

**FRONTIER HEALTH**  
**CONSOLIDATED FINANCIAL STATEMENTS AND OTHER**  
**FINANCIAL INFORMATION**

*Year Ended June 30, 2015*  
*With Independent Auditor's Report*

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED FINANCIAL STATEMENTS AND OTHER**  
**FINANCIAL INFORMATION**  
**Year Ended June 30, 2015**

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DENT K. BURK ASSOCIATES, P.C.

*Certified Public Accountants*

Bristol, Virginia  
Kingsport, Tennessee  
Johnson City, Tennessee  
Grundy, Virginia

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
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, which comprise the consolidated statement of financial position as of June 30, 2015 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, 2015, and the changes in its net assets and its 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 not a required part of the consolidated financial statements. The other additional schedules listed under *Other Financial Information* in the table of contents is presented for purposes of additional analysis as required by local funding agencies and is 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 23, 2015, on our consideration of Frontier Health'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 Frontier Health's internal control over financial reporting and compliance.

*Dent K. Burk Associates, P.C.*  
Certified Public Accountants

Kingsport, Tennessee  
October 23, 2015

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 3,351,148	\$44,646	\$ -	\$ 3,395,794
Net patient accounts receivable, less allowance for uncollectible accounts of \$393,639 and contractual allowance of \$729,902	4,248,433	-	-	4,248,433
Grants receivable	1,873,343	-	-	1,873,343
Other receivables, less allowance for uncollectible accounts of \$428,765	1,470,163	-	-	1,470,163
Inventory	136,699	-	-	136,699
Prepaid expenses	624,449	-	-	624,449
<b>Total current assets</b>	<u>11,704,235</u>	<u>44,646</u>	<u>-</u>	<u>11,748,881</u>
<b>Assets limited as to use:</b>				
Self-insurance agreement	181,176	-	-	181,176
Capital improvements	4,104,458	-	-	4,104,458
Deposits	10,595	-	-	10,595
	<u>4,296,229</u>	<u>-</u>	<u>-</u>	<u>4,296,229</u>
<b>Property and equipment:</b>				
Land and improvements	3,020,381	-	-	3,020,381
Buildings and improvements	23,760,283	-	-	23,760,283
Equipment and vehicles	10,124,388	-	-	10,124,388
	36,905,052	-	-	36,905,052
Less: accumulated depreciation	22,465,964	-	-	22,465,964
	<u>14,439,088</u>	<u>-</u>	<u>-</u>	<u>14,439,088</u>
<b>Other assets:</b>				
Investments	19,588,327	-	-	19,588,327
Construction in progress	254,386	-	-	254,386
	<u>19,842,713</u>	<u>-</u>	<u>-</u>	<u>19,842,713</u>
<b>Total assets</b>	<u>\$50,282,265</u>	<u>\$44,646</u>	<u>\$ -</u>	<u>\$50,326,911</u>

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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - Continued**  
**June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	\$ 1,288,826	\$ -	\$ -	\$ 1,288,826
Current maturities of long-term debt	16,464	-	-	16,464
Accrued salaries and related expenses	5,456,728	-	-	5,456,728
Unearned revenue	<u>25,204</u>	<u>-</u>	<u>-</u>	<u>25,204</u>
<b>Total current liabilities</b>	<u>6,787,222</u>	<u>-</u>	<u>-</u>	<u>6,787,222</u>
Long-term debt, less current maturities	<u>110,566</u>	<u>-</u>	<u>-</u>	<u>110,566</u>
<b>Total liabilities</b>	6,897,788	-	-	6,897,788
<b>Total net assets</b>	<u>43,384,477</u>	<u>44,646</u>	<u>-</u>	<u>43,429,123</u>
<b>Total liabilities and net assets</b>	<u>\$50,282,265</u>	<u>\$44,646</u>	<u>\$ -</u>	<u>\$50,326,911</u>

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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**For the Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT:</b>				
Net patient service revenue	\$26,543,922	\$ -	\$ -	\$26,543,922
Net premium revenue	1,551,546	-	-	1,551,546
State of Tennessee grants	15,147,648	-	-	15,147,648
State of Virginia grants	4,240,300	-	-	4,240,300
Fees – contracted services	3,676,492	-	-	3,676,492
Local support	1,123,193	-	-	1,123,193
Contributions	488,731	-	-	488,731
Other	295,070	-	-	295,070
Investment return (loss)	497,537	87	-	497,624
Other gains (losses)	22,595	-	-	22,595
Net assets transferred to VHDA escrow account	14,866	(14,866)	-	-
<b>Total revenues, gains, and other support</b>	<u>53,601,900</u>	<u>(14,779)</u>	<u>-</u>	<u>53,587,121</u>
<b>EXPENSES:</b>				
Tennessee Services				
Tennessee Mental Health Outpatient	17,910,963	-	-	17,910,963
Tennessee Substance Abuse Outpatient	3,564,508	-	-	3,564,508
Tennessee Intellectual Disabilities	1,541,677	-	-	1,541,677
Tennessee Drop-In Centers	497,439	-	-	497,439
Tennessee Residential	10,405,255	-	-	10,405,255
Tennessee Rehabilitation	582,463	-	-	582,463
Tennessee Other	1,084,913	-	-	1,084,913
Virginia Services				
Virginia Mental Health Services	6,609,297	-	-	6,609,297
Virginia Substance Abuse Services	1,329,724	-	-	1,329,724
Virginia Mental Intellectual Services	4,160,561	-	-	4,160,561
Administrative and general	5,840,202	-	-	5,840,202
<b>Total expenses</b>	<u>53,527,002</u>	<u>-</u>	<u>-</u>	<u>53,527,002</u>
<b>CHANGE IN NET ASSETS</b>	74,898	(14,779)	-	60,119
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>43,309,579</u>	<u>59,425</u>	<u>-</u>	<u>43,369,004</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$43,384,477</u>	<u>\$44,646</u>	<u>\$ -</u>	<u>\$43,429,123</u>

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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2015**

	Tennessee Mental Health Outpatient	Tennessee Substance Abuse Outpatient	Tennessee Intellectual Disabilities	Tennessee Drop-In Centers	Tennessee Residential	Tennessee Rehabilitation	Tennessee Other
<b>EXPENSES</b>							
<b>Personnel:</b>							
Salaries and Wages	\$11,042,794	\$2,212,403	\$ 829,294	\$236,309	\$ 6,188,392	\$338,187	\$ 324,826
Employee Benefits and Payroll Taxes	3,041,740	616,561	219,006	58,947	1,596,107	92,877	85,146
<b>Total Personnel Expenses</b>	<b>14,084,534</b>	<b>2,828,964</b>	<b>1,048,300</b>	<b>295,256</b>	<b>7,784,499</b>	<b>431,064</b>	<b>409,972</b>
<b>Other:</b>							
Professional Fees	1,250,753	53,249	12,716	5,704	310,001	20,096	74,590
Supplies	304,953	91,163	64,285	32,750	1,020,200	27,879	395,701
Telephone	336,389	85,241	54,413	26,475	160,289	17,275	17,012
Postage and Shipping	30,856	4,059	1,623	724	6,940	533	879
Occupancy	544,045	106,027	132,739	36,712	401,398	25,010	150,893
Equipment Rental and Maintenance	44,277	8,873	11,354	1,368	36,794	2,639	4,483
Printing and Publications	89,567	21,557	3,046	2,940	22,729	2,838	2,402
Travel	438,637	86,673	69,003	29,610	120,026	12,555	14,850
Conferences and Meetings	48,847	15,296	2,292	6,852	9,965	1,869	(6,156)
Interest	-	-	-	-	11,129	-	-
Insurance	151,908	20,134	6,210	2,367	32,128	1,567	1,450
Specific Assistance to Individuals	130,597	136,252	-	-	139,484	541	(1)
Depreciation	376,187	98,343	134,967	56,578	294,723	30,185	17,726
Dues	11,524	1,008	729	103	7,244	471	1,112
Bad Debts	67,889	7,669	-	-	47,706	7,941	-
<b>Total Nonpersonnel Expenses</b>	<b>3,826,429</b>	<b>735,544</b>	<b>493,377</b>	<b>202,183</b>	<b>2,620,756</b>	<b>151,399</b>	<b>674,941</b>
<b>TOTAL DIRECT PROGRAM EXPENSE</b>	<b>17,910,963</b>	<b>3,564,508</b>	<b>1,541,677</b>	<b>497,439</b>	<b>10,405,255</b>	<b>582,463</b>	<b>1,084,913</b>
Administrative Expenses	2,217,223	451,943	173,358	64,159	1,215,692	72,737	115,203
<b>TOTAL DIRECT AND ADMINISTRATIVE EXPENSES</b>	<b>\$20,128,186</b>	<b>\$4,016,451</b>	<b>\$1,715,035</b>	<b>\$561,598</b>	<b>\$11,620,947</b>	<b>\$655,200</b>	<b>\$1,200,116</b>

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



**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - Continued**  
**For the Year Ended June 30, 2015**

	Virginia Mental Health Services	Virginia Substance Abuse Services	Virginia Mental Intellectual Services	Administration & General	Total
<b>EXPENSES</b>					
<b>Personnel:</b>					
Salaries and Wages	\$3,463,711	\$ 672,843	\$2,393,109	\$ 2,519,980	\$30,221,848
Employee Benefits and Payroll Taxes	944,787	190,999	597,571	922,764	8,366,505
<b>Total Personnel Expenses</b>	<b>4,408,498</b>	<b>863,842</b>	<b>2,990,680</b>	<b>3,442,744</b>	<b>38,588,353</b>
<b>Other:</b>					
Professional Fees	619,266	213,711	73,500	781,703	3,415,289
Supplies	190,801	47,189	240,367	223,000	2,638,288
Telephone	143,882	27,794	66,743	142,975	1,078,488
Postage and Shipping	7,966	1,614	3,592	41,393	100,179
Occupancy	304,262	50,584	137,758	199,965	2,089,393
Equipment Rental and Maintenance	23,829	3,994	14,391	14,812	166,814
Printing and Publications	18,314	4,268	9,534	38,074	215,269
Travel	91,437	34,917	107,991	63,376	1,069,075
Conferences and Meetings	28,030	19,832	11,220	18,864	156,911
Interest	-	-	-	-	11,129
Insurance	37,175	7,317	16,610	420,147	697,013
Specific Assistance to Individuals	449,274	7,353	376,629	-	1,240,129
Depreciation	214,095	42,524	100,148	385,001	1,750,477
Dues	2,510	317	1,287	68,148	94,453
Bad Debts	69,958	4,468	10,111	-	215,742
<b>Total Nonpersonnel Expenses</b>	<b>2,200,799</b>	<b>465,882</b>	<b>1,169,881</b>	<b>2,397,458</b>	<b>14,938,649</b>
<b>TOTAL DIRECT PROGRAM EXPENSE</b>	<b>6,609,297</b>	<b>1,329,724</b>	<b>4,160,561</b>	<b>5,840,202</b>	<b>53,527,002</b>
Administrative Expenses	827,600	161,874	540,413	(5,840,202)	-
<b>TOTAL DIRECT AND ADMINISTRATIVE EXPENSES</b>	<b>\$7,436,897</b>	<b>\$1,491,598</b>	<b>\$4,700,974</b>	<b>\$ -</b>	<b>\$53,527,002</b>

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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For Year Ended June 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets		\$ 60,119
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$1,750,477	
Gain on sale of property and equipment	(26,273)	
Loss on disposal of property and equipment	3,677	
Loss on sale of securities	2,064	
Net unrealized loss on investment securities	279,164	
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,127,233)	
Grants receivable	(472,913)	
Other receivables	(176,851)	
Inventory	(14,950)	
Prepaid expenses	(125,151)	
Deposits	(300)	
Assets whose use is limited	(74,343)	
Accounts payable and accrued expenses	155,764	
Accrued salaries and related expenses	(743,717)	
Unearned revenue	<u>(26,527)</u>	
Total adjustments		<u>(597,112)</u>
Net cash used in operating activities		(536,993)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of property and equipment	(1,828,470)	
Proceeds from sale of property and equipment	26,273	
Proceeds from maturities, calls, and sales of investment securities	3,852,834	
Purchases of investment securities	(6,812,932)	
Construction in progress	<u>359,963</u>	
Net cash used in investing activities		(4,402,332)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Principal payments on long-term debt	<u>(15,157)</u>	
Net cash used in financing activities		<u>(15,157)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** (4,954,482)

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** 8,350,276

**CASH AND CASH EQUIVALENTS AT END OF YEAR** \$3,395,794

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash payments for interest \$ 11,233

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND  
FINANCING ACTIVITIES**

In-kind facility rental donations \$ 88,200

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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*Nature of activities:*

Frontier Health (the Organization) is a private not-for-profit organization with over 60 facilities across the region. Headquartered in Washington County, Tennessee, the Organization offers an array of services in the areas of mental health, family violence, mental retardation, vocational rehabilitation, developmental disabilities and substance abuse. The Organization'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. The Organization employs more than a thousand individuals from these service areas to provide the wide array of services offered.

These consolidated financial statements include the financial position and results of operations of the Frontier Health Foundation (the Foundation), the Organization's affiliate. The Foundation solicits, receives, holds, administers, invests, and disburses funds to be used for and on behalf of Frontier Health's programs. These consolidated financial statements are based on the assumption that they present the financial position and the change in net assets of a single entity.

*Basis of accounting:*

The consolidated financial statements of Frontier Health and its affiliate have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and accordingly reflect all significant receivables, payables, and other liabilities.

*Principles of consolidation:*

The consolidated financial statements include the accounts of Frontier Health and the Frontier Health Foundation. All significant inter-entity transactions and balances have been eliminated in the consolidation.

*Basis of presentation:*

Financial statement presentation follows ASC Topic 958-205, *Presentation of Financial Statements*, and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*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.

*Expense allocation:*

The costs of providing various programs and other 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.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*Income taxes:*

Both the Organization 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. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization and the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 590(a)(2). Tax years before 2012 are no longer subject to examinations by federal tax authorities.

*Net patient service revenue and accounts receivable:*

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, 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 Organization's policies do not require collateral or other security for accounts receivable. The Organization does routinely obtain assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance, programs, plans or policies.

*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. Grants provided by various state and local governments partially fund these services.

*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.

*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 as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*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.

Costs incurred under grant programs administered by the Organization are subject to audit at the discretion of the grantor and, accordingly, may be subject to disallowance. There have been no questioned costs for the fiscal year ended June 30, 2015.

*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. The Organization did not receive such services during the fiscal year ended June 30, 2015. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or property and equipment.

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. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

*Restricted and unrestricted revenue:*

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Cash and cash equivalents:*

For purposes of the statement of cash flows, all unrestricted highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents. It is the Organization's policy to invest available cash in United States government or government agency obligations and repurchase agreement investments collateralized by the U.S. government securities held at a financial institution in the financial institution's name; however, these repurchase agreement investments are not insured nor guaranteed by the FDIC.

*Assets limited as to use:*

Assets limited as to use consist primarily of United States Government obligations and certificates of deposit all of which represent 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.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*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.

*Investments:*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statement of financial position. Investments in fixed annuities are carried at initial cost with the accumulated investment return recorded in other receivable until the annuity is surrendered for cash. Other investments without readily determinable fair values are included at cost in the statement of financial position and are not evaluated for impairment or estimated at fair value because it is not practicable to do so.

*Property and equipment:*

Property and equipment are carried at cost if purchased or at fair market value if donated and include expenditures for improvements and betterments which substantially increase the useful lives of existing property and equipment. Maintenance, repairs, and minor renewals are expensed as incurred. Land, buildings, improvements, construction, and equipment that have a useful life of two years or more are capitalized. 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 of fixed assets by the straight-line method over the estimated useful lives of the related assets. Amortization and accumulated amortization of equipment under capital leases is included in depreciation expense and accumulated depreciation, respectively. Interest expense incurred on debt related to capital improvements is capitalized as part of the actual construction costs and depreciated over the estimated useful life of the addition.

*Electronic health record incentive program:*

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. Frontier Health utilizes a grant accounting model to recognize EHR incentive revenues. The Organization records EHR incentive revenues ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received.

Accordingly, the Organization recognized \$130,250 of Medicaid EHR revenues during the year ended June 30, 2015. EHR incentive revenues are included in "Fees - contracted services" revenue in the accompanying statement of activities.

The Organization's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

*Subsequent events:*

The Organization has evaluated subsequent events through October 23, 2015, the date which the financial statements were available to be issued.

**Note 2. Allowance for Uncollectible Accounts**

The Organization provides additions to its allowance for uncollectible accounts from patients based upon past experience and analysis of individual customer accounts. Transactions in the allowance account for the fiscal year ended June 30, 2015 are as follows:

Balance, beginning of year	\$ 432,075
Less: Actual patient accounts charged off	(215,742)
Add: Net provision required	<u>177,306</u>
Balance, end of year	\$ <u>393,639</u>

**Note 3. State Funded Buildings**

*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, 2015, the net carrying value of these properties was \$938,799.

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, 2015, the net carrying value of this property was \$263,303.

The Organization owns a non-hospital facility, offering twenty-four (24) hour intensive, short-term stabilization for medically stable Tennessee adults eighteen (18) 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 (15) 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 four hundred thirty three thousand three hundred two dollars (\$433,302.00) in legal tender. At June 30, 2015, the net carrying value of this property was \$571,646.

The Organization owns a non-hospital facility offering twenty-four (24) intensive, long-term support services for Tennessee adults eighteen (18) 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 (15) 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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3. State Funded Buildings (Continued)**

which is three hundred thousand (\$300,000) in legal tender. At June 30, 2015, the net carrying value of this property was \$602,717.

**Note 4. Investments**

The investment securities at June 30, 2015, consisted of the following:

	Carrying Value
Fixed income bonds	\$ 139,318
Mutual funds	8,634,553
Exchange traded funds	160,200
U.S. Government securities	7,184,089
Certificates of deposit	<u>3,808,615</u>
Investments carried at fair value	19,926,775
 Tax deferred fixed annuities	 3,760,510
PHP of the Tri-Cities, LLC	2,000
Highlands Physicians	<u>3,500</u>
Other investments carried at cost	<u>3,766,010</u>
Total investment securities	<u>\$23,692,785</u>
 Money fund cash equivalents	 <u>\$ 1,082,236</u>

The carrying value of the investments is included on the statement of financial position as follows:

Assets limited for capital improvements	\$ 4,104,458
Investments	<u>19,588,327</u>
	<u>\$23,692,785</u>
 Included in cash equivalents	 <u>\$ 1,082,236</u>

Gains and losses (realized and unrealized), included in unrestricted net assets for the year, are reported in investment return for the year ended June 30, 2015.

Investment return is summarized as:

Interest and dividend income	\$778,852
Loss on redemption	(2,064)
Unrealized loss	<u>(279,164)</u>
Total investment return (loss)	<u>\$497,624</u>

Change in unrealized losses relating to investments still held at year end	<u>\$ 75,218</u>
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The Organization has internally designated \$4,104,458 of the total investments for capital improvements and \$19,588,327 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.



**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4. Investments (Continued)**

Tax deferred fixed annuities

At June 30, 2015, the Organization held investments in tax deferred fixed annuities with an initial cost of \$3,760,510. The accumulated investment value and cash surrender value at June 30, 2015 was \$4,225,074 and \$4,172,314, respectively.

**Note 5. Long-term Debt**

*Notes payable:*

A summary of the Organization's notes payable and collateral pledged thereon consisted of the following at June 30, 2015:

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. \$127,030

Less current maturities 16,464  
Long-term portion \$110,566

*Aggregate maturities of long-term debt:*

Aggregate maturities required on long-term debt at June 30, 2015 are due in future years as follows: 2016, \$16,464; 2017, \$17,884; 2018, \$19,426; 2019, \$21,101; 2020, \$22,921 and thereafter, \$29,234.

**Note 6. Line of Credit**

The Organization has a \$5,000,000 bank line of credit which matures December 31, 2015. Amounts borrowed under this agreement bear interest at the greater of the average offered rate in the London interbank market for deposits in U.S. dollars for one month (LIBOR Rate) plus 2.50% subject to a minimum floor of 3% (3% at June 30, 2015). At June 30, 2015, there was no outstanding balance on this line of credit. The line is secured by certain real and personal property located in Wise County, Virginia and the Organization's accounts receivable. At June 30, 2015, the total cost of the property, \$1,195,870, and of the value of accounts receivable - net, \$4,248,433, securing the line of credit, totaled \$5,444,303.

**Note 7. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2015, required to be held in separate bank accounts, are available for the following purposes:

Funds available for VHDA authorized rental expenses \$ 1,429  
VHDA funds available for replacements and repairs and 43,217  
maintenance of Sunhouse group facility \$44,646

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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	\$ 58,243,028
Less:	
Third-party contractual adjustments, charity care, and other discounts	<u>(31,699,106)</u>
Net patient service revenue	<u>\$ 26,543,922</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 2015 derived from arrangements with Medicare, Medicaid and TennCare are 4%, 19%, and 43%, respectively.

The approximate percentages of net patient accounts receivable from TennCare and the State of Tennessee (all arrangements except TennCare), are 35% and 12%, respectively, at June 30, 2015.

**Note 9. 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, 2015. 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.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9. Employee Benefit Plans (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, 2015.

The total retirement expense for the fiscal year ended June 30, 2015, was \$1,347,187.

*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.

*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, 2015, claims incurred were \$52,343.

*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, 2015, total self-insured insurance expense incurred was \$4,239,414.

**Note 10. Operating Leases**

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

<u>Year Ended June 30</u>	
2016	\$ 205,573
2017	39,600
2018	24,000
2019	24,000
2020	<u>24,000</u>
Total minimum lease payments	\$ <u>317,173</u>

Rent expense under terms of the operating leases for buildings was \$280,947 for the year ending June 30, 2015.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 11. Cash and Cash Equivalents**

Cash and cash equivalents consist of the following:

Bank accounts	\$2,313,558
Investments in money market accounts	<u>1,082,236</u>
Total	<u>\$3,395,794</u>

**Note 12. Concentration of Credit Risk**

The Organization and the Foundation's cash balances are partially insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per insured bank. At June 30, 2015, the uninsured cash balances totaled \$1,809,199.

In addition, the Organization and the Foundation have investment accounts at various securities firms with investments in cash, brokered certificate of deposits, mutual funds, bonds, and government securities. Balances are insured up to \$500,000, with a limit of \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). At June 30, 2015, there was \$10,744,762 in excess of the SIPC insured limits. The Organization and the Foundation maintain their cash and investments with high quality financial institutions and securities firms which reduces the credit risk.

The Organization also has other investments in non-qualified fixed annuity contracts with seven different life insurance companies. Annuities are not deposits of any bank and are not insured by the FDIC. However, balances are insured under the Tennessee Life and Health Insurance Guaranty Association Act for up to \$300,000 per insurance company. At June 30, 2015, the Organization had \$2,217,352 in excess of the Tennessee Life and Health Insurance guaranty for all seven insurance companies combined.

Credit risk for accounts receivable is concentrated as well because substantially all of the balances are receivable from individuals or third party payers for individuals located within the same geographic region.

**Note 13. Contingencies**

Litigation

The Organization is involved in various lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits, however, the organization believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of these lawsuits cannot presently be determined. Accordingly, adjustments, if any, that might result from the solution of those matters have not been reflected in the financial statements. Management believes that any losses resulting from these matters would be covered under the Organization's professional liability insurance policy and would not have a material effect on the financial position of the Organization.

**Note 14. 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 its 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

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14. Related Parties (Continued)**

HUD facilities. As of June 30, 2015, a receivable of \$547,017 (net of an allowance for uncollectible accounts of \$428,813) is due from the sixteen separately owned HUD facilities.

The Frontier Health Foundation is a private foundation organized to support the activities, facilities, and programs of Frontier Health. The Foundation has agreed to reimburse Frontier Health for its administrative and other operational costs incurred, which have been paid on behalf of the Foundation by Frontier Health. The balance due Frontier Health from the Foundation at June 30, 2015 was \$29,988.

**Note 15. Fair Value Measurements**

Fair values of assets measured on a recurring basis at June 30, 2015 are as follows:

June 30, 2015	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income bonds	\$ 139,318	\$ 139,318	\$ -	\$ -
Mutual funds	8,634,553	8,634,553		
Exchange traded funds	160,200	160,200		
U.S. Government securities	7,184,089	7,184,089	-	-
Certificates of deposit	<u>3,808,615</u>	<u>3,808,615</u>	<u>-</u>	<u>-</u>
Total	<u>\$19,926,775</u>	<u>\$19,926,775</u>	<u>\$ -</u>	<u>\$ -</u>

All assets have been valued using a market approach. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value. There have been no changes in valuation techniques and related inputs.

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 15. Fair Value Measurements (Continued)**

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through programs from:			
Tennessee Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	CN47111	\$ 23,812
School Breakfast Program	10.553	CN47113	<u>20,962</u>
			<u>44,774</u>
 TOTAL U.S. DEPARTMENT OF AGRICULTURE			 <u>44,774</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Direct programs:			
Basic Center Grant			
Runaway and Homeless Youth Program (to 09/29/15)	93.623	90-CY642103	145,483
Runaway and Homeless Youth Program ( 09/30/13-09/29/14)	93.623	90-CY642102	<u>45,569</u>
			191,052
 Pass-through programs from:			
Tennessee Department of Finance and Administration			
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	96.671	24697	33,372
 East Tennessee Human Resource Agency			
HIV Prevention Activities Health Department Based HIV/AIDS Prevention	93.940	N/A	51,783
 HIV Care Formula Grants			
Ryan White	93.917	N/A	80,306
 Tennessee Department of Children's Services			
Community Based Child Abuse Prevention Grants Child Abuse Prevention Services	93.590	39435	14,705
 Block Grants for Prevention and Treatment of Substance Abuse			
Virginia Department of Behavioral Health and Developmental Services:			
SA FBG Alcohol/Drug Treatment	93.959	N/A	447,451
SA FBG SARPOS	93.959	N/A	31,963
SA FBG MAT	93.959	N/A	19,751
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	1,792
SA Other Federal - DBHDS	93.959	N/A	<u>1,966</u>
			645,201

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continued)</b>			
Pass-through programs from: (Continued)			
Block grants for Prevention and Treatment of Substance Abuse (Continued)			
Tennessee Department of Mental Health and Substance Abuse			
Adolescent Substance Use Disorders Services Program	93.959	42129	\$ 378,245
Adult Continuum of Care	93.959	DGA 41157 2014-2015-009	1,101,997
HIV/AIDS Early Intervention Services Program	93.959	42130	141,235
Tennessee Prevention Network	93.959	DGA 41157 2014-2015-009	159,990
Women's Services	93.959	DBA 41163 2014-2015-005	328,798
			<u>2,110,265</u>
			2,755,466
Tennessee Department of Mental Health and Substance Abuse			
Projects of Regional and National Significance			
System of Care – Expansion Initiative (11/01/13-09/30/14)	93.243	40326	69,664
System of Care - Expansion Initiative (10/01/14-09/30/15)	93.243	43291	<u>90,813</u>
			160,477
Block Grants for Community Mental Health Services			
Virginia Department of Behavioral Health and Developmental Services			
MH FBG SED C&A	93.958	N/A	44,996
MH FBG SMI (Restricted Funds)	93.958	N/A	<u>63,676</u>
			108,672
Tennessee Department of Mental Health and Substance Abuse			
Community Supportive Housing	93.958	42007	332,165
Better Attitudes and Skills in Children (B.A.S.I.C.) & TA	93.958	42558	296,557
Community Targeted Transitional Support	93.958	42008	55,500
Older Adult Program	93.958	41851	70,000
Planned Respite Services	93.958	41877	81,112
Regional Intervention Program	93.958	42557	<u>145,000</u>
			<u>980,334</u>
			1,089,006
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>4,376,167</u>



**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
Pass-through programs from:			
Virginia Department of Behavioral Health and Developmental Services			
Special Education - Grants for Infants and Families			
Early Intervention Part C - FY2015	84.181	N/A	\$ 56,148
Early Intervention Part C - FY2015 - One-Time Funds	84.181	N/A	<u>18,671</u>
			74,819
Tennessee Department of Mental Health and Substance Abuse			
Special Education Cluster (IDEA)			
Special Education - Grants to States (IDEA, Part B)			
School-Based Mental Health Liaison (SBMHL) Expanded	84.027	41846	<u>129,278</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>204,097</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Pass-through programs from:			
Tennessee Department of Finance and Administration			
Crime Victim Assistance	16.575	19130	<u>48,410</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>48,410</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Pass-through programs from:			
Virginia Housing Development Authority			
Supportive Housing for the Elderly (Section 202)	14.157	N/A	127,030
Section 8 Project - Based Cluster			
Lower Income Housing Assistance Program Section 8			
Moderate Rehabilitation	14.856	N/A	<u>36,947</u>
			163,977
Tennessee Housing Development Agency			
Emergency Solutions Grants Program			
ESG - Emergency Shelter Program	14.231	ESG-13-17	14,103

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: (CONTINUED)</b>			
Tennessee Department of Health			
Provision of Housing Opportunities for Persons with AIDS (HOPWA)	14.241	27082-GR1235774-04	<u>90,685</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>268,765</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Pass-through programs from:			
Tennessee Department of Transportation			
Transit Services Program Cluster			
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	40939	<u>34,105</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>34,105</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$4,976,318</u></b>

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

**Note A. 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, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Frontier Health, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Frontier Health.

**Note B. Summary of Significant Accounting Policies**

(1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

**Note C. Virginia Housing Development Authority (VHDA)**

Section 202 Mortgage Assistance is the balance of the note payable to VHDA at June 30, 2015. Amortization payments are collected by VHDA through offsets against subsidy payments.

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

Grant Number	CFDA Number	Balance June 30, 2014	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2015
<b>TN DEPT OF MHSAS</b>						
<b>GRANTOR: TN DEPARTMENT OF MENTAL</b>						
<b>HEALTH AND SUBSTANCE ABUSE SERVICES</b>						
07/01/14 - 06/30/15 FORENSIC SERVICE - FY2015	DGA-41146-003	STATE	\$ -	\$ 79,700	\$ 87,550	\$ - (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	-	346,778	451,551	- (104,773) (2)
07/01/14 - 06/30/15 HOME/SETH	41892	STATE	-	88,408	91,276	- (2,868) (2)
07/01/14 - 06/30/15 SBMHL	41846	STATE	-	171,385	196,388	- (25,003) (2)
07/01/14 - 06/30/15 CRISIS STABILIZATION UNIT	42450	STATE	-	1,353,780	1,476,851	- (123,071) (2)
07/01/14 - 06/30/15 MOBILE CRISIS	42450	STATE	-	386,920	422,094	- (35,174) (2)
07/01/14 - 06/30/15 CRISIS DIVERSIONARY	42450	STATE	-	131,538	143,496	- (11,958) (2)
07/01/14 - 06/30/15 CRISIS WALK IN	42450	STATE	-	28,234	32,448	- (4,214) (2)
07/01/14 - 06/30/15 CRISIS RASS	42450	STATE	-	9,759	32,700	- (22,941) (2)
07/01/14 - 06/30/15 C&Y MOBILE CRISIS	42571	STATE	-	70,563	75,422	- (4,859) (2)
07/01/14 - 06/30/15 TARGETED TRANS. SUPP.argeted	42001	STATE	-	69,365	79,288	- (9,923) (2)
07/01/14 - 06/30/15 C&Y HOMELESS	42140	STATE	-	36,007	37,006	- (999) (2)
07/01/14 - 06/30/15 COMMUNITY TARGETED TRANSIT	42008	STATE	-	16,689	23,435	- (6,746) (2)
07/01/14 - 06/30/15 CRISIS RESPITE	42450	STATE	-	27,423	35,189	- (7,766) (2)
07/01/14 - 06/30/15 PEER WELLNESS	41787	STATE	-	103,301	116,773	- (13,472) (2)
07/01/14 - 06/30/15 SEP INITIATIVE	41765	STATE	-	113,807	123,847	- (10,040) (2)
07/01/14 - 06/30/15 COMMUNITY HOUSING	42007	STATE	-	56,197	67,435	- (11,238) (2)
07/01/14 - 06/30/15 SULL. RECOVERY COURT	42052	STATE	-	70,000	70,000	- - (2)
07/01/14 - 06/30/15 WASH RECOVERY COURT	42061	STATE	-	61,189	70,000	- (8,811) (2)
07/01/14 - 06/30/15 ILTSSP	42002	STATE	-	685,829	932,017	- (246,188) (2)
07/01/13 - 06/30/14 FORENSICS SERVICE-FY2014	38446	STATE	(11,700)	10,800	-	900 - (2)
07/01/13 - 06/30/14 FORENSICS SERVICE-FY2014	38446	STATE	(1,883)	1,883	-	- (2)
07/01/13 - 06/30/14 TTS	37864	STATE	(3,240)	3,240	-	- (2)

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

	Grant Number	CFDA Number	Balance June 30, 2014	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2015
07/01/13 - 06/30/14 DROP/CONS/TRANSP	38428	STATE	(150,022)	150,022	-	-	- (2)
07/01/13 - 06/30/14 HOMELESS	37359	STATE	(803)	803	-	-	- (2)
07/01/13 - 06/30/14 SBMHL	38430	STATE	(35,487)	35,487	-	-	- (2)
07/01/13 - 06/30/14 MOBILE CRISIS	38263	STATE	(42,799)	42,799	-	-	- (2)
07/01/13 - 06/30/14 CRISIS WALK IN	38263	STATE	(2,943)	2,943	-	-	- (2)
07/01/13 - 06/30/14 CRISIS STABILIZATION UNIT	38263	STATE	(135,666)	135,666	-	-	- (2)
07/01/13 - 06/30/14 CRISIS DIVERSIONARY	38263	STATE	(15,290)	15,290	-	-	- (2)
07/01/13 - 06/30/14 HOME/SETH	37853	STATE	(8,577)	8,577	-	-	- (2)
07/01/13 - 06/30/14 ILTSSP	37854	STATE	(111,793)	111,793	-	-	- (2)
10/01/13 - 06/30/14 WELLNESS	39085	STATE	(6,599)	6,599	-	-	- (2)
10/01/13 - 06/30/14 MY HEALTH	39085	STATE	(5,076)	5,076	-	-	- (2)
10/01/13 - 06/30/14 SEP	39202	STATE	(857)	857	-	-	- (2)
07/01/13 - 06/30/14 REC. DRUG CT-WASH	38916	STATE	(17,607)	17,607	-	-	- (2)
07/01/13 - 06/30/14 REC. DRUG CT-SULL	38915	STATE	(8,155)	8,155	-	-	- (2)
07/01/13 - 06/30/14 COMM SUPP HOUSING	37369	STATE	(5,620)	5,620	-	-	- (2)
07/01/13 - 06/30/14 CTTS	37366	STATE	(5,755)	5,755	-	-	- (2)
07/01/13 - 06/30/14 CRISIS RESPITE	38263	STATE	(7,199)	7,199	-	-	- (2)
07/01/14 - 06/30/15 BOPP	41164	STATE	-	131,991	131,991	-	- (2)
07/01/14 - 06/30/15 SPOT	41092	STATE	-	22,684	22,684	-	- (2)
07/01/14 - 06/30/15 MMCD	41951	STATE	-	477,180	499,920	-	(22,740) (2)
07/01/14 - 06/30/15 ADAT - IP	40985	STATE	-	30,611	36,196	-	(5,585) (2)
07/01/14 - 06/30/15 CRIMINAL JUSTICE ST	42419	STATE	-	68,850	99,308	-	(30,458) (2)
07/01/14 - 06/30/15 CRIMINAL JUSTICE LS	42419	STATE	-	430,148	466,436	-	(36,288) (2)
07/01/13 - 06/30/14 ADAT - I/P	25728	STATE	(60)	60	-	-	- (2)
07/01/13 - 06/30/14 BOPP	36189	STATE	(2,009)	2,009	-	-	- (2)
07/01/13 - 06/30/14 SPOT	26099	STATE	(16,260)	16,260	-	-	- (2)
07/01/13 - 06/30/14 MMCD	38282	STATE	(15,360)	15,360	-	-	- (2)
07/01/13 - 06/30/14 CRIMINAL JUSTICE BH	32498-GR1339483	STATE	(34,404)	34,404	-	-	- (2)

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

			Balance June 30, 2014	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2015
	Grant Number	CFDA Number					
<b>GRANTOR: TN DEPARTMENT OF MENTAL</b>							
HEALTH AND SUBSTANCE ABUSE SERVICES							
07/01/14 - 06/30/15 SAFETY NET	DGA-41134-006	STATE	-	2,563,372	2,833,500	-	(270,128) (2)
07/01/13 - 06/30/14 SAFETY NET	36420	STATE	(135,188)	135,188		-	- (2)
<b>HEARING IMPAIRED</b>							
<b>GRANTOR: TN DEPARTMENT OF HUMAN</b>							
SERVICES							
07/01/14 - 06/30/15 CCDHH	37819	STATE	-	102,556	127,596	-	(25,040) (2)
07/01/14 - 06/30/15 CCDHH	20925	STATE	-	20,000	20,000	-	- (2)
07/01/13 - 06/30/14 CCDHH	37819	STATE	(19,972)	19,972	-	-	- (2)
<b>CHILDREN'S SERVICES</b>							
<b>GRANTOR: TN Department of</b>							
Childrens Services							
07/01/14 - 06/30/15 LEVEL II	PBC-000054	STATE	-	205,303	224,204	-	(18,901) (2)
07/01/13 - 06/30/14 LEVEL II	PBC-000093	STATE	(9,374)	9,374	-	-	- (2)
07/01/14 - 6/30/15 CHILD ABUSE PREV	39435	STATE	-	32,436	35,292	-	(2,856) (2)
07/01/13 - 6/30/14 CHILD ABUSE PREV	31729	STATE	(17,705)	17,705	-	-	- (2)
07/01/14 - 06/30/15 TRACES - LEVEL 3	PBC-00409	STATE	-	1,150,625	1,296,575	-	(145,950) (2)
07/01/13 - 06/30/14 TRACES - LEVEL 3	PBC-000093	STATE	(102,375)	102,375	-	-	- (2)
PERFORMANCE BASED INCENTIVE	N/A	STATE	-	95,000	95,000	-	- (2)
07/01/14 - 06/30/15 TRACES - LEVEL 2	PBC-000054	STATE	-	1,367,294	1,500,218	-	(132,924) (2)

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

	<b>Grant Number</b>	<b>CFDA Number</b>	<b>Balance June 30, 2014</b>	<b>Cash Receipts</b>	<b>Expenditures</b>	<b>Other Additions (Deductions)</b>	<b>Balance June 30, 2015</b>
07/01/13 - 06/30/14 TRACES - LEVEL 2	PBC-000054	STATE	(154,230)	154,018	-	-	(212) (2)
07/01/14 - 06/30/15 TRACES - LEVEL 1	PBC-000054	STATE	-	101,491	114,153	-	(12,662) (2)
07/01/13 - 06/30/14 TRACES - LEVEL 1	PBC-000054	STATE	(9,984)	9,302	-	682	- (2)
<b>GRANTOR: TN ASSOC. FOR CHILD CARE</b>							
07/01/14 - 06/30/15 TACC	N/A	N/A	-	37,550	43,139	-	(5,589) (2)
07/01/13 - 06/30/14 TACC	N/A	N/A	(3,378)	3,378	-	-	- (2)
<b>Juvenile Justice Group Home</b>							
<b>GRANTOR: TN DEPARTMENT OF FINANCE AND ADMINISTRATION</b>							
07/01/14 - 06/30/15 FV	24697	STATE	-	13,454	17,065	-	(3,611) (2)
0701/13 - 06/30/14 FV	14919/23065	STATE	(5,659)	5,659	-	-	-
<b>TENN CARE</b>							
<b>GRANTOR: ADVOCARE</b>							
07/1/14 - 06/30/15	N/A	N/A	-	1,458,436	1,502,329	-	(43,893) (2)
<b>VIRGINIA MENTAL HEALTH, SUBSTANCE ABUSE &amp; MENTAL RETARDATION SERVICES</b>							
<b>GRANTOR: PD1 BEHAVIORAL HEALTH SERVICES</b>							
07/01/14 - 06/30/15	N/A	STATE	40,196	3,139,816	12,408,311	9,236,174	7,875 (3)

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

	Grant Number	CFDA Number	Balance June 30, 2014	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2015
<b>GRANTOR: HIGHLANDS COMMUNITY SERVICES</b>							
BOARD - COMMONWEALTH OF VA							
07/01/14 - 06/30/16 MH/SA	N/A	STATE	(15,606)	153,855	149,790	-	(11,541) (2)
07/01/14 - 06/30/15 MR	N/A	STATE	(2,867)	36,681	38,346	-	(4,532) (2)
<b>Transportation Services</b>							
<b>GRANTOR: TN DEPARTMENT OF TRANSPORTATION</b>							
07/01/14 - 06/30/17(90%)	40939	STATE	-	4,263	-	(799)	3,464 (4)(8)
<b>TOTAL STATE FUNDING</b>			<b>(1,081,306)</b>	<b>16,651,703</b>	<b>26,236,884</b>	<b>9,236,957</b>	<b>(1,429,530.00)</b>
<b>TN DEPT OF MHSAS</b>							
<b>GRANTOR: TN DEPARTMENT OF MENTAL</b>							
HEALTH AND SUBSTANCE ABUSE SERVICES							
07/01/14 - 06/30/15 GERIATRIC	41851	93.958	-	60,247	70,000	-	(9,753) (2)
07/01/14 - 06/30/15 SBMHL	41846	84.027	-	114,494	129,278	-	(14,784) (2)
07/01/14 - 06/30/15 BASIC	38427	93.958	-	264,566	296,557	-	(31,991) (2)
07/01/14 - 06/30/15 RESPITE	41877	93.958	-	73,044	81,112	-	(8,068) (2)
07/01/14 - 06/30/15 RIP	42557	93.958	-	134,622	145,000	-	(10,378) (2)
07/01/14 - 06/30/15 COMMUNITY HOUSING	42008	93.958	-	55,500	55,500	-	- (2)
11/01/13 - 09/30/14 SOC-EXP	40326	93.243	-	69,664	69,664	-	- (2)
1001/14 - 09/30/15 SOC-EXP	43291	93.243	-	68,163	90,813	-	(22,650) (2)
07/01/14 - 06/30/15 COMMUNITY HOUSING	42007	93.958	-	265,416	332,165	-	(66,749) (2)
07/01/13 - 06/30/14 OLDER ADULT PROGRAM	37254	93.958	(2,890)	2,890	-	-	- (2)
07/01/13 - 06/30/14 SBMHL	38430	93.959	(12,639)	12,639	-	-	- (2)
07/01/13 - 06/30/14 SBMHL	38430	84.027	(324)	324	-	-	- (2)
07/01/13 - 06/30/14 RESPITE	37368	93.958	(5,976)	5,976	-	-	- (2)



**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

	Grant Number	CFDA Number	Balance June 30, 2014	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2015
07/01/13 - 06/30/14 RIP	37857	93.958	(13,826)	13,826	-	-	- (2)
07/01/13 - 06/30/14 BASIC	38427	93.958	(30,967)	30,967	-	-	- (2)
10/01/13 - 09/30/14 MTN. VIEW SOC	40326	93.243	(18,064)	18,064	-	-	- (2)
07/01/13 - 06/30/14 COMM SUPP HOUSING	37369	93.958	(27,680)	27,680	-	-	- (2)
07/01/14 - 06/30/15 CONTINUM - O/P	DGA-41157-009	93.959	-	987,500	1,101,997	-	(114,497) (2)
07/01/14 - 06/30/15 ADOL A&D	42129	93.959	-	371,889	378,245	-	(6,356) (2)
07/01/14 - 06/30/15 WOMENS OUTPATIENT	DGA-41163-005	93.959	-	307,360	328,798	-	(21,438) (2)
07/01/14 - 06/30/15 AIDS OUTPATIENT	42130	93.959	-	124,880	141,235	-	(16,355) (2)
07/01/14 - 06/30/15 COMMUNITY PREVENTION	DGA-41158-008	93.959	-	154,770	159,990	-	(5,220) (2)
07/01/13 - 06/30/14 CONTINUUM - O/P	37983	93.959	(57,925)	57,925	-	-	- (2)
07/01/13 - 06/30/14 ADOL OUT PATIENT	38360	93.959	(65,285)	65,285	-	-	- (2)
07/01/13 - 06/30/14 WOMENS SERVICES	38352	93.959	(32,115)	32,115	-	-	- (2)
07/01/13 - 06/30/14 AIDS OUTPATIENT	38177	93.959	(18,522)	18,522	-	-	- (2)
07/01/13 - 06/30/14 TN PREVENTION NETWORK	38120	93.959	(13,651)	13,651	-	-	- (2)
<b>Tennessee Education</b>							
<b>TENNESSEE EDUCATION</b>							
<b>GRANTOR: TN DEPARTMENT OF EDUCATION</b>							
07/01/12 - 06/30/13 CHILD NUTRITION CLUSTER	CN47113/CN4711	10.555./10.553	-	36,542	44,774	-	(8,232) (2)
07/01/13 - 06/30/14 CHILD NUTITION CLUSTER	R300	10.555./10.553	(4,484)	4,484	-	-	- (2)
<b>ALCOHOL AND DRUG ABUSE</b>							
<b>GRANTOR: TN BUREAU OF HEALTH</b>							
07/01/14 - 06/30/15 HOPWA	27082-GR-1235774-04	14.241	-	81,880	90,685	-	(8,805) (2)
07/01/13 - 06/30/14 HOPWA	27082-GR1235774-03	14.241	(1,334)	1,334	-	-	- (2)

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

		CFDA	Balance	Cash		Other	Balance
		Number	June 30,	Receipts	Expenditures	Additions	June 30,
		Grant Number	2014			(Deductions)	2015
<b>GRANTOR: EAST TN HUMAN RESOURCE DEVELOPMENT AGENCY</b>							
04/01/15 - 03/31/16 Ryan White	N/A	93.917	-	3,638	15,522	-	(11,884) (2)
04/01/14 - 03/31/15 Ryan White	N/A	93.917	(13,948)	78,732	64,784	-	- (2)
01/01/15 - 12/31/15 HIV PREVENTION	N/A	93.940	-	44,843	51,783	-	(6,940) (2)
01/01/14 - 12/31/14 HIV PREVENTION	N/A	93.940	(7,238)	7,238	-	-	- (2)
<b>Transportation Services</b>							
<b>GRANTOR: TN DEPARTMENT OF TRANSPORTATION</b>							
02/15/11 - 02/15/15 (90%)	Z-11-ED1011-00	20.513	5,407	-	-	(5,407)	- (4)(8)
05/31/11 - 05/31/15 (90%)	Z-11-ED1011-00	20.513	6,437	-	-	(6,437)	- (4)(8)
04/22/13 - 04/21/18 (90%)	TN-16-X005	20.513	23,494	-	-	(7,419)	16,075 (4)(8)
04/22/13 - 04/21/18 (90%)	TN-16-X005	20.513	27,573	-	-	(8,272)	19,301 (4)(8)
07/01/14 - 06/30/17(90%)	40939	20.513	-	34,105	-	(6,395)	27,710 (4)(8)
<b>RUNAWAY AND HOMELESS YOUTH PROGRAM</b>							
<b>ANTI-DRUG COALITION</b>							
<b>GRANTOR: DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>							
10/01/14 - 09/30/15 RUNAWAY & HOMELESS YOUTH	90-CY2420/05	93.623	-	129,318	145,483	-	(16,165) (2)
10/01/13 - 09/30/14 RUNAWAY & HOMELESS YOUTH	90-CY2420/04	93.623	-	45,569	45,569	-	- (2)
<b>Juvenile Justice Group Home</b>							
<b>GRANTOR: TN DEPARTMENT OF FINANCE AND ADMINISTRATION</b>							
07/01/14 - 06/30/15 FV	24697	93.671	-	33,372	33,372	-	- (2)
07/01/14 - 06/30/15 VOCA	19130	16.575	-	45,955	48,410	-	(2,455) (2)
07/01/13 - 06/30/14 VOCA	19130	16.575	(980)	980	-	-	- (2)

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

Grant Number	CFDA Number	Balance June 30, 2014	Cash Receipts	Expenditures	Other Additions (Deductions)	Balance June 30, 2015
<b>CHILDREN'S SERVICES</b>						
<b>GRANTOR: TN Department of</b>						
Childrens Services						
07/01/14 - 6/30/15 CHILD ABUSE PREV	39435	93.590	-	14,705	14,705	- (2)
<b>VIRGINIA MENTAL HEALTH, SUBSTANCE ABUSE &amp; MENTAL RETARDATION SERVICES</b>						
<b>GRANTOR: PD1 BEHAVIORAL HEALTH SERVICES</b>						
07/01/14 - 06/30/15	N/A	93.959	-	645,201	645,201	- (2)
07/01/14 - 06/30/15	N/A	93.958	-	108,672	108,672	- (2)
07/01/14 - 06/30/15	N/A	84.181	-	74,819	74,819	- (2)
<b>GRANTOR: VA DEPT OF HOUSING AND DEVELOPMENT AGENCY</b>						
07/1/14 - 06/30/15 HAP BILLING		14.856	-	36,947	36,947	- (2)
07/1/13 - 06/30/14 SUN HOUSE MORTGAGE		14.157	142,187	-	15,157	- 127,030 (9)
<b>GRANTOR: TN DEPT. OF HOUSING DEVELOPMENT AGENCY</b>						
07/01/14 - 06/30/15 EMERGENCY SHELTER PROGRAM	ESG-13-17	14.231	-	9,220	14,103	- (4,883) (2)
<b>TOTAL FEDERAL FUNDING</b>			<b>(122,750)</b>	<b>4,789,533</b>	<b>4,830,340</b>	<b>(33,930) (197,487)</b>
<b>GRAND TOTAL</b>						
			<b>\$ (1,204,056)</b>	<b>\$ 21,441,236</b>	<b>\$ 31,067,224</b>	<b>\$ 9,203,027 (1,627,017)</b>

**FRONTIER HEALTH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2015**

<b>Grant Number</b>	<b>CFDA Number</b>	<b>Balance June 30, 2014</b>	<b>Cash Receipts</b>	<b>Expenditures</b>	<b>Other Additions (Deductions)</b>	<b>Balance June 30, 2015</b>
(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 90% cost of Equipment end of year.						

**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**  
**Gray, Tennessee**  
**STATEMENT OF RECEIPTS AND DISBURSEMENTS**  
**VIRGINIA MENTAL HEALTH, RETARDATION AND SUBSTANCE ABUSE OPERATIONS**  
**LEE, SCOTT, AND WISE COUNTIES AND THE CITY OF NORTON**  
**For the Year Ended June 30, 2015**

**RECEIPTS:**

Grants:		
Mental Health Services	\$2,237,569	
Mental Retardation Services	29,011	
Substance Abuse Services	<u>1,614,877</u>	\$ 3,881,457
Patient Services:		
Medicaid SPO	3,745,789	
Medicaid Clinic	18,295	
Medicaid Waiver	3,153,051	
Self-pay and private insurance	1,231,728	
Other fees	<u>887,081</u>	9,035,944
Local Agencies and Other Programs:		
Virginia local funds	308,500	
Other programs	<u>615,375</u>	<u>923,875</u>
<b>Total Receipts</b>		<b><u>13,841,276</u></b>

**DISBURSEMENTS:**

Total staff salaries and fringe benefits	\$ 8,687,165
Dues/memberships	23,803
Workshops	13,539
In-service	13,938
Subscriptions	2,265
Rent	95,788
Utilities	130,146
Telephone	287,193
Maintenance services	22,975
Other facility expenses	43,020
Maintenance/service contracts	376,897
Office/facility supplies	270,031
Educational/rec. supplies	30,184
Food	99,219
Drugs/medical	7,599
Other supplies	489,507
Private mileage	118,149
Vehicle operations	118,674
Food/lodging	35,593
Professional fees	1,538,435
Insurance	341,558
Postage	22,275
Printing/duplicating	42,814
Miscellaneous	11,070
Equipment	<u>415,166</u>
<b>Total Disbursements</b>	<b><u>13,237,003</u></b>
<b>EXCESS OF RECEIPTS OVER DISBURSEMENTS</b>	<b>\$ <u>604,273</u></b>

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SULLIVAN HOUSE**  
**For the Year Ended June 30, 2015**

**REVENUE:**

Sullivan County	\$292,552
Program fees and grants	<u>129,732</u>
<b>Total Revenue</b>	<u>422,284</u>

**EXPENDITURES:**

Personnel Costs:	
Salaries and wages	195,240
Fringe benefits	<u>55,049</u>
<b>Total Personnel Costs</b>	<u>250,289</u>

Other:

Travel	2,107
Staff development	155
Motor vehicle operations	5,300
Dues and memberships	1,854
Professional services	1,733
Printing	1,263
Utilities	22,357
Communications	11,976
Supplies	24,356
Food	57,648
Maintenance and repairs	12,565
Depreciation	4,692
Miscellaneous	<u>172</u>
<b>Total Other</b>	<u>146,178</u>

Administration and General Allocation	<u>53,452</u>
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<b>Total Expenditures</b>	<u>449,919</u>
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<b>OPERATING (LOSS)</b>	<u><b>\$(27,635)</b></u>
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**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2015**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of Frontier Health and affiliate.
2. No significant deficiencies relating to the audit of the consolidated financial statements are 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 of Frontier Health and affiliate were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for Frontier Health expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs include: Block Grants for Community Mental Health Services, CFDA No. 93.958; Block Grants for Prevention and Treatment of Substance Abuse, CFDA No. 93.959.
8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. Frontier Health qualified as a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no internal control or compliance findings, questioned costs or fraud relating to either the financial statements or federal awards noted which meet the criteria specified in Section 510(a) of OMB Circular A-133.

**FRONTIER HEALTH**  
**Gray, Tennessee**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended June 30, 2015**

There were no findings relative to federal awards noted in connection with the June 30, 2014 audit of Frontier Health.



DENT K. BURK ASSOCIATES, P.C.

*Certified Public Accountants*

Bristol, Virginia  
Kingsport, Tennessee  
Johnson City, Tennessee  
Grundy, Virginia

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*

Board of Directors  
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, which comprise the statement of financial position as of June 30, 2015p, 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 Frontier Health and affiliate's consolidated financial statements and have issued our report thereon dated October 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Frontier Health and affiliate'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 Frontier Health and affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of Frontier Health and affiliate'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 charges 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 Frontier Health and affiliate'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.

*Dent K. Burk Associates, P.C.*  
Certified Public Accountants

Kingsport, Tennessee  
October 23, 2015

DENT K. BURK ASSOCIATES, P.C.

*Certified Public Accountants*

Bristol, Virginia  
Kingsport, Tennessee  
Johnson City, Tennessee  
Grundy, Virginia

INDEPENDENT AUDITOR'S  
REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Frontier Health's major federal programs for the year ended June 30, 2015. 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 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 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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.

***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 each of its major federal programs for the year ended June 30, 2015.

## ***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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Dent K. Burk Associates, P.C.*  
Certified Public Accountants

Kingsport, Tennessee  
October 23, 2015