

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Financial Statements

**For the Years Ended
January 31, 2013 and 2012**

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Financial Statements

For the Years Ended January 31, 2013 and 2012

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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, 2013, and fieldwork was performed during the period from April 29, 2013 to May 3, 2013.

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

- The expression of an opinion on the balance sheets as of January 31, 2013 and 2012, 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, 2013;
- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2013;
- 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., (hereinafter the "Center") as of January 31, 2013 and 2012, and the related statements of operations and change in unrestricted net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Neighborhood Health Services, Inc. as of January 31, 2013 and 2012, and the changes in its unrestricted net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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 financial statements. The Schedule of Expenditures of Federal Awards 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 other 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Functional Expenses is also presented for purposes of additional analysis and is not a required part of the financial statements. This 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. This information was subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013 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 and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

May 31, 2013
Chattanooga, Tennessee



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Balance Sheets

January 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,856,185	\$ 685,533
Patient accounts receivable, net (Note 3)	276,012	774,939
Contracts receivable (Note 4)	208,371	77,822
Other receivables	675,825	885,429
Prepaid expenses and other current assets	<u>94,177</u>	<u>74,988</u>
Total current assets	3,110,570	2,498,711
Property and equipment, net (Note 5)	<u>5,781,466</u>	<u>6,386,842</u>
Total assets	<u>\$ 8,892,036</u>	<u>\$ 8,885,553</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Current maturities of long-term debt (Note 8)	\$ 75,253	\$ 85,531
Accounts payable and accrued expenses	355,766	532,596
Accrued compensation	<u>372,684</u>	<u>315,545</u>
Total current liabilities	803,703	933,672
Deferred revenue	199,162	99,253
Long-term debt, less current maturities (Note 8)	<u>33,059</u>	<u>114,441</u>
Total liabilities	1,035,924	1,147,366
Unrestricted net assets	<u>7,856,112</u>	<u>7,738,187</u>
Total liabilities and unrestricted net assets	<u>\$ 8,892,036</u>	<u>\$ 8,885,553</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted revenue:		
DHHS grants (Note 9)	\$ 6,595,999	\$ 6,346,410
Patient services, net (Note 6)	2,786,439	3,178,403
Contract services (Note 11)	1,178,835	1,080,409
Donated in-kind revenue (Note 10)	471,702	252,593
Contributions	47,449	86,404
Primary care safety net services	504,506	540,472
EHR meaningful use	195,300	236,584
Other	34,302	27,669
Total revenue	<u>11,814,532</u>	<u>11,748,944</u>
Expenses:		
Salaries and benefits	7,274,777	7,529,805
Other than personnel services	3,757,871	3,698,552
Interest	8,739	16,434
Total expenses	<u>11,041,387</u>	<u>11,244,791</u>
Operating income before depreciation and nonoperating revenue	<u>773,145</u>	<u>504,153</u>
Depreciation	<u>665,481</u>	<u>485,567</u>
Operating income before nonoperating revenue	<u>107,664</u>	<u>18,586</u>
Nonoperating revenue:		
DHHS capital grants (Note 9)	<u>10,261</u>	<u>312,063</u>
Increase in unrestricted net assets	117,925	330,649
Net assets:		
Beginning	<u>7,738,187</u>	<u>7,407,538</u>
Ending	<u>\$ 7,856,112</u>	<u>\$ 7,738,187</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statement of Functional Expenses

Year Ended January 31, 2013

	Program Services	General and Administrative	Total
Salaries and wages	\$ 3,788,961	\$ 2,095,138	\$ 5,884,099
Fringe benefits	924,277	511,159	1,435,436
Healthcare consultants and other contractual services	724,976	170,617	895,593
Professional fees	181,888	40,809	222,697
Consumable supplies	137,803	132,076	269,879
Laboratory	200,684	—	200,684
Pharmaceuticals	441,460	—	441,460
Occupancy	318,720	27,639	346,359
Insurance	23,703	14,283	37,986
Repairs and maintenance	86,337	7,487	93,824
Telephone	57,995	34,946	92,941
Travel, conferences and meetings	34,312	20,675	54,987
Dues and subscriptions	39,079	23,547	62,626
Printing, postage and publications	32,705	19,707	52,412
Staff training	87,439	52,688	140,127
Equipment rental	13,432	1,165	14,597
Interest	8,739	—	8,739
Other	724,143	62,798	786,941
	<u>7,826,653</u>	<u>3,214,734</u>	<u>11,041,387</u>
Depreciation	<u>612,376</u>	<u>53,105</u>	<u>665,481</u>
Total expenses	<u>\$ 8,439,029</u>	<u>\$ 3,267,839</u>	<u>\$ 11,706,868</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Statements of Cash Flows

Years Ended January 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from DHHS grants	\$ 6,876,099	\$ 6,066,310
Cash received from patient services	2,623,959	1,695,459
Cash received from contract services	1,148,195	1,362,968
Cash received from other	1,155,019	1,998,324
Cash received from contributions	47,449	86,404
Cash received from EHR meaningful use payments	170,000	212,501
Cash paid for interest	(8,739)	(16,434)
Cash paid for personnel cost	(7,217,638)	(7,549,118)
Cash paid for other than personnel costs	(3,482,188)	(3,416,567)
	<u>1,312,156</u>	<u>439,847</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(66,702)	(440,559)
Proceeds on sale of property and equipment	6,597	—
	<u>(60,105)</u>	<u>(440,559)</u>
Net cash used for investing activities		
Cash flows from financing activities:		
Proceeds from DHHS capital grants	10,261	312,063
Principal payments of long-term debt	(91,660)	(255,231)
	<u>(81,399)</u>	<u>56,832</u>
Net cash (used for) provided by financing activities		
Net increase in cash	1,170,652	56,120
Cash and cash equivalents at beginning of year	<u>685,533</u>	<u>629,413</u>
Cash and cash equivalents at end of year	<u>\$ 1,856,185</u>	<u>\$ 685,533</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income prior to nonoperating revenue to net cash provided by operating activities:		
Operating income prior to nonoperating revenue	\$ 107,664	\$ 18,586
Adjustments to reconcile operating income prior to nonoperating revenue to net cash provided by operating activities:		
Depreciation expense	665,481	485,567
Provision for bad debts	442,327	1,224,098
(Increase) decrease in:		
Patient accounts receivable	56,600	(1,302,915)
Contracts receivable	(130,549)	183,306
Other receivables	209,604	(278,264)
Prepaid expenses and other current assets	(19,189)	(25,528)
Increase (decrease) in:		
Accounts payable and accrued expenses	(176,830)	61,925
Third-party settlements payable	—	(7,005)
Accrued compensation	57,139	(19,176)
Deferred revenue	99,909	99,253
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 1,312,156</u>	<u>\$ 439,847</u>

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

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

January 31, 2013 and 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

Use of Estimates

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.

Cash and Cash Equivalents

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 \$1,792,675 and \$520,920 at January 31, 2013 and 2012, respectively. The Center has not experienced any losses in such accounts.

Patient Accounts Receivable

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 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 Service Revenue

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

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

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 net 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. There were no restricted net assets at January 31, 2013 or 2012.

Government Grants

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, 2013 and 2012, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$1,888,092 and \$483,734, 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 Income

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.

Subsequent Events

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 was performed through the date the financial statements are available to be issued, which is May 31, 2013.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

On January 1, 2009, the Center adopted FASB ASC 740-10 “*Accounting for Uncertainty in Income Taxes*” (FASB ASC 740-1), which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions within the financial statements. With these changes, 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 the taxing authorities, based on the technical merits of the position. The Center does not have any uncertain tax positions as of January 31, 2013 and 2012. As of January 31, 2013 and 2012, the Center did not record any penalties or interest associated with uncertain tax positions. The federal and state income tax returns of the Center for the years prior to 2009 are not subject to examination by the taxing authority.

Paid Time Off

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 \$178,234 and \$158,029 as of January 31, 2013 and 2012, respectively, and is reflected as accrued compensation on the balance sheets.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. The reclassifications had no effect on the change in unrestricted net assets reported for the years ended January 31, 2013 and 2012 Annually, respectively.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

Patient accounts receivable, net, consisted of the following as of January 31, 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 147,190	\$ 677,044
Private insurance	223,574	588,292
Self-pay	171,750	661,321
TennCare managed care plans	407,394	1,310,884
	<u>949,908</u>	<u>3,237,541</u>
Less allowance for doubtful accounts	<u>(673,896)</u>	<u>(2,462,602)</u>
	<u>\$ 276,012</u>	<u>\$ 774,939</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 4 CONTRACTS RECEIVABLE

Contracts receivable consisted of the following as of January 31, 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>
Tennessee Department of Health:		
Alcohol and Drug Abuse Continuum of Care Services	\$ —	\$ 5,748
Childhood Obesity Prevention	—	10,488
U.S. Corporation for National Health Service:		
National Association of Community Health Centers: AmeriCorps	39,365	31,428
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	60,400	24,146
Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	45,000	—
United Healthcare Plan of the River Valley, Inc.:		
Pay-For-Value Program	63,606	—
Tennessee Department of Children's Services:		
Child Abuse Prevention Program	—	6,012
	<u>\$ 208,371</u>	<u>\$ 77,822</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, 2013 and 2012, respectively, is as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 749,417	\$ 749,417
Buildings and building improvements	6,709,082	5,577,120
Medical and dental equipment	359,987	356,563
Office equipment	863,941	860,335
Automobiles	300,090	310,080
Computer equipment and software	934,977	907,077
Construction in progress	20,959	1,125,934
	<u>9,938,453</u>	<u>9,886,526</u>
Less accumulated depreciation	<u>(4,156,987)</u>	<u>(3,499,684)</u>
	<u>\$ 5,781,466</u>	<u>\$ 6,386,842</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, 2013 and 2012, respectively, patient service revenue consisted of the following:

	<u>2013</u>	<u>2012</u>
Patient service revenue:		
Medicare	\$ 565,280	\$ 505,473
Private insurance	739,376	692,487
Self-pay	5,917,934	5,390,843
TennCare managed care	2,915,534	2,791,970
Total gross patient services revenue	<u>10,138,124</u>	<u>9,380,773</u>
Less contractual allowance	<u>(6,909,358)</u>	<u>(4,978,272)</u>
	3,228,766	4,402,501
Tennessee Department of Health – Primary Care Safety Net Services	<u>504,506</u>	<u>540,472</u>
Patient service revenue (net of contractual allowances)	3,733,272	4,942,973
Provision for bad debts	<u>(442,327)</u>	<u>(1,224,098)</u>
Patient services, net	<u>\$ 3,290,945</u>	<u>\$ 3,718,875</u>

Medicare and Medicaid 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 TENNCARE MANAGED CARE WRAPAROUND PAYMENTS

The State of Tennessee provides additional payments to community health clinics to subsidize the cost of care to TennCare recipients above the payment amount made by the managed care organizations. During the periods ended January 31, 2013 and 2012, the Center received \$973,621 and \$1,404,127, respectively.

NOTE 8 LONG-TERM DEBT

Long-term debt consisted of the following at January 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
The Center entered into a loan agreement on March 20, 2009, in the amount of \$500,000. The note matured on March 20, 2012. Payments of interest and principal payable in 35 monthly installments were \$14,801, including interest at 4.04%. The note was secured by property at 905 Main Street, Nashville, Tennessee 37206.	\$ —	\$ 13,941
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 at 5%. The note is secured by property at 1223 Dickerson Pike, Nashville, Tennessee 37207.		
	108,312	186,031
	108,312	199,972
Less current maturities	(75,253)	(85,531)
Long-term portion	<u>\$ 33,059</u>	<u>\$ 114,441</u>

The aggregate amount of principal payments on long-term debt during the years following January 31, 2013, is as follows:

Year ending January 31,

2014	\$ 75,253
2015	33,059
	<u>\$ 108,312</u>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 9 DHHS GRANTS

For the year ended January 31, 2013, 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 H80CS00394-11-07	02/01/12-01/31/13	\$ 6,630,038	\$ 6,595,999	\$ —	\$ 6,595,999
1 C8AC23803-01-00	05/01/12-04/30/15	1,224,816	—	6,561	6,561
1 C8BCS23967-010-0	05/01/12-04/30/14	500,000	—	3,700	3,700
		<u>\$ 8,354,854</u>	<u>\$ 6,595,999</u>	<u>\$ 10,261</u>	<u>\$ 6,606,260</u>

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>

Non-operating revenue represents amounts available for capital expenditures.

NOTE 10 DONATED IN-KIND REVENUE

The Center occupies two facilities that are separately owned by the Metropolitan Development Housing Agency and Nashville Rescue Mission. Donated space is recorded at fair value of the space donated. For the years ended January 31, 2013 and 2012, donated space amounted to \$89,163 and \$68,886, respectively, and the expense 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 years ended January 31, 2013 and 2012, vaccines contributed to the Center amounted to \$345,766 and \$183,707, respectively, and the expense is included in pharmaceuticals on the statement of functional expenses.

The Center receives donated laboratory services which are recorded at the fair market value of the services received. For the year ended January 31, 2013, services contributed to the Center amounted to \$36,773, and the expense is included in laboratory on the statement of functional expenses. There were no donated laboratory services during the fiscal year ended January 31, 2012.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 11 CONTRACT SERVICES

For the years ended January 31, 2013 and 2012, contract services revenue consisted of the following:

	<u>2013</u>	<u>2012</u>
Tennessee Department of Children's Services:		
Childhood Obesity Prevention	\$ 14,550	\$ 35,250
Alcohol and Drug Abuse Continuum of Care Services	178,395	167,554
African American Infant Mortality Reduction Program	—	8,680
U.S. Corporation for National Health Service:		
National Association of Community Health Centers: AmeriCorps	72,200	138,212
Metropolitan Government of Nashville and Davidson County:		
Downtown Clinic Program	371,201	415,385
United Healthcare Plan of the River Valley, Inc: Pay-For-Value Program	63,606	—
Department of Mental Health and Substance Abuse Services:		
Screening, Brief Intervention, Referral for Treatment-Tennessee Program	45,000	—
Magdalene, Oasis, Room in the Inn's Campus for Human Development:		
PNP Collaborative Program	54,792	—
United Way of Metropolitan Nashville	152,591	222,769
Bristol-Myers Squibb Foundation, Inc.	149,715	63,722
Other	76,785	28,837
	<u>\$ 1,178,835</u>	<u>\$ 1,080,409</u>

NOTE 12 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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Notes to the Financial Statements

(Continued)

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

The Center leases space under various operating leases. Rent expense for the years ended January 31, 2013 and 2012, respectively, amounted to \$180,070 and \$157,129, 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,

2014	\$	24,600
2015		12,000
2016		12,000
2017		12,000
2018		<u>12,000</u>
	\$	<u>72,600</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, 2013, and have issued our report thereon dated May 31, 2013. 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 in a timely manner.

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.



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 May 31, 2013.

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.

May 31, 2013
Chattanooga, TN



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 the compliance of United Neighborhood Health Services, Inc. (the "Center"), with the types of compliance requirements described in the U.S. Office of Management and Budget 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, 2013. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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.

Auditors' Responsibility

Our responsibility is to express an opinion on the Center's compliance with the applicable compliance requirements based on our compliance audit.

We conducted our compliance audit 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance 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. A compliance 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 compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on the Center's compliance with those requirements.



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)

Opinion

In our opinion, the Center complied, in all material respects, with the compliance 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, 2013.

Internal Control over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our compliance audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 in a timely manner.

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

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.



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)

Restricted Use

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

May 31, 2013
Chattanooga, Tennessee



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

Year Ended January 31, 2013

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

93.526

United States Department of Health and Human Services:

Consolidated Health Centers Program
Capital Development Programs

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs (Continued)

Year Ended January 31, 2013

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

\$300,000

Auditee qualified as low-risk auditee?

Yes

No

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Status of Prior Year's Findings

Year Ended January 31, 2013

PRIOR YEAR FINDINGS

Finding 2012-1

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

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

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

Recommendation: We recommend that management handle this issue in accordance with their internal policies.

Current Year Follow-Up: Finding was corrected according to the corrective action plan during the 2013 fiscal year. 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 accompanying schedule of expenditures of federal awards of United Neighborhood Health Services, Inc. (the "Center") for the year ended January 31, 2013.

Management's Responsibility

This financial statement is the responsibility of the Center's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule of expenditures of federal awards of the Center based on our audit.

We conducted our audit 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 the schedule of expenditures of federal awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of United Neighborhood Health Services, Inc. in conformity with accounting principles generally accepted in the United States of America.

May 31, 2013



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year Ended January 31, 2013

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	\$ 6,595,999
Capital Development Program	93.526	N/A	10,261
Subtotal Health Centers Cluster			<u>6,606,260</u>
Passed through Department of Children's Services:			
Community-Based Family Resource and Support grants	93.590	GR-10-29608-00	4,320
Passed through Tennessee Department of Mental Health and Developmental Disabilities:			
Block Grants and Prevention and Treatment of Substance Abuse	93.959	Not Available	<u>178,395</u>
Total U.S. Department of Health and Human Services			<u>6,819,619</u>
U.S. Corporation for National Health Service:			
Passed through National Association of Community Health Centers:			
AmeriCorps	94.006	Not Available	<u>72,200</u>
Total Federal Awards			<u>\$ 6,891,819</u>

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the 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, 2013, and have issued our report thereon dated May 31, 2013. 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.

May 31, 2013



UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

Schedule of State Financial Assistance

Year Ended January 31, 2013

<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 Health:						
Primary Care Services to Uninsured Adults (1)	N/A	GR-11-33266-00	212,049	341,919	129,870	—
	N/A	GR-13-33155-00	—	194,162	374,636	180,474
Childhood Obesity Prevention	N/A	GR-12-37246-00	10,488	44,231	33,743	—
Passed through Tennessee Department of Children Services:						
Child Abuse Prevention Services Parenting Education (2)	93.590	GR-10-29608-00	6,012	16,242	10,230	—
			<u>\$ 228,549</u>	<u>\$ 596,554</u>	<u>\$ 548,479</u>	<u>\$ 180,474</u>

(1) Based on revenues earned per award.

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