PARTNERS FOR HEALING, INC.

FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2011

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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

June 25, 2012

To the Board of Directors
Partners for Healing, Inc.

We have audited the accompanying statement of financial position of Partners for Healing, Inc. (a nonprofit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 statements 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 Partners for Healing as of December 31, 2011, and the changes in its 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 June 25, 2012, on our consideration of Partners for Healing's internal control over financial reporting and on our tests of its compliance with certain provision 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Partners for Healing taken as a whole. The accompanying schedule of functional expenses on page 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditure of state and other awards on page 9 is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Housholder Artman PLLC

PARTNERS FOR HEALING
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

ASSETS		
Cash and cash equivalents	$	154,773
Certificates of deposits		209,721
Restricted cash endowment		33,166
Grants receivable		12,925
Prepaid expenses		1,451
Property and equipment, net of accumulated depreciation		153,387
TOTAL ASSETS	$	565,423
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$	519
Accrued liabilities		5,389
Unearned grant proceeds		72,502
TOTAL LIABILITIES		78,410
NET ASSETS		
Unrestricted		435,786
Temporarily restricted		18,061
Permanently restricted		33,166
TOTAL NET ASSETS		487,013
TOTAL LIABILITIES AND NET ASSETS	$	565,423

The accompanying notes are an integral part of this financial statement.

PARTNERS FOR HEALING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

UNRESTRICTED NET ASSETS		
Unrestriced revenues and support:		
Contributions	$	62,657
Fundraising income		46,583
Grants		146,340
Volunteer labor services		56,016
Interest income		5,647
Other income		1,612
Total unrestricted revenues		318,855
Net assets released from donor restrictions		4,344
Total unrestricted revenues and other support		323,199
Expenses:		
Program services		279,108
Supporting services:		
Management and general		67,133
Fundraising expenses		8,044
Total supporting services		75,177
Total expenses		354,285
CHANGE IN UNRESTRICTED NET ASSETS		(31,086)
TEMPORARILY RESTRICTED ASSETS		
Contributions		765
Net assets released from donor restrictions		(4,344)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		(3,579)
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		-
CHANGE IN NET ASSETS		(34,665)
NET ASSETS AT BEGINNING OF YEAR		509,291
PRIOR PERIOD ADJUSTMENT		12,387
NET ASSETS AT END OF YEAR	$	487,013

The accompanying notes are an integral part of this financial statement.

PARTNERS FOR HEALING
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$	(34,665)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization		8,240
Interest received from certificates of deposit		(4,833)
Increase in grants receivable		21,484
Increase in prepaid expenses		(65)
Decrease in accounts payable		(372)
Increase in accrued liabilities		818
Increase in unearned grant proceeds		19,316
Total adjustments		44,588
Net cash provided by operating activities		9,923
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property		(899)
Net cash used by investing activities		(899)
NET INCREASE IN CASH AND EQUIVALENTS		9,024
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		145,749
CASH AND CASH EQUIVALENTS, END OF YEAR	$	154,773

The accompanying notes are an integral part of this financial statement.

PARTNERS FOR HEALING, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Partners for Healing, Inc. (the "Organization") began operations in November 2001 in Tullahoma, Tennessee. The Organization provides free health care service, dental care, eye care, podiatry care and general education programs including social services and counseling to working uninsured individuals living in Coffee, Franklin, and Moore Counties. The Organization is primarily supported by direct solicitations to local citizens, area businesses, and local churches. The Organization also receives grants from the State of Tennessee, foundations, corporations and other organizations.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through June 25, 2012, the date which the financial statements were available to be issued.

Property and Equipment

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated over their estimated useful lives using the straight-line depreciation method.

PARTNERS FOR HEALING, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes
The organization is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

Cash and Cash Equivalents
Cash includes amounts in demand deposits. Cash in excess of current requirements, is invested in interest-bearing accounts such as certificates of deposits. For purposes of the statements of cash flows, the Board considers cash and investments with a maturity of three months or less to be cash equivalents.

Functional Expenses
Salaries and related employee expenses are allocated to program and support service functions based on estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on salaries. Building and occupancy costs are allocated on the basis usage of the facilities. Depreciation is allocated on the basis of usage for furniture and equipment.

Compensated Absences
Employees of the Organization do not accrue sick or vacation time. No amounts are reflected in the financial statements for compensated absences.

Advertising
The Organization's policy is to expense advertising costs as they are incurred. There were no advertising expenses for 2011.

NOTE 2 – CASH AND CASH IN CERTIFICATES OF DEPOSIT

The Organization's cash in checking, savings, and certificates of deposits totaled $397,660 and the bank balance totals $404,905. As of December 31, 2011, the Organization had funds of $15,729 that were not insured by FDIC insurance nor pledged by securities of the bank.

NOTE 3 – PREPAID EXPENSES

Prepaid expenses consist of the following:

Prepaid insurance	$ 1,451

NOTE 4 – PROPERTY AND EQUIPMENT

Property and Equipment at December 31, 2011 consist of the following:

Land	$ 30,000
Building	139,497
Equipment	52,280
	221,777
Less accumulated depreciation	(68,390)
	$ 153,387

Depreciation expense was $8,240 for the year ended December 31, 2011.

NOTE 5 – DONATED SERVICES

One of the Organization's primary sources of medical care and administrative support is in the form of volunteer services. The fair value of these services received in 2011 has been estimated to be $56,016 and is included in volunteer labor services and program services - salaries and labor costs in the Statement of Activities.

NOTE 6 – CONCENTRATION OF RISKS

The Organization has as one of its primary funding sources, grants from the Tennessee Department of Health. The Organization could be severely affected if policies in determining grant amounts for organizations such as Partners for Healing are altered through legislation.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2011:

Building fund	$ 14,687
Diabetic supplies	750
Patient assistance	2,624
	$ 18,061

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2011:

Endowment funds for operating clinic	$ 33,166

The endowment funds are voluntarily set aside by the board to be held indefinitely, the income from which is expendable for program and supporting services.

NOTE 9 – FUNDRAISING EXPENSES AND REVENUES

The Organization held several fundraising activities, to earn additional funds and increase public awareness of the organization. Fundraising revenues of $46,583 are included in revenues and support and fundraising expenses of $8,044 are included in supporting services in the Statement of Activities.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

Adjustments to the prior year financial statements have been made to correct errors discovered during the audit.

SUPPLEMENTAL INFORMATION

PARTNERS FOR HEALING, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services	Support Services		
	Patient Care	Management and General	Fundraising	Total
Salaries and wages	$ 140,596	$ 40,234	$ -	$ 180,830
Donated volunteer labor	56,015	-	-	56,015
Payroll taxes	8,923	7,923	-	16,846
Workers comp insurance	814	-	-	814
Contracted medical services	11,691	-	-	11,691
Patient services	16,001	-	-	16,001
Professional fees and dues	-	6,750	-	6,750
Clinic supplies	19,642	-	-	19,642
Office expenses	2,898	4,527	-	7,425
Telephone and communications	955	318	-	1,273
Utilities	3,449	1,150	-	4,599
Marketing	201	-	-	201
Depreciation	6,180	2,060	-	8,240
Property and liability insurance	2,510	837	-	3,347
Cleaning and maintenance	6,733	2,245	-	8,978
Fundraising	-	-	8,044	8,044
Other expenses	2,500	1,089	-	3,589
Total	$ 279,108	$ 67,133	$ 8,044	$ 354,285

See accompanying accountant's report.

PARTNERS FOR HEALING, INC.
SCHEDULE OF EXPENDITURES OF STATE AND OTHER AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Program title	CFDA	Contract number	Grant period	Program award	Accrued (deferred) grant revenue January 1, 2011	Receipts	Expenditures	Adjustments/ repayments	Accrued (deferred) grant revenue December 31, 2011
Federal:									
Diabetes Implementation Grant	84.397	GR-11-2902673	10/1/10 to 6/30/11	$ 61,400	$ 1,949	$ (43,565)	$ 38,081	$ 3,535	$ -
Tennessee Department of Health:									
Safety Net Primary Care Services		GR-11-33792-00	7/1/10 to 6/30/11	60,925	28,925	(59,350)	30,425	-	-
Safety Net Primary Care Services		GR-12-36802-00	7/1/11 to 6/30/12	60,925	-	(43,825)	56,750	-	12,925
Total State Awards					28,925	(103,175)	87,175	-	12,925
Other Awards:									
Kresege Foundation			7/1/10 to 6/30/12	100,000	(43,418)	(50,000)	33,468	4,051	(55,899)
Vitamin Grant Settlement				42,500	(13,818)	-	-	-	(13,818)
Baptist Healing Trust-Satellite			1/1/11 to 12/31/11	19,826	-	(19,826)	17,041	-	(2,785)
Community Foundation		WebMD/Envoy	06/09 to 06/10	12,500	(3,416)	-	-	3,416	-
Total Other Awards					(60,652)	(69,826)	50,509	7,467	(72,502)
Total Federal, State and Other Awards					$ (29,778)	$ (216,566)	$ 175,765	$ 11,002	$ (59,577)

Receivable	$ 12,925
Deferred rev	(72,502)
Total	$ (59,577)

See accompanying accountant's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

HOUSHOLDER ARTMAN, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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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*

June 25, 2012

To the Board of Directors of
Partners for Healing, Inc.

We have audited the financial statements of Partners for Healing, Inc. (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 25, 2012. 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

Management of Partners for Healing is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the 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 recommendations as findings 2011-1 and 2011-2 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items 2011-3 and 2011-4.

We noted certain matters that we reported to management of the Organization in a separate letter dated June 25, 2012.

Partners for Healing's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and Board of Directors and others within the entity, 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.

Householder Artman PLLC

PARTNERS FOR HEALING, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

FINDING 2011-1:

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Organization possesses an accounting department that is staffed with personnel with the requisite skills and training to perform such functions and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us by management that were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the disclosures required by professional standards.

Recommendation:

Due to the nature and size of the Organization it may not be practical or possible to perform these functions internally. Therefore, management may wish to acknowledge and accept this deficiency or develop compensating controls such as to review a draft of the financial statements and related disclosures.

Management Response:

We concur with the auditor's finding and recommendation.

FINDING 2011-2

We identified the following audit adjustments through the performance of our audit procedures:

1. Recording grant receivables and deferred grant revenue.
2. Recording in kind revenue and expenditures.
3. Recording the change in temporarily restricted net assets for year.
4. Recording prepaid expenses.
5. Recording fixed assets additions and correcting depreciation expense.
6. Correcting interest income on the endowment CD.

Recommendation:

To avoid auditor adjustments, all accounts should be recorded and adjusted.

Management Response:

We will comply.

PARTNERS FOR HEALING, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

FINDING 2011-3

Reports required by grant funds for one grantor agency could not be located by current management. Therefore, allocation of expenditures for that grant could not be verified.

Recommendation:

It is recommended that reports be kept on file for grantor agencies requirements.

Management Response:

The former executive director retired during the year being audited and the new director was not able to locate the financial reports in question. In the future, all reports will be kept on file to substantiate the use of grant funds.

FINDING 2011-4

At December 31, 2011 Partners had deposits with a carrying value of $15,729 which were not insured or collateralized as required by the state regulations.

Recommendation:

The deposits of the funds should be insured or collateralized as specified regulations. We also recommended management more closely monitor deposits at each financial institution in the future.

Management Response:

We concur with the auditor's finding and recommendation.

PARTNERS FOR HEALING, INC.
DISPOSITION OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

FINDING 2010-1

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Organization possesses an accounting department that is staffed with personnel with the requisite skills and training to perform such functions and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us by management that were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the disclosures required by professional standards.

Recommendation:

Due to the nature and size of the Organization it may not be practical or possible to perform these functions internally. Therefore, management may wish to acknowledge and accept this deficiency or develop compensating controls such as to review a draft of the financial statements and related disclosures.

Current Status:

See finding 2011-1

FINDING 2010-2

We identified the following audit adjustments through the performance of our audit procedures:

1. Recording prior year entries.
2. Recording grant receivables and deferred grant revenue.
3. Recording in kind revenue and expenditures.
4. Recording the change in temporarily restricted net assets for year.
5. Recording interest income on the endowment CD and correcting interest income on other CDs recorded on the wrong date.
6. Recording fixed asset additions and deletions and depreciation expense.

Recommendation:

To avoid auditor adjustments, all accounts should be recorded and adjusted.

Current Status:

See Finding 2011-2