

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Financial Statements

**For the Years Ended
January 31, 2012 and 2011**

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Financial Statements

For the Years Ended January 31, 2012 and 2011

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INTRODUCTION

Background

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

Scope of Audit

The financial audit of the Center was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audit covered the 12-month period ended January 31, 2012, and fieldwork was performed during the period from May 7, 2012 to May 11, 2012.

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

- The expression of an opinion on the balance sheets as of January 31, 2012 and 2011, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the years then ended;
- The expression of an opinion on the schedule of expenditures of federal awards for the year ended January 31, 2012;
- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2012;
- The assessment of the Center’s internal accounting and administrative control structures;
- The performance of cost validations of transaction costs on a test basis;
- The assessment, on a test basis, of the Center’s compliance with the prescribed U.S. Department of Health and Human Services (“DHHS”) cost principles (45 CFR 74, as amended, subpart Q) for selected functional types of costs; and
- To ascertain whether costs claimed for funding under specific grants are fairly presented in conformity with the terms of the grants and related U.S. Department of Health and Human Services cost principles.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of United Neighborhood Health Services, Inc. (the "Center"), as of January 31, 2012 and 2011, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of January 31, 2012 and 2011, and the changes in its unrestricted net assets and its cash flows for the years 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 August 18, 2012, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

August 18, 2012



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Balance Sheets

January 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 685,533	\$ 629,413
Patient accounts receivable, net (Note 3)	774,939	696,122
Contracts receivable (Note 4)	77,822	261,128
Other receivables	885,429	607,165
Prepaid expenses and other current assets	<u>74,988</u>	<u>49,460</u>
Total current assets	2,498,711	2,243,288
Property and equipment, net (Note 5)	<u>6,386,842</u>	<u>6,431,850</u>
Total assets	<u>\$ 8,885,553</u>	<u>\$ 8,675,138</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Current maturities of long-term debt (Note 7)	\$ 85,531	\$ 240,766
Accounts payable and accrued expenses	532,596	470,671
Third-party settlements payable	—	7,005
Accrued compensation	<u>315,545</u>	<u>334,721</u>
Total current liabilities	933,672	1,053,163
Deferred revenue	99,253	—
Long-term debt, less current maturities (Note 7)	<u>114,441</u>	<u>214,437</u>
Total liabilities	1,147,366	1,267,600
Unrestricted net assets	<u>7,738,187</u>	<u>7,407,538</u>
Total liabilities and unrestricted net assets	<u>\$ 8,885,553</u>	<u>\$ 8,675,138</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statements of Operations and Changes in Unrestricted Net Assets

Years Ended January 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenue:		
DHHS grants (Note 8)	\$ 6,346,410	\$ 6,159,951
Patient services, net (Note 6)	1,774,276	2,176,386
Contract services (Note 10)	1,080,409	1,509,760
Donated in-kind revenue (Note 9)	252,593	134,975
Contributions	86,404	89,246
Primary care safety net services	540,472	616,941
TennCare managed care wraparound	1,404,127	1,279,000
EHR meaningful use	236,584	—
Other	27,669	18,649
	<hr/>	<hr/>
Total revenue	11,748,944	11,984,908
Expenses:		
Salaries and benefits	7,529,805	8,999,292
Other than personnel services	3,698,552	4,131,167
Interest	16,434	26,357
	<hr/>	<hr/>
Total expenses	11,244,791	13,156,816
Operating income (loss) prior to depreciation and nonoperating revenue		
	<hr/>	<hr/>
	504,153	(1,171,908)
Depreciation		
	<hr/>	<hr/>
	485,567	512,076
Operating income (loss) prior to nonoperating revenue		
	<hr/>	<hr/>
	18,586	(1,683,984)
Nonoperating revenue:		
DHHS capital grants (Note 8)	312,063	725,342
Contributions for property and equipment	—	1,326
Other	—	11,953
	<hr/>	<hr/>
Decrease in unrestricted net assets	330,649	(945,363)
Net assets:		
Beginning	<hr/>	<hr/>
	7,407,538	8,352,901
Ending		
	<hr/>	<hr/>
	\$ 7,738,187	\$ 7,407,538

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statement of Functional Expenses

Year Ended January 31, 2012

	Program Services	General and Administrative	Total
Salaries and wages	\$ 4,110,147	\$ 1,879,749	\$ 5,989,896
Fringe benefits	1,056,686	483,223	1,539,909
Healthcare consultants and other contractual services	705,217	264,505	969,722
Professional fees	182,076	159,628	341,704
Consumable supplies	131,551	139,913	271,464
Laboratory	294,012	—	294,012
Radiology	650	—	650
Pharmaceuticals	437,737	—	437,737
Occupancy	289,444	26,061	315,505
Insurance	34,936	19,651	54,587
Repairs and maintenance	158,308	14,254	172,562
Telephone	156,958	88,289	245,247
Travel, conferences and meetings	38,452	21,629	60,081
Dues and subscriptions	42,484	23,897	66,381
Printing, postage and publications	35,653	20,055	55,708
Staff training	11,594	6,522	18,116
Equipment rental	17,568	1,582	19,150
Interest	16,434	—	16,434
Other	344,875	31,051	375,926
	<u>8,064,782</u>	<u>3,180,009</u>	<u>11,244,791</u>
Depreciation	445,459	40,108	485,567
	<u>445,459</u>	<u>40,108</u>	<u>485,567</u>
Total expenses	<u>\$ 8,510,241</u>	<u>\$ 3,220,117</u>	<u>\$ 11,730,358</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statements of Cash Flows

Year Ended January 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from DHHS grants	\$ 6,346,410	\$ 6,159,951
Cash received from patient services	1,695,459	2,402,132
Cash received from contract services	1,362,968	2,025,705
Cash received from other	1,972,268	1,926,543
Cash received from contributions	86,404	89,246
Cash received from EHR meaningful use payments	236,584	—
Cash paid for interest	(16,434)	(26,357)
Cash paid for personnel cost	(7,827,245)	(8,600,743)
Cash paid for other than personnel costs	<u>(3,416,567)</u>	<u>(3,694,597)</u>
Net cash provided by operating activities	<u>439,847</u>	<u>281,880</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(440,559)</u>	<u>(990,146)</u>
Net cash used for investing activities	<u>(440,559)</u>	<u>(990,146)</u>
Cash flows from financing activities:		
Proceeds from contribution of property and equipment	—	1,326
Proceeds from DHHS capital grants	312,063	725,342
Principal payments of long-term debt	<u>(255,231)</u>	<u>(230,508)</u>
Net cash provided by financing activities	<u>56,832</u>	<u>496,160</u>
Net increase (decrease) in cash	56,120	(212,106)
Cash and cash equivalents at beginning of year	<u>629,413</u>	<u>841,519</u>
Cash and cash equivalents at end of year	<u><u>\$ 685,533</u></u>	<u><u>\$ 629,413</u></u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statements of Cash Flows (Continued)

Years Ended January 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss prior to nonoperating revenue to net cash provided by operating activities:		
Operating income (loss) prior to nonoperating revenue	\$ 18,586	\$ (1,683,984)
Adjustments to reconcile operating income (loss) prior to nonoperating revenue to net cash provided by operating activities:		
Depreciation expense	485,567	512,076
Provision for bad debts	1,224,098	1,579,426
Other nonoperating revenue	—	11,953
(Increase) decrease in:		
Patient accounts receivable	(1,302,915)	(1,353,680)
Contracts receivable	183,306	515,945
Other receivables	(278,264)	434,162
Prepaid expenses and other current assets	(25,528)	1,797
Increase (decrease) in:		
Accounts payable and accrued expenses	61,925	292,793
Third-party settlements payable	(7,005)	7,005
Accrued compensation	(19,176)	(35,613)
Deferred revenue	99,253	—
Net cash provided by operating activities	<u>\$ 439,847</u>	<u>\$ 281,880</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

January 31, 2012

NOTE 1 ORGANIZATION

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Center considers all highly liquid investments with original maturity dates of three months or less at the time of purchase to be cash and cash equivalents. The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Deposits exceeded the federally insured limits by \$520,920 and \$445,945 at January 31, 2012 and 2011, respectively. The Center has not experienced any losses in such accounts.

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

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in unrestricted net assets as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. These contributions require the Center to provide specific services and, if not, the contributor 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, 2012 and 2011, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$483,734 and \$946,100, respectively, which have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

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

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Management evaluated the Center’s tax positions and concluded that the Center had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Center is no longer subject to income tax examinations by U.S. federal, state, or local tax authorities for fiscal years before 2008, which is the standard statute of limitations for the look-back period.

The Center evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which is August 18, 2012.

Employees can earn paid time off based on a formula outlined in the employee handbook. This formula is based on status (exempt or non-exempt) and length of employment with the Center. Employees are also compensated for absences related to illness; however, these benefits are not vested and therefore not accrued. Accrued vacation was \$158,029 and \$185,449 as of January 31, 2012 and 2011, respectively, and is reflected as accrued compensation on the balance sheets.

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the change in unrestricted net assets reported for the years ended January 31, 2012 and 2011, respectively.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 677,044	\$ 322,326
Private insurance	588,292	519,635
Self-pay	661,321	486,547
TennCare managed care plans	1,310,884	697,217
	<u>3,237,541</u>	<u>2,025,725</u>
Less allowance for doubtful accounts	<u>(2,462,602)</u>	<u>(1,329,603)</u>
	<u>\$ 774,939</u>	<u>\$ 696,122</u>

NOTE 4 CONTRACTS RECEIVABLE

Contracts receivable consisted of the following as of January 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Tennessee Department of Health:		
Alcohol and Drug Abuse Continuum of Care Services	\$ 5,748	\$ 43,071
African American Infant Mortality Reduction Program	—	79,022
Childhood Obesity Prevention	10,488	—
U.S. Corporations for National Health Service:		
National Association of Community Health Centers: AmeriCorps	31,428	48,710
Metropolitan Department of Nashville and Davidson County:		
Downtown Clinic Program	24,146	63,539
SDF School Program	—	15,036
Tennessee Department of Children's Services:		
Child Abuse Prevention Program	<u>6,012</u>	<u>11,750</u>
	<u>\$ 77,822</u>	<u>\$ 261,128</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 5 PROPERTY AND EQUIPMENT, NET

A summary of the property and equipment as of January 31, 2012 and 2011, respectively, is as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 749,417	\$ 749,417
Buildings and building improvements	5,577,120	5,311,342
Medical and dental equipment	356,563	348,211
Office equipment	860,335	829,056
Automobiles	310,080	310,080
Computer equipment and software	907,077	888,622
Construction in progress	1,125,934	1,009,239
	<u>9,886,526</u>	<u>9,445,967</u>
Less accumulated depreciation	<u>(3,499,684)</u>	<u>(3,014,117)</u>
	<u>\$ 6,386,842</u>	<u>\$ 6,431,850</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 Public Health Services (“PHS”) or third parties.

NOTE 6 PATIENT SERVICES, NET

For the years ended January 31, 2012 and 2011, respectively, patient services revenue consisted of the following:

	<u>2012</u>	<u>2011</u>
Patient services revenue:		
Medicare	\$ 505,473	\$ 440,660
Private insurance	692,487	1,388,572
Self-pay	5,390,843	6,101,873
TennCare managed care	2,791,970	3,540,825
Total gross patient services revenue	<u>9,380,773</u>	<u>11,471,930</u>
Less contractual allowance	<u>(6,382,399)</u>	<u>(7,716,118)</u>
	2,998,374	3,755,812
Medicaid managed care wraparound	1,404,127	1,279,000
Tennessee Department of Health – Primary Care Safety Net Services	<u>540,472</u>	<u>616,941</u>
Patient service revenue (net of contractual allowances)	4,942,973	5,651,753
Provision for bad debts	<u>(1,224,098)</u>	<u>(1,579,426)</u>
Patient services, net	<u>\$ 3,718,875</u>	<u>\$ 4,072,327</u>

Medicaid and Medicare revenue are reimbursed to the Center at reimbursement rates determined for 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 the Financial Statements

(Continued)

NOTE 7 LONG-TERM DEBT

Long-term debt consisted of the following at January 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
The Center entered into a loan agreement on March 20, 2009, in the amount of \$500,000. The note matures on March 20, 2012, with interest and principal payable in 35 monthly installments of \$14,801, including interest of 4.04% per annum. A final payment of the unpaid principal balance plus accrued and unpaid interest is due and payable on March 20, 2012. The note is secured by property at 905 Main Street, Nashville, Tennessee 37206.	\$ 13,941	\$ 201,067
The Center entered into a loan agreement on June 9, 2009, in the amount of \$350,000 to purchase land and a building. The note matures on July 1, 2014, with interest and principal payments in 60 monthly installments of \$6,605, including interest of 5% per annum. A final payment of unpaid principal balance plus accrued and unpaid interest is due and payable on July 1, 2014. The note is secured by property at 1223 Dickerson Pike, Nashville, Tennessee 37207.	186,031	254,136
	199,972	455,203
Less current maturities	(85,531)	(240,766)
Long-term portion	<u>\$ 114,441</u>	<u>\$ 214,437</u>

The aggregate amount of principal payments on long-term debt during the years following January 31, 2012, is as follows:

Year ending January 31,

2013	\$ 85,531
2014	75,253
2015	39,188
	<u>\$ 199,972</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 8 DHHS GRANTS

For the year ended January 31, 2012, 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 H80CS00394-10-08	02/01/11-01/31/12	\$ 6,182,838	\$ 6,182,838	\$ —	\$ 6,182,838
1 C81CS14314-01-00	06/29/09-06/28/11	1,053,180	—	312,063	312,063
1 H8BCS12027-01-00	03/27/09-03/26/11	451,913	18,880	—	18,880
4 H8ACS11338-01-02	03/01/09-02/28/11	973,593	144,692	—	144,692
		<u>\$ 8,661,524</u>	<u>\$ 6,346,410</u>	<u>\$ 312,063</u>	<u>\$ 6,658,473</u>

For the year ended January 31, 2011, 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>
5 H80CS00394-09-00	02/01/10-01/31/11	\$ 5,165,096	\$ 5,135,060	\$ —	\$ 5,135,060
1 C81CS14314-01-00	06/29/09-06/28/11	1,053,180	—	725,342	725,342
1 H8BCS12027-01-00	03/27/09-03/26/11	451,913	246,071	—	246,071
4 H8ACS11338-01-02	03/01/09-02/28/11	973,593	778,820	—	778,820
		<u>\$ 7,643,782</u>	<u>\$ 6,159,951</u>	<u>\$ 725,342</u>	<u>\$ 6,885,293</u>

* For capital expenditures

NOTE 9 DONATED IN-KIND REVENUE

The Center occupies two facilities of 6,737 square feet that are owned by the Salvation Army and Metropolitan Development Housing Agency. Donated space is recorded at fair value of the space donated. For the years ended January 31, 2012 and 2011, donated space amounted to \$68,886 and \$72,000, respectively, and is included in occupancy expense on the statement of functional expenses.

The Center receives donated vaccines during the year. Donated vaccines are recorded at the fair market value of the vaccines that were received. For the year ended January 31, 2012, vaccines contributed to the Center amounted to \$183,707, and is included in pharmaceuticals on the statement of functional expenses.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 10 CONTRACT SERVICES

For the years ended January 31, 2012 and 2011, contract services revenue consisted of the following:

	<u>2012</u>	<u>2011</u>
Tennessee Department of Education:		
Minority Health Program	\$ —	\$ 43,333
Tennessee Department of Children's Services:		
Child Abuse Prevention Program	35,250	35,250
Alcohol and Drug Abuse Continuum of Care Services	167,554	183,527
African American Infant Mortality Reduction Program	8,680	181,552
U.S. Corporation for National Health Service:		
National Association of Community Health Centers: AmeriCorps	138,212	91,246
Metropolitan Department of Nashville and Davidson County:		
Downtown Clinic Program	415,385	389,595
SDF School Program	—	50,000
United Healthcare Plan of the River Valley, Inc:		
Emergency Room Diversion Program	—	358,766
United Way of Metropolitan Nashville	222,769	164,491
Bristol-Myers Squibb Foundation, Inc.	63,722	—
Other	28,837	12,000
	<u>\$ 1,080,409</u>	<u>\$ 1,509,760</u>

NOTE 11 COMMITMENTS AND CONTINGENCIES

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

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Center leases space under various operating leases. Rent expense for the years ended January 31, 2012 and 2011, respectively, amounted to \$157,129 and \$169,943, and is included in occupancy expense on the statement of functional expenses. Future minimum lease payments under noncancelable leases are as follows:

Year ending January 31,

2013	\$	74,467
2014		24,600
2015		12,000
2016		12,000
2017		12,000
		<hr/>
	\$	<u>135,067</u>

INTERNAL CONTROL AND COMPLIANCE SECTION



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

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

We have audited the financial statements of United Neighborhood Health Services, Inc., (the "Center"), a nonprofit organization, as of and for the year ended January 31, 2012, and have issued our report thereon dated August 18, 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

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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned cost as Finding 2012-1 that we consider to be significant deficiencies in internal control over financial reporting.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions 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 August 18, 2012.

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

August 18, 2012



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

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

Compliance

We have audited United Neighborhood Health Services, Inc.'s (the "Center"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended January 31, 2012. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2012.

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



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

internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

August 18, 2012



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

Year Ended January 31, 2012

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes ✓ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ✓ Yes None Reported
- Noncompliance material to financial statements noted? Yes ✓ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes ✓ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes ✓ None Reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes ✓ No

Identification of major program(s):

CFDA Number(s)

Name of Federal Program or Cluster

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2012

Dollar threshold used to distinguish between type
A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2012-1

Criteria: Each check written during the year should be signed by one or two authorized check signers.

Condition: The signature on a check was signed by someone other than one of the three authorized check signers.

Effect: An employee circumvented internal controls by signing a check using an authorized check signer's name.

Cause: The actual cause is unknown. It is expected that the AP clerk found an unsigned check that was to be mailed after all the checks were signed. Instead of sending the one check back through the approval and signature process, the AP clerk signed the check using the authorized check signers' names.

Recommendation: We recommend that management handle this issue in a means within their policies.

Views of Responsible Officials and Planned Corrective Actions: At the time of discovery, UNHS consulted our attorney. In light of the small amount of the check, and that there was no obvious intent to personally benefit, our attorney suggested that termination was in order and that no other action in regard to this employee was advised.

In order to mitigate the risk from this occurring again, UNHS has implemented a new process. An AP aging report is generated by the AP clerk before printing checks. The CFO indicates which vendors are to be paid out of the aging report. The checks are printed by the AP clerk along with a check register list. The CFO compares the check numbers against the check register list and signs the list indicating approval. Checks are forwarded to the CEO along with check register list for signature. The CEO will be the second signer and will check for the presence of each check and validate the first signature. The CEO will initial the check register list indicating validation. The CFO compares this log against the previous and the current check register list to ensure that all checks are valid.

Currently, we print checks every week. The goal is to move this to a bi-weekly process. There

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2012

will be vendors for which we will need to print checks before the next check run to avoid late fees, services cut, etc. (a good example would be utilities). The AP clerk will keep a separate log for these checks printed out of this bi-weekly disbursement cycle. However, these checks will go through the same process described above.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Status of Prior Year's Findings

Year Ended January 31, 2012

PRIOR YEAR FINDINGS

Finding 2011-1

Condition: Inadequate Segregation of Duties

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

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

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

Current Year Follow-Up: Finding was corrected according to the corrective action plan during 2012. This finding will be considered closed.

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

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

We have audited the basic financial statements of United Neighborhood Health Services, Inc. (the "Center"), as of and for the year ended January 31, 2012, and have issued our report thereon dated August 18, 2012. 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.

August 18, 2012



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2012

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	\$ 6,182,838
ARRA – Grant to Health Centers Programs	93.703	N/A	475,635
Subtotal Health Centers Cluster			<u>6,658,473</u>
Passed through Tennessee Department of Health:			
Medical Assistance Program	93.778	GR-09-27242-00	25,024
Subtotal Medicaid Cluster			<u>25,024</u>
Passed through Department of Children's Services:			
Community-Based Family Resource and Support grants	93.590	GR-10-29608-00	10,367
Passed through Tennessee Department of Mental Health and Developmental Disabilities:			
Block Grants and Prevention and Treatment of Substance Abuse	93.959	Not Available	167,554
Total U.S. Department of Health and Human Services			<u>6,487,459</u>
U.S. Corporation for National Health Service:			
Passed through National Association of Community Health Centers:			
AmeriCorps	94.006	Not Available	138,212
Total Federal Awards			<u>\$ 6,625,671</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2012

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 SUBRECIPIENTS

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



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

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

We have audited the basic financial statements of United Neighborhood Health Services, Inc. (the "Center"), as of and for the year ended January 31, 2012, and have issued our report thereon dated August 18, 2012. Our audit was conducted for the purpose of forming an opinion on those basic financial statements taken as a whole. The accompanying schedule of state financial assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

August 18, 2012



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of State Financial Assistance

Year Ended January 31, 2012

<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:						
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	\$ 79,022	\$ 87,702	\$ 8,680	\$ —
Passed through Tennessee Department of Health:						
Primary Care Services to Uninsured Adults (1)	N/A	GR-10-29134-00	193,969	377,730	183,761	—
	N/A	GR-11-33266-00	—	144,662	356,711	212,049
Childhood Obesity Prevention	N/A	GR-12-37246-00	—	22,828	33,316	10,488
Passed through Tennessee Department of Children Services:						
Child Abuse Prevention Services Parenting Education	93.590	GR-10-29608-00	11,750	40,988	35,250	6,012
			<u>\$ 284,741</u>	<u>\$ 673,910</u>	<u>\$ 617,718</u>	<u>\$ 228,549</u>

(1) Based on revenues earned per award.

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