

**NEIGHBORLY CARE NETWORK, INC.  
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULES

*For the Year Ended December 31, 2017*

*And Report of Independent Auditor*

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
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## **Report of Independent Auditor**

To the Members of the Board of Directors  
Neighborhood Care Network, Inc. and Subsidiary  
Clearwater, Florida

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Neighborhood Care Network, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, cash flows and functional expenses 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 15 to the financial statements, the 2016 financial statements have been restated to correct an error in classification of unrestricted and temporarily restricted net assets. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Report of Summarized Comparative Information*

We have previously audited the Organization's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and Chapter 10.650, Rules of the Auditor General, 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 April 27, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Orlando, Florida  
April 27, 2018

## **CONSOLIDATED FINANCIAL STATEMENTS**

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016)

Assets	(Restated)	
	2017	2016
Cash and cash equivalents	\$ 471,173	\$ 1,045,766
Investments	825,132	1,341,666
Receivables:		
Grants, Medicaid and other	906,831	821,505
Promises to give	181,280	211,117
Bequests	50,000	-
Beneficiary interest in charitable remainder trusts	1,536,084	1,391,676
Note	612,116	623,196
Other assets	78,490	89,874
Inventory	-	15,796
Property and equipment, net of accumulated depreciation	7,742,263	8,218,041
Endowment investments	1,563,548	1,563,548
<b>Total assets</b>	<b>\$ 13,966,917</b>	<b>\$ 15,322,185</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 130,163	\$ 144,296
Accrued expenses:		
Salaries and payroll taxes	46,732	39,198
Annual leave	221,819	326,538
Other	-	9,357
Bonds payable (less unamortized bond issuance costs: 2017 - \$101,141; 2016 - \$110,698)	3,393,859	3,619,302
Interest payable	7,976	12,674
Interest rate swap	405,800	479,164
<b>Total liabilities</b>	<b>4,206,349</b>	<b>4,630,529</b>
Unrestricted	6,440,957	7,486,616
Temporarily restricted	1,756,063	1,641,492
Permanently restricted	1,563,548	1,563,548
<b>Total net assets</b>	<b>9,760,568</b>	<b>10,691,656</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,966,917</b>	<b>\$ 15,322,185</b>

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<b>Operating revenues and other support:</b>					
Contract revenue	\$ 4,630,545	\$ -	\$ -	\$ 4,630,545	\$ 4,717,955
Client fees:					
Adult day care	722,245	-	-	722,245	783,693
Nutrition	168,324	-	-	168,324	174,480
Other	122,473	-	-	122,473	69,471
Pharmacy revenue	20,923	-	-	20,923	37,867
Commodity foods income	217,166	-	-	217,166	221,408
Contributions:					
Donations	308,493	48,000	-	356,493	396,537
United Way	19,030	181,280	-	200,310	223,494
In-kind contributions	153,343	-	-	153,343	153,343
Net assets released from restrictions	216,756	(216,756)	-	-	-
<b>Total operating revenues and other support</b>	<u>6,579,298</u>	<u>12,524</u>	<u>-</u>	<u>6,591,822</u>	<u>6,778,248</u>
<b>Operating expenses:</b>					
Program services:					
Adult day care	976,257	-	-	976,257	1,015,107
Transportation	1,642,625	-	-	1,642,625	1,638,455
Nutrition	2,796,353	-	-	2,796,353	2,702,177
Pharmacy	87,824	-	-	87,824	252,721
<b>Total program services</b>	<u>5,503,059</u>	<u>-</u>	<u>-</u>	<u>5,503,059</u>	<u>5,608,460</u>
Supporting services:					
Administrative and general	2,422,028	-	-	2,422,028	2,379,968
Total supporting services	<u>2,422,028</u>	<u>-</u>	<u>-</u>	<u>2,422,028</u>	<u>2,379,968</u>
<b>Total operating expenses</b>	<u>7,925,087</u>	<u>-</u>	<u>-</u>	<u>7,925,087</u>	<u>7,988,428</u>
<b>Other revenues (expenses):</b>					
Capital purchases grant	23,474	-	-	23,474	157,500
Investment income	309,129	102,047	-	411,176	360,195
Interest and amortization expense	(148,295)	-	-	(148,295)	(157,330)
Other income (expense)	42,458	-	-	42,458	(776,072)
Gain on interest rate swap	73,364	-	-	73,364	155,512
<b>Total other revenues (expenses)</b>	<u>300,130</u>	<u>102,047</u>	<u>-</u>	<u>402,177</u>	<u>(260,195)</u>
<b>Change in net assets</b>	<u>(1,045,659)</u>	<u>114,571</u>	<u>-</u>	<u>(931,088)</u>	<u>(1,470,375)</u>
Net assets, beginning of year	<u>5,592,947</u>	<u>3,535,161</u>	<u>1,563,548</u>	<u>10,691,656</u>	<u>12,162,031</u>
Prior period adjustment (Note 15)	<u>1,893,669</u>	<u>(1,893,669)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, beginning of year, as restated	<u>7,486,616</u>	<u>1,641,492</u>	<u>1,563,548</u>	<u>10,691,656</u>	<u>12,162,031</u>
<b>Net assets, end of year</b>	<u>\$ 6,440,957</u>	<u>\$ 1,756,063</u>	<u>\$ 1,563,548</u>	<u>\$ 9,760,568</u>	<u>\$ 10,691,656</u>

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016)

	<b>NUTRITION</b>						Pharmacy	Total Program Services	Administrative & General	2017 Total Operating Expenses	2016
	Adult Day Care	Transportation	Meals Nutrition	Outreach Nutrition	Education Nutrition	Counseling Nutrition					
<b>Expenses</b>											
Personnel	\$ 702,104	\$ 933,248	\$ 810,786	\$ 36,271	\$ 5,224	\$ 84,516	\$ 52,905	\$ 2,625,054	\$ 1,168,989	\$ 3,794,043	\$ 3,746,600
Travel	180	496	33,737	862	4,709	-	-	39,984	19,743	59,727	43,876
Building space	19,176	672	24,131	-	-	-	-	43,979	175,730	219,709	280,636
Communications & utilities	11,735	10,410	42,653	-	-	-	589	65,387	234,510	299,897	312,977
Raw food/meals	36,169	-	1,403,845	-	-	-	-	1,440,014	94,319	1,534,333	1,467,353
Printing & supplies	12,423	9,508	29,273	-	-	-	18	51,222	26,051	77,273	105,756
Equipment	1,154	233,198	4,746	-	-	-	-	239,098	67,273	306,371	295,330
Subcontractors	22,685	27,901	22,930	-	-	-	-	73,516	27,318	100,834	139,196
Cost of goods sold	-	-	-	-	-	-	23,191	23,191	-	23,191	39,471
Other costs	42,358	405,222	112,945	-	-	-	2,314	562,839	793,527	1,356,366	1,403,890
Space reallocated expenses	128,273	21,970	26,382	-	-	-	8,807	185,432	(185,432)	-	-
In-kind costs	-	-	153,343	-	-	-	-	153,343	-	153,343	153,343
	<b>976,257</b>	<b>1,642,625</b>	<b>2,664,771</b>	<b>37,133</b>	<b>9,933</b>	<b>84,516</b>	<b>87,824</b>	<b>5,503,059</b>	<b>2,422,028</b>	<b>7,925,087</b>	<b>7,988,428</b>
Central admin. reallocated expenses	225,925	289,923	222,090	-	-	-	14,744	752,682	(752,682)	-	-
Intragency reallocated expenses	303,769	(272,776)	(30,993)	-	-	-	-	-	-	-	-
<b>Total expenses</b>	<b>\$ 1,505,951</b>	<b>\$ 1,659,772</b>	<b>\$ 2,855,868</b>	<b>\$ 37,133</b>	<b>\$ 9,933</b>	<b>\$ 84,516</b>	<b>\$ 102,568</b>	<b>\$ 6,255,741</b>	<b>\$ 1,669,346</b>	<b>\$ 7,925,087</b>	<b>\$ 7,988,428</b>
<b>Total units</b>	<b>103,660</b>	<b>90,353</b>	<b>394,195</b>	<b>2,214</b>	<b>10,412</b>	<b>432</b>					
<b>Total reimbursed units</b>	<b>103,660</b>	<b>90,353</b>	<b>394,195</b>	<b>690</b>	<b>1,940</b>	<b>425</b>					
<b>Cost per unit</b>	<b>\$14.53</b>	<b>\$18.37</b>	<b>\$7.24</b>	<b>\$16.77</b>	<b>\$0.95</b>	<b>\$195.64</b>					
<b>Cost per reimbursed unit</b>	<b>\$14.53</b>	<b>\$18.37</b>	<b>\$7.24</b>	<b>\$53.82</b>	<b>\$5.12</b>	<b>\$198.86</b>					

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2017  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Contracts, Medicaid and other	\$ 5,807,430	\$ 6,465,300
Payments to employees and suppliers	(7,190,098)	(7,300,346)
Contributions received	368,758	598,149
Interest income	102,673	88,627
Interest payments	(143,436)	(149,067)
	<u>(1,054,673)</u>	<u>(297,337)</u>
Net cash used in operating activities		
<b>Cash flows from investing activities:</b>		
Proceeds from sale and maturity of investments	1,451,965	2,151,269
Purchases of investments	(758,688)	(1,120,948)
Purchases of property and equipment	(67,971)	(318,172)
Sale of property and equipment	66,300	76,500
	<u>691,606</u>	<u>788,649</u>
Net cash provided by investing activities		
<b>Cash flows from financing activities:</b>		
Capital purchases grant proceeds	23,474	157,500
Payment of bonds payable	(235,000)	(225,000)
	<u>(211,526)</u>	<u>(67,500)</u>
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	(574,593)	423,812
Cash and cash equivalents at beginning of year	<u>1,045,766</u>	<u>621,954</u>
Cash and cash equivalents at end of year	<u>\$ 471,173</u>	<u>\$ 1,045,766</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Change in net assets	\$ (931,088)	\$ (1,470,375)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	(176,743)	(147,419)
(Gain) loss on interest rate swap	(73,364)	(155,512)
Loss on sale of property and equipment	(3,972)	827,484
Depreciation	481,421	528,435
Amortization	9,557	9,557
Capital purchases grant proceeds	(23,474)	(157,500)
(Increase) decrease in:		
Receivables	(238,817)	596,044
Other assets	11,384	(606)
Inventory	15,796	4,632
Decrease in:		
Accounts payable and interest payable	(18,831)	(167,177)
Accrued expenses	(106,542)	(164,900)
	<u>(1,054,673)</u>	<u>(297,337)</u>
<b>Net cash used in operating activities</b>		
<b>Supplemental cash flows information:</b>		
Note receivable for property sale	\$ -	\$ 625,000

See accompanying notes to consolidated financial statements.

# NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Note 1 – Summary of Significant Accounting Policies

*Nature of Operations* - Neighborly Care Network, Inc. and its wholly owned subsidiary, Neighborly Pharmacy, LLC (the "Organization"), is a nonprofit organization which exists to provide programs and services for mature adults, primarily in Pinellas County, Florida. The Organization provides a variety of senior care services through programs, including care management; nutrition services programs primarily known as "meals on wheels"; Medicaid transportation services; adult day care; and pharmacy.

In August 2003, the Organization established and became the sole member of Neighborly Pharmacy, LLC, a Limited Liability Company ("Pharmacy"). Pharmacy was organized to provide low cost prescription services to the elderly and handicapped. Pharmacy operations began January 2004. In March 2017, pharmacy operations were ceased. For purposes of consolidation, intercompany accounts and transactions have been eliminated.

Significant portions of the Organization's funds for operations are received from federal, state, county and municipal governmental units and from the United Way. Federal and state funds are received primarily through the Area Agency on Aging of Pasco – Pinellas, Inc., which acts as an intermediary between the Organization and the funding sources. Acceptance of funding provided by these grants requires compliance with prescribed conditions and other special requirements, including the furnishing of certain program support from non-governmental sources.

*Basis of Presentation* - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Operating revenues consist of amounts received through the Organization's general program operations. Other receipts not associated with the Organization's general operations are classified as other revenues. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - include net assets that are not subject to donor imposed stipulations and are fully available to utilize for any program or supporting services.

Temporarily restricted net assets - include net assets subject to donor imposed stipulations that may or will be met, either by actions of the Organization or the passage of time. Investment returns and unrealized gains and losses of such are recorded as other income and expense of unrestricted activities. When donor stipulations expire, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same period as received as unrestricted support.

Permanently restricted net assets - include net assets subject to donor-imposed stipulations that are maintained permanently by the Organization; only related income is available for operations, or other specific purposes, in accordance with donor restrictions. Investment returns and unrealized gains and losses of such are recorded as other income and expense of temporarily restricted activities and released as appropriated.

*Cash and Cash Equivalents* - Cash and cash equivalents consist of bank deposits. The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2017, the Organization had \$99,359 which exceeded these insured amounts.

# NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Note 1 – Summary of Significant Accounting Policies (continued)

Bank deposits in a sinking fund that are set aside for bond principal payments as required by applicable debt covenants, amounting to approximately \$105,000, are considered restricted and are included in cash and cash equivalents.

*Investments* - Investments are measured at fair value.

*Allowance for Doubtful Accounts* – All receivables as of December 31, 2017 are believed to be collectible, therefore the Organization does not have any allowance for doubtful accounts recorded.

*Inventory* - Inventory consists of pharmacy drugs which are stated at the lower of cost (first-in, first-out method) or market.

*Property and Equipment* - Property and equipment are carried at cost, if purchased, or at estimated fair value at date of receipt if obtained by gift. Depreciation is computed using the straight-line method over the useful lives of the assets, which range from 3 to 40 years. Expenditures for assets in excess of \$1,000 with an estimated useful life greater than one year are capitalized.

*Interest Rate Swap* – As described in Note 7, the Organization is utilizing an interest rate swap (“swap”) to reduce its exposure to changes in the interest rate on its long term debt. The swap is presented at fair value based on level 2 inputs, as defined in Note 2.

*Contract Revenue* - Contract revenue includes federal and state grants and local services provided under contract with various agencies. Revenue is recognized as services are rendered.

*Client Fee Revenue* - Client fee revenue consists of care management and private pay or insurer reimbursed fees. Care management services are billed monthly and are recognized as revenue over the period the Organization is obligated to provide services to clients; amounts collected in advance are recorded as deferred revenue. Revenue for other fee-based services are recognized as services are rendered.

*Contributions* - Contributions, including unconditional promises to give, are recorded when made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*In-kind Contributions* - Contributions of non-cash assets, including contributed building space usage, are recorded at acquisition value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. Contributions of donated services not meeting these specified criteria are not recorded in the consolidated financial statements.

# NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### **Note 1 – Summary of Significant Accounting Policies (continued)**

*Statement of Functional Expenses* - The costs of providing the various programs and other activities have been detailed in the Statement of Functional Expenses. Salaries and other expenses that are associated with a specific program are charged directly to that program. Salaries and other expenses that benefit more than one program are allocated to the various programs based on the relative benefit provided. Administrative and general costs that are reimbursable by various funding sources are allocated to program services and fundraising based on program expenses.

Administrative and general supporting services are allocated to program services through the central admin reallocated expense line item based on the percentage of expenses in each function versus total functional expense reported after adjusting for costs of goods sold, raw food/meals and interagency expenses. Interagency expenses represent transportation, meals and pharmacy expenses that were provided to the adult day care, and care management programs, to where they are reallocated. The number of units presented for transportation and meals have been reduced in proportion to expenses reallocated.

*Income Taxes* - Neighborly Care Network, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been determined not to be a private foundation. Under IRS regulations, Neighborly Pharmacy, LLC is treated as a disregarded entity single member LLC and is, therefore, treated as a division of the Organization, rendering it exempt from federal income taxes.

*Summarized Financial Information for 2016* - The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2016, from which summarized information was derived.

*Subsequent Events* – Subsequent events have been evaluated through April 27, 2018, which is the date the financial statements were issued.

### **Note 2 – Investments**

Fair value is 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. The 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, provides three levels of inputs used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3: inputs that are unobservable (for example, cash flow modeling based on assumptions)

The Organization did not change its valuation techniques during the year.

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2017

**Note 2 – Investments (continued)**

The following table summarizes the valuation of the Organization's financial assets measured at fair value on a recurring basis as of December 31, 2017, based on the level of input utilized to measure fair value:

	Amount	Fair Value Measurement Level
Investments		
Fixed income securities	\$ 1,138,419	2
Equity securities	1,250,261	1
	<u>2,388,680</u>	
Less: Endowment investments	(1,563,548)	
Total Investments	<u>\$ 825,132</u>	

**Note 3 – Beneficiary Interest in Charitable Remainder Trusts**

The Organization is a beneficiary in three charitable remainder trusts for which assets are held in trusts by others and for which the Organization is irrevocably designated as the remainder. The value of these assets is determined based on Level 3 criteria defined in Note 2, which includes the fair value of assets contributed by the donor less the fair value of payments to be made to other beneficiaries.

The following table presents a reconciliation of the beginning and ending balances of the beneficiary interests in charitable remainder trusts for the year ended December 31, 2017:

Opening Balance	\$ 1,391,676
Change in present value of charitable remainder trusts	150,047
New contributions	48,000
Distributions	(53,639)
Ending Balance	<u>\$ 1,536,084</u>

The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date

<u>\$ 150,047</u>
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The charitable remainder trusts each contain provisions with respect to beneficiary payments, either contingent on life expectancy or based on expiration of time.

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2017

**Note 4- Note Receivable**

In October 2016, the Organization sold the Tarpon Springs location. As a result of the sale, the Organization was provided a \$625,000 note receivable. Principal and interest payments are due monthly beginning November 1, 2016 through November 1, 2046 in the amount of \$2,984. The note bears interest at 4.0%. The balance of the note receivable as of December 31, 2017 was \$612,116.

**Note 5 – Property and Equipment**

Property and equipment consist of the following at December 31, 2017:

Land	\$ 1,290,606
Building and improvements	7,677,066
Furniture and equipment	4,646,858
	<u>13,614,530</u>
Less accumulated depreciation	<u>(5,872,267)</u>
Property and equipment, net	<u><u>\$ 7,742,263</u></u>

**Note 6 – Bonds Payable**

In August 2008, the Organization borrowed \$5.1 million, funded by the issuance of Variable Rate Revenue Bonds, Series 2008, through the Pinellas County Industrial Development Authority (PCIDA 2008 Bonds). This borrowing was for the purpose of funding the construction of the Evergreen facility, which began to be occupied in May 2010. The PCIDA 2008 Bonds mature between 2010 and 2028. Under the terms of the 2008 debt agreement with the PCIDA, the Organization is responsible for payment of interest on the bonds and for repayment of bond principal. Interest expense on the bonds payable for the current year totaled \$138,738. Amortization of bond issuance costs related to the bonds payable for the current year totaled \$9,557. Debt service payments are secured by a letter of credit for the full amount of the outstanding issue, issued by Branch Banking and Trust Company (BB&T). The annual percentage rate, maturity, and principal balance outstanding and other information relating to bond indebtedness at December 31, 2017 were as follows:

<u>Series</u>	<u>Type</u>	<u>Annual Percentage Rate</u>	<u>Principal Maturity</u>	<u>Principal Balance Outstanding</u>	<u>Unamortized Bond Issuance Costs</u>	<u>Current Portion</u>
2008	Series	Variable	2010-2028	\$ 3,495,000	\$ 101,141	\$ 250,000

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2017

**Note 6 – Bonds Payable (continued)**

Scheduled principal and interest payments are as follows (for purposes of this note, the interest rate applicable to the variable rate bonds is the synthetic rate of 3.83% fixed through the swap agreement disclosed in Note 6):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>2018</b>	\$ 250,000	\$ 129,869	\$ 379,869
<b>2019</b>	260,000	120,134	380,134
<b>2020</b>	270,000	110,117	380,117
<b>2021</b>	285,000	99,436	384,436
<b>2022</b>	300,000	88,282	388,282
<b>2023-2027</b>	1,730,000	253,897	1,983,897
<b>2028</b>	400,000	8,937	408,937
	<u>3,495,000</u>	<u>\$ 810,672</u>	<u>\$ 4,305,672</u>
Less:			
Unamortized Bond Issuance Costs	101,141		
<b>Bonds Payable</b>	<u>\$ 3,393,859</u>		

Total interest cost, including bond issuance cost amortization, was \$148,295 for the year ended December 31, 2017.

The Letter of Credit and Reimbursement Agreement contains covenants that require, among other things, the Organization to meet certain debt coverage ratios. As of December 31, 2017, the Organization was not in compliance with certain of these covenants; however, a waiver of noncompliance has been obtained from the bank.

**Note 7 – Interest Rate Swap**

On September 1, 2008, the Organization entered into a variable-to-fixed interest rate swap agreement in the initial notional amount of \$5.1 million. The purpose of the agreement is to hedge the interest rate risk on the variable rate revenue bonds issued by the Organization to finance the construction of the Evergreen facility. Under the terms of the agreement, the Organization pays a fixed rate of 3.83% to a counterparty and receives an amount based upon the USD-SIFMA Municipal Swap Index. The term of the agreement extends over the maturity period of the Variable Rate Revenue Bonds, Series 2008, with the notional amount being reduced as the bonds mature through fiscal year 2028. The effect of this agreement is that the Organization effectively pays the fixed rate that existed upon entering into the swap agreement. If the swap agreement is terminated, it may result in the Organization making or receiving a termination payment generally equal to the fair value of the swap agreement at the time of termination.

During 2017, the Organization recognized an unrealized net gain of \$73,364 from the change in the fair value of the interest rate swap agreement. This gain is reported as a change in net assets on the consolidated statement of activities. The unrealized loss liability as of December 31, 2017 was \$405,800.

# NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### **Note 8 – In-kind Contributions**

The Organization is required to furnish program funds from non-governmental sources in order to meet certain federal and state matching requirements. Program funds may be obtained by cash and in-kind contributions. In-kind contributions consist of donated services, supplies, equipment and the use of group dining and day care facilities. Donated services include paraprofessionals, chore service volunteers, bus and van drivers and aides at the day care centers. Only donated services that meet the requirements as discussed in Note 1 are recorded in the consolidated financial statements.

Donated services that are not reported in the financial statements were \$83,102 for the year ended December 31, 2017.

### **Note 9 – Retirement Plan**

A 403(b) Retirement Savings Plan (the “Plan”) was established by the Organization on July 1, 2001, and was amended and restated effective January 1, 2009. Employees are eligible to participate in the Plan immediately, and participate in receiving matching contributions from the Organization on the first day of the calendar month that coincides with, or immediately follows, the later of (a) the date the employee completes one full year of employment or (b) the date the employee attains 18 years of age. A participant may elect to make contributions, subject to certain limitations, and the Organization, at its discretion, may contribute annually to the plan. Contributions vest to employees immediately. The Organization’s contributions to the Plan for the year ended December 31, 2017 was \$251,277, representing 10% of eligible payroll.

### **Note 10 – Cafeteria Plan**

The Organization has a Cafeteria Plan that was established to provide participants with a choice between the receipt of cash compensation and other certain nontaxable benefits. All employees are eligible for participation the first day following one month of full employment.

### **Note 11 – Operating Leases**

The Organization leases certain office and warehouse facilities and certain data processing and other office equipment under leases classified as operating leases. Rent expense for the year ended December 31, 2017 amounted to \$42,670.

There are no leases having initial or remaining noncancelable lease terms in excess of one year as of December 31, 2017.

# NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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### Note 12 – Restricted Net Assets

The Organization classifies its net assets as temporarily or permanently restricted based on understanding donor agreements or, in the absence of such agreements, based on the restricted purpose for which donations are provided.

Net assets temporarily restricted by donor stipulation for the year ended December 31, 2017 are available for the following purposes:

Nutrition services - charitable remainder trust	\$	787,651
Time restrictions on charitable remainder trusts		748,433
United Way - program services		181,280
Bickard Bequest - capital improvements		38,699
Temporarily restricted net assets	\$	<u>1,756,063</u>

Net assets permanently restricted by donor stipulation for the year ended December 31, 2017 are available for the following purposes:

Meals on Wheels	\$	1,533,548
Elderly in Clearwater		20,000
Lealman Adult Day Care Center		10,000
Permanently restricted net assets	\$	<u>1,563,548</u>

The Organization provides for expenditure of investment earnings and appreciation of endowment assets beyond historical cost.

#### Donor-Restricted Endowments

The Organization has interpreted the *Florida Uniform Management of Institutional Funds Act* of 2003 and its successor enacted law, the *Florida Uniform Prudent Management of Institutional Funds Act*, effective July 1, 2012, as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulation to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in accordance with the Organization's endowment spending policy. Unrestricted net assets, to the extent applicable, also reflect losses to permanently restricted contributions that exceed the fair value of the original and subsequent gifts.

The investment policy for donor-restricted endowment funds is to produce long-term returns while also providing current income to fund the related programs. This is currently achieved by investing primarily in equities and fixed income securities. Investment returns and unrealized gains of endowment funds are recorded as investment income from temporarily restricted activities, and are released as appropriated.

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*YEAR ENDED DECEMBER 31, 2017*

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**Note 12 – Restricted Net Assets (continued)**

Endowment net asset compositions as of December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,563,548</u>	<u>\$ 1,563,548</u>

There are no donor-restricted endowments with stipulations regarding the change in fair value of such funds.

Board-Designated Endowments

The Organization's Board of Directors has not established any Board-designated endowments.

**Note 13– Concentration of Revenue and Other Support**

Approximately \$3,272,000 or 50% of the Organization's operating revenue and support was passed-through from one agency as contract revenue.

**Note 14 – Commitments and Contingencies**

The Organization is subject to state and federal audits to determine compliance with grant funding requirements. In the event that expenditures would be disallowed, repayment could be required. It is the opinion of management that no grant expenditures will be disallowed.

**Note 15 – Prior Period Adjustment**

During the year ended December 31, 2017, it was determined that the Organization had improperly classified certain unrestricted net assets as temporarily restricted net assets in periods prior to January 1, 2016. Accordingly, \$1,893,669 of previously recorded temporarily restricted net assets have been reclassified to unrestricted net assets in the accompanying December 31, 2016 Statement of Financial Position and in the beginning of year net assets in the Statement of Activities for the year ended December 31, 2017. There was no impact of this error correction on change in net assets as previously reported for the year ended December 31, 2016.

**SUPPLEMENTARY INFORMATION AND OTHER  
REPORTS OF INDEPENDENT AUDITOR**

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND**  
**STATE FINANCIAL ASSISTANCE**

YEAR ENDED DECEMBER 31, 2017

	<u>CFDA No.</u>	<u>Contract Grant No.</u>	<u>Expenditures</u>
<b>FEDERAL EXPENDITURES</b>			
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed through the Florida Department of Elder Affairs and the Area Agency of Aging of Pasco-Pinellas, Inc.:</i>			
Aging Cluster:			
Title III B Support Services (Transportation)	93.044	EA 017-NCN	\$ 441,541
Title III B Support Services (Adult Day Care)	93.044	EA 017-NCN	354,015
Title III C-1 Congregate Meals	93.045	EA 017-NCN	656,679
Title III C-2 Home Delivered Meals	93.045	EA 017-NCN	972,888
Nutrition Program for the Elderly	93.053	EA 017-NCN	<u>197,393</u>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>2,622,516</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Transit Services Cluster:			
<i>Passed through the Florida Department of Transportation:</i>			
5310 Program - Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	AK380	23,474
Joint Participation Program 5310	20.513	GOC19	<u>575,738</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>599,212</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed through the Florida Department of Elder Affairs:</i>			
Child and Adult Care Food Program	10.558	Y6069 16/17	15,308
Child and Adult Care Food Program	10.558	Y6069 17/18	<u>4,501</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>19,809</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,241,537</u>

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND**  
**STATE FINANCIAL ASSISTANCE (CONTINUED)**

YEAR ENDED DECEMBER 31, 2017

	<u>CSFA No.</u>	<u>Contract Grant No.</u>	<u>Expenditures</u>
<b>STATE EXPENDITURES</b>			
<b>FLORIDA DEPARTMENT OF ELDER AFFAIRS</b>			
<i>Passed through the Area Agency on Aging of Pasco-Pinellas, Inc.:</i>			
Local Services Program - Home Delivered Meals	65.009	EL 016-NCN-2017	\$ 301,818
Local Services Program - Transportation	65.009	EL 016-NCN-2017	168,105
Local Services Program - Adult Day Care	65.009	EL 016-NCN-2017	61,998
Local Services Program - Adult Day Care	65.009	EL 016-NCN-ADC-PHARMACY	63,429
Local Services Program - Adult Day Care	65.009	EL 017-NCN-ADC	20,267
Local Services Program - Pharmacy	65.009	EL 016-NCN-ADC-PHARMACY	<u>34,119</u>
<b>TOTAL FLORIDA DEPARTMENT OF ELDER AFFAIRS</b>			<u>649,736</u>
<b>FLORIDA DEPARTMENT OF TRANSPORTATION</b>			
<i>Passed through the Pinellas Suncoast Transit Authority (PSTA) acting as the Community Transportation Coordinator (CTC):</i>			
Commission for the Transportation Disadvantaged (CTD) Trip and Equipment Grant Program	55.001	CTC CONTRACTS	<u>313,431</u>
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>			<u>\$ 963,167</u>

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes grant activity of Neighborly Care Network, Inc. and Subsidiary (the "Organization") and is presented on the accrual basis of accounting. The Organization tracks its expenditures by department, rather than by grant. Expenditures are allocated by grant in amounts equal to billings based on units of service provided. The Organization did not elect to use the 10% de minimis indirect cost rate. Also, the Organization did not have any sub-recipients of federal awards during the year ended December 31, 2017.

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -**  
**FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS**

YEAR ENDED DECEMBER 31, 2017

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**Part I - Summary of Auditor's Results**

Financial Statement Section

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u>  x  </u> yes	<u>      </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  x  </u> no	

**Federal Awards and State Projects Section**

Internal control over major programs:			
Material weakness(es) identified?	<u>      </u> yes	<u>  x  </u> no	
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  x  </u> none reported	
Type of auditor's report on compliance for major federal programs and state projects:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) and/or Chapter 10.650	<u>      </u> yes	<u>  x  </u> no	

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -**  
**FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS**  
**(CONTINUED)**

YEAR ENDED DECEMBER 31, 2017

**Part I - Summary of Auditor's Results (continued)**

**Federal Awards and State Projects Section (continued)**

Identification of major federal programs and state projects:

Federal Programs:

Name of Program or Cluster	CFDA Numbers
U.S. Department of Health and Human Services - Aging Cluster:	
Title III B Support Services	93.044
Title III C1/C2 Congregate/Home Delivered Meals	93.045
Nutrition Program for the Elderly	93.053

State Projects:

Name of Projects	CSFA Numbers
Florida Department of Elder Affairs:	
Local Services Program	65.009

Dollar threshold used to determine Type A programs:

Federal	\$ 750,000
State	\$ 288,950

Auditee qualified as low-risk auditee for federal purposes?  yes  no

**Part II - Schedule of Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

**NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -**  
**FEDERAL AWARDS PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS**  
**(CONTINUED)**

YEAR ENDED DECEMBER 31, 2017

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**Part II - Schedule of Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

*Statement of Condition 2017-01:* Temporarily restricted net assets had not been properly released into unrestricted net assets upon satisfaction of restrictions in prior years, resulting in the need for additional assessment of restricted balances and a restatement of net assets classified as temporarily restricted and unrestricted.

*Criteria:* All net asset restriction activity should be maintained and reconciled by the Organization to ensure amounts classified as restricted and unrestricted are properly stated.

*Cause:* Net asset restriction information was not sufficiently organized and monitored to ensure accurate year-to-year reporting.

*Effect:* Net assets classified as temporarily restricted was overstated \$1,893,669 and net assets classified as unrestricted was understated by this same amount, requiring a restatement of beginning balances for the year ended December 31, 2017.

*Recommendation:* We recommend that the Organization strengthen internal controls for the accumulation and review of net asset restriction information to ensure that it is complete and accurate and to ensure that net assets are properly classified.

*Management's Response:* Management's concurs with the recommendation and has provided additional commentary in the Corrective Action Plan.

**Part III - Federal Award Findings and Questioned Costs**

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any material abuse findings, related to the audit of major federal programs, as required to be reported by 2 CFR section 200.516(a).

There were no findings required to be reported by 2 CFR section 200.516(a).

**Part IV - State Project Findings and Questioned Costs**

This section identifies the significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, as well as any material abuse findings, related to the audit of major state projects, as required to be reported by Chapter 10.650, *Rules of the Auditor General - Florida Single Audit Act Audits, Nonprofit and For-Profit Organizations*.

There were no findings required to be reported by Chapter 10.650, *Rules of the Auditor General - Florida Single Audit Act Audits, Nonprofit and For-Profit Organizations*.

**NEIGHORLY CARE NETWORK, INC. AND SUBSIDIARY**  
**SUMMARY OF PRIOR YEAR FINDINGS**

*YEAR ENDED DECEMBER 31, 2017*

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**Summary of Prior Year Findings**

There were no findings reported in the prior year.



13945 Evergreen Avenue  
Clearwater, Florida 33762  
727-573-9444 | [www.Neighborly.org](http://www.Neighborly.org)

*Health, Wellness and Independent Living*

## **NEIGHBORLY CARE NETWORK, INC. AND SUBSIDIARY CORRECTIVE ACTION PLAN**

*YEAR ENDED DECEMBER 31, 2017*

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### *Management's Response to Statement of Condition 2017-01:*

Management concurs with the issue identified and agrees with the recommendation. The Organization is making every effort to adhere to auditor's recommendation for tracking net asset restrictions. The Finance Department is also working diligently on updating records and tracking processes to ensure that accurate and complete records are available for all restrictions and activity.

Sincerely,

Mona Allen  
Interim Chief Executive Officer

**Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Members of the Board of Directors  
Neighborhood Care Network, Inc. and Subsidiary  
Clearwater, Florida

We have audited, in accordance with auditing standards general 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 Neighborhood Care Network, Inc. and Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 27, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described as finding 2017-01 in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of 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.

A handwritten signature in black ink that reads "Cheryl Behrman LLP". The signature is written in a cursive, flowing style.

Orlando, Florida  
April 27, 2018

**Independent Auditor's Report on Compliance For Each Major Federal Program and State Financial Assistance Project and Report on Internal Control Over Compliance in Accordance with Uniform Guidance and Chapter 10.650, Rules of the Auditor General**

To the Members of the Board of Directors  
Neighborhood Care Network, Inc. and Subsidiary  
Clearwater, Florida

**Report on Compliance for Each Major Federal Program and State Financial Assistance Project**

We have audited Neighborhood Care Network, Inc. and Subsidiary's (the "Organization's") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement*, and the requirements described in the Florida Department of Financial Services' State Projects Compliance Supplement, that could have a direct and material effect on each of the Organization's major federal program and state financial assistance project for the year ended December 31, 2017. The Organization's major federal program and state financial assistance project are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal awards and state financial assistance applicable to its federal programs and state financial assistance projects.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal program and state financial assistance project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and Chapter 10.650, Rules of the Auditor General. Those standards, Uniform Guidance and Chapter 10.650, Rules of the Auditor General, 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 or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Organization'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 and state financial assistance project. However, our audit does not provide a legal determination of the Organization's compliance.

## ***Opinion on Each Major Federal Program and State Financial Assistance Project***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program and state financial assistance project for the year ended December 31, 2017.

## **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state financial assistance project 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 state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 or state financial assistance project 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 or a state financial assistance project 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 or a state financial assistance project 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 the 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 our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Orlando, Florida  
April 27, 2018

## Independent Auditor's Management Letter

To the Members of the Board of Directors  
Neighborly Care Network, Inc. and Subsidiary  
Clearwater, Florida

### Report on the Financial Statements

We have audited the consolidated financial statements of Neighborly Care Network, Inc. and Subsidiary (the "Organization") as of and for the fiscal year ended December 31, 2017, and have issued our report thereon dated April 27, 2018.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and Chapter 10.650, Rules of the Auditor General.

### Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance For Each Major Federal Program and State Financial Assistance Project and Report on Internal Control Over Compliance in accordance with Uniform Guidance and Chapter 10.650, Rules of the Auditor General.

### Other Matter

Section 10.654(1)(e), Rules of the Auditor General, requires that we communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the consolidated financial statements or State project amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### Purpose of this Letter

The purpose of this management letter is to communicate certain matters prescribed by Chapter 10.650, Rules of the Auditor General. Accordingly, this management letter is not suitable for any other purpose.



Orlando, Florida  
April 27, 2018