PRELIMINARY

# PARTNERS FOR HEALING, INC.

# FINANCIAL STATEMENTS

# AND SUPPLEMENTAL INFORMATION

# DECEMBER 31, 2010

**PARTNERS FOR HEALING, INC.**
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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

June 28, 2011

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, 2010, 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, 2010, 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 28, 2011, 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 9 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 10 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 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.

**PARTNERS FOR HEALING**
**STATEMENT OF FINANCIAL POSITION**
**DECEMBER 31, 2010**

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| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 145,749 |
| Certificates of deposits | | 204,888 |
| Grants receivable | | 30,874 |
| Restricted cash endowment | | 33,166 |
| Property and equipment, net of accumulated depreciation | | 160,729 |
| **TOTAL ASSETS** | $ | 575,406 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| Accounts payable | $ | 891 |
| Accrued liabilities | | 4,572 |
| Unearned grant proceeds | | 60,652 |
| **TOTAL LIABILITIES** | | 66,115 |
| **NET ASSETS** | | |
| Unrestricted | | 454,485 |
| Temporarily restricted | | 21,640 |
| Permanently restricted | | 33,166 |
| **TOTAL NET ASSETS** | | 509,291 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 575,406 |

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

**PARTNERS FOR HEALING**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

PRELIMINARY

| | |
|---|---|
| **UNRESTRICTED NET ASSETS** | |
| Unrestriced revenues and support: | |
| Contributions | $ 42,590 |
| Fundraising income | 63,111 |
| Grants | 107,027 |
| Volunteer labor services | 38,191 |
| Donated equipment | 4,615 |
| Interest income | 8,460 |
| Other income | 1,132 |
| **Total revenues and support** | 265,126 |
| **Net assets released from donor restrictions** | 7,454 |
| **Expenses** | |
| Program services: | |
| Salaries and labor costs | 169,278 |
| Building and occupancy expense | 23,843 |
| Medical services | 30,550 |
| **Total program services** | 223,671 |
| Supporting services: | |
| Salaries and labor costs | 45,287 |
| Building and occupancy expense | 19,872 |
| Fundraising expenses | 10,176 |
| **Total supporting services** | 75,335 |
| **Total expenses** | 299,006 |
| **CHANGE IN UNRESTRICTED NET ASSETS** | (26,426) |
| **TEMPORARILY RESTRICTED ASSETS** | |
| Contributions | 1,250 |
| Net assets released from donor restrictions | (7,454) |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | (6,204) |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | - |
| **CHANGE IN NET ASSETS** | (32,630) |
| **NET ASSETS AT BEGINNING OF YEAR** | 512,771 |
| Prior period adjustment | 29,150 |
| **NET ASSETS AT END OF YEAR** | $ 509,291 |

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

**PARTNERS FOR HEALING**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

PRELIMINARY

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | $ | (32,630) |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | | 8,434 |
| (Gain) loss on disposal of property | | 1,380 |
| Interest received from certificates of deposit | | (6,796) |
| Decrease in accounts payable | | (824) |
| Increase in accrued liabilities | | 1,006 |
| Increase in unearned grant proceeds | | 24,203 |
| Total adjustments | | 27,403 |
| Net cash provided by operating activities | | (5,227) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Cash proceeds from certificates of deposit | | 25,593 |
| Cash payments for the purchase of property | | (10,644) |
| Net cash provided by investing activities | | 14,949 |
| **NET INCREASE IN CASH AND EQUIVALENTS** | | 9,722 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | | 136,027 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ | 145,749 |

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

## 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.

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.

## 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 2010.

## NOTE 2 – CASH AND CASH IN CERTIFICATES OF DEPOSIT

The Organization's cash in checking and certificates of deposits totaled $383,803. The total balance in certificates of deposits was $204,888. As of December 31, 2010, $6,318 of the Organization's bank balance was unsecured.

The Organization has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from that risk totaled $6,318 for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and Equipment at December 31, 2010 consist of the following:

| | |
|---|---|
| Land | $ 30,000 |
| Building | 139,497 |
| Equipment | 51,381 |
| | 220,878 |
| Less accumulated depreciation | (60,149) |
| | $ 160,729 |

Depreciation expense was $8,434 for the year ended December 31, 2010.

## NOTE 4 – 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 2010 has been estimated to be $38,191 and is included in volunteer labor services and program services - salaries and labor costs in the Statement of Activities.

## NOTE 5 – 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 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2010:

| | |
|---|---|
| Building fund | $ 14,687 |
| Diabetic supplies | 750 |
| Patient assistance | 6,203 |
| | $ 21,640 |

## NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2010:

| | |
|---|---|
| Endowment Funds for operating the 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 8 – FUNDRAISING EXPENSES AND REVENUES

The Organization held several fundraising activities, to earn additional funds and increase public awareness of the organization. Fundraising revenues of $63,111 are included in revenues and support and fundraising expenses of $10,176 are included in supporting services in the Statement of Activities.

## NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 28, 2011, the date which the financial statements were available to be issued.

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## SUPPLEMENTAL INFORMATION

**PARTNERS FOR HEALING, INC.**
**SCHEDULE OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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| | Program Services | Support Services | | |
|---|---|---|---|---|
| | Patient Care | Management and General | Fundraising | Total |
| Salaries and wages | $ 120,465 | $ 38,028 | $ - | $ 158,493 |
| Donated volunteer labor | 38,191 | - | - | 38,191 |
| Payroll taxes | 9,293 | 7,259 | - | 16,552 |
| Workers comp insurance | 1,329 | - | - | 1,329 |
| Contracted medical services | 4,382 | - | - | 4,382 |
| Patient services | 9,249 | - | - | 9,249 |
| Professional fees and dues | - | 5,500 | - | 5,500 |
| Clinic supplies | 16,919 | - | - | 16,919 |
| Office expenses | 2,989 | 3,937 | - | 6,926 |
| Telephone and communications | 2,393 | 797 | - | 3,190 |
| Utilities | 3,663 | 1,222 | - | 4,885 |
| Marketing | - | - | - | - |
| Depreciation | 6,326 | 2,108 | - | 8,434 |
| Property and liability insurance | 2,397 | 799 | - | 3,196 |
| Cleaning and maintenance | 4,228 | 1,410 | - | 5,638 |
| Fundraising | - | - | 10,176 | 10,176 |
| Other expenses | 1,847 | 4,099 | - | 5,946 |
| Total | $ 223,671 | $ 65,159 | $ 10,176 | $ 299,006 |

See accompanying accountants' report.

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**PARTNERS FOR HEALING, INC.**
**SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND OTHER AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2010**

| Program title | CFDA | Contract number | Grant period | Program award | Accrued (deferred) grant revenue January 1, 2010 | Receipts | Expenditures | Adjustments/ repayments | Accrued (deferred) grant revenue December 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Federal Funding: | | | | | | | | | |
| Diabetes Implementation Grant (DIG) | 84.397 | GR-11-2902673 | 10/1/10 to 6/30/11 | $ 61,400 | $ - | $ - | $ 1,949 | $ - | $ 1,949 |
| Tennessee Department of Health: | | | | | | | | | |
| Safety Net | | GR-10-30458-00 | 7/1/09 to 6/30/10 | 61,100 | 29,150 * | (60,350) | 31,200 | - | - |
| Safety Net | | GR-11-33792-00 | 7/1/10 to 6/30/11 | 60,925 | - | - | 28,925 | - | 28,925 |
| Total State Awards | | | | | 29,150 | (60,350) | 60,125 | - | 28,925 |
| Other Awards: | | | | | | | | | |
| Kresge Foundation | | N/A | 7/1/10 to 6/30/12 | 100,000 | - | (50,000) | 6,582 | - | (43,418) |
| Vitamin Grant Settlement | | N/A | | 42,500 | (18,910) | - | 5,092 | - | (13,818) |
| Baptist Healing Trust - Disease Mgmt | | 351 | 1/1/10 to 12/31/10 | 20,880 | - | (20,880) | 21,393 | (513) | - |
| Community Foundation | | WebMD/Envoy | 06/09 to 06/10 | 12,500 | (9,315) | - | 5,899 | - | (3,416) |
| Community Foundation | | 2902673 | 12/1/09 to 11/30/10 | 2,500 | (2,500) | - | 2,500 | - | - |
| Sanders Foundation | | | | 4,000 | (4,000) | - | 4,000 | - | - |
| Total Other Awards | | | | | (34,725) | (70,880) | 45,466 | (513) | (60,652) |
| Total Federal, State, and Other Awards | | | | | $ (5,575) | $ (131,230) | $ 107,540 | $ (513) | $ (29,778) |

* as adjusted by prior period adjustment

PRELIMINARY

INTERNAL CONTROL AND COMPLIANCE SECTION

PRELIMINARY

**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 28, 2011

To the Board of Directors
Partners for Healing, Inc.

We have audited the financial statements of Partners for Healing, Inc. (Partners) (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Partners' 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 Partners' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Partners' internal control over financial reporting.

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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2010-1 and 2010-2 to be significant deficiencies in internal control over financial reporting.

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 organization's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are a material weakness.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Partners' 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.

We noted certain matters that we reported to Management and the Board of Directors of Partners for Healing in a separate letter dated June 28, 2011.

Partners' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Partners' 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, government regulatory agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

# PARTNERS FOR HEALING, INC.
## SCHEDULE OF FINDINGS AND RECOMMENDATIONS
## FOR THE YEAR ENDED DECEMBER 31, 2010

PRELIMINARY

**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.

Management Response:

We concur with the auditors' findings and recommendation.

**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.

Management Response:

We will comply.

## PARTNERS FOR HEALING, INC.
## DISPOSITION OF PRIOR YEAR FINDINGS
## FOR THE YEAR ENDED DECEMBER 31, 2010

PRELIMINARY

**FINDING 2009-1**

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 2010-1.

**FINDING 2009-2**

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 temporarily restricted account balance change for year.

Recommendation:

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

Current Status:

See Finding 2010-2.