

**United Neighborhood Health
Services, Inc.**

Financial Report
(in Accordance with *Government Auditing
Standards* and OMB Circular A-133)

January 31, 2010

Contents

Introduction:

Background	1
Scope of Audit	1

Financial Section:

Independent Auditor's Report	2
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Financial Statements:

Balance Sheet	3
Statement of Operations and Changes in Unrestricted Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13

Internal Controls 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 <i>Government Auditing Standards</i>	14
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	15 - 16
Schedule of Findings and Questioned Costs	17 - 18
Status of Prior-Year's Findings	19
Independent Auditor's Report on Supplementary Information - Schedule of Expenditures of Federal Awards	20
Schedule of Expenditures of Federal Awards	21
Independent Auditor's Report on Supplementary Information - Schedule of State Financial Assistance	22
Schedule of State Financial Assistance	23

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, 2010, and fieldwork was performed during the period from May 24, 2010 to May 28, 2010.

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

- The expression of an opinion on the balance sheet as of January 31, 2010, 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, 2010;
- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2010;
- 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 grants and related U.S. Department of Health and Human Services cost principles.

Independent Auditor's Report

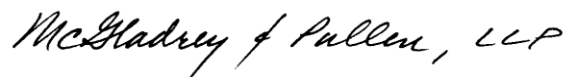
To the Board of Directors
United Neighborhood Health Services, Inc.
Nashville, Tennessee

We have audited the accompanying balance sheet of United Neighborhood Health Services, Inc. (the "Center") as of January 31, 2010, 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, 2010, 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 October 12, 2010, 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 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* and should be considered in assessing the results of our audit.



New York, New York
October 12, 2010

United Neighborhood Health Services, Inc.

Balance Sheet
January 31, 2010

ASSETS

Current Assets:

Cash	\$ 949,119
Patient services receivable, net (Note 3)	1,959,808
Contracts receivable (Note 4)	777,073
Prepaid expenses and other current assets	<u>54,644</u>

Total current assets 3,740,644

Property and Equipment, net (Note 5) 5,953,780

Total assets \$ 9,694,424

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 177,878
Accrued compensation	370,334
Refundable advance - DHHS grant	107,600
Current maturities of long-term debt (Note 6)	<u>230,638</u>

Total current liabilities 886,450

Long-term Liability - long-term debt, less current maturities (Note 6) 455,073

Total liabilities 1,341,523

Commitments and Contingencies (Notes 5, 8 and 11)

Unrestricted Net Assets 8,352,901

Total liabilities and unrestricted net assets \$ 9,694,424

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Operations and Changes in Unrestricted Net Assets
Year Ended January 31, 2010

Unrestricted Revenue:	
DHHS grants (Note 7)	\$ 5,409,488
Patient services, net (Note 8)	6,518,227
Contract services (Note 9)	2,211,987
Donated in-kind revenue (Note 10)	307,150
Contributions	184,250
Other	<u>19,101</u>
Total revenue	<u>14,650,203</u>
Expenses:	
Salaries and benefits	9,196,393
Other than personnel services	3,720,749
Interest	23,346
Provision for bad debts	<u>654,749</u>
Total expenses	<u>13,595,237</u>
Operating income prior to depreciation and nonoperating revenue	1,054,966
Depreciation	<u>443,384</u>
Operating income prior to nonoperating revenue	611,582
Nonoperating Revenue:	
DHHS capital grants (Note 7)	15,775
Contributions for property and equipment	<u>25,710</u>
Increase in unrestricted net assets	653,067
Net Assets:	
Beginning	<u>7,699,834</u>
Ending	<u><u>\$ 8,352,901</u></u>

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

**Statement of Functional Expenses
Year Ended January 31, 2010**

	Program Services	General and Administrative	Total
Salaries and wages	\$ 6,422,184	\$ 1,091,961	\$ 7,514,145
Fringe benefits	1,437,783	244,465	1,682,248
Healthcare consultants and other contractual services	815,188	25,185	840,373
Professional fees	-	310,027	310,027
Consumable supplies	255,966	195,151	451,117
Laboratory	373,954	-	373,954
Radiology	10,475	-	10,475
Pharmaceuticals	591,984	-	591,984
Occupancy	325,123	33,813	358,936
Insurance	34,869	13,366	48,235
Repairs and maintenance	160,157	16,657	176,814
Telephone	138,010	52,901	190,911
Travel, conferences and meetings	42,158	16,160	58,318
Dues and subscriptions	67,939	26,042	93,981
Printing, postage and publications	15,132	5,800	20,932
Staff training	39,161	15,011	54,172
Equipment rental	11,082	1,153	12,235
Interest	21,147	2,199	23,346
Provision for bad debts	654,749	-	654,749
Other	-	128,285	128,285
	<u>11,417,061</u>	<u>2,178,176</u>	<u>13,595,237</u>
Depreciation	<u>401,616</u>	<u>41,768</u>	<u>443,384</u>
Total expenses	<u><u>\$ 11,818,677</u></u>	<u><u>\$ 2,219,944</u></u>	<u><u>\$ 14,038,621</u></u>

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Cash Flows
Year Ended January 31, 2010

Cash Flows From Operating Activities:	
Cash received from DHHS grants	\$ 5,532,863
Cash received from patient services	5,479,211
Cash received from contract services	1,799,600
Cash received from other	19,101
Cash received from contributions	184,250
Cash paid for interest	(23,346)
Cash paid for personnel cost	(9,122,901)
Cash paid for other than personnel costs	<u>(3,532,483)</u>
Net cash provided by operating activities	<u>336,295</u>
Cash Used in Investing Activity - purchase of property and equipment	<u>(1,464,510)</u>
Cash Flows From Financing Activities:	
Proceeds from contributions for property and equipment	25,710
Proceeds from long-term debt	850,000
Principal payments of long-term debt	<u>(164,289)</u>
Net cash provided by financing activities	<u>711,421</u>
Net decrease in cash	(416,794)
Cash:	
Beginning	<u>1,365,913</u>
Ending	<u>\$ 949,119</u>
Reconciliation of Increase in Unrestricted Net Assets to Net Cash	
Provided by Operating Activities:	
Increase in unrestricted net assets	<u>\$ 653,067</u>
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation	443,384
Provision for bad debts	654,749
In-kind contributions and capital grants	(25,710)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(1,039,016)
Increase in contracts receivable	(412,387)
Decrease in prepaid expenses and other current assets	62,106
Decrease in accounts payable and accrued expenses	(180,990)
Increase in accrued compensation	73,492
Increase in refundable advance	<u>107,600</u>
Total adjustments	<u>(316,772)</u>
Net cash provided by operating activities	<u>\$ 336,295</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. 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, 2010, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$3,481,697 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.

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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.

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. With few exceptions, the Center is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations 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 October 12, 2010 for these financial statements.

Note 3. Patient Services Receivable, Net

Patient services receivable, net, consist of the following as of January 31, 2010:

Medicare	\$ 128,787
Private insurance	290,095
Self-pay	395,605
TennCare Managed Care plans	434,291
Medicaid Managed Care wraparound	835,945
Tennessee Department of Health - Essential Access Pool	<u>201,995</u>
	2,286,718
Less allowance for doubtful accounts	<u>326,910</u>
	<u><u>\$ 1,959,808</u></u>

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 4. Contracts Receivable

Contracts receivable consist of the following as of January 31, 2010:

Tennessee Department of Health:	
Minority Health Program	\$ 8,667
Alcohol and Drug Abuse Continuum of Care Services	32,950
African American Infant Mortality Reduction Program	144,738
U.S. Corporation for National Health Service:	
National Association of Community Health Centers:	
AmeriCorps	28,736
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic Program	66,883
SDF School Program	77,536
Tennessee Department of Children's Services:	
Child Abuse Prevention Program	20,563
SDF School Program:	
Emergency Room Diversion Program	<u>397,000</u>
	<u><u>\$ 777,073</u></u>

Note 5. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following as of January 31, 2010:

Land	\$ 749,417
Building and building improvements	5,297,826
Medical and dental equipment	325,738
Office equipment	1,646,537
Automobile	310,080
Construction-in-progress	<u>126,218</u>
	8,455,816
Less accumulated depreciation	<u>2,502,036</u>
	<u><u>\$ 5,953,780</u></u>

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.

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 6. Long-Term Debt

Long-term debt consists of the following:

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 12, 2012. The note is secured by property at 905 Main Street, Nashville, Tennessee 37206.

\$ 366,914

The Center entered into a loan agreement on June 9, 2009 in the amount of \$350,000 to purchase land and 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.

318,797

685,711

Less current maturities

230,638

Long-term portion

\$ 455,073

The aggregate amount of principal payments on long-term debt during the years following January 31, 2010 is as follows:

Year ending January 31,

2011 \$ 230,638

2012 240,780

2013 99,983

2014 75,253

2015 39,057

\$ 685,711

United Neighborhood Health Services, Inc.**Notes to Financial Statements****Note 7. DHHS Grants**

For the year ended January 31, 2010, the Center received the following grants from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue*</u>	<u>Unrestricted Revenue Recognized</u>
6 H80 CS 00394-08-04	02/01/09-01/31/10	\$ 5,171,496	\$ 5,171,444	\$ -	\$ 5,171,444
6 C81CS14314-01-02	06/29/09-06/28/11	1,053,180	-	15,775	15,775
1 HBCS12027-01-00	03/27/09-03/26/11	451,913	187,962	-	187,962
4 H8ACS11338-01-01	03/01/09-02/28/11	973,593	50,082	-	50,082
		<u>\$ 7,650,182</u>	<u>\$ 5,409,488</u>	<u>\$ 15,775</u>	<u>\$ 5,425,263</u>

* For capital expenditures

Note 8. Patient Services, Net

For the year ended January 31, 2010, patient services revenue, net, consists of the following:

	<u>Gross Charges</u>	<u>Contractual and Charitable Allowances</u>	<u>Net Revenue</u>
Medicare	\$ 400,711	\$ 120,505	\$ 280,206
Private insurance	1,801,844	920,990	880,854
Self-pay	6,120,269	5,362,307	757,962
TennCare Managed Care plans	<u>3,752,451</u>	<u>1,757,056</u>	<u>1,995,395</u>
	12,075,275	8,160,858	3,914,417
Medicaid Managed Care wraparound			1,953,810
Tennessee Department of Health -			
Essential Access Pool			<u>650,000</u>
			<u>\$ 6,518,227</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.

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 9. Contract Services

For the year ended January 31, 2010, contract services revenue consists of the following:

Tennessee Department of Education:	
Minority Health Program	\$ 42,000
Tennessee Department of Health:	
Immunization Grants	252,317
Tennessee Department of Children's Services:	
Child Abuse Prevention Program	39,479
Alcohol and Drug Abuse Continuum of Care Services	108,610
African American Infant Mortality Reduction Program	144,389
U.S. Corporation for National Health Service:	
National Association of Community Health Centers:	
AmeriCorps	72,000
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic Program	538,170
SDF School Program	96,286
United Healthcare Plan of the River Valley, Inc. :	
Emergency Room Diversion Program	725,787
United Way of Metropolitan Nashville	159,250
Other	33,699
	<u>\$ 2,211,987</u>

Note 10. Donated In-Kind Revenue

The Center occupies two facilities of 6,737 square feet that is 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, 2010, donated space amounted to \$156,000 and is included in occupancy expense.

Note 11. 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.

United Neighborhood Health Services, Inc.

Notes to Financial Statements

Note 11. Commitments and Contingencies (Continued)

The Center leases space under various operating leases. Rent expense for the year ended January 31, 2010 amounted to \$234,242. Future minimum lease payments under these leases are as follows:

Year ending January 31,

2011	\$ 73,116
2012	42,716
2013	13,113
2014	12,000
2015	<u>12,000</u>
	<u><u>\$ 152,945</u></u>



United Neighborhood Health Services, Inc.

Internal Controls and Compliance Section

January 31, 2010

**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, 2010, and have issued our report thereon dated October 12, 2010. 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.

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*.

We noted certain matters that we reported to management of the Center in a separate letter dated October 12, 2010.

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.

McGladrey & Pullen, LLP

New York, New York
October 12, 2010

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 each of its major federal programs for the year ended January 31, 2010. 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 are applicable to each of its major federal programs for the year ended January 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 10-1.

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 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 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.

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.

McGladrey & Pullen, LLP

New York, New York
October 12, 2010

United Neighborhood Health Services, Inc.

**Schedule of Findings and Questioned Costs
Year Ended January 31, 2010**

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(s):

CFDA Number(s)

Name of Federal Program or Cluster

Health Centers Cluster:

93.224

93.703

United States Department of Health and Human Services:

Consolidated Health Centers program

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

None

United Neighborhood Health Services, Inc.

**Schedule of Findings and Questioned Costs
Year Ended January 31, 2010**

Section III - Federal Award Findings and Questioned Cost: United States Department of Health and Human Services

Consolidated Health Centers program cluster (CFDA # 93.224 and 93.703)

10-1 DHHS Grants

Criteria: As part of the Department of Health and Human Services ("DHHS") agreement with non-for-profit organizations, all unobligated balances carried forward to a subsequent funding period require written approval by a DHHS official.

Statement of Condition: During the course of our audit, we noted that the Center had requested approval from the Department of Health and Human Services - Health Resources and Services Administration ("HRSA") to carry over an unobligated balance of \$114,000 from fiscal year 2009. The Center drew down the entire \$114,000 during the current fiscal period prior to receiving authorization from HRSA and has to be repaid.

Questioned Costs: None

Effect: Prior to audit adjustments, the Center did not follow its policies and procedures to accurately reflect the DHHS revenue recognized during the year ended January 31, 2010. Subsequent to the adjustments, the revenue balance was correctly stated. The Center drew down funds not reprogrammed to the current grant budget period.

Cause: The Center did not verify that authorization was received.

Recommendation: We recommend that the Center verify that authorization is received when drawing down unobligated balances from a prior fiscal year issued through HRSA and recognizing revenue.

Management's Response: Management agrees with this finding and will ensure that the Center follows its already established procedures when drawing down federal funds.

United Neighborhood Health Services, Inc.

**Schedule of Prior-Year's Findings
Year Ended January 31, 2010**

There are no prior-year's findings.

**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, 2010, 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
October 12, 2010

United Neighborhood Health Services, Inc.

Supplementary Information

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2010

See Auditor's Report

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	\$ 5,171,444
ARRA - Grant to Health Centers Programs	93.703	N/A	<u>253,819</u>
Subtotal Health Centers Cluster			<u>5,425,263</u>
Passed through Tennessee Department of Health:			
Medical Assistance Program	93.778	GR-09-27242-00	72,195
Passed through United Healthcare Plan of the River Valley, Inc.:			
Medical Assistance Program	93.778	GR09-25582-00	<u>725,787</u>
Subtotal Medicaid Cluster			<u>797,982</u>
Passed through Department of Children's Services:			
Community-Based Family Resource and Support grants	93.590	GR-08-21294-00	11,684
Passed through Tennessee Department of Mental Health and Developmental Disabilities:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not Available	108,610
Passed through Tennessee Department of Health:			
Immunization Grants (3)	93.268	Not Available	<u>252,317</u>
Total U.S. Department of Health and Human Services			<u>6,595,856</u>
Passed through Tennessee Department of Education:			
Minority Health	84.397	GR-1300703	8,667
Safe and Drug-Free Schools and Communities	84.186A	PL 107-110	96,286
U.S. Corporation for National Health Service:			
Passed through National Association of Community Health Centers:			
AmeriCorps	94.006	Not Available	<u>72,000</u>
Total federal awards			<u>\$ 6,772,809</u>

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.

Note 3. Nonmonetary Assistance

Donated vaccine is reported in the schedule at the fair market value of the vaccines received. The total federal share of the vaccines distributed by the Center amounted to \$252,317 and is included in the schedule of expenditures of federal awards.

**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, 2010, 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 as per the state contract 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
October 12, 2010

United Neighborhood Health Services, Inc.

Supplementary Information

**Schedule of State Financial Assistance
Year Ended January 31, 2010
See Auditor's Report**

<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	GR09-27424-00	\$ 26,666	\$ 60,000	\$ 42,000	\$ 8,666
Health Access Grant - Dental Program	N/A	GR-09-25713-00	-	75,000	75,000	-
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	144,738
Passed through Tennessee Department of Health:						
Primary Care Services to Uninsured Adults (1)	N/A	GR-08-20704-00	208,797	473,797	265,000	-
	N/A	GR-10-29134-00	-	183,005	385,000	201,995
Passed through Tennessee Department of Children Services:						
Child Abuse Prevention Services Parenting Education	93.590	GR-08-21294-00	15,584	34,500	39,479	20,563
			<u>\$ 251,047</u>	<u>\$ 826,302</u>	<u>\$ 951,217</u>	<u>\$ 375,962</u>

(1) Based on revenues earned per award.

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