

McGladrey & Pullen
Certified Public Accountants

United Neighborhood Health Services, Inc.

Financial Report

January 31, 2009

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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, 2009, and fieldwork was performed during the period from May 4, 2009 to May 8, 2009.

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

- The expression of an opinion on the balance sheet as of January 31, 2009, 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, 2009;
- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2009;
- 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 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 grant and related U.S. Department of Health and Human Services cost principles.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying balance sheet of United Neighborhood Health Services, Inc. (the "Center") as of January 31, 2009, 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 financial statements. An audit also includes assessing the accounting principles used and 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 United Neighborhood Health Services, Inc. as of January 31, 2009, 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 September 18, 2009, on our consideration of United Neighborhood Health Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New York, New York
September 18, 2009

United Neighborhood Health Services, Inc.

Balance Sheet
January 31, 2009

ASSETS

Current Assets:

Cash	\$ 1,365,913
Patient services receivable, net (Note 3)	1,575,541
Contracts receivable (Note 4)	364,686
Prepaid expenses and other current assets	116,750

Total current assets 3,422,890

Property and Equipment, net (Note 5) 4,932,654

Total assets \$ 8,355,544

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 358,868
Accrued compensation	296,842

Total current liabilities 655,710

Total liabilities 655,710

Commitments and Contingencies (Notes 5, 7 and 9)

Unrestricted Net Assets 7,699,834

Total liabilities and unrestricted net assets \$ 8,355,544

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Operations and Changes in Unrestricted Net Assets
Year Ended January 31, 2009

Unrestricted Revenue:	
DHHS grant (Note 6)	\$ 4,080,631
Patient services, net (Note 7)	5,056,016
Contract services (Note 8)	768,396
Other	83,492
	<hr/>
Total unrestricted revenue	9,988,535
	<hr/>
Expenses:	
Salaries and benefits	6,595,576
Other than personnel services	1,956,470
Provision for bad debts	285,000
	<hr/>
Total expenses	8,837,046
	<hr/>
Operating income prior to depreciation	1,151,489
	<hr/>
Depreciation	303,248
	<hr/>
Operating income prior to nonoperating revenue	848,241
	<hr/>
Nonoperating Revenue:	
Contribution for capital	856,707
	<hr/>
Increase in unrestricted net assets	1,704,948
	<hr/>
Net Assets:	
Beginning	5,994,886
	<hr/>
Ending	\$ 7,699,834
	<hr/> <hr/>

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Functional Expenses
Year Ended January 31, 2009

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 4,613,560	\$ 871,416	\$ 5,484,976
Fringe benefits	934,155	176,445	1,110,600
Healthcare consultants and other contractual services	291,214	7,258	298,472
Professional fees	-	212,536	212,536
Consumable supplies	156,269	93,039	249,308
Laboratory	283,233	-	283,233
Radiology	41,775	-	41,775
Pharmaceuticals	89,168	-	89,168
Occupancy	161,366	7,162	168,528
Insurance	28,857	11,272	40,129
Repairs and maintenance	179,253	7,956	187,209
Telephone	77,740	30,368	108,108
Travel, conferences and meetings	26,408	10,315	36,723
Dues and subscriptions	64,142	25,056	89,198
Printing, postage and publications	20,625	8,056	28,681
Staff training	42,117	16,452	58,569
Equipment rental	10,018	445	10,463
Provision for bad debts	285,000	-	285,000
Other	-	54,370	54,370
	<u>7,304,900</u>	<u>1,532,146</u>	<u>8,837,046</u>
Depreciation	<u>290,360</u>	<u>12,888</u>	<u>303,248</u>
Total expenses	<u><u>\$ 7,595,260</u></u>	<u><u>\$ 1,545,034</u></u>	<u><u>\$ 9,140,294</u></u>

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Cash Flows
Year Ended January 31, 2009

Cash Flows From Operating Activities:	
Cash received from DHHS grant	\$ 4,080,631
Cash received from patient services	4,427,633
Cash received from contract services	512,444
Cash paid for other	83,492
Cash paid for operations	<u>(8,369,364)</u>
Net cash provided by operating activities	<u>734,836</u>
Cash Used In Investing Activity - purchase of property and equipment	<u>(1,074,875)</u>
Cash Flows From Financing Activities:	
Proceeds from capital contributions	491,531
Principal payments of long-term debt	<u>(341,980)</u>
Net cash provided by financing activities	<u>149,551</u>
Net decrease in cash	(190,488)
Cash:	
Beginning	<u>1,556,401</u>
Ending	<u><u>\$ 1,365,913</u></u>
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities:	
Increase in unrestricted net assets	\$ <u>1,704,948</u>
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation	303,248
Provision for bad debts	285,000
In-kind contributions and capital grants	(856,707)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(628,383)
Increase in contracts receivable	(255,952)
Increase in prepaid expenses and other current assets	(84,138)
Increase in accounts payable and accrued expenses	152,787
Increase in accrued compensation	<u>114,033</u>
Total adjustments	<u>(970,112)</u>
Net cash provided by operating activities	<u><u>\$ 734,836</u></u>
Noncash Transactions:	
Donated equipment	<u><u>\$ 365,176</u></u>

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Notes to 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts.

Patient services 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 patient services, net.

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 vehicle, and 30 years for building and improvements. The Center capitalizes all purchases of property and equipment in excess of \$500.

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. At January 31, 2009, the Center has received a conditional grant of \$100,000 that has not been recorded in these financial statements. These grants require the Center to provide specific services and, if not, the grantor is not obligated to provide these funds.

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At January 31, 2009, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$2,706,671 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.

In June 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. The Center presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Center has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises, such as the Center, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Center will be required to adopt FIN 48 in its 2009 annual financial statements. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FSP No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Center adopted SFAS No. 157 for the fiscal period beginning February 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the Center's fiscal year beginning February 1, 2009. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Center's financial position, results of operations or cash flows.

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 3. Patient Services Receivable, Net

Patient services receivable, net, consist of the following at January 31, 2009:

Medicare	\$	134,214
Private insurance		179,648
Self-pay		240,568
TennCare Managed Care plans		525,418
Medicaid Managed Care wraparound		412,002
Tennessee Department of Health - Essential Access Pool		208,797
		<hr/>
		1,700,647
Less allowance for doubtful accounts		125,106
		<hr/>
	\$	<u>1,575,541</u>

Note 4. Contracts Receivable

Contracts receivable consist of the following at January 31, 2009:

Tennessee Department of Health:		
Minority Health Program	\$	26,666
U.S. Corporation for National Health Service:		
National Association of Community Health Centers:		
AmeriCorps		30,591
Metropolitan Department of Nashville and Davidson County:		
Downtown Clinic Program		58,924
Tennessee Department of Children's Services:		
Child Abuse Prevention Program		35,333
United Healthcare Plan of the River Valley, Inc.:		
Emergency Room Program		174,172
Other		39,000
		<hr/>
	\$	<u>364,686</u>

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 5. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at January 31, 2009:

Land	\$ 629,417
Building and building improvements	4,339,180
Medical and dental equipment	297,652
Office equipment	1,414,983
Automobile	310,080
	<hr/>
	6,991,312
Less accumulated depreciation	2,058,658
	<hr/>
	\$ 4,932,654
	<hr/>

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 PHS or third parties.

Note 6. DHHS Grant

For the year ended January 31, 2009, the Center received the following grant from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Unrestricted Revenue Recognized</u>
5 H80 CS 00394-07-04	02/01/08 - 02/28/09	\$ 4,194,662	\$ 4,080,631
		<hr/>	<hr/>

United Neighborhood Health Services, Inc.**Notes to Financial Statements**

Note 7. Patient Services, Net

For the year ended January 31, 2009, patient services revenue, net, consists of the following:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicare	\$ 305,433	\$ 21,115	\$ 284,318
Private insurance	783,931	242,505	541,426
Self-pay	4,514,912	3,839,359	675,553
TennCare Managed Care plans	2,856,611	1,201,020	1,655,591
	<u>8,460,887</u>	<u>5,303,999</u>	3,156,888
Medicaid Managed Care wraparound Tennessee Department of Health - Essential Access Pool			1,285,600
			<u>613,528</u>
			<u><u>\$ 5,056,016</u></u>

Medicaid and Medicare revenue is reimbursed to the Center at the net 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. Contract Services

For the year ended January 31, 2009, contract services revenue consists of the following:

Tennessee Department of Health:	
Minority Health Program	\$ 66,032
Tennessee Department of Children's Services:	
Child Abuse Prevention Program	35,860
U.S. Corporation for National Health Service:	
National Association of Community Health Centers:	
AmeriCorps	71,798
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic Program	115,258
United Healthcare Plan of the River Valley, Inc. :	
Emergency room Program	174,172
United Way of Metropolitan Nashville	144,303
Other	160,973
	<u>\$ 768,396</u>

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 9. Commitments and Contingencies

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicare 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 is involved in legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Center or the results of its operations.

Note 10. Subsequent Event

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 at 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, TN 37206.

McGladrey & Pullen

Certified Public Accountants

United Neighborhood Health Services, Inc.

Internal Controls and Compliance Section

January 31, 2009

McGladrey & Pullen

Certified Public Accountants

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.
Nashville, Tennessee

We have audited the financial statements of United Neighborhood Health Services, Inc. (the "Center") as of and for the year ended January 31, 2009, and have issued our report thereon dated September 18, 2009. 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 control deficiency 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 misstatements on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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 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*.

This report is intended solely for the information and use of management, the board of directors, 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.

McGladrey & Pullen, LLP

New York, New York
September 18, 2009

McGladrey & Pullen

Certified Public Accountants

Report on Compliance with Requirements Applicable to 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.
Nashville, Tennessee

Compliance - We have audited the compliance of United Neighborhood Health Services, Inc. (the "Center") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended January 31, 2009. The Center's major federal program is 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 its major federal program 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 are applicable to its major federal program for the year ended January 31, 2009.

Internal Control Over Compliance - The 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 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, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Center's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

McGladrey & Pullen, LLP

New York, New York
September 18, 2009

United Neighborhood Health Services, Inc.

**Schedule of Findings and Questioned Costs
Year Ended January 31, 2009**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's 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)? 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 auditor's 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:

CFDA Number

93.224

Name of Federal Program or Cluster

United States Department of Health and Human Services:
Consolidated Health Centers 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

None

Section III - Federal Award Findings and Questioned Costs

None

United Neighborhood Health Services, Inc.

**Status of Prior-Year's Findings
Year Ended January 31, 2009**

Item #	Description of Condition	Status of Corrective Action
08-1	Accounts Payable and Cash Entries	This action has been corrected in the current year.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Supplementary Information - Schedule of Expenditures of Federal Awards

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

We have audited the basic financial statements of United Neighborhood Health Services, Inc. as of and for the year ended January 31, 2009, and those statements, together with our opinion thereon, appear in the first section of this report. 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.

McGladrey & Pullen, LLP

New York, New York
September 18, 2009

United Neighborhood Health Services, Inc.

Supplementary Information

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2009

See Auditor's Report

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct program:			
Consolidated Health Centers Program	93.224	N/A	\$ 4,080,631
Subtotal - U.S. Department of Health and Human Services			4,080,631
U.S. Corporation for National Health Service:			
Passed through National Association of Community Health Centers:			
AmeriCorps	94.006	Not Available	71,798
Passed through Department of Children's Services:			
Community-Based Family Resource and Support grant	93.590	GR-08-21294-00	10,546
Total federal awards			\$ 4,162,975

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 basic financial statements.

Note 2. Subrecipients

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

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Supplementary Information - Schedule of State Financial Assistance

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

We have audited the basic financial statements of United Neighborhood Health Services, Inc. as of and for the year ended January 31, 2009, and those statements, together with our opinion thereon, appear in the first section of this report. 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.

McGladrey & Pullen, LLP

New York, New York
September 18, 2009

United Neighborhood Health Services, Inc.

Supplementary Information

**Schedule of State Financial Assistance
Year Ended January 31, 2008**

<u>State Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures/ Revenues</u>	<u>Ending Receivable</u>
State Financial Assistance:						
Tennessee Department of Health:						
Minority Health Program	N/A	Z0703290300	\$ 25,634	\$ 25,634	\$ -	\$ -
Minority Health Program	N/A	Z0802031500	-	39,366	66,032	26,666
U.S. Department of Health and Human Services:						
Passed through Tennessee Department of Health:						
Maternal and Child Health						
Essential Access Pool	N/A	GR-07-18182-00	165,619	304,695	139,076 ⁽¹⁾	-
Essential Access Pool	N/A	GR-08-20704-00	-	265,655	474,452 ⁽¹⁾	208,797
			<u>\$ 191,253</u>	<u>\$ 635,350</u>	<u>\$ 679,560</u>	<u>\$ 235,463</u>

(1) Based on revenues earned per award.