GRANTOR: TN DEPARTMENT OF HUMAN SERVICES							
07/01/14 – 06/30/15 CCDHH	37819	STATE	(25,040)	25,040	-	-	- ⁽²⁾
07/01/15 – 06/30/16 CCDHH	37819	STATE	-	103,740	124,339	-	(20,599) ⁽²⁾
07/01/15 – 06/30/16 CCDHH	45403	STATE	-	20,000	20,000	-	- ⁽²⁾
CHILDREN'S SERVICES							
GRANTOR: TN DEPARTMENT OF CHILDRENS SERVICES							
07/01/14 – 06/30/15 LEVEL II	PBC-000054	STATE	(18,901)	18,748	-	153	- ⁽²⁾
07/01/15 – 06/30/16 LEVEL II	PBC-000093	STATE	-	149,521	160,585	-	(11,064) ⁽²⁾
07/01/14 – 6/30/15 – CHILD ABUSE PREV	39435	STATE	(2,856)	2,856	-	-	- ⁽²⁾
07/01/15 – 6/30/16 – CHILD ABUSE PREV	31729	STATE	-	27,517	34,766	-	(7,249) ⁽²⁾
07/01/14 – 06/30/15 – TRACES – LEVEL 3	PBC-00409	STATE	(145,950)	144,550	-	1,400	- ⁽²⁾
07/01/15 – 06/30/16 – TRACES – LEVEL 3	PBC-000093	STATE	-	1,207,850	1,316,000	-	(108,150) ⁽²⁾
PERFORMANCE BASED INCENTIVE	N/A	STATE	-	-	-	-	- ⁽²⁾
07/01/14 – 06/30/15 – TRACES – LEVEL 2	PBC-000054	STATE	(133,136)	133,242	-	(106)	- ⁽²⁾
07/01/15 – 06/30/16 – TRACES – LEVEL 2	PBC-000054	STATE	-	1,077,172	1,187,306	-	(110,134) ⁽²⁾
07/01/14 – 06/30/15 – TRACES – LEVEL 1	PBC-000054	STATE	(12,662)	12,662	-	-	- ⁽²⁾
07/01/15 – 06/30/16 – TRACES – LEVEL 1	PBC-000054	STATE	-	97,157	101,540	-	(4,383) ⁽²⁾

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other Additions (Deductions)</u>	<u>Balance June 30, 2016</u>
GRANTOR: TN ASSOC. FOR CHILD CARE							
07/01/14 – 06/30/15 TACC	N/A	N/A	\$ (5,589)	\$ 5,589	\$ -	\$ -	\$ - ⁽²⁾
07/01/15 – 06/30/16 TACC	N/A	N/A	-	35,808	36,003	-	(195) ⁽²⁾
Juvenile Justice Group Home							
GRANTOR: TN DEPARTMENT OF FINANCE AND ADMINISTRATION							
07/01/14 – 06/30/15 – FV	24697	STATE	(3,611)	3,611	-	-	- ⁽²⁾
07/01/15 – 06/30/16 – FV	26808	STATE	-	96,029	98,848	-	(2,819) ⁽²⁾
TENN CARE							
GRANTOR: ADVOCARE							
07/1/14 – 06/30/15	N/A	N/A	(43,893)	43,893	-	-	- ⁽²⁾
07/1/15 – 06/30/16	N/A	N/A	-	1,653,289	1,653,289	-	- ⁽²⁾
VIRGINIA MENTAL HEALTH, SUBSTANCE ABUSE & MENTAL RETARDATION SERVICES							
GRANTOR: PD1 BEHAVIORAL HEALTH SERVICES							
07/01/15 – 06/30/16	N/A	STATE	7,875	2,990,055	11,932,109	9,214,649	280,470 ⁽³⁾
GRANTOR: HIGHLANDS COMMUNITY SERVICES BOARD – COMMONWEALTH OF VA							
07/01/14 – 06/30/16 – MH/SA	N/A	N/A	(11,541)	11,541	-	-	- ⁽²⁾
07/01/14 – 06/30/16 – MR	N/A	N/A	(4,532)	44,188	42,653	-	(2,997) ⁽²⁾
Transportation Services							
GRANTOR: TN DEPARTMENT OF TRANSPORTATION							
07/01/14 – 06/30/17(90%)	TN-16-X005-01	STATE	3,464	-	-	(1,066)	2,398 ⁽⁴⁾⁽⁵⁾
TOTAL STATE FUNDING			<u>(1,429,530)</u>	<u>16,364,787</u>	<u>25,022,719</u>	<u>9,215,030</u>	<u>(872,432)</u>

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other Additions (Deductions)</u>	<u>Balance June 30, 2016</u>	
TN DEPT OF MHSAS								
GRANTOR: TN DEPARTMENT OF MENTAL								
HEALTH AND SUBSTANCE ABUSE SERVICES								
07/01/14 – 06/30/15 GERIATRIC	41851	93.958	\$ (9,753)	\$ 9,753	\$ -	\$ -	\$ -	(2)
07/01/14 – 06/30/15 SBMHL	41846	84.027	(14,784)	14,784	-	-	-	(2)
07/01/14 – 06/30/15 BASIC	38427	93.958	(31,991)	31,991	-	-	-	(2)
07/01/14 – 06/30/15 RESPITE	41877	93.958	(8,068)	8,068	-	-	-	(2)
07/01/14 – 06/30/15 RIP	42557	93.958	(10,378)	10,378	-	-	-	(2)
07/01/14 – 06/30/15 COMMUNITY HOUSING	42007	93.958	(66,749)	66,749	-	-	-	(2)
10/01/14 – 09/30/15 SOC-EXP	43291	93.243	(22,650)	22,650	-	-	-	(2)
10/01/14 – 09/30/15 MTN. VIEW SOC	43291	93.243	-	49,187	49,187	-	-	(2)
10/01/15 – 09/30/16 MTN. VIEW SOC	47925	93.243	-	92,275	104,183	-	(11,908)	(2)
07/01/15 – 06/30/16 COMMUNITY HOUSING	46839	93.958	-	270,065	296,444	-	(26,379)	(2)
07/01/15 – 06/30/16 OLDER ADULT PROGRAM	47000	93.958	-	70,000	70,000	-	-	(2)
07/01/15 – 06/30/16 SBMHL	47024	84.027	-	121,492	130,000	-	(8,508)	(2)
07/01/15 – 06/30/16 RESPITE	46896	93.958	-	74,839	81,112	-	(6,273)	(2)
07/01/15 – 06/30/16 RIP	47064	93.958	-	124,236	137,130	-	(12,894)	(2)
07/01/15 – 06/30/16 BASIC	46867	93.958	-	271,991	296,557	-	(24,566)	(2)
07/01/15 – 06/30/16 CTTS	46956	93.958	-	55,500	55,500	-	-	(2)
10/01/15 – 09/30/16 CABHI	48201	93.243	-	140,546	168,764	-	(28,218)	(2)
07/01/14 – 06/30/15 CONTINUM – O/P	DGA-41157-009	93.959	(114,497)	114,497	-	-	-	(2)
07/01/14 – 06/30/15 ADOL A&D	42129	93.959	(6,356)	6,356	-	-	-	(2)
07/01/14 – 06/30/15 WOMENS OUTPATIENT	DGA-41163-005	93.959	(21,438)	21,438	-	-	-	(2)
07/01/14 – 06/30/15 AIDS OUTPATIENT	42130	93.959	(16,355)	16,355	-	-	-	(2)
07/01/14 – 06/30/15 COMMUNITY PREVENTION	DGA-41158-008	93.959	(5,220)	5,220	-	-	-	(2)

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other Additions (Deductions)</u>	<u>Balance June 30, 2016</u>
07/01/15 – 06/30/16 CONTINUUM – O/P	DGA-45367-009	93.959	\$ -	\$ 997,998	\$ 1,101,955	\$ -	\$ (103,957) ⁽²⁾
07/01/15 – 06/30/16 ADOL OUT PATIENT	46821	93.959	-	331,929	372,415	-	(40,486) ⁽²⁾
07/01/15 – 06/30/16 WOMENS SERVICES	DGA-45373-005	93.959	-	290,637	313,449	-	(22,812) ⁽²⁾
07/01/15 – 06/30/16 AIDS OUTPATIENT	46794	93.959	-	130,795	141,235	-	(10,440) ⁽²⁾
07/01/15 – 06/30/16 TN PREVENTION NETWORK	DGA-45372-008	93.959	-	159,990	159,990	-	- ⁽²⁾
TENNESSEE EDUCATION							
GRANTOR: TN DEPARTMENT OF EDUCATION							
07/01/14 – 06/30/15 – USDA FOOD	R300	10.555./10.553	(8,232)	8,232	-	-	- ⁽²⁾
07/01/15 – 06/30/16 – USDA FOOD	R300	10.555./10.553	-	37,170	41,280	-	(4,110) ⁽²⁾
GRANTOR: TN DEPARTMENT OF CHILDRENS SERVICES							
07/01/15 – 6/30/16 – CHILD ABUSE PREV	31729	93.590	-	14,705	14,705	-	- ⁽²⁾
ALCOHOL AND DRUG ABUSE							
GRANTOR: TN BUREAU OF HEALTH							
07/01/14 – 06/30/15 HOPWA	27082-GR-1235774-04	14.241	(8,805)	8,805	-	-	- ⁽²⁾
07/01/15 – 06/30/16 HOPWA	27082-GR1235774-03	14.241	-	87,691	98,173	-	(10,482) ⁽²⁾
GRANTOR: EAST TN HUMAN RESOURCE DEVELOPMENT AGENCY							
04/01/15 – 03/31/16 – Ryan White	N/A	93.917	(11,884)	81,063	69,179	-	- ⁽²⁾
04/01/16 – 03/31/17 – Ryan White	N/A	93.917	-	11,788	24,765	-	(12,977) ⁽²⁾
01/01/15 – 12/31/15 – HIV PREVENTION	N/A	93.940	(6,940)	38,374	31,434	-	- ⁽²⁾
01/01/16 – 12/31/16 – HIV PREVENTION	N/A	93.940	-	16,262	24,155	-	(7,893) ⁽²⁾

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

		CFDA	Balance	Cash		Other	Balance
Grant Number		Number	June 30, 2015	Receipts	Expenditures	Additions (Deductions)	June 30, 2016
TRANSPORTATION SERVICES							
GRANTOR: TN DEPARTMENT OF TRANSPORTATION							
04/22/13 – 04/21/18 (90%)	TN-16-X005	20.513	\$ 16,075	\$ -	\$ -	\$ (7,419)	\$ 8,656 ⁽⁴⁾
04/22/13 – 04/21/18 (90%)	TN-16-X005	20.513	19,301	-	-	(8,272)	11,029 ⁽⁴⁾
07/01/14 – 06/30/17(90%)	TN-16-X005-01	20.513	27,710	-	-	(8,526)	19,184 ⁽⁴⁾
RUNAWAY AND HOMELESS YOUTH PROGRAM							
ANTI-DRUG COALITION							
GRANTOR: DEPARTMENT OF HEALTH AND HUMAN SERVICES							
10/01/14 – 09/30/15 RUNAWAY & HOMELESS YOU	90-CY642103	93.623	(16,165)	16,165	-	-	- ⁽²⁾
10/01/15 – 09/30/16 RUNAWAY & HOMELESS YOU	90-CY673701	93.623	-	181,827	198,494	-	(16,667) ⁽²⁾
JUVENILE JUSTICE GROUP HOME							
GRANTOR: TN DEPARTMENT OF FINANCE AND ADMINISTRATION							
07/01/14 – 06/30/15 – FV	24697	93.671	-	-	-	-	- ⁽²⁾
07/01/14 – 06/30/15 – VOCA	19130	16.575	(2,455)	2,455	-	-	- ⁽²⁾
VIRGINIA MENTAL HEALTH, SUBSTANCE ABUSE & MENTAL RETARDATION SERVICES							
GRANTOR: PD1 BEHAVIORAL HEALTH SERVICES							
07/01/15 – 06/30/16	N/A	93.959	-	623,417	623,417	-	- ⁽³⁾
07/01/15 – 06/30/16	N/A	93.958	-	108,264	108,264	-	- ⁽³⁾
07/01/15 – 06/30/16	N/A	84.181	-	61,564	61,564	-	- ⁽³⁾
GRANTOR: VA DEPT OF HOUSING AND DEVELOPMENT AGENCY							
07/1/15 – 06/30/16 HAP BILLING	N/A	14.856	-	37,263	37,263	-	- ⁽²⁾
07/1/15 – 06/30/16 SUNHOUSE MORTGAGE	N/A	14.157	127,030	-	16,464	-	110,566 ⁽⁹⁾

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2016

	<u>Grant Number</u>	<u>CFDA Number</u>	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Other Additions (Deductions)</u>	<u>Balance June 30, 2016</u>
GRANTOR: TN DEPT. OF HOUSING DEVELOPMENT AGENCY							
07/01/15 – 06/30/16 EMERGENCY SHELTOR PROGR	ESG-13-17	14.231	\$ (4,883)	\$ 14,839	\$ 11,392	\$ -	\$ (1,436) ⁽²⁾
TOTAL FEDERAL FUNDING			(197,487)	4,859,603	4,838,470	(24,217)	(200,571)
GRAND TOTAL			\$ (1,627,017)	\$ 21,224,390	\$ 29,861,189	\$ 9,190,813	\$ (1,073,003)

(1) Local Funds

(2) Due From Grantors

(3) Due To Grantors

(4) Depreciation

(5) Other Virginia sources client fees, medicaid, insurance, etc.

(6) Non-Cash Contributions

(7) From Unearned Account from Prior Year

(8) Grant for 80% cost of Equipment

(9) The amount in the Expenditures column is the principal payments made on the mortgage note during the year.

The ending balance is the principal amount due on the note and corresponds to the amount shown on the SEFA as the expenditure amount.

Basis of Presentation:

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the Organization and is presented on the accrual basis of accounting.

FRONTIER HEALTH

STATEMENT OF RECEIPTS AND DISBURSEMENTS

VIRGINIA MENTAL HEALTH, RETARDATION AND SUBSTANCE ABUSE

OPERATIONS LEE, SCOTT, AND WISE COUNTIES AND THE CITY OF NORTON

Year Ended June 30, 2016

RECEIPTS

Grants:

Mental Health Services	\$ 2,276,320	
Mental Retardation Services	43,663	
Substance Abuse Services	<u>1,616,120</u>	
		\$ 3,936,103

Patient Services:

Medicaid SPO	3,582,262	
Medicaid Clinic	31,509	
Medicaid Waiver	3,061,473	
Self-pay and private insurance	1,443,343	
Other fees	<u>898,973</u>	
		9,017,560

Local Agencies and Other Programs:

Virginia local funds	327,985	
Other programs	<u>562,190</u>	
		<u>890,175</u>

Total Receipts		<u>13,843,838</u>
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DISBURSEMENTS

Total staff salaries and fringe benefits	8,681,196
Dues/memberships	24,094
Workshops	20,311
In-service	5,036
Subscriptions	2,431
Rent	87,945
Utilities	119,499
Telephone	262,305
Maintenance services	15,039
Other facility expenses	41,348
Maintenance/service contracts	402,042
Office/facility supplies	273,105
Educational/rec. supplies	35,509
Food	88,279
Drugs/medical	11,325
Other supplies	486,595
Private mileage	123,821
Vehicle operations	95,598
Food/lodging	41,808
Professional fees	1,477,612
Insurance	102,291
Postage	16,692
Printing/duplicating	52,102
Miscellaneous	30,938
Equipment	<u>228,433</u>

Total Disbursements		<u>12,725,354</u>
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EXCESS OF RECEIPTS OVER DISBURSEMENTS		<u><u>\$ 1,118,484</u></u>
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FRONTIER HEALTH

STATEMENT OF RECEIPTS AND DISBURSEMENTS – SULLIVAN HOUSE For the Year Ended June 30, 2016

REVENUE

Sullivan County	\$	292,552
Program fees and grants		135,941
Total revenue		428,493

EXPENDITURES

Personnel costs:		
Salaries and wages		194,040
Fringe benefits		52,473
Total personnel costs		<u>246,513</u>

Other:

Travel		1,531
Staff development		429
Motor vehicle operations		2,847
Dues and memberships		427
Professional services		2,754
Printing		842
Utilities		19,946
Communications		11,453
Supplies		18,868
Food		58,672
Maintenance and repairs		12,810
Depreciation		4,847
Miscellaneous		147

Total other		<u>135,573</u>
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Administration and general allocation		<u>49,497</u>
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Total expenditures		<u>431,583</u>
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OPERATING LOSS

\$	<u><u>(3,090)</u></u>
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Frontier Health
Gray, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Frontier Health (a nonprofit organization) and affiliate (collectively, the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements which collectively comprise the Organization's consolidated financial statements and have issued our report thereon dated October 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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*.

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
October 18, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors of
Frontier Health
Gray, Tennessee

Report on Compliance for the Major Federal Program

We have audited Frontier Health's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Frontier Health's major federal program for the year ended June 30, 2016. Frontier Health's major federal program is identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Frontier Health's major federal program 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Frontier Health'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 the major federal program. However, our audit does not provide a legal determination of Frontier Health's compliance.

Report on Compliance for the Major Federal Program (Continued)

Opinion on Each Major Federal Program

In our opinion, Frontier Health complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Frontier Health 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 Frontier Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the 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 Frontier Health'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. **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.**

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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
October 18, 2016

FRONTIER HEALTH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unmodified opinion** on the consolidated financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Accounting Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award program was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as a major program was:

Block Grants for the Prevention and Treatment of Substance Abuse	CFDA #	93.959
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8. The threshold used for distinguishing Type A programs was **\$750,000**.
9. Frontier Health was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.