FRONTIER HEALTH

CONSOLIDATED FINANCIAL REPORT

June 30, 2018

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FRONTIER HEALTH
ROSTER OF OFFICIALS
2018

Board of Directors

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Bob Parker, Past Chair
Barbara Moody, Vice Chair
Kenny Gilley, Secretary/Treasurer
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Rachel Parsons, Chief Financial Officer
David McKee, Chief Financial Officer, retired

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Frontier Health
Gray, Tennessee

Report on the Consolidated 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, 2018, 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 Consolidated 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 consolidated 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 consolidated 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 Organization's preparation and fair presentation of the consolidated 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 Organization'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.

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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, 2018, and the changes in their net assets and their 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 and state financial assistance, 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* and the Comptroller of the Treasury, State of Tennessee, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The other statements listed as 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 15, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 15, 2018

FRONTIER HEALTH

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 4,144,171
Net patient accounts receivable, less allowance for uncollectible accounts of $486,689 and contractual allowance of $2,848,793 (Note 2)	4,285,954
Grants receivable	2,313,583
Other receivables, less allowance for uncollectible accounts of $607,211	1,330,219
Inventories	127,613
Prepaid expenses	618,414
Total current assets	12,819,954
ASSETS LIMITED AS TO USE (Note 4)	4,643,345
PROPERTY AND EQUIPMENT, net (Note 5)	13,262,015
INVESTMENTS (Notes 3 and 13)	21,306,765
Total assets	$ 52,032,079
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 1,744,068
Current maturities of long-term debt (Note 7)	21,101
Accrued salaries and related expenses	5,263,482
Unearned revenue	823,517
Total current liabilities	7,852,168
LONG-TERM DEBT, less current maturities (Note 7)	52,155
Total liabilities	7,904,323
UNRESTRICTED NET ASSETS	44,127,756
Total liabilities and net assets	$ 52,032,079

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

FRONTIER HEALTH

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

REVENUES, GAINS, AND OTHER SUPPORT	
Net patient service revenue (Note 8)	$ 25,719,013
Net premium revenue	1,781,827
State of Tennessee grants	15,875,688
State of Virginia grants	5,179,284
Fees – contracted services	4,056,442
Local support	1,149,274
Contributions	569,031
Other	551,216
Investment return (Note 3)	914,529
Total revenues, gains, and other support	55,796,304
EXPENSES	
Tennessee services:	
Mental health outpatient	17,055,531
Substance abuse outpatient	4,155,503
Intellectual disabilities	1,561,258
Drop-in centers	602,805
Residential	10,849,812
Rehabilitation	598,904
Other	1,155,956
Virginia services:	
Mental health services	7,491,811
Substance abuse services	1,743,924
Mental intellectual disabilities	4,399,441
Administrative and general	5,642,766
Total expenses	55,257,711
Change in unrestricted net assets	538,593
NET ASSETS, UNRESTRICTED	
Beginning	43,589,163
Ending	$ 44,127,756

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

FRONTIER HEALTH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Tennessee Mental Health Outpatient	Tennessee Substance Abuse Outpatient	Tennessee Intellectual Disabilities	Tennessee Drop-In Centers	Tennessee Residential	Tennessee Rehabilitation
EXPENSES						
Personnel:						
Salaries and wages	$ 11,123,525	$ 2,570,793	$ 926,224	$ 307,424	$ 6,686,365	$ 377,584
Employee benefits and payroll taxes	2,736,073	639,993	212,423	71,836	1,587,032	88,936
Total personnel expenses	13,859,598	3,210,786	1,138,647	379,260	8,273,397	466,520
Other:						
Professional fees	868,744	57,698	14,254	3,008	259,223	24,314
Supplies	245,739	204,787	36,836	32,697	1,039,053	15,450
Telephone	297,142	72,571	46,607	23,236	151,661	12,536
Postage and shipping	19,292	3,266	2,187	506	4,432	427
Occupancy	587,669	132,530	124,713	37,316	449,460	25,431
Equipment rental and maintenance	13,575	4,027	2,806	1,173	18,157	650
Printing and publications	102,502	27,473	9,946	9,901	22,350	3,936
Travel	296,686	100,274	60,573	35,936	122,827	10,745
Conferences and meetings	65,604	24,420	2,417	13,268	12,876	1,080
Interest	-	-	-	-	6,830	-
Insurance	154,603	22,657	17,667	3,799	30,857	3,464
Specific assistance to individuals	114,564	215,165	12	-	14,070	2,313
Depreciation	331,117	78,515	104,039	62,586	294,949	31,442
Dues	10,372	940	554	119	4,147	596
Bad debts	88,324	394	-	-	145,523	-
Total nonpersonnel expenses	3,195,933	944,717	422,611	223,545	2,576,415	132,384
TOTAL DIRECT PROGRAM EXPENSE	17,055,531	4,155,503	1,561,258	602,805	10,849,812	598,904
Administrative expenses	1,853,885	486,441	145,443	67,300	1,331,475	67,454
TOTAL DIRECT AND ADMINISTRATIVE EXPENSES	$ 18,909,416	$ 4,641,944	$ 1,706,701	$ 670,105	$ 12,181,287	$ 666,358

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
$ 386,409	$ 4,040,998	$ 861,863	$ 2,428,668	$ 2,579,192	$ 32,289,045
96,367	996,091	218,802	559,443	770,532	7,977,528
482,776	5,037,089	1,080,665	2,988,111	3,349,724	40,266,573
168,042	812,234	256,702	162,153	847,701	3,474,073
307,467	198,238	126,807	227,911	158,878	2,593,863
8,641	189,109	34,488	41,924	65,969	943,884
1,437	5,764	1,440	2,738	48,211	89,700
132,511	423,601	64,841	95,429	199,127	2,272,628
721	9,731	1,464	776	4,304	57,384
2,428	28,366	5,984	13,538	45,569	271,993
9,679	89,162	40,422	112,381	55,586	934,271
26,084	32,464	26,898	15,178	27,432	247,721
-	-	-	-	-	6,830
1,892	47,393	9,949	21,017	441,938	755,236
-	297,394	29,854	628,283	-	1,301,655
12,339	244,213	49,629	56,508	327,421	1,592,758
1,939	2,410	312	1,517	70,906	93,812
-	74,643	14,469	31,977	-	355,330
673,180	2,454,722	663,259	1,411,330	2,293,042	14,991,138
1,155,956	7,491,811	1,743,924	4,399,441	5,642,766	55,257,711
148,140	810,807	192,073	539,748	(5,642,766)	-
$ 1,304,096	$ 8,302,618	$ 1,935,997	$ 4,939,189	$ -	$ 55,257,711

FRONTIER HEALTH

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$	538,593
Adjustments to reconcile change unrestricted in net assets to net cash provided by operating activities:		
Depreciation		1,592,758
Gain on disposal of property and equipment		(39,026)
Net realized loss on sale of investments		2,047
Net unrealized gain on investments		(73,961)
Changes in operating assets and liabilities:		
Patient accounts receivable		641,363
Grants receivable		(340,796)
Other receivables		(272,922)
Inventories		1,312
Prepaid expenses		387
Assets limited as to use		(14,432)
Accounts payable and accrued expenses		730,595
Accrued salaries and related expenses		341,464
Unearned revenue		316,595
Net cash provided by operating activities		3,423,977
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment		69,395
Purchases of property and equipment		(1,866,786)
Proceeds from maturities, calls, and sales of investments		2,468,370
Purchases of investments		(2,708,810)
Net cash used in investing activities		(2,037,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt		(19,426)
Net increase in cash and cash equivalents		1,366,720
CASH AND CASH EQUIVALENTS		
Beginning		2,777,451
Ending	$	4,144,171
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$	6,964
In-kind facility rental donations	$	99,835

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

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 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 consolidated 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.

(Continued)

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. The estimated allowances are comprised of amounts management normally considers uncollectible based upon historical trends and an analysis of the likelihood of collectability of individual 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 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.

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 consolidated financial statements.

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 revenue.

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)

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 for which 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

Subsequent to year end Frontier Health agreed to terms on a nonbinding contract to purchase real estate for approximately $3 million and the purchase is expected to be funded by the Foundation.

The Organization has evaluated subsequent events through October 15, 2018, the date which the financial statements were available to be issued.

(Continued)

Note 2. Net Patient Accounts Receivable

Net patient accounts receivables are reported at the estimated net realizable amount from patients, third-party payers, and others for services rendered. A summary of the accounts receivable is as follows:

TennCare	$ 2,954,256
Medicaid	2,425,473
Medicare	510,872
Private pay, commercial insurance and other	1,730,835
Allowance for uncollectible accounts	(486,689)
Contractual allowance	(2,848,793)
	$ 4,285,954

Note 3. Investments

Investments consist of the following:

Investments carried at fair value	
Fixed income bonds	$ 146,513
Fixed annuity contracts	6,782,658
Mutual funds	6,350,839
Exchange traded funds	4,474,678
U.S. Government securities	1,992,984
Certificates of deposit	6,048,867
	25,796,539
Other investments carried at cost	
Highlands Physicians	1,750
	1,750
Total investments	$ 25,798,289

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

Assets limited as to use – capital improvements	$ 4,491,524
Investments	21,306,765
Total investments	$ 25,798,289

Investment return is summarized as:

Interest and dividend income	$ 842,615
Net realized losses on sale of securities	(2,047)
Net unrealized gains	73,961
Total investment return	$ 914,529

(Continued)

Note 3. Investments (Continued)

The Organization has internally designated $4,491,524 of the total investments for capital improvements and $21,306,765 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 long-term investments to meet operating expenses and capital expenditures in the next year.

Fixed annuity contracts

At June 30, 2018, 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, 2018 was $6,782,658 and $6,400,341, respectively.

Note 4. Assets Limited as to Use

Assets limited as to use consist of the following:

Sunhouse M/R VHDA deposits	$ 51,676
Self-insurance deposits	87,746
Investments designated for capital improvements	4,491,524
Other deposits	12,399
	$ 4,643,345

Note 5. Property and Equipment

Property and equipment consist of the following:

Land and improvements	$ 2,995,438
Buildings and improvements	24,771,068
Equipment and vehicles	10,676,818
Construction in progress	557,965
	39,001,289
Less accumulated depreciation	(25,739,274)
	$ 13,262,015

Note 6. Line of Credit

The Organization has a $5,000,000 bank line of credit which matures December 31, 2018. Amounts borrowed under this agreement bear interest at the greater of one month LIBOR plus 2.50% subject to a minimum floor of 3% (4.6% at June 30, 2018). At June 30, 2018, 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 7. 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% through August 1, 2021, collateralized by land and building. Payments are collected by VHDA through offsets against subsidy payments.	$	73,256
Less current maturities		(21,101)
Long-term portion	$	52,155

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

2019	$	21,101
2020		22,921
2021		24,897
2022		4,337
	$	73,256

Note 8. 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	$	52,551,308
Less:		
Third-party contractual adjustments, charity care, and other discounts		(26,832,295)
Net patient service revenue	$	25,719,013

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 consolidated financial statements for any adjustments which may result from such reviews.

(Continued)

Note 8. Net Patient Service and Premium Revenues (Continued)

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 2018 derived from arrangements with Medicare, Medicaid, and TennCare are 4%, 24%, and 35%, respectively.

The approximate percentages of net patient accounts receivable from TennCare and the State of Tennessee (all arrangements except TennCare), are 40% and 11%, respectively, at June 30, 2018.

Note 9. Employee Benefit Plans

Retirement plans

The Organization offers both an employee-funded 403(b) plan and an employer-funded, 401(a) qualified retirement plan. Employees are eligible to make discretionary contributions to the 403(b) 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, 2018. In addition, the Organization contributes $0.50 for every $1.00 an employee contributes to the plan up to a total match of three percent (3%) of the employee's compensation.

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 employees 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, 2018.

The total retirement expense for the year ended June 30, 2018 was $1,321,836.

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 year ended June 30, 2018, claims incurred were $24,813.

Note 9. Employee Benefit Plans (Continued)

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. For the year ended June 30, 2018, claims expense, net of premiums and rebates, totaled $3,779,313.

Although the outcome of claims against the Organization cannot be predicted with certainty, management believes that there are no existing claims that are likely to have a material adverse effect on the Organization's financial position or results of operations for which it has not already provided. Claims incurred but not reported at June 30, 2018 were estimated to be $426,469.

Note 10. 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		
2019	$	151,940
2020		93,200
2021		69,500
2022		8,000
	$	322,640

Rent expense under terms of the operating leases for buildings was $233,647 for the year ended June 30, 2018.

Note 11. Contingencies

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

Note 11. Contingencies (Continued)

Grants

Under the terms of certain grant programs, periodic audits may be made, and certain costs may be questioned as not being appropriate expenses. Laws and regulations governing the grant programs and allowability of program costs are complex and subject to interpretation. Accordingly, such audits could lead to disallowances requiring reimbursements to the grantor agencies, which could be material to the Organization's financial statements. Management of the Organization believes that the Organization is in compliance with applicable laws and regulations in all material respects.

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, 2018, the net carrying value of these properties was $763,242.

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, 2018, the net carrying value of this property was $499,001.

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, 2018, the net carrying value of this property was $486,550.

Note 12. 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 consolidated 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, 2018, a receivable of $612,508 (net of an allowance for uncollectible accounts of $607,211) is due from the sixteen separately owned HUD facilities, and is included in other receivables. The allowance is based on management's judgment about the ability of these entities to pay.

Note 13. 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)**
Municipal bonds	$ 146,513	$ -	$ 146,513	$ -
Fixed annuity contracts	6,782,658	-	-	6,782,658
Mutual funds	6,350,839	6,350,839	-	-
Exchange traded funds	4,474,678	4,474,678	-	-
U.S. Government securities	1,992,984	1,992,984	-	-
Certificates of deposit	6,048,867	-	6,048,867	-
	$ 25,796,539	$ 12,818,501	$ 6,195,380	$ 6,782,658

The change in value of Level 3 investments is as follows:

	Fixed Annuity Contracts
July 1, 2017	$ 7,091,574
Redemptions	502,372
Accumulated earnings on contracts	193,456
June 30, 2018	$ 6,782,658

Note 14. Future Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific accounting guidance. Additionally, ASU 2014-09 supersedes some guidance included in ASC 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of ASC 360, *Property, Plant, and Equipment*, and intangible assets within the scope of ASC 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (ASU 2015-14) which defers the effective date of the new revenue recognition standard by one year. Accordingly, ASU 2014-09 will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods therein. The FASB has also issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, all of which clarify certain implementation guidance within ASU 2014-09. The Organization is evaluating the potential impact of the adoption of this guidance, but does not anticipate that the adoption will significantly change the timing or amount of revenue recognized. Therefore, the Organization believes the adoption will be limited to expanded disclosures in its financial statements.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, in February 2016. This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP, which have terms greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases. The result of retaining a distinction between finance leases and operating leases in the statements of activities and cash flows is largely unchanged from previous GAAP. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which affects all nonprofit organizations. The ASU significantly amends the standards for the presentation and accompanying disclosures of the financial statements of nonprofit organizations. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.

The FASB issued ASU 2018-08, *Not for Profit Entities*, in June of 2018 to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update are intended, among other things, to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This standard will be effective for the Organization in fiscal year 2020.

OTHER SUPPLEMENTAL INFORMATION

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
Federal Awards			
U.S. Department of Agriculture			
Pass-through programs from:			
Tennessee Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	R300	$ 19,883
School Breakfast Program	10.553	R300	19,015
Total U.S. Department of Agriculture			38,898
U.S. Department of Health and Human Services			
Direct programs:			
Basic Center Grant			
Runaway and Homeless Youth Program (09/01/17 to 09/29/18)	93.623	90-CY673703	150,000
Runaway and Homeless Youth Program (09/30/16 to 09/29/17)	93.623	90-CY642103	50,000
			200,000
Pass-through programs from:			
Tennessee Department of Finance and Administration			
Victims of Criminal Acts - Domestic Violence Shelter and Supportive Services	93.671	34399	37,130
East TN Human Resource Agency			
HIV Prevention Activities Health Department Based HIV/AIDS Prevention	93.940	N/A	34,172
HIV Care Formula Grants Ryan White	93.917	N/A	109,798
Tennessee Department of Children's Services			
Community Based Child Abuse Prevention Grants Child Abuse Prevention Services	93.590	44879	14,705
			195,805
Block Grants for Prevention and Treatment of Substance Abuse			
Planning District One Behavioral Health Services			
SA FBG Alcohol/Drug Treatment	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	121,208
			624,692
Tennessee Department of Mental Health &			
Adolescent Substance Use Disorders Svc Program	93.959	49740	$ 333,139
Adult Continuum of Care	93.959	DGA 48972_2016-2017_009	514,771
HIV/AIDS Early Intervention Services Program	93.959	49703	149,199
Medication Assisted Treatment	93.959	50781	120,943
Tennessee Prevention Network	93.959	DGA 49113_2016-2017_008	159,979
Women's Services	93.959	DGA 48975_2016-2017_005	361,807
			1,639,838
			2,264,530

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
Federal Awards			
U.S. Department of Health and Human Services (Continued)			
Pass-through programs from: (Continued)			
Opioid State Targeted Response			
Planning District One Behavioral Health Services			
OPT-R Prevention	93.788	N/A	7,583
OPT-R Treatment	93.788	N/A	91,878
			99,461
Tennessee Department of Mental Health & Substance Abuse			
CoC State Targeted Response Opioid Grant	93.788	DGA 55356_2017-2018_009	420,093
MAT Vivitrol STR (07/01/17 to 04/30/18)	93.788	DGA 55856_2017-2018_004	1,660
MAT Vivitrol STR (05/01/18 to 04/30/19)	93.788	DGA 57914_2018-2019_007	41,527
Opioid State Targeted Response	93.788	DGA 57909_2017-2018_009	102,224
MAT Buprenorphine STR	93.788	DGA 57913_2017-2018_013	1,700
			567,204
			666,665
Tennessee Department of Mental Health & Substance Abuse			
Projects of Regional and National Significance			
Cooperative Agreement to Benefit Homeless Ind Enh (09/30/17 to 09/29/18)	93.243	52231	67,450
Cooperative Agreement to Benefit Homeless Ind Enh (09/30/18 to 09/29/19)	93.243	52231	109,901
System of Care Across TN (02/01/18 to 09/30/18)	93.243	57534	35,569
Targeted Efficacy and Capacity Building (09/30/17 to 09/29/18)	93.243	57583	13,429
TECBOT - Treatment (09/30/17 to 09/29/18)	93.243	57583	13,118
			239,467
Planning District One Behavioral Health Services			
SA Federal Virginia Project LINK/PPW	93.243	N/A	19,698
			259,165
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	60,929
			105,925

(Continued)

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
Federal Awards			
Block Grants for Community Mental Health Services (Continued)			
Tennessee Department of Mental Health & Substance Abuse			
Community Supportive Housing	93.958	54728	332,200
Better Attitudes and Skills in Children (B.A.S.I.C.) & TA	93.958	54760	296,557
Community Targeted Transitional Support	93.958	54485	55,500
Older Adult Program	93.958	54750	70,000
Planned Respite Services	93.958	54363	81,112
Regional Intervention Program	93.958	54752	145,000
			980,369
			1,086,294
Total U.S. Department of Health and Human Services			4,672,459
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 – FY2017	84.181	N/A	$ 50,235
Total U.S. Department of Education			50,235
U.S. Department of Housing and Urban Development			
Pass-through programs from:			
Virginia Housing Development Authority			
Supportive Housing for the Elderly (Section 202)	14.157	N/A	73,256
Section 8 Project – Based Cluster			
Lower Income Housing Assistance Program			
Section 8 Moderate Rehabilitation	14.856	N/A	36,704
			109,960
Tennessee Department of Health			
Provision of Housing Opportunities for Persons with AIDS (HOPWA)	14.241	54029	105,069
Total U.S. Department of Housing and Urban Development			215,029
Total Federal Awards			$ 4,976,621

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2018

Granting Agency/Pass-through Agency Grant Program	Contract/Grant Number	Expenditures
State Financial Assistance		
TN DEPT OF MHSAS		
Grantor: TN Department of Mental Health & Substance Abuse Services		
07/01/17 - 06/30/18 Forensics Service-FY2018	DGA -53384	$ 112,100
07/01/17 - 06/30/18 Forensics Service-FY2018	DGA -53384	13,662
07/01/17 - 06/30/18 Inpatient Targeted Transitional Support	54388	87,557
07/01/17 - 06/30/18 Peer Support Centers	54471	451,551
07/01/17 - 06/30/18 Homeless	54489	59,646
07/01/17 - 06/30/18 Planned Respite	54363	11,000
07/01/17 - 06/30/18 School Based Behavioral Health Liaisons	54838	330,000
07/01/17 - 06/30/18 Mobile Crisis	54341	422,100
07/01/17 - 06/30/18 Crisis Walk In	54341	508,116
07/01/17 - 06/30/18 Crisis Stabilization Unit	54341	1,609,052
07/01/17 - 06/30/18 Crisis Diversionary	54341	137,500
07/01/17 - 06/30/18 Mobile Crisis C&Y	54341	75,422
07/01/17 - 06/30/18 Crisis Respite	54341	45,329
07/01/17 - 06/30/18 Enhanced Lifeline	58122	23,437
07/01/17 - 06/30/18 Regional Housing	54387	156,169
07/01/17 - 06/30/18 Intensive Long-term Support Services	54743	773,920
07/01/17 - 06/30/18 Peer Wellness Coaches	54427	123,486
07/01/17 - 06/30/18 Supportive Employment	54423	106,000
07/01/17 - 06/30/18 Recovery Drug Court Washington County	54326	67,658
07/01/17 - 06/30/18 Recovery Drug Court Sullivan County	54326	64,783
07/01/17 - 06/30/18 Community Supportive Housing	54728	329,435
07/01/17 - 06/30/18 Community Targeted Transitional Support	54489	10,479
07/01/17 - 06/30/18 Older Adult	54750	16,000
05/01/17 - 06/30/18 Creating Affordable Housing	58404	161,400
07/01/17 - 06/30/18 Alcohol and Drug Addiction Treatment - I/P	53536	11,610
07/01/17 - 06/30/18 BOPP Community Treatment Collaborative	53535	62,206
07/01/17 - 06/30/18 Supervised Probation Offender Treatment	53537	4,020
07/01/17 - 06/30/18 Medically Monitored Crisis Withdrawal Management Services	54599	499,980
07/01/17 - 06/30/18 Continuum of Care	53380	250,000
07/01/17 - 06/30/18 Criminal Justice BH ST	54497	99,308
07/01/17 - 06/30/18 Criminal Justice BH LS	54497	466,436
07/01/17 - 06/30/18 Medication Assisted Treatment (VIVITROL)	55411	2,130
07/01/17 - 06/30/18 Safety Net	53382	2,076,496
		9,167,988
HEARING IMPAIRED		
GRANTOR: TN DEPARTMENT OF HUMAN SERVICES		
07/01/17 - 06/30/18 CCDHH - Deaf Services and Advocacy Services	49500	147,891

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2018

Granting Agency/Pass-through Agency Grant Program	Contract/Grant Number	Expenditures
State Financial Assistance		
CHILDREN'S SERVICES		
GRANTOR: TN Department of Childrens Services		
07/01/17 - 06/30/18 PAC	PBC-00409	245,257
07/01/17 - 06/30/18 Child Abuse Prevention	44879	35,295
07/01/17 - 06/30/18 Adverse Childhood Exp.	51738	58,283
07/01/17 - 06/30/18 Traces - Level 3	PBC-00409	1,213,045
07/01/17 - 06/30/18 Traces - Level 2	PBC-00409	1,293,840
07/01/17 - 06/30/18 Traces - Level 1	PBC-00409	7,451
		2,853,171
GRANTOR: TN ASSOC. FOR CHILD CARE		
07/01/17 - 06/30/18 TACC	N/A	23,155
		2,876,326
JUVENILE JUSTICE GROUP HOME		
GRANTOR: TN DEPARTMENT OF FINANCE AND ADMINISTRATION		
07/01/17 - 06/30/18 - Family Violence	26808	180,469
TENN CARE		
GRANTOR: ADVOCARE		
07/01/17 - 06/30/18	N/A	1,602,434
VIRGINIA MENTAL HEALTH, SUBSTANCE ABUSE & MENTAL RETARDATION SERVICES		
GRANTOR: PD1 Behavioral Health Services		
07/01/17 - 06/30/18	N/A	3,777,005
Total State Awards		$ 17,752,113
Total Federal and State Awards		$ 22,728,734

FRONTIER HEALTH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE Year Ended June 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the schedule) includes the federal and state grant activity of Frontier Health under programs of the federal and state governments for the year ended June 30, 2018 on the accrual basis. The Organization has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

Note 2. Virginia Housing Development Authority (VHDA)

Section 202 Mortgage Assistance is the balance of the note payable to VHDA at June 30, 2018. Amortization payments are collected by VHDA through offsets against subsidy payments.

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, 2018

RECEIPTS		
Grants:		
Mental Health Services	$ 2,962,289	
Mental Retardation Services	72,991	
Substance Abuse Services	1,866,863	
		$ 4,902,143
Patient Services:		
Medicaid SPO	2,916,083	
Medicaid Clinic	602,826	
Medicaid Waiver	3,682,639	
Self-pay and private insurance	676,853	
Other fees	826,622	
		8,705,023
Local Agencies and Other Programs:		
Virginia local funds	356,350	
Other programs	620,266	
		976,616
Total receipts		14,583,782
DISBURSEMENTS		
Total staff salaries and fringe benefits		9,333,514
Dues/memberships		24,940
Workshops		19,382
In-service		25,599
Subscriptions		4,260
Rent		88,057
Utilities		134,003
Telephone		275,784
Maintenance services		2,081
Other facility expenses		43,097
Maintenance/service contracts		414,503
Office/facility supplies		320,811
Educational/rec. supplies		32,147
Food		93,273
Drugs/medical		65,348
Other supplies		440,391
Private mileage		147,109
Vehicle operations		93,975
Food/lodging		43,078
Professional fees		1,862,589
Insurance		106,832
Postage		20,189
Printing/duplicating		63,424
Miscellaneous		108,173
Equipment		564,561
Total disbursements		14,327,120
EXCESS OF RECEIPTS OVER DISBURSEMENTS		$ 256,662

FRONTIER HEALTH

STATEMENT OF RECEIPTS AND DISBURSEMENTS – SULLIVAN HOUSE
Year Ended June 30, 2018

RECEIPTS		
Sullivan County	$	307,180
Program fees and grants		124,500
Total receipts		431,680
DISBURSEMENTS		
Personnel costs:		
Salaries and wages		215,711
Fringe benefits		51,077
Total personnel costs		266,788
Other:		
Travel		1,181
Motor vehicle operations		2,528
Dues and memberships		427
Professional services		3,101
Printing		1,444
Utilities		21,319
Communications		6,419
Supplies		18,819
Food		48,278
Maintenance and repairs		15,959
Depreciation		4,691
Miscellaneous		166
Total other		124,332
Administration and general allocation		52,333
Total disbursements		443,453
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$	(11,773)

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

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 consolidated statement of financial position as of June 30, 2018, 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 which collectively comprise the Organization's consolidated financial statements and have issued our report thereon dated October 15, 2018.

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 consolidated 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 consolidated 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.**

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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 15, 2018

BROWNEDWARDS
certified public accountants

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 Each 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 programs for the year ended June 30, 2018. Frontier Health's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Frontier Health'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; 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 each 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 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 June 30, 2018.

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 15, 2018

FRONTIER HEALTH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

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 consolidated 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 programs**.

7. The programs tested as major programs were:

Block Grants for Community Mental Health Services	CFDA # 93.958
Opioid State Targeted Response	CFDA# 93.788

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.

FRONTIER HEALTH

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

Financial Statement Audit

There were no prior findings reported.

Major Federal Award Programs

2017-001: Block Grants for Prevention and Treatment of Substance Abuse – CFDA 93.959

Condition: We noted that on one individual the wrong service code was entered when billing the grant, resulting in a $400 overpayment by the State of Tennessee to the Organization. The overbilling was discovered by management upon review of the monthly billing records, and reimbursement was submitted to the state.

Criteria: The Organization is required to follow the Rate Sheet include in the grant contract.

Cause: The Organization failed to properly enter the correct billing code for the service provided.

Effect: The Organization is not in compliance with the service fee rates established by the grantor.

Context: Of the 25 transactions examined, we found one instance of noncompliance.

Recommendation: Service codes should be reviewed carefully before billing.

Views of Responsible Officials and Planned Corrective Action: We contacted the State of Tennessee and returned the amount that was over charged.

Current Year Status: No similar findings were noted in the current year.