UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Financial Statements

For the Year Ended
January 31, 2011

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Financial Statements

For the Year Ended January 31, 2011

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INTRODUCTION

Background

United Neighborhood Health Services, Inc. (the "Center"), operates healthcare centers located in the State of Tennessee in the counties of Davidson and Trousdale. The Center provides a broad range of health services to a largely medically underserved population.

Scope of Audit

The financial audit of the Center was performed 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 Office of Management and Budget Circular A-133, *Audits of States*, *Local Governments*, *and Non-Profit Organizations*. The audit covered the 12-month period ended January 31, 2011, and fieldwork was performed during the period from June 6, 2011 to June 15, 2011.

The following were the principal objectives of the organization-wide audit:

- The expression of an opinion on the balance sheet as of January 31, 2011, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended;

- The expression of an opinion on the schedule of expenditures of federal awards for the year ended January 31, 2011;

- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2011;

- The assessment of the Center's internal accounting and administrative control structures;

- The performance of cost validations of transaction costs on a test basis;

- The assessment, on a test basis, of the Center's compliance with the prescribed U.S. Department of Health and Human Services ("DHHS") cost principles (45 CFR 74, as amended, subpart Q) for selected functional types of costs; and

- To ascertain whether costs claimed for funding under specific grants are fairly presented in conformity with the terms of the grants and related U.S. Department of Health and Human Services cost principles.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
United Neighborhood Health Services, Inc.

We have audited the accompanying balance sheet of United Neighborhood Health Services, Inc. (the "Center"), as of January 31, 2011, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. 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, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of January 31, 2011, and the changes in its unrestricted net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2011, on our consideration of the Center'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 control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Matheney Stees & Associates PC

July 8, 2011

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UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Balance Sheet

January 31, 2011

ASSETS		
Current assets:		
Cash and cash equivalents	$	629,413
Patient accounts receivable, net (Note 3)		1,298,236
Contracts receivable (Note 4)		261,128
Other receivables		5,051
Prepaid expenses and other current assets		49,460
Total current assets		2,243,288
Property and equipment, net (Note 5)		6,431,850
Total assets	$	8,675,138
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Current maturities of long-term debt (Note 6)	$	240,766
Accounts payable and accrued expenses		470,671
Third-party settlements payable		7,005
Accrued compensation		334,721
Total current liabilities		1,053,163
Long-term debt, less current maturities (Note 6)		214,437
Total liabilities		1,267,600
Unrestricted net assets		7,407,538
Total liabilities and unrestricted net assets	$	8,675,138

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statement of Operations and Changes in Unrestricted Net Assets

Year Ended January 31, 2011

Unrestricted revenue:	
DHHS grants (Note 8)	$ 6,159,951
Patient services, net (Note 7)	5,651,753
Contract services (Note 9)	1,509,760
Donated in-kind revenue (Note 10)	134,975
Contributions	89,246
Other	18,649
Total revenue	13,564,334
Expenses	
Salaries and benefits	8,999,292
Other than personnel services	4,131,167
Interest	26,357
Provision for bad debts	1,579,426
Total expenses	14,736,242
Operating loss prior to depreciation and nonoperating revenue	(1,171,908)
Depreciation	512,076
Operating loss prior to nonoperating revenue	(1,683,984)
Nonoperating revenue:	
DHHS capital grants (Note 8)	725,342
Contributions for property and equipment	1,326
Other	11,953
Decrease in unrestricted net assets	(945,363)
Net assets:	
Beginning	8,352,901
Ending	$ 7,407,538

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statement of Functional Expenses

Year Ended January 31, 2011

	Program Services	General and Administrative	Total
Salaries and wages	$ 6,397,243	$ 898,820	$ 7,296,063
Fringe benefits	1,493,391	209,838	1,703,229
Healthcare consultants and other contractual services	941,357	54,178	995,535
Professional fees	370	361,413	361,783
Consumable supplies	211,837	219,553	431,390
Laboratory	389,478	—	389,478
Radiology	8,750	—	8,750
Pharmaceuticals	638,868	—	638,868
Occupancy	304,939	27,782	332,721
Insurance	37,646	4,662	42,308
Repairs and maintenance	218,369	19,895	238,264
Telephone	259,754	32,170	291,924
Travel, conferences and meetings	71,716	8,882	80,598
Dues and subscriptions	86,527	10,716	97,243
Printing, postage and publications	35,531	4,400	39,931
Staff training	69,349	8,589	77,938
Equipment rental	16,680	1,520	18,200
Interest	26,357	—	26,357
Provision for bad debts	1,579,426	—	1,579,426
Other	79,035	7,201	86,236
	12,866,623	1,869,619	14,736,242
Depreciation	469,318	42,758	512,076
Total expenses	$ 13,335,941	$ 1,912,377	$ 15,248,318

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statement of Cash Flows

Year Ended January 31, 2011

Cash flows from operating activities:	
Cash received from DHHS grants	$ 6,159,951
Cash received from patient services	4,733,899
Cash received from contract services	2,025,705
Cash received from other	757,270
Cash received from contributions	224,221
Cash paid for interest	(26,357)
Cash paid for personnel cost	(9,036,569)
Cash paid for other than personnel costs	(3,937,172)
Net cash provided by operating activities	900,948
Cash flows from investing activities:	
Purchase of property and equipment	(990,146)
Net cash used for investing activities	(990,146)
Cash flows from financing activities:	
Principal payments of long-term debt	(230,508)
Net cash used for financing activities	(230,508)
Net decrease in cash	(319,706)
Cash and cash equivalents at beginning of year	949,119
Cash and cash equivalents at end of year	$ 629,413

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statement of Cash Flows (Continued)

Year Ended January 31, 2011

Reconciliation of decrease in unrestricted net assets to net cash provided by operating activities:		
Decrease in unrestricted net assets	$	(945,363)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by operating activities:		
Depreciation expense		512,076
Provision for bad debts		1,579,426
(Increase) decrease in:		
Patient accounts receivable		(917,854)
Contracts receivable		515,945
Other receivables		(1,664)
Prepaid expenses and other current assets		1,797
Increase (decrease) in:		
Accounts payable and accrued expenses		292,793
Third-party settlements payable		7,005
Accrued compensation		(35,613)
Refundable advance - DHHS grant		(107,600)
Net cash provided by operating activities	$	900,948

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

NOTE 1 ORGANIZATION

United Neighborhood Health Services, Inc. (the "Center"), operates healthcare centers located in the State of Tennessee in the counties of Davidson and Trousdale. The Center provides a broad range of health services to a largely medically underserved population.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Center considers all highly liquid investments with original maturity dates of three months or less at the time of purchase to be cash and cash equivalents. The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Deposits exceeded the federally insured limits by $445,945 at January 31, 2011. The Center has not experienced any losses in such accounts.

Patient accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Center writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other patient services revenue is recorded at published charges with contractual allowances deducted to arrive at net patient services revenue.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for equipment and vehicles, and 30 years for building and improvements. The Center capitalizes all purchases of property and equipment in excess of $1,000.

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in unrestricted net assets as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. These grants require the Center to provide specific services and, if not, the grantor is not obligated to provide these funds.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor’s restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue. Cash received in excess of revenue recognized is recorded as refundable advances. At January 31, 2011, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of $946,100 that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Interest earned on nonfederal funds is recorded as income on an accrual basis. Interest earned on federal funds is recorded as a payable to the Public Health Service (the “PHS”) in compliance with OMB Circular A-110.

The Center was incorporated as a not-for-profit corporation under the laws of the State of Tennessee and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On January 1, 2009, the Center adopted the accounting standard on accounting for uncertainty in income taxes, codified in Accounting Standards Codification ("ASC") 740 which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Center's tax positions and concluded that the Center had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Center is no longer subject to income tax examinations by U.S. federal, state, or local tax authorities for fiscal years before 2007, which is the standard statute of limitations for the look-back period.

The Center evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which is July 8, 2011.

Employees can earn paid time off based on a formula outlined in the employee handbook. This formula is based on status (exempt or non-exempt) and length of employment with the Center. Employees are also compensated for absences related to illness; however, these benefits are not vested and therefore not accrued. Accrued vacation was $185,449 as of January 31, 2011.

The Center expenses all advertising costs when incurred. Advertising expense was $9,881 for the year ended January 31, 2011.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2011:

Medicare	$ 322,326
Private insurance	519,635
Self-pay	486,547
TennCare managed care plans	697,217
Medicaid managed care wraparound	408,145
Tennessee Department of Health – essential access pool	193,969
	2,627,839
Less allowance for doubtful accounts	(1,329,603)
	$ 1,298,236

NOTE 4 CONTRACTS RECEIVABLE

Contracts receivable consisted of the following as of January 31, 2011:

Tennessee Department of Health:	
Alcohol and Drug Abuse Continuum of Care Services	$ 43,071
African American Infant Mortality Reduction Program	79,022
U.S. Corporations for National Health Service:	
National Association of Community Health Centers: AmeriCorps	48,710
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic Program	63,539
SDF School Program	15,036
Tennessee Department of Children's Services:	
Child Abuse Prevention Program	11,750
	$ 261,128

NOTE 5 PROPERTY AND EQUIPMENT, NET

A summary of the property and equipment as of January 31, 2011, is as follows:

Land	$ 749,417
Buildings and building improvements	5,311,342
Medical and dental equipment	348,211
Office equipment	829,056
Automobiles	310,080
Computer software	888,622
Construction in progress	1,009,239
	9,445,967
Less accumulated depreciation	(3,014,117)
	$ 6,431,850

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the Public Health Services ("PHS") or third parties.

NOTE 6 LONG-TERM DEBT

Long-term debt consisted of the following at January 31, 2011:

The Center entered into a loan agreement on March 20, 2009, in the amount of $500,000. The note matures on March 20, 2012, with interest and principal payable in 35 monthly installments of $14,801, including interest of 4.04% per annum. A final payment of the unpaid principal balance plus accrued and unpaid interest is due and payable on March 20, 2012. The note is secured by property at 905 Main Street, Nashville, Tennessee 37206.	$ 201,067
The Center entered into a loan agreement on June 9, 2009, in the amount of $350,000 to purchase land and a building. The note matures on July 1, 2014, with interest and principal payments in 60 monthly installments of $6,605, including interest of 5% per annum. A final payment of unpaid principal balance plus accrued and unpaid interest is due and payable on July 1, 2014. The note is secured by property at 1223 Dickerson Pike, Nashville, Tennessee 37207.	254,136
	455,203
Less current maturities	(240,766)
Long-term portion	$ 214,437

NOTE 6 LONG-TERM DEBT (CONTINUED)

The aggregate amount of principal payments on long-term debt during the years following January 31, 2011, is as follows:

Year ending January 31,	
2012	$ 240,766
2013	99,997
2014	75,253
2015	39,187
	$ 455,203

NOTE 7 NET PATIENT SERVICES

For the year ended January 31, 2011, net patient services revenue consisted of the following:

Patient services revenue:	
Medicare	$ 297,527
Private insurance	516,082
Self-pay	574,205
TennCare managed care	2,367,998
Total gross patient services revenue	11,471,930
Less contractual and charitable allowance	(7,716,118)
	3,755,812
Medicaid managed care wraparound	1,279,000
Tennessee Department of Health - essential access pool	616,941
	$ 5,651,753

Medicaid and Medicare revenue is reimbursed to the Center at the reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

NOTE 8 DHHS GRANTS

For the year ended January 31, 2011, the Center received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	Operating Revenue	Nonoperating Revenue*	Unrestricted Revenue Recognized
5 H80CS00394-09-00	02/01/10-01/31/11	$ 5,165,096	$ 5,135,060	$ —	$ 5,135,060
1 C81CS14314-01-00	06/29/09-06/28/11	1,053,180	—	725,342	725,342
1 H8BCS12027-01-00	03/27/09-03/26/11	451,913	246,071	—	246,071
4 H8ACS11338-01-02	03/01/09-02/28/11	973,593	778,820	—	778,820
		$ 7,643,782	$ 6,159,951	$ 725,342	$ 6,885,293

* For capital expenditures

NOTE 9 CONTRACT SERVICES

For the year ended January 31, 2011, contract services revenue consisted of the following:

Tennessee Department of Education:	
Minority Health Program	$ 43,333
Tennessee Department of Children's Services:	
Child Abuse Prevention Program	35,250
Alcohol and Drug Abuse Continuum of Care Services	183,527
African American Infant Mortality Reduction Program	181,552
U.S. Corporation for National Health Service:	
National Association of Community Health Centers: AmeriCorps	91,246
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic Program	389,595
SDF School Program	50,000
United Healthcare Plan of the River Valley, Inc:	
Emergency Room Diversion Program	358,766
United Way of Metropolitan Nashville	164,491
Other	12,000
	$ 1,509,760

NOTE 10 DONATED IN-KIND REVENUE

The Center occupies two facilities of 6,737 square feet that are owned by the Salvation Army and Metropolitan Development Housing Agency. Donated space is recorded at fair value of the space donated. For the year ended January 31, 2011, donated space amounted to $72,000 and is included in occupancy expense on the statement of functional expenses.

NOTE 11 COMMITMENTS AND CONTINGENCIES

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicare and other revenue from the federal government. Reimbursements received under these contracts and payments under Medicare are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for reimbursing the agencies for the amounts in question.

The Center maintains medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Center leases space under various operating leases. Rent expense for the year ended January 31, 2011, amounted to $169,943 and is included in occupancy expense on the statement of functional expenses. Future minimum lease payments under these leases are as follows:

Year ending January 31,	
2012	$ 74,556
2013	37,780
2014	12,000
2015	12,000
2016	12,000
	$ 148,336

INTERNAL CONTROL AND COMPLIANCE SECTION

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
United Neighborhood Health Services, Inc.

We have audited the financial statements of United Neighborhood Health Services, Inc., (the "Center"), a nonprofit organization, as of and for the year ended January 31, 2011, and have issued our report thereon dated July 8, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned cost as Finding 2011-1 that we consider to be significant deficiencies in internal control over financial reporting.

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.

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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* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions oflaws, 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.*

We noted certain matters that we reported to management of the Center in a separate letter dated July 8, 2011.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Matheney Stees & Associates PC

July 8, 2011

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
United Neighborhood Health Services, Inc.

Compliance

We have audited United Neighborhood Health Services, Inc.'s (the "Center"), 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 the Center's major federal programs for the year ended January 31, 2011. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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 the Center'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. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2011.

Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's

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internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the Center'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 a combination of deficiencies, in internal control over compliance, such that there is 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings. 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.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Matheney Stees & Associates PC

July 8, 2011

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UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

Year Ended January 31, 2011

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ Yes	✔ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)? *Inadequate Segregation of Duties*	✔ Yes	___ None Reported
Noncompliance material to financial statements noted?	___ Yes	✔ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	___ Yes	✔ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ Yes	✔ None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ Yes	✔ No

Identification of major program(s):

CFDA Number(s)	**Name of Federal Program or Cluster**
	United States Department of Health and Human Services:
Health Centers Cluster:	
93.224	Consolidated Health Centers Program
93.703	ARRA Grants to Health Centers Programs

Medicaid Cluster:	
93.778	Medical Assistance Program

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ______ Yes ✔ No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1
Condition: Inadequate Segregation of Duties

Criteria: Segregation of duties is an important internal control with the primary objective to prevent fraud and errors. The objective is achieved by disseminating tasks among multiple users.

Effect: Segregation of duties or implementation of additional controls is necessary to prevent vulnerabilities.

Recommendation: As much as possible, the Center should segregate the cash collections, posting, and depositing of funds for all offices. Segregation for the purchasing should ensure that approval authority and disbursement authority is adequately controlled. If complete segregation is not possible, additional internal controls should be in place to mitigate any risk for misappropriations.

Views of Responsible Officials: United Neighborhood Health Services, Inc. is currently performing credit checks on all employees that handle payments per the organization's policy and procedures. The employees who receive payments do not complete the deposit forms, except for the Hartsville Clinic. Due to limited staffing at the Hartsville Clinic, there are not enough employees to maintain the same protocol. The clinic directors are responsible for reviewing the deposits for accuracy. The deposits are made by an employee that has not received payments or completed the deposit forms. In the event that a separate individual is unavailable to make the deposit, the respective clinic director will perform this task.

United Neighborhood Health Services, Inc. requires two signatures on bank drafts. Single purchases and contracts, with an annual cost over $25,000 go to the Finance Committee of the Board of Directors for approval. Mary Bufwack, CEO, has the authority to approve expenditures and authorize bank drafts.

With the current structure and staffing of the organization, these duties have been segregated to the furthest extent possible.

Auditor Response: We concur with the Center's response.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
None

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Status of Prior-Year's Findings

Year Ended January 31, 2011

PRIOR YEAR FINDINGS

10-1: Finding was corrected according to the corrective action plan during 2011. This finding will be considered closed.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Directors
United Neighborhood Health Services, Inc.

We have audited the basic financial statements of United Neighborhood Health Services, Inc. (the "Center"), as of and for the year ended January 31, 2011, and have issued our report thereon dated July 8, 2011. Our audit was conducted for the purpose of forming an opinion on those basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States*, *Local Governments*, *and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Matheney Stees & Associates PC

July 8, 2011

6136 Shallowford Road Suite 101; Chattanooga, TN 34721
Phone 423.894.7400 Fax 423.894.9977

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal Number	Agency or Pass-Through Grantor's Number	Federal Expenditures
U.S Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers Program	93.224	N/A	$ 5,135,060
ARRA – Grant to Health Centers Programs	93.703	N/A	1,750,233
Subtotal Health Centers Cluster			6,885,293
Passed through Tennessee Department of Health:			
Medical Assistance Program	93.778	GR-09-27242-00	90,776
Passed through United Healthcare Plan of the River Valley, Inc:			
Medical Assistance Program	93.778	GR-09-25582-00	358,766
Subtotal Medicaid Cluster			449,542
Passed through Department of Children's Services:			
Community-Based Family Resource and Support grants	93.590	GR-10-29608-00	10,367
Passed through Tennessee Department of Mental Health and Developmental Disabilities:			
Block Grants and Prevention and Treatment of Substance Abuse	93.959	Not Available	183,527
Total U.S. Department of Health and Human Services			7,528,729
Passed through Tennessee Department of Education:			
Minority Health	84.397	GR-1300703	43,333
Safe and Drug-Free Schools and Communities	84.186A	PL 107-110	50,000
U.S. Corporation for National Health Service:			
Passed through National Association of Community Health Centers:			
AmeriCorps	94.006	Not Available	91,246
Total Federal Awards			$ 7,713,308

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2011

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 SUBRECIPIENTS

Of the federal expenditures presented in this schedule, the Center provided no federal awards to subrecipients.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION -
SCHEDULE OF STATE FINANCIAL ASSISTANCE

To the Board of Directors
United Neighborhood Health Services, Inc.

We have audited the basic financial statements of United Neighborhood Health Services, Inc. (the "Center"), as of and for the year ended January 31, 2011, and have issued our report thereon dated July 8, 2011. Our audit was conducted for the purpose of forming an opinion on those basic financial statements taken as a whole. The accompanying schedule of state financial assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Matheney Stees & Associates PC

July 8, 2011

6136 Shallowford Road Suite 101; Chattanooga, TN 34721
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UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of State Financial Assistance

Year Ended January 31, 2011

State Grantor	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures/ Revenues	Ending Receivable
State Financial Assistance:						
Tennessee Department of Health:						
Minority Health Program	N/A	GR-09-27424-00	$ 8,667	$ 52,000	$ 43,333	$ —
U.S. Department of Health and Human Services:						
Passed through Tennessee Department of Finance and Administration:						
Women Health Services	93.778	GR-09-27242-00	144,738	247,268	181,552	79,022
Passed through Tennessee Department of Health:						
Primary Care Services to Uninsured Adults (1)	N/A	GR-10-29134-00	201,995	408,686	206,691	—
	N/A	GR-11-33266-00	—	216,281	410,250	193,969
Passed through Tennessee Department of Children Services:						
Child Abuse Prevention Services Parenting Education	93.590	GR-08-21294-00	20,563	35,250	14,687	—
	93.590	GR-10-29608-00	—	8,813	20,563	11,750
			$ 375,963	$ 968,298	$ 877,076	$ 284,741

(1) Based on revenues earned per award.

(2) The schedule includes state and federal pass-through amounts received from the State Agency.