

**Independent Auditor's Report
and Financial Statements
Turner House Clinic, Inc.
d/b/a Vibrant Health
December 31, 2017**

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Independent Auditor's Report

Board of Directors
Turner House Clinic, Inc. d/b/a Vibrant Health

We have audited the accompanying financial statements of Turner House Clinic, Inc. d/b/a Vibrant Health, which comprise the balance sheet as of December 31, 2017, and the related statement of operations and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Turner House Clinic, Inc. d/b/a Vibrant Health, as of December 31, 2017, and the results of its operations, 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.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
September 27, 2018

**Turner House Clinic, Inc.
d/b/a Vibrant Health
Balance Sheet
December 31, 2017**

ASSETS

Current assets	
Cash	\$ 275,624
Patient accounts receivable, net of allowance for uncollectible accounts of \$96,785	47,194
Inventory	56,552
Prepaid expenses	13,209
Grants receivable	<u>1,015,169</u>
Total current assets	<u>1,407,748</u>
Property and equipment, net	<u>397,029</u>
Total assets	<u>\$ 1,804,777</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 91,991
Accrued salaries and benefits	25,180
Short-term debt obligations	<u>180,795</u>
Total current liabilities	<u>297,966</u>
Net assets	
Unrestricted	220,524
Temporarily restricted	<u>1,286,287</u>
Total net assets	<u>1,506,811</u>
Total liabilities and net assets	<u>\$ 1,804,777</u>

The accompanying notes are an integral part of this statement.

Turner House Clinic, Inc.
d/b/a Vibrant Health
Statement of Operations and Changes in Net Assets
Year ended December 31, 2017

Unrestricted revenues and other support	\$ 906,237
Patient service revenue	(51,440)
Provision for bad debts	<u> </u>
Net patient service revenue	854,797
Contributions	108,686
In-kind contributions	528,020
Special events, net of direct expenses	90,293
Other revenues	401,755
Net assets released from restrictions	<u>988,194</u>
Total revenues and support	<u>2,971,745</u>
Expenses	
Salaries and wages	1,683,445
Employee benefits	302,950
Purchased services, supplies, and other	1,183,631
Depreciation and amortization	106,679
Interest	<u>5,060</u>
Total expenses	<u>3,281,765</u>
Loss from operations	<u>(310,020)</u>
Other income	
Investment income	<u>54</u>
Total other income	<u>54</u>
Change in unrestricted net assets	<u>(309,966)</u>
Change in temporarily restricted net assets	
Grants	1,543,138
Net assets released from restrictions	<u>(988,194)</u>
Change in temporarily restricted net assets	<u>554,944</u>
Change in net assets	244,978
Net assets, beginning of year	<u>1,261,833</u>
Net assets, end of year	<u>\$ 1,506,811</u>

The accompanying notes are an integral part of this statement.

Turner House Clinic, Inc.
d/b/a Vibrant Health
Statement of Functional Expenses
Year ended December 31, 2017

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,266,551	\$ 316,940	\$ 99,954	\$ 1,683,445
Employee benefits	140,219	26,291	17,172	183,682
Payroll taxes	<u>87,862</u>	<u>23,888</u>	<u>7,518</u>	<u>119,268</u>
Total salaries and related expenses	1,494,632	367,119	124,644	1,986,395
Medical supplies	613,328			613,328
Advertising	540	24,105	320	24,965
Bank fees	71	3,197	1,069	4,337
Dues and memberships	5,950	3,222		9,172
Continuing education	5,416	2,177		7,593
Equipment, rental, and repair	54,585	24,460	1,117	80,162
Insurance	13,897	6,082		19,979
Postage and shipping	173	434	193	800
Travel	3,169	1,444	424	5,037
Meeting/food		1,082	284	1,366
Miscellaneous	6,838	4,472	13	11,323
Professional fees	117,923	99,738	1,636	219,297
Rent	104,059	44,597		148,656
Supplies	26,515	2,228		28,743
Telephone	360	8,461		8,821
Transportation	<u>52</u>			<u>52</u>
Total expenses before depreciation and interest	2,447,508	592,818	129,700	3,170,026
Depreciation	94,479	12,200		106,679
Interest		<u>5,060</u>		<u>5,060</u>
Total expenses	<u>\$ 2,541,987</u>	<u>\$ 610,078</u>	<u>\$ 129,700</u>	<u>\$ 3,281,765</u>

The accompanying notes are an integral part of this statement.

**Turner House Clinic, Inc.
d/b/a Vibrant Health
Statement of Cash Flows
Year ended December 31, 2017**

Cash flows from operating activities	\$ 244,978
Change in net assets	106,679
Adjustments to reconcile change in net assets to net cash used by operating activities	51,440
Depreciation and amortization	(60,150)
Provision for bad debts	29,997
Changes in assets and liabilities	(10,759)
Patient accounts receivable	(393,113)
Donated inventory	(21,293)
Prepaid expenses	4,304
Grants receivable	(47,917)
Accounts payable	(47,917)
Accrued salaries and benefits	(47,917)
Net cash used by operating activities	<u>(47,917)</u>
Cash flows from investing activities	(10)
Change in assets limited as to use	(10)
Acquisition of property and equipment	<u>(6,080)</u>
Net cash used by investing activities	<u>(6,090)</u>
Cash flows from financing activities	81,250
Proceeds from note payable	81,250
Principal payments on line of credit	<u>(455)</u>
Net cash provided by financing activities	<u>80,795</u>
Net change in cash	26,788
Cash at beginning of year	<u>248,836</u>
Cash at end of year	<u>\$ 275,624</u>
Supplemental information	\$ 5,060
Cash paid during the year for interest	<u>\$ 5,060</u>

The accompanying notes are an integral part of this statement.

**Turner House Clinic, Inc.
d/b/a Vibrant Health
Notes to Financial Statements
December 31, 2017**

Note A – Summary of Accounting Policies

1. Organization.

Turner House Clinic, Inc. d/b/a Vibrant Health, is a not-for-profit organization that provides medical services to children who have difficulty accessing fee-for-service care. Vibrant Health was established in 1989 by a small group of volunteer physicians who recognized the urgent, unmet health care needs of uninsured and underserved children of Wyandotte County.

2. Basis of accounting and reporting

Transactions are recorded using the accrual basis of accounting wherein revenue is recorded as earned and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America.

3. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and cash equivalents

For purposes of the statement of cash flows, Vibrant Health considers cash and cash equivalents to include highly-liquid investments with an original maturity of three months or less. Vibrant Health did not have cash equivalents as of December 31, 2017.

5. Patient accounts receivable

Vibrant Health reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. Vibrant Health provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, Vibrant Health bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts on individual credit evaluation and specific circumstances of the account.

6. Inventory

Inventory consists of donated vaccines and is valued at its estimated fair market value, which approximates cost determined on the first-in, first-out method as applied to the value of each item on the date of each in-kind donation.

7. Property and equipment

Property and equipment are stated at cost. Depreciation is provided on a straight-line method over the estimated useful lives as follows:

Furniture and equipment	5 - 7 years
Leasehold improvements	15 - 39 years

Turner House Clinic, Inc.
d/b/a Vibrant Health
Notes to Financial Statements - Continued
December 31, 2017

Note A – Summary of Accounting Policies - Continued

The costs of maintenance and repairs are charged to expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of property and equipment are included in revenue or expense as applicable.

8. Temporarily restricted net assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

9. Statement of operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to providing health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as other income.

10. Support and revenue

Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions. Donor-restricted grants and contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

Noncash contributions are recorded at the estimated fair value at the time of the contribution. Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are determined using risk-free interest rates applicable in the years in which the promises are received. Conditional promises to give are not recorded until such time as the conditions are substantially met.

11. Net patient service revenue

Vibrant Health has agreements with third-party payers that provide for payments to Vibrant Health at amounts different from its established charge rates. Uninsured patients are charged based on the individual's ability to pay. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and the provision for bad debts.

12. Income taxes

Vibrant Health has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes pursuant to Section 501(a) of the IRC.

Management is not aware of any uncertainties in income tax positions. The years ended December 31, 2017, 2016, 2015, and 2014, remain subject to examination for both federal and state purposes.

Turner House Clinic, Inc.
d/b/a Vibrant Health
Notes to Financial Statements - Continued
December 31, 2017

Note A – Summary of Accounting Policies - Continued

13. Subsequent events

Vibrant Health has evaluated subsequent events through September 27, 2018, which is the date the financial statements were available to be issued.

Note B – Grants Receivable and Revenue

Grants receivable represent unconditional promises to give by grantors to give cash or other assets and are stated at their net realizable value.

Vibrant Health is the recipient of numerous grants from state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements. Vibrant Health is dependent on the continuation of such grants to support its operations. All promises to give are due in the year ending December 31, 2018, and are expected to be collected in their entirety.

Note C – Net Patient Service Revenue

Vibrant Health has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Vibrant Health has also entered into payment arrangements with certain commercial insurance carriers. The basis for payment to Vibrant Health under these agreements includes prospectively determined rates and discounts from established charges.

A summary of net patient service revenue follows for the year ended December 31, 2017:

Gross patient service revenue	\$ 2,100,726
Third party contractual adjustments	(413,024)
Charity care	<u>(781,465)</u>
Patient service revenue	906,237
Provision for bad debts	<u>(51,440)</u>
Net patient service revenue	<u>\$ 854,797</u>

Patient service revenue, net of contractual adjustments and charity care (but before the provision for bad debts) by major payor source is as follows:

Medicaid	\$ 745,728
Commercial	3,091
Self-pay	<u>157,418</u>
Patient service revenue	<u>\$ 906,237</u>

**Turner House Clinic, Inc.
d/b/a Vibrant Health
Notes to Financial Statements - Continued
December 31, 2017**

Note C – Net Patient Service Revenue - Continued

Revenue from the Medicaid program accounted for approximately 82 percent of Vibrant Health's patient service revenue, net of contractual adjustments and charity care during 2017.

Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

Vibrant Health provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because Vibrant Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Vibrant Health estimates that the cost of providing charity care for the year ending December 31, 2017, was approximately \$1,221,000.

Note D – Allowance for Uncollectible Accounts

Vibrant Health's allowance for uncollectible accounts (including charity care) for self-pay patients was 96.6 percent of self-pay accounts receivable at December 31, 2017. Vibrant Health does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

Note E – Property and Equipment

Leasehold improvements	\$ 514,074
Furniture and equipment	<u>416,179</u>
	930,253
Less accumulated depreciation	<u>533,224</u>
Property and equipment, net	<u>\$ 397,029</u>

Note F – Short-term Obligations

At December 31, 2017, Vibrant Health has a \$100,000 line of credit with a local bank. The line of credit accrues interest at 5.25 percent and matures on June 1, 2018. The outstanding balance at December 31, 2017, was \$99,545. Vibrant Health renewed the line of credit agreement with a renewal maturity of June 1, 2019. The line of credit is secured by all business assets.

On December 28, 2017, Vibrant Health was loaned \$81,250 from the University of Kansas Hospital Authority (the Hospital Authority). An unsecured note payable agreement was signed at an interest rate of 3.75 percent. Principal and interest on the note are due on demand after 10 days notice by the Hospital Authority. The outstanding balance at December 31, 2017, is \$81,250.

Turner House Clinic, Inc.
d/b/a Vibrant Health
Notes to Financial Statements - Continued
December 31, 2017

Note G – Temporarily Restricted Net Assets

Temporarily restricted net assets activity for the year ended December 31, 2017, is summarized as follows:

	Balance at December 31, 2016	Additions	Release from restrictions	Balance at December 31, 2017
Primary care	\$ 500,877	\$ 646,148	\$ 580,589	\$ 566,436
Dental program	40,028	55,000	57,924	37,104
Behavioral health		194,188	7,859	186,329
Administrative and general		275,527	139,259	136,268
Restricted for time	<u>190,438</u>	<u>372,275</u>	<u>202,563</u>	<u>360,150</u>
	<u>\$ 731,343</u>	<u>\$ 1,543,138</u>	<u>\$ 988,194</u>	<u>\$ 1,286,287</u>

Note H – Contributed Supplies

During the year ended December 31, 2017, Vibrant Health received contributed medical supplies with estimated fair values of approximately \$528,020.

Note I – Operating Leases

Vibrant Health leases copiers and building space under various operating lease agreements. Scheduled future minimum rental payments for all noncancelable operating leases are as follows:

2018	\$ 96,616
2019	9,900
2020	9,900
2021	<u>9,900</u>
	<u>\$ 126,316</u>

Rent expense was \$158,556 for the year ended December 31, 2017.

Note J – Retirement Plan

Vibrant Health sponsors a defined contribution 401(k) retirement plan that covers eligible employees. Employer contributions to the plan for the year ending December 31, 2017, were \$41,920.

Turner House Clinic, Inc.
d/b/a Vibrant Health
Notes to Financial Statements - Continued
December 31, 2017

Note K – Concentrations of Credit Risk

Vibrant Health grants credit without collateral to its patients, most of whom are area residents. The mix of gross patient accounts receivable for the year ending December 31, 2017, is as follows:

Medicaid	37.5 %
Other third-party payors	2.5
Patients	<u>60.0</u>
	<u>100.00 %</u>

At December 31, 2017, the carrying amount of bank deposits was \$259,707 and the bank balances were \$283,566. Of the bank balances, \$250,000 was covered by federal depository insurance and \$33,566 was unsecured and uncollateralized.

Note L – Medical Malpractice Insurance

At December 31, 2017, Vibrant Health was insured for professional liability under a professional liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for claims made during the policy year. All coverage is on a claims-made basis. As of December 31, 2017, the above policy is effective through December 27, 2018. Vibrant Health intends to renew coverage at that date and is aware of no reason why such coverage would be denied at that time.

No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under Vibrant Health's incident reporting system has been made because the amount is not reasonably estimable. Based on historical experience and present conditions, it is the opinion of management that any claims or expenses for unasserted claims related to periods prior to December 31, 2017, will have no material effect on the financial statements of Vibrant Health.

Note M – Subsequent Event

With Vibrant Health receiving FQHC look-alike status on December 8, 2017, and pursuant to a collaboration agreement entered into on July 15, 2016, with the Hospital Authority and KU HealthPartners, Inc., Vibrant Health assumed the operations of two additional delivery sites effective January 1, 2018. Vibrant Health Downtown (previously known as The Children's Campus of KC) was operated by the Hospital Authority through December 31, 2017. Vibrant Health - Argentine (previously known as Silver City Health Clinic) was operated by KU Health Partners, Inc., through December 31, 2017.