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November 23, 2009

Board of Directors  
United Health Services of St. Joseph County, Inc.  
6910 N. Main St., Mail Unit 10  
Granger, IN 46530

We have reviewed the audit report prepared by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2007 to December 31, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the United Health Services of St. Joseph County, Inc., as of December 31, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. Pages 30 through 35 contain nine current audit findings and \$18,195 in questioned costs. Page 37 contains the status of one prior audit finding. Management's corrective action plan is on pages 38 through 43.

STATE BOARD OF ACCOUNTS

*FINANCIAL AND COMPLIANCE REPORT*

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.  
AND AFFILIATED AGENCIES**

December 31, 2007 and 2006

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**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS  
AND SUPPORTING SCHEDULE**

To the Board of Directors  
UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES  
South Bend, Indiana

We have audited the accompanying statements of financial position of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES (the "Organization") as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, subsequent to December 31, 2007 the Organization was notified that a significant grant would not be renewed effective April 1, 2008. In addition, as discussed in Note 12 to the financial statements, the Organization has incurred deficits in each of the last several years and at December 31, 2007 has an unrestricted net asset deficit. Management's plans to alleviate the current and future deficits are discussed in that note.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008 on our consideration of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. only is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

*Cullen & Associates, P.C.*

November 19, 2008

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2007

<b>Assets:</b>	United Health <u>Services</u>	Arthritis <u>Society</u>	Open Door <u>Programs</u>	Diabetes <u>Association</u>	Hearing and Speech <u>Center</u>	<u>Eliminations</u>	<i>Combined Totals</i>
<b>Current Assets:</b>							
Cash and cash equivalents	\$ 25,512	\$ -	\$ -	\$ 29,477	\$ -	\$ 5	\$ 54,994
Certificates of deposit, including \$61,886 restricted for leased facility operating costs	163,740	36,260	-	50,000	-	-	250,000
Investments	60,063	-	-	11,637	-	-	71,700
Accounts receivable	120,503	-	-	2,065	19,725	-	142,293
Contributions receivable	5,250	-	-	14,125	49,336	-	68,711
Inter-agency advances	174,737	-	-	-	-	(174,737)	-
Allowance for uncollectible advances	(74,698)	-	-	-	-	74,698	-
Prepaid expenses	11,631	-	-	931	5,039	-	17,601
<i>Total current assets</i>	<u>486,738</u>	<u>36,260</u>	<u>-</u>	<u>108,235</u>	<u>74,100</u>	<u>(100,034)</u>	<u>605,299</u>
<b>Non-Current Assets:</b>							
Property and equipment	110,977	19,970	-	-	-	(42,110)	88,837
Insurance annuity contract	21,149	-	-	-	-	-	21,149
Beneficial interest in assets held by others	-	-	107,306	-	-	-	107,306
<i>Total non-current assets</i>	<u>132,126</u>	<u>19,970</u>	<u>107,306</u>	<u>-</u>	<u>-</u>	<u>(42,110)</u>	<u>217,292</u>
<i>Total assets</i>	<u>\$ 618,864</u>	<u>\$ 56,230</u>	<u>\$ 107,306</u>	<u>\$ 108,235</u>	<u>\$ 74,100</u>	<u>\$ (142,144)</u>	<u>\$ 822,591</u>
<b>Liabilities and Net Assets:</b>							
<b>Current Liabilities:</b>							
Current portion of long term debt	\$ 7,363	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,363
Accounts payable and accrued liabilities	187,860	2,165	419	12,045	8,740	-	211,229
Unearned rent income	129,941	28,775	-	-	-	-	158,716
Deferred revenue	34,061	-	-	-	-	-	34,061
Inter-agency advances	-	41,732	60,223	-	72,777	(174,732)	-
<i>Total current liabilities</i>	<u>359,225</u>	<u>72,672</u>	<u>60,642</u>	<u>12,045</u>	<u>81,517</u>	<u>(174,732)</u>	<u>411,369</u>
<b>Non-Current Liabilities:</b>							
Annuity payment liability	21,149	-	-	-	-	-	21,149
Long-term debt	259,805	-	-	-	-	-	259,805
<i>Total non-current liabilities</i>	<u>280,954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>280,954</u>
<i>Total liabilities</i>	<u>640,179</u>	<u>72,672</u>	<u>60,642</u>	<u>12,045</u>	<u>81,517</u>	<u>(174,732)</u>	<u>692,323</u>
<b>Net Assets:</b>							
Unrestricted	(73,394)	(16,442)	(60,642)	76,162	(66,185)	32,588	(107,913)
Temporarily restricted	52,079	-	-	20,028	58,768	-	130,875
Permanently restricted	-	-	107,306	-	-	-	107,306
<i>Total net assets</i>	<u>(21,315)</u>	<u>(16,442)</u>	<u>46,664</u>	<u>96,190</u>	<u>(7,417)</u>	<u>32,588</u>	<u>130,268</u>
<i>Total liabilities and net assets</i>	<u>\$ 618,864</u>	<u>\$ 56,230</u>	<u>\$ 107,306</u>	<u>\$ 108,235</u>	<u>\$ 74,100</u>	<u>\$ (142,144)</u>	<u>\$ 822,591</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2006

<b>Assets:</b>	United Health <u>Services</u>	Cancer <u>Society</u>	Arthritis <u>Society</u>	Open Door <u>Programs</u>	Diabetes <u>Association</u>	Hearing and Speech <u>Center</u>	Mental Health <u>Association</u>	<u>Eliminations</u>	<i>Combined Totals</i>
<b>Current Assets:</b>									
Cash and cash equivalents, including \$61,886 restricted for leased facility operating costs	\$ 175,437	\$ 47,510	\$ -	\$ 11	\$ 26,833	\$ -	\$ -	\$ (47,510)	\$ 202,281
Investments	171,107	997,414	36,000	-	112,026	-	-	(997,414)	319,133
Accounts receivable	130,663	6,265	-	-	5	7,120	-	(6,265)	137,788
Contributions receivable	-	14,166	-	-	16,527	57,352	-	(14,166)	73,879
Inter-agency advances	91,360	293	-	-	-	-	-	(91,653)	-
Allowance for uncollectible advances	(65,507)	-	-	-	-	-	-	65,507	-
Prepaid expenses	7,139	1,058	-	-	6	3,445	-	(1,058)	10,590
<i>Total current assets</i>	<u>510,199</u>	<u>1,066,706</u>	<u>36,000</u>	<u>11</u>	<u>155,397</u>	<u>67,917</u>	<u>-</u>	<u>(1,092,559)</u>	<u>743,671</u>
<b>Non-Current Assets:</b>									
Property and equipment	121,774	37,602	22,329	-	-	806	-	(82,952)	99,559
Insurance annuity contract	21,149	-	-	-	-	-	-	-	21,149
Beneficial interests in assets held by others	-	800,913	-	102,054	-	-	-	(800,913)	102,054
Assets of segments to be disposed	-	-	-	-	-	-	-	1,904,928	1,904,928
<i>Total non-current assets</i>	<u>142,923</u>	<u>838,515</u>	<u>22,329</u>	<u>102,054</u>	<u>-</u>	<u>806</u>	<u>-</u>	<u>1,021,063</u>	<u>2,127,690</u>
<i>Total assets</i>	<u>\$ 653,122</u>	<u>\$ 1,905,221</u>	<u>\$ 58,329</u>	<u>\$ 102,065</u>	<u>\$ 155,397</u>	<u>\$ 68,723</u>	<u>\$ -</u>	<u>\$ (71,496)</u>	<u>\$ 2,871,361</u>
<b>Liabilities and Net Assets:</b>									
<b>Current Liabilities:</b>									
Current portion of long term debt	\$ 6,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,900
Accounts payable and accrued liabilities	188,622	24,156	2,226	2,616	11,238	22,372	-	(24,156)	227,074
Unearned rent income	185,842	86,284	59,735	-	-	-	-	(86,284)	245,577
Inter-agency advances	293	-	18,614	46,893	-	25,853	-	(91,653)	-
<i>Total current liabilities</i>	<u>381,657</u>	<u>110,440</u>	<u>80,575</u>	<u>49,509</u>	<u>11,238</u>	<u>48,225</u>	<u>-</u>	<u>(202,093)</u>	<u>479,551</u>
<b>Non-Current Liabilities:</b>									
Annuity payment liability	21,149	-	-	-	-	-	-	-	21,149
Long-term debt	267,168	-	-	-	-	-	-	-	267,168
Liabilities of segments to be disposed	-	-	-	-	-	-	-	1,905,221	1,905,221
<i>Total non-current liabilities</i>	<u>288,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,905,221</u>	<u>2,193,538</u>
<i>Total liabilities</i>	<u>669,974</u>	<u>110,440</u>	<u>80,575</u>	<u>49,509</u>	<u>11,238</u>	<u>48,225</u>	<u>-</u>	<u>1,703,128</u>	<u>2,673,089</u>
<b>Net Assets:</b>									
Unrestricted	(71,792)	950,875	(23,246)	(51,998)	85,863	(54,733)	-	(930,718)	(95,749)
Temporarily restricted	54,940	67,446	1,000	2,500	58,296	75,231	-	(67,446)	191,967
Permanently restricted	-	776,460	-	102,054	-	-	-	(776,460)	102,054
<i>Total net assets</i>	<u>(16,852)</u>	<u>1,794,781</u>	<u>(22,246)</u>	<u>52,556</u>	<u>144,159</u>	<u>20,498</u>	<u>-</u>	<u>(1,774,624)</u>	<u>198,272</u>
<i>Total liabilities and net assets</i>	<u>\$ 653,122</u>	<u>\$ 1,905,221</u>	<u>\$ 58,329</u>	<u>\$ 102,065</u>	<u>\$ 155,397</u>	<u>\$ 68,723</u>	<u>\$ -</u>	<u>\$ (71,496)</u>	<u>\$ 2,871,361</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AF FILIATED AGENCIES**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2007

	United Health Services			Arthritis Society			Open Door Programs				Diabetes Association		
	Unrestricted	Temporarily		Unrestricted	Temporarily		Unrestricted	Restricted	Restricted	Total	Unrestricted	Temporarily	
		Restricted	Total		Restricted	Total						Restricted	Total
<b>Revenue, Gains, and Other Support:</b>													
United Way	\$ 13,571	\$ 10,500	\$ 24,071	\$ 541	\$ -	\$ 541	\$ 59	\$ -	\$ -	\$ 59	\$ 5,968	\$ 28,250	\$ 34,218
Contributions and bequests	5,591	-	5,591	-	-	-	26	-	-	26	19,357	-	19,357
Grants	58,390	-	58,390	-	-	-	-	-	-	-	31,052	-	31,052
Service fees	1,508,268	-	1,508,268	-	-	-	-	-	-	-	662	-	662
Investment income	18,147	-	18,147	1,899	-	1,899	4,575	-	5,252	9,827	6,323	-	6,323
Rental income, net	54,024	-	54,024	17,591	-	17,591	-	-	-	-	-	-	-
Special events	12,391	-	12,391	-	-	-	-	-	-	-	54,268	-	54,268
Contributed materials	-	-	-	-	-	-	-	-	-	-	56,516	-	56,516
Other income	3,590	-	3,590	-	-	-	-	-	-	-	30	-	30
Net assets released from restriction	13,361	(13,361)	-	1,000	(1,000)	-	2,500	(2,500)	-	-	66,518	(66,518)	-
<i>Total revenues, gains, and other support</i>	<u>1,687,333</u>	<u>(2,861)</u>	<u>1,684,472</u>	<u>21,031</u>	<u>(1,000)</u>	<u>20,031</u>	<u>7,160</u>	<u>(2,500)</u>	<u>5,252</u>	<u>9,912</u>	<u>240,694</u>	<u>(38,268)</u>	<u>202,426</u>
<b>Expenses and Losses:</b>													
Community services for the deaf	143,148	-	143,148	-	-	-	-	-	-	-	-	-	-
Mammogram services	134,097	-	134,097	-	-	-	-	-	-	-	-	-	-
Arthritis services	-	-	-	14,500	-	14,500	-	-	-	-	-	-	-
Diabetes services	-	-	-	-	-	-	-	-	-	-	230,514	-	230,514
Open door preschool	-	-	-	-	-	-	15,560	-	-	15,560	-	-	-
System point of entry	1,322,709	-	1,322,709	-	-	-	-	-	-	-	-	-	-
Hearing and speech services	-	-	-	-	-	-	-	-	-	-	-	-	-
Management and general	56,954	-	56,954	(273)	-	(273)	-	-	-	-	372	-	372
Fund raising	22,836	-	22,836	-	-	-	244	-	-	244	19,509	-	19,509
<i>Total functional expenses</i>	<u>1,679,744</u>	<u>-</u>	<u>1,679,744</u>	<u>14,227</u>	<u>-</u>	<u>14,227</u>	<u>15,804</u>	<u>-</u>	<u>-</u>	<u>15,804</u>	<u>250,395</u>	<u>-</u>	<u>250,395</u>
Inter-agency bad debt	9,191	-	9,191	-	-	-	-	-	-	-	-	-	-
<i>Total expenses and losses</i>	<u>1,688,935</u>	<u>-</u>	<u>1,688,935</u>	<u>14,227</u>	<u>-</u>	<u>14,227</u>	<u>15,804</u>	<u>-</u>	<u>-</u>	<u>15,804</u>	<u>250,395</u>	<u>-</u>	<u>250,395</u>
<b>Change in net assets</b>	(1,602)	(2,861)	(4,463)	6,804	(1,000)	5,804	(8,644)	(2,500)	5,252	(5,892)	(9,701)	(38,268)	(47,969)
Net assets, beginning of year	(71,792)	54,940	(16,852)	(23,246)	1,000	(22,246)	(51,998)	2,500	102,054	52,556	85,863	58,296	144,159
<i>Net assets, end of year</i>	<u>\$ (73,394)</u>	<u>\$ 52,079</u>	<u>\$ (21,315)</u>	<u>\$ (16,442)</u>	<u>\$ -</u>	<u>\$ (16,442)</u>	<u>\$ (60,642)</u>	<u>\$ -</u>	<u>\$ 107,306</u>	<u>\$ 46,664</u>	<u>\$ 76,162</u>	<u>\$ 20,028</u>	<u>\$ 96,190</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2007

	Hearing and Speech Center			Elimin- ations	Combined Totals			
	Temporarily				Temporarily		Permanently	
	Unrestricted	Restricted	Total		Unrestricted	Restricted	Restricted	Total
<b>Revenue, Gains, and Other Support:</b>								
United Way	\$ 2,099	\$ 98,671	\$ 100,770	\$ -	\$ 22,238	\$ 137,421	\$ -	\$ 159,659
Contributions and bequests	2,875	-	2,875	-	27,849	-	-	27,849
Grants	21,879	-	21,879	(8,879)	102,442	-	-	102,442
Service fees	144,989	-	144,989	-	1,653,919	-	-	1,653,919
Investment income	-	-	-	(11,430)	19,514	-	5,252	24,766
Rental income, net	-	-	-	-	71,615	-	-	71,615
Special events	10,396	-	10,396	-	77,055	-	-	77,055
Contributed materials	-	-	-	-	56,516	-	-	56,516
Other income	1,399	-	1,399	-	5,019	-	-	5,019
Net assets released from restriction	115,134	(115,134)	-	-	198,513	(198,513)	-	-
<i>Total revenues, gains, and other support</i>	<u>298,771</u>	<u>(16,463)</u>	<u>282,308</u>	<u>(20,309)</u>	<u>2,234,680</u>	<u>(61,092)</u>	<u>5,252</u>	<u>2,178,840</u>
<b>Expenses and Losses:</b>								
Community services for the deaf	-	-	-	(308)	142,840	-	-	142,840
Mammogram services	-	-	-	-	134,097	-	-	134,097
Arthritis services	-	-	-	(3,354)	11,146	-	-	11,146
Diabetes services	-	-	-	(47)	230,467	-	-	230,467
Open door preschool	-	-	-	(3,690)	11,870	-	-	11,870
System point of entry	-	-	-	-	1,322,709	-	-	1,322,709
Hearing and speech services	293,100	-	293,100	(4,031)	289,069	-	-	289,069
Management and general	4,441	-	4,441	(12,119)	49,375	-	-	49,375
Fund raising	12,682	-	12,682	-	55,271	-	-	55,271
<i>Total functional expenses</i>	<u>310,223</u>	<u>-</u>	<u>310,223</u>	<u>(23,549)</u>	<u>2,246,844</u>	<u>-</u>	<u>-</u>	<u>2,246,844</u>
Inter-agency bad debt	-	-	-	(9,191)	-	-	-	-
<i>Total expenses and losses</i>	<u>310,223</u>	<u>-</u>	<u>310,223</u>	<u>(32,740)</u>	<u>2,246,844</u>	<u>-</u>	<u>-</u>	<u>2,246,844</u>
<b>Change in net assets</b>	(11,452)	(16,463)	(27,915)	12,431	(12,164)	(61,092)	5,252	(68,004)
Net assets, beginning of year	(54,733)	75,231	20,498	20,157	(95,749)	191,967	102,054	198,272
<i>Net assets, end of year</i>	<u>\$ (66,185)</u>	<u>\$ 58,768</u>	<u>\$ (7,417)</u>	<u>\$ 32,588</u>	<u>\$ (107,913)</u>	<u>\$ 130,875</u>	<u>\$ 107,306</u>	<u>\$ 130,268</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2006

	United Health Services			Cancer Society				Arthritis Society			Open Door Programs			
	Temporarily			Temporarily		Permanently		Temporarily			Temporarily		Permanently	
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Restricted	Total	Unrestricted	Restricted	Total	Unrestricted	Restricted	Restricted	Total
<b>Revenue, Gains, and Other Support:</b>														
United Way	\$ 13,259	\$ -	\$ 13,259	\$ 7,516	\$ 28,332	\$ -	\$ 35,848	\$ 618	\$ -	\$ 618	\$ 678	\$ 12,278	\$ -	\$ 12,956
Contributions and bequests	11,449	-	11,449	25,751	15,293	-	41,044	165	-	165	603	-	-	603
Grants	-	11,345	11,345	2,623	5,000	-	7,623	-	1,000	1,000	25,420	-	-	25,420
Service fees	1,182,482	-	1,182,482	2,373	-	-	2,373	-	-	-	6,603	-	-	6,603
Investment income (loss)	14,164	-	14,164	134,803	1,339	45,661	181,803	32	-	32	4,651	-	6,826	11,477
Rental income	38,309	-	38,309	17,970	-	-	17,970	12,440	-	12,440	-	-	-	-
Special events	660	-	660	48,856	-	-	48,856	-	-	-	120	-	-	120
Educational events	-	-	-	34,237	30,907	-	65,144	-	-	-	-	-	-	-
Gain on sale of equipment	1,500	-	1,500	-	-	-	-	-	-	-	-	-	-	-
Other income	3,519	-	3,519	471	-	-	471	325	-	325	-	-	-	-
Net assets released from restriction	18,969	(18,969)	-	76,185	(76,185)	-	-	6,000	(6,000)	-	46,028	(46,028)	-	-
<i>Total revenues, gains, and other support</i>	<u>1,284,311</u>	<u>(7,624)</u>	<u>1,276,687</u>	<u>350,785</u>	<u>4,686</u>	<u>45,661</u>	<u>401,132</u>	<u>19,580</u>	<u>(5,000)</u>	<u>14,580</u>	<u>84,103</u>	<u>(33,750)</u>	<u>6,826</u>	<u>57,179</u>
<b>Expenses and Losses:</b>														
Community services for the deaf	149,679	-	149,679	-	-	-	-	-	-	-	-	-	-	-
Cancer services	8,969	-	8,969	286,165	-	-	286,165	-	-	-	-	-	-	-
Arthritis services	-	-	-	-	-	-	-	33,169	-	33,169	-	-	-	-
Diabetes services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Open door preschool	-	-	-	-	-	-	-	-	-	-	93,563	-	-	93,563
System point of entry	1,034,144	-	1,034,144	-	-	-	-	-	-	-	-	-	-	-
Hearing and speech services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mental health services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Management and general	90,100	-	90,100	11,202	-	-	11,202	3,049	-	3,049	7,465	-	-	7,465
Fund raising	1,749	-	1,749	23,564	-	-	23,564	-	-	-	1,234	-	-	1,234
<i>Total functional expenses</i>	<u>1,284,641</u>	<u>-</u>	<u>1,284,641</u>	<u>320,931</u>	<u>-</u>	<u>-</u>	<u>320,931</u>	<u>36,218</u>	<u>-</u>	<u>36,218</u>	<u>102,262</u>	<u>-</u>	<u>-</u>	<u>102,262</u>
Inter-agency bad debt	(43,327)	-	(43,327)	-	-	-	-	-	-	-	-	-	-	-
<i>Total expenses and losses</i>	<u>1,241,314</u>	<u>-</u>	<u>1,241,314</u>	<u>320,931</u>	<u>-</u>	<u>-</u>	<u>320,931</u>	<u>36,218</u>	<u>-</u>	<u>36,218</u>	<u>102,262</u>	<u>-</u>	<u>-</u>	<u>102,262</u>
Change in net assets from continuing operations	42,997	(7,624)	35,373	29,854	4,686	45,661	80,201	(16,638)	(5,000)	(21,638)	(18,159)	(33,750)	6,826	(45,083)
Discontinued operations:														
Change in net assets of disaffiliated agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Loss) on disaffiliation of agencies	(90,172)	-	(90,172)	-	-	-	-	-	-	-	-	-	-	-
<b>Change in net assets</b>	<u>(47,175)</u>	<u>(7,624)</u>	<u>(54,799)</u>	<u>29,854</u>	<u>4,686</u>	<u>45,661</u>	<u>80,201</u>	<u>(16,638)</u>	<u>(5,000)</u>	<u>(21,638)</u>	<u>(18,159)</u>	<u>(33,750)</u>	<u>6,826</u>	<u>(45,083)</u>
Net assets, beginning of year	(24,617)	62,564	37,947	921,021	62,760	730,799	1,714,580	(6,608)	6,000	(608)	(33,839)	36,250	95,228	97,639
<i>Net assets, end of year</i>	<u>\$ (71,792)</u>	<u>\$ 54,940</u>	<u>\$ (16,852)</u>	<u>\$ 950,875</u>	<u>\$ 67,446</u>	<u>\$ 776,460</u>	<u>\$ 1,794,781</u>	<u>\$ (23,246)</u>	<u>\$ 1,000</u>	<u>\$ (22,246)</u>	<u>\$ (51,998)</u>	<u>\$ 2,500</u>	<u>\$ 102,054</u>	<u>\$ 52,556</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2006

	Diabetes Association			Hearing and Speech Center			Mental Health Association				Eliminations	Combined Totals			
	Temporarily			Temporarily			Temporarily		Permanently			Temporarily			
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	Unrestricted	Restricted	Restricted	Total		Unrestricted	Restricted	Restricted	Total
<b>Revenue, Gains, and Other Support:</b>															
United Way	\$ 8,934	\$ 33,054	\$ 41,988	\$ 3,046	\$ 109,712	\$ 112,758	\$ 1,305	\$ -	\$ -	\$ 1,305	\$ (37,153)	\$ 26,535	\$ 155,044	\$ -	\$ 181,579
Contributions and bequests	5,739	8,175	13,914	11,879	-	11,879	8,635	-	-	8,635	(49,679)	29,835	8,175	-	38,010
Grants	-	36,626	36,626	1,000	15,750	16,750	7,300	-	-	7,300	(14,923)	26,420	64,721	-	91,141
Service fees	20	-	20	168,324	-	168,324	-	-	-	-	(2,373)	1,357,429	-	-	1,357,429
Investment income (loss)	13,166	-	13,166	-	-	-	2,219	-	-	2,219	(194,565)	21,470	-	6,826	28,296
Rental income	-	-	-	-	-	-	-	-	-	-	(56,704)	12,015	-	-	12,015
Special events	26,787	-	26,787	1,209	-	1,209	5,647	-	-	5,647	(54,503)	28,776	-	-	28,776
Educational events	-	-	-	-	-	-	-	-	-	-	(65,144)	-	-	-	-
Gain on sale of equipment	-	-	-	-	-	-	-	-	-	-	-	1,500	-	-	1,500
Other income	-	-	-	-	-	-	-	-	-	-	(471)	3,844	-	-	3,844
Net assets released from restriction	44,576	(44,576)	-	122,905	(122,905)	-	107,137	(19,750)	(87,387)	-	-	238,478	(238,478)	-	-
<i>Total revenues, gains, and other support</i>	<u>99,222</u>	<u>33,279</u>	<u>132,501</u>	<u>308,363</u>	<u>2,557</u>	<u>310,920</u>	<u>132,243</u>	<u>(19,750)</u>	<u>(87,387)</u>	<u>25,106</u>	<u>(475,515)</u>	<u>1,746,302</u>	<u>(10,538)</u>	<u>6,826</u>	<u>1,742,590</u>
<b>Expenses and Losses:</b>															
Community services for the deaf	-	-	-	-	-	-	-	-	-	-	(9,472)	140,207	-	-	140,207
Cancer services	-	-	-	-	-	-	-	-	-	-	(286,165)	8,969	-	-	8,969
Arthritis services	-	-	-	-	-	-	-	-	-	-	(3,552)	29,617	-	-	29,617
Diabetes services	110,952	-	110,952	-	-	-	-	-	-	-	(3,766)	107,186	-	-	107,186
Open door preschool	-	-	-	-	-	-	-	-	-	-	(8,565)	84,998	-	-	84,998
System point of entry	-	-	-	-	-	-	-	-	-	-	-	1,034,144	-	-	1,034,144
Hearing and speech services	-	-	-	295,185	-	295,185	-	-	-	-	(13,910)	281,275	-	-	281,275
Mental health services	-	-	-	-	-	-	51,277	-	-	51,277	(51,277)	-	-	-	-
Management and general	9,796	-	9,796	11,176	-	11,176	5,599	-	-	5,599	(8,166)	130,221	-	-	130,221
Fund raising	8,641	-	8,641	4,436	-	4,436	1,413	-	-	1,413	(24,977)	16,060	-	-	16,060
<i>Total functional expenses</i>	<u>129,389</u>	<u>-</u>	<u>129,389</u>	<u>310,797</u>	<u>-</u>	<u>310,797</u>	<u>58,289</u>	<u>-</u>	<u>-</u>	<u>58,289</u>	<u>(409,850)</u>	<u>1,832,677</u>	<u>-</u>	<u>-</u>	<u>1,832,677</u>
Inter-agency bad debt	-	-	-	-	-	-	-	-	-	-	43,327	-	-	-	-
<i>Total expenses and losses</i>	<u>129,389</u>	<u>-</u>	<u>129,389</u>	<u>310,797</u>	<u>-</u>	<u>310,797</u>	<u>58,289</u>	<u>-</u>	<u>-</u>	<u>58,289</u>	<u>(366,523)</u>	<u>1,832,677</u>	<u>-</u>	<u>-</u>	<u>1,832,677</u>
Change in net assets from continuing operations	(30,167)	33,279	3,112	(2,434)	2,557	123	73,954	(19,750)	(87,387)	(33,183)	(156,010)	(86,375)	(10,538)	6,826	(90,087)
Discontinued operations:															
Change in net assets of disaffiliated agencies	-	-	-	-	-	-	-	-	-	-	47,018	103,808	(15,064)	(41,726)	47,018
(Loss) on disaffiliation of agencies	-	-	-	-	-	-	4,591	-	-	4,591	(1,725,876)	(967,551)	(67,446)	(776,460)	(1,811,457)
<b>Change in net assets</b>	<u>(30,167)</u>	<u>33,279</u>	<u>3,112</u>	<u>(2,434)</u>	<u>2,557</u>	<u>123</u>	<u>78,545</u>	<u>(19,750)</u>	<u>(87,387)</u>	<u>(28,592)</u>	<u>(1,834,868)</u>	<u>(997,136)</u>	<u>(93,048)</u>	<u>(811,360)</u>	<u>(1,901,544)</u>
Net assets, beginning of year	116,030	25,017	141,047	(52,299)	72,674	20,375	(78,545)	19,750	87,387	28,592	60,244	901,387	285,015	913,414	2,099,816
<i>Net assets, end of year</i>	<u>\$ 85,863</u>	<u>\$ 58,296</u>	<u>\$ 144,159</u>	<u>\$ (54,733)</u>	<u>\$ 75,231</u>	<u>\$ 20,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,774,624)</u>	<u>\$ (95,749)</u>	<u>\$ 191,967</u>	<u>\$ 102,054</u>	<u>\$ 198,272</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2007

	Community Services <u>for the Deaf</u>	Mammogram Services	Arthritis Services	Diabetes Services	Open Door Preschool	First Steps/ System Point of Entry	Hearing and Speech Services	Manage- ment and General	Fund Raising	Elimin- ations	<i>Combined Totals</i>
Salaries and related	\$ 69,935	\$ 67,551	\$ 4,442	\$ 109,462	\$ 809	\$ 1,032,739	\$ 172,719	\$ 14,302	\$ -	\$ -	\$ 1,471,959
Contract labor	41,724	733	193	4,703	-	4,874	3,340	1,145	-	-	56,712
Transportation	9,728	884	20	628	-	67,218	1,984	569	-	-	81,031
Medical supplies	-	-	-	62,372	-	-	41,821	-	-	-	104,193
Professional fees	1,240	173	2,150	9,176	1,884	7,376	2,546	3,068	-	-	27,613
Rent	5,782	3,105	817	7,482	-	35,744	24,204	2,449	-	-	79,583
Postage	839	1,577	8	1,804	73	9,101	3,379	1,015	-	-	17,796
Office supplies	3,953	1,132	217	8,727	12	13,582	15,077	4,114	-	-	46,814
Telephone	2,046	1,159	561	1,136	-	26,694	1,153	1,155	-	-	33,904
Dues and subscriptions	364	-	-	418	-	-	1,110	1	-	-	1,893
Outside printing	419	406	229	6,326	213	8,223	3,746	1,108	-	-	20,670
Insurance	740	302	-	2,839	-	3,749	3,481	1,476	-	-	12,587
Building and grounds	992	533	149	1,365	-	3,491	4,151	471	-	-	11,152
Conference and meetings	67	205	14	254	-	2,628	306	210	-	-	3,684
Financial assistance	-	54,166	-	12,846	-	-	-	-	-	-	67,012
Bad debts	208	-	-	-	-	-	7,198	-	-	-	7,406
Educational supplies	-	-	-	557	-	-	2,001	-	-	-	2,558
Program expenses	-	2,013	-	-	-	97,629	-	-	-	-	99,642
Special events	-	-	-	-	-	-	-	-	47,682	-	47,682
Advertising and public relations	-	-	-	-	-	-	-	4,069	7,589	-	11,658
Interest	4,812	-	3,354	47	3,690	-	4,031	20,201	-	(11,430)	24,705
Depreciation	-	-	2,360	-	-	-	806	10,796	-	(3,240)	10,722
Miscellaneous	299	158	(14)	372	8,879	9,661	47	(4,655)	-	(8,879)	5,868
<i>Totals</i>	<u>\$ 143,148</u>	<u>\$ 134,097</u>	<u>\$ 14,500</u>	<u>\$ 230,514</u>	<u>\$ 15,560</u>	<u>\$ 1,322,709</u>	<u>\$ 293,100</u>	<u>\$ 61,494</u>	<u>\$ 55,271</u>	<u>\$ (23,549)</u>	<u>\$ 2,246,844</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2006

	Community Services <u>for the Deaf</u>	Cancer Services	Arthritis Services	Diabetes Services	Open Door Preschool	First Steps/ System Point of Entry	Hearing and Speech Services	Mental Health Services	Manage- ment and General	Fund Raising	Elimin- ations	<i>Combined Totals</i>
Salaries and related	\$ 57,753	\$ 115,939	\$ 6,973	\$ 50,618	\$ 74,621	\$ 831,413	\$ 198,251	\$ 36,718	\$ 31,395	\$ -	\$ (152,657)	\$ 1,251,024
Contract labor	60,080	26,663	40	4,200	-	-	1,307	-	126	-	(26,663)	65,753
Transportation	13,810	246	16	34	33	56,947	2,344	18	60	-	(264)	73,244
Medical supplies	-	162	-	22,013	-	-	48,634	-	-	-	(162)	70,647
Professional fees	1,228	17,355	4,046	2,903	2,467	5	2,185	1,343	10,491	-	(18,698)	23,325
Rent	6,240	17,247	1,206	4,272	5,595	24,590	13,827	2,222	5,130	-	(52,344)	27,985
Postage	728	4,849	15	667	251	7,379	1,487	205	471	-	(5,054)	10,998
Utilities	-	5,470	3,778	-	-	-	-	-	11,618	-	(5,470)	15,396
Office supplies	2,684	13,146	446	4,539	1,943	2,265	12,326	2,041	6,763	-	(15,187)	30,966
Telephone	1,886	2,175	723	1,488	926	26,902	1,453	576	1,812	-	(2,751)	35,190
Dues and subscriptions	28	529	1	101	10	-	406	9	11	-	(538)	557
Outside printing	505	4,107	-	731	739	-	2,999	115	537	-	(4,222)	5,511
Insurance	574	3,449	2,493	1,430	1,318	-	1,639	806	5,366	-	(4,255)	12,820
Building and grounds	82	11,339	7,861	105	-	-	341	-	24,142	-	(11,339)	32,531
Conference and meetings	275	4,027	-	175	40	-	(10)	280	-	-	(4,307)	480
Financial assistance	-	31,136	-	17,272	-	-	-	-	-	-	(22,167)	26,241
Bad debts	-	-	-	-	868	-	2,455	-	-	-	-	3,323
Educational supplies	-	1,106	-	-	469	-	285	-	-	-	(1,106)	754
Program expenses	-	30,716	-	-	-	83,779	1,751	3,781	-	-	(34,497)	85,530
Special events	-	-	-	-	-	-	-	-	-	28,981	(20,484)	8,497
Public relations	-	-	-	-	-	-	-	-	-	12,056	(4,493)	7,563
Interest	3,716	29	2,413	117	2,970	-	2,100	3,163	19,397	-	(14,508)	19,397
Depreciation	-	3,176	2,073	-	-	-	1,071	-	9,995	-	(6,416)	9,899
Miscellaneous	90	2,268	1,085	287	1,313	864	334	-	11,073	-	(2,268)	15,046
<i>Totals</i>	<u>\$ 149,679</u>	<u>\$ 295,134</u>	<u>\$ 33,169</u>	<u>\$ 110,952</u>	<u>\$ 93,563</u>	<u>\$ 1,034,144</u>	<u>\$ 295,185</u>	<u>\$ 51,277</u>	<u>\$ 138,387</u>	<u>\$ 41,037</u>	<u>\$ (409,850)</u>	<u>\$ 1,832,677</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF CASH FLOWS**  
Year Ended December 31, 2007

	United Health Services	Arthritis Society	Open Door Programs	Diabetes Association	Hearing and Speech Center	Eliminations	<i>Combined Totals</i>
<b>Change in Cash and Cash Equivalents:</b>							
Cash Flows from Operating Activities:							
Change in net assets	\$ (4,463)	\$ 5,804	\$ (5,892)	\$ (47,969)	\$ (27,915)	\$ 12,431	\$ (68,004)
Add (deduct) items not providing (requiring) cash:							
Depreciation	10,796	2,360	-	-	806	(3,240)	10,722
Bad debts	9,399	-	-	-	7,198	(9,191)	7,406
Net investment (gains)	(202)	-	-	(37)	-	-	(239)
(Increase) in accounts receivable and inter-agency advances	(73,425)	-	-	(2,060)	(19,803)	83,377	(11,911)
(Increase) decrease in contributions receivable	(5,250)	-	-	2,402	8,016	-	5,168
(Increase) in prepaid expenses	(4,492)	-	-	(925)	(1,594)	-	(7,011)
(Increase) in beneficial interest in assets held by others	-	-	(5,252)	-	-	-	(5,252)
Increase (decrease) in accounts payable, accrued liabilities, and inter-agency advances	(1,054)	23,056	11,133	807	33,292	(83,079)	(15,845)
(Decrease) in unearned rent income	(55,901)	(30,960)	-	-	-	-	(86,861)
Increase in deferred revenue	34,061	-	-	-	-	-	34,061
Decrease in assets of segments to be disposed	-	-	-	-	-	1,904,928	1,904,928
(Decrease) in liabilities of segments to be disposed	-	-	-	-	-	(1,905,221)	(1,905,221)
<i>Net cash provided by (used in) operating activities</i>	<u>(90,531)</u>	<u>260</u>	<u>(11)</u>	<u>(47,782)</u>	<u>-</u>	<u>5</u>	<u>(138,059)</u>
Cash Flows from Investing Activities:							
Purchase of certificates of deposits and investments	(74,980)	(260)	-	(55,021)	-	-	(130,261)
Proceeds from sale of investments	<u>22,486</u>	<u>-</u>	<u>-</u>	<u>105,447</u>	<u>-</u>	<u>-</u>	<u>127,933</u>
<i>Net cash provided by (used in) investing activities</i>	<u>(52,494)</u>	<u>(260)</u>	<u>-</u>	<u>50,426</u>	<u>-</u>	<u>-</u>	<u>(2,328)</u>
Cash Flows from Financing Activities:							
Payments on long-term debt	<u>(6,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,900)</u>
<i>Net cash (used in) financing activities</i>	<u>(6,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,900)</u>
<b>Net change in cash and cash equivalents</b>	(149,925)	-	(11)	2,644	-	5	(147,287)
Cash and cash equivalents, beginning of year	<u>175,437</u>	<u>-</u>	<u>11</u>	<u>26,833</u>	<u>-</u>	<u>-</u>	<u>202,281</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 25,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,477</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 54,994</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**STATEMENT OF CASH FLOWS**  
Year Ended December 31, 2006

<b>Change in Cash and Cash Equivalents:</b>	<u>United</u> <u>Health</u> <u>Services</u>	<u>Cancer</u> <u>Society</u>	<u>Arthritis</u> <u>Society</u>	<u>Open Door</u> <u>Programs</u>	<u>Diabetes</u> <u>Association</u>	<u>Hearing</u> <u>and Speech</u> <u>Center</u>	<u>Mental</u> <u>Health</u> <u>Association</u>	<u>Eliminations</u>	<u>Combined</u> <u>Totals</u>
<b>Cash Flows from Operating Activities:</b>									
Change in net assets	\$ (54,799)	\$ 80,201	\$ (21,638)	\$ (45,083)	\$ 3,112	\$ 123	\$ (28,592)	\$ (1,834,868)	\$ (1,901,544)
Add (deduct) items not providing (requiring) cash:									
Depreciation	9,995	3,176	2,073	-	-	1,071	-	(6,416)	9,899
Bad debts	(43,327)	-	-	868	-	2,455	-	43,327	3,323
(Gain) on sale of equipment	(1,500)	-	-	-	-	-	-	-	(1,500)
Net investment (gains)	(1,907)	(78,835)	-	-	(9,747)	-	-	78,835	(11,654)
(Increase) decrease in accounts receivable and inter-agency advances	(25,624)	1,683	-	2,735	-	4,165	1,905	(21,062)	(36,198)
(Increase) decrease in contributions receivable	9,500	(1,166)	5,000	33,750	(1,527)	(7,352)	16,750	(15,584)	39,371
(Increase) decrease in prepaid expenses	(5,625)	(865)	-	-	187	(3,118)	385	480	(8,556)
(Increase) decrease in beneficial interests in assets held by others	-	(46,999)	-	(6,826)	-	-	87,387	(40,388)	(6,826)
Increase (decrease) in accounts payable, accrued liabilities, and inter-agency advances	(6,783)	(14,398)	3,330	14,567	34	2,656	(77,835)	107,104	28,675
Increase in unearned rent income	185,842	86,284	59,735	-	-	-	-	(86,284)	245,577
(Increase) in assets of segments to be disposed	-	-	-	-	-	-	-	(45,367)	(45,367)
Increase (decrease) in liabilities of segments to be disposed	-	-	-	-	-	-	-	1,788,832	1,788,832
<i>Net cash provided by (used in) operating activities</i>	<u>65,772</u>	<u>29,081</u>	<u>48,500</u>	<u>11</u>	<u>(7,941)</u>	<u>-</u>	<u>-</u>	<u>(31,391)</u>	<u>104,032</u>
<b>Cash Flows from Investing Activities:</b>									
Purchase of investments	(114,491)	(647,486)	(36,000)	-	(85,730)	-	-	647,486	(236,221)
Proceeds from sale of investments	2,816	599,493	-	-	101,237	-	-	(599,493)	104,053
Advances on inter-agency notes receivable	-	-	-	-	12,500	-	-	(12,500)	-
Proceeds from sale of equipment	1,500	-	-	-	-	-	-	-	1,500
Purchase of property and equipment	(9,228)	(5,492)	-	-	-	-	-	5,492	(9,228)
<i>Net cash provided by (used in) investing activities</i>	<u>(119,403)</u>	<u>(53,485)</u>	<u>(36,000)</u>	<u>-</u>	<u>28,007</u>	<u>-</u>	<u>-</u>	<u>40,985</u>	<u>(139,896)</u>
<b>Cash Flows from Financing Activities:</b>									
Payments on note payable, bank	(45,000)	-	-	-	-	-	-	-	(45,000)
Proceeds from long-term debt	280,000	-	-	-	-	-	-	-	280,000
Payments on long-term debt	(5,932)	-	-	-	-	-	-	-	(5,932)
Borrowing on inter-agency notes payable	-	-	(12,500)	-	-	-	-	12,500	-
<i>Net cash provided by financing activities</i>	<u>229,068</u>	<u>-</u>	<u>(12,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,500</u>	<u>229,068</u>
<b>Net change in cash and cash equivalents</b>	175,437	(24,404)	-	11	20,066	-	-	22,094	193,204
Cash and cash equivalents, beginning of year	-	71,914	-	-	6,767	-	-	(69,604)	9,077
<i>Cash and cash equivalents, end of year</i>	<u>\$ 175,437</u>	<u>\$ 47,510</u>	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 26,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,510)</u>	<u>\$ 202,281</u>

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

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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**NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES (the Organization) provide health-related social services. The Organization's operations are primarily supported by contributions from United Way of St. Joseph County and the public, service fees, and governmental grants. The 2007 financial statements include the following commonly-managed entities:

- United Health Services of St. Joseph County, Inc. (United Health Services), which includes Community Services of the All Deaf and Mammogram Assistance
- Arthritis Society of St. Joseph County, Inc. (Arthritis Society)
- St. Joseph County Society for Crippled Children and Adults, Inc. (Open Door Programs)
- Diabetes Association of St. Joseph County, Inc. (Diabetes Association)
- Hearing and Speech Center of St. Joseph County, Inc. (Hearing and Speech Center)

The 2006 financial statements also include Cancer Society of St. Joseph County, Inc. (Cancer Society) and Mental Health Association of St. Joseph County, Inc. (Mental Health Association). As discussed in Note 2, these two entities disaffiliated from the other entities in 2006 and, consequently, are not included in the 2007 financial statements.

**Significant Accounting Policies:**

*Use of estimates:*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The costs of providing the programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

*Combination:*

The Organization operates under affiliate agreements that authorize United Health Services to assume responsibility for the ongoing daily operation and management of the affiliate agencies and for the affiliate agencies to pay a proportionate share of United Health Services' operating expenses. Each affiliate appoints two representatives to United Health Services' Board of Directors. All inter-organization balances and transactions have been eliminated in the accompanying financial statements.

*Net asset classes:*

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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The Organization reports its financial position and activities by the following classes of net assets:

*Unrestricted net assets* are those currently available for use.

*Temporarily restricted net assets* are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

*Permanently restricted net assets* represent beneficial interests in assets held by others that are permanently restricted by the donors. Investment earnings available for distribution and current use are recorded in unrestricted net assets.

*Cash and cash equivalents:*

The Organization considers time deposits, certificates of deposit, and all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. However, funds held in investment accounts that are temporarily invested in cash equivalents are not considered cash equivalents.

*Accounts and contributions receivable:*

Accounts receivable for program services and other activities are stated at the outstanding principle balance, net of any charge-offs and an allowance for uncollectibles. Contributions receivable are stated at the outstanding principle balance, net of any discount for contributions expected to be collected in more than one year and an allowance for uncollectibles.

The Organization provides allowances for uncollectibles based upon the specific identification of accounts and contributions receivable where collection is no longer deemed probable and an allowance based upon the level of total accounts and contributions receivable balances. In determining the allowances, management evaluates the payment history and other known information for individual accounts or pledges, historical losses, and current economic conditions. Individual accounts are charged-off against the allowance in the period that the receivable is deemed uncollectible. Recoveries of receivables previously charged-off are recorded as income in the period received. The Organization does not generally charge interest on its accounts or contributions receivable.

*Investments and beneficial interest in assets held by others:*

Investments and the beneficial interest in assets held by others are stated at fair value, and realized and unrealized gains and losses are included in investment income in the statements of activities. The specific identification method is used to determine the cost basis for realized gains and losses. Fair value is estimated using quoted market prices. Beneficial interests in split-interest agreements are recorded at the present value of expected future payments based upon mortality factors and expected rates of return.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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The Organization recognizes its beneficial rights in assets held by others unless the donor has granted the recipient organization variance power. However, if the Organization is both the donee and the beneficiary of the assets, those rights are recognized even if the recipient organization has been granted variance power.

*Gifts and grants:*

The Organization reports gifts and grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 are reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not included as revenue until the conditions are substantially met. Unearned amounts received on unconditional promises are reported as deferred revenue in the statements of financial position.

Donated materials are recorded at estimated market value. The Organization received \$56,516 and none in donated materials in 2007 and 2006, respectively, which are reported in the accompanying financial statements. Donated services are recognized if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair value. No amounts have been recognized in the accompanying financial statements for donated services. However, the Organization receives a substantial amount of donated services from volunteers that have not been recognized in the accompanying financial statements because the criteria for recognition have not been met.

*Property and equipment:*

Property and equipment is stated at cost, if acquired, or at fair market at the date of receipt, if donated. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets, generally twenty years for buildings and improvements and from three to eight years for furniture and equipment.

*Charitable gift annuities:*

Obligations incurred under charitable gift annuity agreements are recognized at the present value of future expected cash flows expected to be paid over the life or lives of

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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beneficiaries. The difference between the fair value of assets received under the agreement and the obligation is recognized as contribution revenue. Adjustments to the liability for amortization of the discount and changes in the life expectancy of the beneficiaries are recognized in the statements of activities.

*Rental income:*

Rental income is recognized ratably over the term of the related lease. Rents received in advance are reported as a liability in the statements of financial position as "unearned rent income."

*Income taxes:*

The Organizations are exempt from income tax under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana Code, except for tax on unrelated businesses income. Consequently, the accompanying financial statements generally do not include any provision for income taxes. The Internal Revenue Service classifies the Organizations as other than private foundations under Internal Revenue Code Section 509(a)(1).

*Reclassifications:*

Certain revenues in the 2006 statement of activities have been reclassified to conform to classifications used in the 2007 statements. Such reclassifications had no effect on the change in net assets for the year ended December 31, 2006.

**NOTE 2. DISAFFILIATIONS**

In 2006, the Board of Directors of Mental Health Association elected to disaffiliate with United Health Services effective June 30, 2006. Also in 2006, the Board of Directors of Cancer Society elected to disaffiliate with United Health Services effective December 31, 2006. Consequently, the accompanying 2007 statement of financial position reports no assets, liabilities, or net assets for Cancer Society or Mental Health Association. The accompanying 2006 statement of financial position reports no assets, liabilities, or net assets for Mental Health Association and reports the assets, liabilities, and net assets of Cancer Society in the combined totals as "assets of segments to be disposed" and "liabilities of segments to be disposed." Details of the assets and liabilities so reported are as follows:

<i>Assets:</i>	
Cash and cash equivalents	\$ 47,510
Investments	997,414
Property and equipment	37,602
Beneficial interests in assets held by others	800,913
Other	<u>21,489</u>
<i>Total assets to be disposed</i>	<u>\$ 1,904,928</u>

*Liabilities:*

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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Accounts payable and accrued liabilities	\$ 24,156
Unearned rent income	86,284
Net assets	<u>1,794,781</u>
<i>Total liabilities to be disposed</i>	<u>\$ 1,905,221</u>

The accompanying statement of activities for the year ended December 31, 2006 reports the net change in assets of the two disaffiliated agencies as ÷change in net assets of disaffiliated agenciesö and the loss from the disaffiliations as ÷loss on disaffiliation of agencies.ö Revenues and expenses of the two disaffiliated agencies are not included in the combined totals of revenues and expenses in the 2006 statements of activities.

**NOTE 3. INVESTMENTS**

Investments consist of the following at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Money market funds	\$ 1,447	\$ 156,003
Bonds	-	9,710
Fixed income mutual funds	20,507	13,246
Equity mutual funds	<u>49,746</u>	<u>140,174</u>
<i>Total investments</i>	<u>\$ 71,700</u>	<u>\$ 319,133</u>

Investment income consists of the following for the years ended December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Interest and dividends on investments	\$ 14,700	\$ 5,987
Net investment gains	239	11,654
Increase in beneficial interest in assets held by others	9,827	11,477
Investment management fees	<u>-</u>	<u>(822)</u>
<i>Net investment income</i>	<u>\$ 24,766</u>	<u>\$ 28,296</u>

**NOTE 4. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE**

Accounts receivable are stated net of an allowance for uncollectibles of \$8,295 and \$3,665 at December 31, 2007 and 2006, respectively. Contributions receivable at December 31, 2007 and 2006 consist of unconditional promises to give, all of which are expected to be collected in the next year and for which no allowance for uncollectibles is considered necessary.

At December 31, 2007, the Organization had received approximately \$363,000 of conditional promises to give under cost-reimbursement grants in excess of allowable costs incurred. Such promises will be recognized as revenue if and when allowable costs are incurred.

**NOTE 5. PROPERTY AND EQUIPMENT**

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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The cost of property and equipment and the related accumulated depreciation are as follows at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 15,058	\$ 15,058
Building and improvements	402,430	402,430
Furniture and equipment	<u>65,591</u>	<u>64,039</u>
	483,079	481,527
Less accumulated depreciation	<u>(394,242)</u>	<u>(381,968)</u>
<i>Net property and equipment</i>	<u>\$ 88,837</u>	<u>\$ 99,559</u>

The following is a summary of property on lease discussed in Note 10 that is included in the above amounts at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 15,058	\$ 15,058
Building and improvements	<u>402,430</u>	<u>402,430</u>
	417,488	417,488
Less accumulated depreciation	<u>(335,725)</u>	<u>(327,654)</u>
<i>Net property on lease</i>	<u>\$ 81,763</u>	<u>\$ 89,834</u>

**NOTE 6. BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS**

Beneficial interests in assets held by others consist of an irrevocable trust for which Open Door Programs is the beneficiary, and under which it receives a portion of trust income, with principal held in perpetuity. Increases of \$9,827 and \$11,477 in the trust's value for the years ended December 31, 2007 and 2006, respectively, are included in investment income. Distributions of \$4,575 and \$4,651 from the trust were received in the years ended December 31, 2007 and 2006, respectively.

**NOTE 7. DEBT**

The Organization has a \$50,000 bank line of credit facility, with interest based at one point above bank prime and collateralized by all the assets of United Health Services and a mortgage and assignment of rents on that entity's interest in the Organization's facilities. No borrowings were outstanding on the line at either December 31, 2007 or 2006.

Long-term debt consists of a bank note, collateralized by a mortgage on the Organization's facilities and is due in monthly payments of \$2,219, including interest at 7.18%, through January 2011, with a balloon payment due at that time. Following are maturities of long-term debt for each of the next four years and in the aggregate at December 31, 2007:

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2007 and 2006

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2008	\$	7,363
2009		7,973
2010		8,574
2011		<u>243,258</u>
	\$	<u>267,168</u>

**NOTE 8. RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
For future periods:		
St. Joseph Regional Medical Center:		
Community Services for the Deaf	\$ -	\$ 1,000
Arthritis Society	-	1,000
Diabetes Association	-	5,500
Open Door programs	-	2,500
Hearing and Speech Center	-	2,500
United Way:		
Community Services for the Deaf	5,250	-
Diabetes Association	14,125	16,527
Hearing and Speech Center	49,365	57,352
Bowsher-Booher, Open Door pre-school	-	3,250
Hearing and Speech Center	<u>307</u>	<u>2,753</u>
	<u>69,047</u>	<u>92,382</u>
For specific purposes:		
Assistance of blind	27,821	27,821
Cancer patients financial aid	19,008	26,119
Diabetes patients financial aid	5,903	6,468
Diabetes education	-	29,801
Hearing and Speech early on program	2,370	2,650
Hearing equipment upgrades	<u>6,726</u>	<u>6,726</u>
	<u>61,828</u>	<u>99,585</u>
<i>Total temporarily restricted net assets</i>	<u>\$ 130,875</u>	<u>\$ 191,967</u>

Permanently restricted net assets represent beneficial interests in assets held by others in perpetuity, as discussed in Note 6, for the Open Door Programs.

Net assets were released from donor restrictions by the expiration of time or by incurring expenses satisfying restricted purposes as follows for the years ended December 31, 2007 and 2006, respectively:

	<u>2007</u>	<u>2006</u>
Expiration of time restrictions:		
Community Services for All Deaf	\$ 6,250	\$ 10,000
Arthritis Society	1,000	6,000

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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Diabetes Association	36,152	36,527
	<u>2007</u>	<u>2006</u>
Open Door programs	2,500	46,028
Hearing and Speech Center	<u>114,854</u>	<u>110,046</u>
	<u>160,756</u>	<u>208,601</u>
Satisfaction of program restrictions:		
Cancer patient programs	7,111	8,969
Diabetes Society programs	30,366	8,049
Hearing and Speech programs	<u>280</u>	<u>12,859</u>
	<u>37,757</u>	<u>29,877</u>
 <i>Total net assets released from restriction</i>	 <u>\$ 198,513</u>	 <u>\$ 238,478</u>

**NOTE 9. PENSION PLAN**

The Organization maintains a defined-contribution pension plan, covering employees at least 21 years of age who have completed at least 1,000 hours of work per year for two consecutive years. The Organization contributed 2% and 5% of eligible employees' annual compensation to the plan for the years ended December 31, 2007 and 2006, respectively. Pension expense was \$30,823 and \$42,189 for the years ended December 31, 2007 and 2006, respectively.

**NOTE 10. LEASE INFORMATION**

In 2006, the Organization entered into a noncancelable two-year lease to rent its facilities to another nonprofit organization through November 2008 for a lump-sum rent of \$346,290. The lessee may renew the lease for an additional two-year period for a lump-sum rent of \$373,450. The Organization is responsible for operating costs of the facility, limited annually to \$83,630. The Organization must annually deposit \$83,630 into a separate bank account from which they will pay operating costs. At both December 31, 2007 and 2006, the amount of cash and cash equivalents so restricted is \$61,886. Because the lessee paid the entire rent in advance, no future rent payments for the initial two-year term will be received. Minimum future rental income to be recognized under the lease as of December 31, 2007 is \$158,716.

The Organization leases facilities and equipment under operating leases expiring in various years through 2010. Minimum future rental payments under non-cancelable operating leases as of December 31, 2007 for each of the next three years and in the aggregate are as follows:

2008	\$ 68,089
2009	44,932
2010	<u>3,216</u>
<i>Total minimum future rental payments</i>	<u>\$ 116,237</u>

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

---

Total rent expense was \$92,647 and \$27,984 for the years ended December 31, 2007 and 2006, respectively.

**NOTE 11. SUBSEQUENT EVENT**

Subsequent to December 31, 2007, the Organization was notified that its "First Steps" grant, which comprised approximately 59% of total revenues for the year ended December 31, 2007, would not be renewed effective April 1, 2008. Subsequent to December 31, 2007, management implemented measures that reduced expenses directly related to the non-renewed grant and reduced additional management and general expenses that totaled approximately 62% of total 2007 revenues on an annualized basis.

**NOTE 12. CONTINUING DEFICITS**

The Organization has incurred deficits in each of the last several years and at December 31, 2007 has an unrestricted net asset deficit of \$107,913. Management's plans to alleviate the current and future deficits include working to renew the lease on its former facilities discussed in Note 10 and working to obtain additional sources of revenue and making further reductions in expenses. Management is in negotiations with the tenant of the facilities discussed in Note 10 to renew the lease. However, there can be no assurance that management will be successful in obtaining a lease renewal or in sufficiently increasing revenues or reducing expenses so as to eliminate the unrestricted net asset deficit or future deficits. In management's opinion, the Organization has sufficient liquidity to sustain operations through mid-2009 even if it is unsuccessful in implementing its plans.

**NOTE 13. CONTINGENCIES**

In 2007, the Organization charged certain costs to a federal award that may have violated the cost requirements applicable to the award, resulting in questioned costs of approximately \$18,000. Also, in 2006, the Organization may not have met the documentation requirements to support charges to a federal award, resulting in questioned costs of approximately \$39,000. The granting agency may request a refund of some or all of the questioned costs involved. The ultimate effect of the actions of the awarding agency relative to these instances of possible noncompliance cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made in the accompanying financial statements.

**NOTE 14. CONCENTRATIONS**

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation. At December 31, 2007, the Organization had cash on deposit with one financial institution that exceeded the insurance limit of the Federal Deposit Insurance Corporation by approximately \$227,000.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. AND AFFILIATED AGENCIES**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2007 and 2006

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The Organization's funding sources and activities are concentrated in St. Joseph County, Indiana. Consequently, contributions and other sources of support and revenue may be affected by conditions in that area. In addition, of combined revenues for the years ended December 31, 2007 and 2006, approximately 59% and 57%, respectively, were received from the State of Indiana for the First Steps grant and approximately 7% and 10%, respectively, were received from United Way of St. Joseph County. As discussed in Note 11, subsequent to December 31, 2007, the Organization was notified by the funding source that its First Steps grant would not be renewed effective April 1, 2008.

**NOTE 15. SUPPLEMENTAL CASH FLOWS INFORMATION**

The Organization paid interest of \$24,705 and \$19,397 for the years ended December 31, 2007 and 2006, respectively.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2007

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<b><u>Federal Grantor/Pass-Through Grantor/ Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Grantor's Agreement Number</u></b>	<b><u>Federal Expenditures</u></b>
 <u>U. S. Department of Education</u>			
Passed-Through Indiana Family and Social Services Administration:			
Special Education-Grants for Infants and Families	84.181A	71-04-FS-0650	\$ 1,320,608
 <u>U. S. Department of Health and Human Services</u>			
Passed-Through Indiana State Department of Health:			
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	BCC-638-1	<u>72,007</u>
 <i>Total</i>			 <u>\$ 1,392,615</u>

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The accompanying notes are an integral part of this schedule.

**UNITED HEATH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended December 31, 2007

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activities of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. (the "Organization") and is presented in conformity with accounting principles generally accepted in the United States of America. The information in the schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2. SUBRECIPIENTS**

The Organization provided no federal awards to subrecipients during the year ended December 31, 2007.



**INDEPENDENT AUDITOR'S 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 HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.  
South Bend, Indiana

We have audited the financial statements of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. (the "Organization") as of and for the year ended December 31, 2007, and have issued our report thereon dated November 19, 2008. 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 Organization's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 07-1 through 07-7 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that

might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider finding 07-7 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding 07-8.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Cullen & Associates, P.C.*

November 19, 2008



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

To the Board of Directors  
UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.  
South Bend, Indiana

**Compliance**

We have audited the compliance of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The Organization'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 Organization's management. Our responsibility is to express an opinion on the Organization'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 Organization'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 Organization's compliance with those requirements.

In our opinion, UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is identified in the accompanying schedule of findings and questioned costs as finding 07-9.

**Internal Control over Compliance**

The management of UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with 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, 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 Organization's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 07-9 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Organization's response to the findings identified in our audit is described in the accompanying auditee's response and corrective action plan. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, the Indiana State Board of Accounts, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Cullen & Associates, P.C.*

November 19, 2008

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**Section 1-Summary of Auditor's Results**

*Financial Statements Audit*

Type of auditor's report issued-	Unqualified
Internal control over financial reporting-	
• Significant deficiencies identified?	Yes
• Material weaknesses identified?	Yes
Noncompliance material to financial statements noted?	No

*Major Federal Awards Program Audit*

Internal control over major programs-	
• Significant deficiencies identified?	Yes
• Material weaknesses identified?	No
Type of auditor's report issued on compliance for major programs-	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

*Identification of Major Programs*

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.181A	Special Education-Grants for Infants and Families
Dollar threshold used to distinguish between type A and type B programs-	\$300,000
Auditee qualified as low-risk auditee?	No

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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**Section 2 – Findings in Financial Statements Audit**

SIGNIFICANT DEFICIENCIES

FINDING 07-1

*Statement of Condition:*

The Director of Finance picks up the mail, prepares the cash receipts log, and maintains the general ledger. Although another employee watches him open the mail, this does not constitute a reliable two-person mail opening system.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

*Effect of Condition:*

The Director of Finance could steal cash receipts before he returns to the office and cover it up through his access to the general ledger with little risk of detection.

*Recommendation:*

We recommend that management prohibit the Director of Finance from picking up mail and that they develop a complete two-person mail opening system. Two employees should jointly open all mail, restrictively endorse all checks, and log the checks into the daily cash receipts log. They should both sign the log to document the control. One of the employees should take the checks and a copy of the signed log to the employee responsible for deposits. The other employee should take a copy of the signed log to the Director of Finance, who later verifies that the bank deposit receipt agrees to the signed daily cash receipts log.

FINDING 07-2

*Statement of Condition:*

The Director of Finance occasionally opens bank statements before they are opened and reviewed by the Executive Director when he does not have time to wait for the Director to open and review them.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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*Effect of Condition:*

The Executive Director's timely review of cancelled checks each month is a key control to prevent forged check fraud. The Director of Finance's override of controls indicates noncompliance with a key control procedure over cash and increases the risk of undetected forged checks.

*Recommendation:*

We recommend that the Director of Finance not override internal controls and that the Executive Director open and review all bank statements before giving them to the Director of Finance.

FINDING 07-3

*Statement of Condition:*

The Director of Finance collected, deposited, and recorded the cash collected at two special events during the year and stated that he threw away the supporting documentation.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

*Effect of Condition:*

The Director of Finance could steal cash receipts from special events and cover it up through his access to the general ledger with little risk of detection

*Recommendations:*

We recommend that two employees jointly collect, count, and log cash at special events. One of the employees should take the checks to the employee responsible for deposits. The other employee should take a copy of the signed log to the Director of Finance, who later verifies that the bank deposit receipt agrees to the signed special event cash receipts log.

FINDING 07-4

*Statement of Condition:*

The Director of Finance handles all communication with the outside payroll service and receives and opens all payroll service reports.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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*Effect of Condition:*

The Director of Finance has the opportunity to improperly alter information he provides it to the outside payroll service and then conceal it through his receipt and access to the subsequent records.

*Recommendations:*

We recommend that the Director of Programs open, review, and sign all the outside payroll service reports in a similar manner to that of the bank and investments accounts.

FINDING 07-5

*Statement of Condition:*

The Organization does not have a policy requiring that all employees involved in finance take at least five consecutive days of vacation each year, with someone else performing their duties during the absence.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

*Effect of Condition:*

This policy helps prevent employees from concealing fraudulent accounting schemes and also assists cross-training employees.

*Recommendations:*

We recommend that management adopt and enforce a vacation policy requiring finance employees to take at least five consecutive days of vacation each year.

FINDING 07-6

*Statement of Condition:*

The Organization commingled cash held in an agency capacity with its own cash and used part of it during the year.

*Criteria:*

OMB Circular A-110 Subpart C Section .21(b)(3) requires that a recipient's financial management system provide "effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes."

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

---

*Effect of Condition:*

The Organization's checking account balance dropped below the cash amount it was holding on behalf of a third party.

*Recommendations:*

We recommend that management adopt a policy that prevents borrowing restricted cash and requires that cash received from third-parties be held in a segregated account.

**MATERIAL WEAKNESS**

*FINDING 07-7*

*Condition:*

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organization's financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this because, as the independent auditor, we are not considered to be part of the Organization's internal control.

*Criteria:*

Internal controls should be in place to provide reasonable assurance that all transactions are properly recorded and that financial statements are complete, including related disclosures.

*Effect:*

The overall financial statements, including disclosures, would not be completely in accordance with U.S. generally accepted accounting principles without our assistance.

*Recommendations:*

We recommend that accounting staff take such training courses on nonprofit accounting principles as necessary to develop a sufficient understanding of those principles to either completely comply with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2007

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NONCOMPLIANCE

FINDING 07-8

*Statement of Condition:*

As discussed in finding 07-9, the Organization charged a federal award for retirement expenses in excess of amounts allowable under OMB Circular A-122.

UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2007

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**Section 3 – Findings in Major Federal Award Program Audit**

**U.S. DEPARTMENT OF EDUCATION  
Passed-Through Indiana Family and Social Services Administration:  
CFDA Number 84.181A  
Special Education-Grants for Infants and Families**

QUESTIONED  
COSTS

FINDING 07-9

*Condition:*

The Organization billed the award for accrued discretionary retirement benefits at 5% of eligible wages during the year. Subsequent to year-end, the Board of Directors reduced the benefit to 2% of wages for all employees. However, the difference of 3% charged to the award was paid to those employees whose wages were charged to the award as additional payroll rather than reimbursing the grantor for the over-accrued retirement benefits.

*Criteria:*

Paragraph A.2.c of Attachment A to OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, requires that charges to awards be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the Organization.

*Effect:*

\$18,195 of personnel costs are questioned as a result of failing to charge the federal award the same rate of benefit as other programs in accordance with Circular A-122.

\$18,195

*Cause:*

Management was not familiar with this provision of Circular A-122. The Director of Finance stated that he believed the Organization owed the employees the additional 3% of compensation charged to the award.

*Recommendation:*

We recommend that management take additional training in the provisions of Circular A-122 and make sure to follow its provisions in charging costs to federal awards.

*Total questioned costs*

\$18,195

UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2007

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**Financial Statement Findings**

None

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended December 31, 2007

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**Federal Award Findings**

**U.S. DEPARTMENT OF EDUCATION**  
**Passed-Through Indiana Family & Social Services Administration**  
**CFDA Number 84.181A**  
**First Steps Early Intervention System**

**FINDING 06-1**

*Condition:*

A random sample of personnel charges to the award from three pay periods was selected. Our tests disclosed that out of eighty-four individual personnel charges to the award, three were not supported by personnel activity reports and sixteen were supported by activity reports that were not signed by either the employee or a supervisor. The total charges involved were \$39,234, out of \$176,862 of charges in the sample. Total personnel charges to the award were \$831,413.

*Recommendation:*

We recommend that the Program Manager and Director of Finance review time sheets for proper documentation prior to charging them to awards.

*Current Status:*

The recommendation was adopted. No similar finding was noted in the 2007 audit.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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United Health Services of St. Joseph County, Inc. respectfully submits the following response and corrective action plan for the year ended December 31, 2007.

Contact Information of Independent Public Accounting Firm:

Richard J. Cullar, CPA  
Cullar & Associates, PC, Certified Public Accountants  
209 North Main Street, Suite 200  
South Bend, IN 46601  
(574)-288-8320  
[RCullar@Cullar.com](mailto:RCullar@Cullar.com)

Contact Information of Auditee:

Joseph Belting, Director of Finance  
United Health Services of St. Joseph County, Inc.  
6910 North Main Street  
Bldg. 9 - Mail Unit 10  
Granger, IN 46530  
(574) 247-6047  
jbelting@uhs-in.org

**SECTION 2 – FINDINGS IN FINANCIAL STATEMENTS AUDIT**

SIGNIFICANT DEFICIENCIES

FINDING 07-1

*Statement of Condition:*

The Director of Finance picks up the mail, prepares the cash receipts log, and maintains the general ledger. Although another employee watches him open the mail, this does not constitute a reliable two-person mail opening system.

*Recommendation:*

We recommend that management prohibit the Director of Finance from picking up mail and that they develop a complete two-person mail opening system. Two employees should jointly open all mail, restrictively endorse all checks, and log the checks into the daily cash receipts log. They should both sign the log to document the control. One of the employees should take the checks and a copy of the signed log to the employee responsible for deposits. The other employee should take a copy of the signed log to the Director of Finance, who later verifies that the bank deposit receipt agrees to the signed daily cash receipts log.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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*Auditee's Response:*

Mail is opened by Director of Finance in the presence of another employee, checks are restrictively endorsed by the second employee who runs an adding machine tape of all checks. A deposit log is completed by the Director of Finance and the second employee compares the log total to the tape, signs and dates the log attaching the tape to the log. This has been done ever since the consolidation of the accounting clerk and receptionist positions. The accounting clerk who enters all receipts into the general ledger is not permitted to assist in the mail opening or deposit totaling.

At the time of this audit the only item missing was the Director's signature on the log. If this had been considered a deficiency and noted as such over the course of the prior audits this would have been corrected previously. The Director of Finance began cosigning the log after the auditor noted his reservation.

Due to the downsizing of personnel over the last 12 months there are insufficient personnel to devote two employees outside the Director of Finance to document daily deposits.

FINDING 07-2

*Statement of Condition:*

The Director of Finance occasionally opens bank statements before they are opened and reviewed by the Executive Director when he does not have time to wait for the Director to open and review them.

*Recommendation:*

We recommend that the Director of Finance not override internal controls and that the Executive Director open and review all bank statements before giving them to the Director of Finance.

*Auditee's Response:*

Director of Finance agrees to wait for Director of Programming to open and sign off on all bank statements.

FINDING 07-3

*Statement of Condition:*

The Director of Finance collected, deposited, and recorded the cash collected at two special events during the year and stated that he threw away the supporting documentation.

*Recommendations:*

We recommend that two employees jointly collect, count, and log cash at special events. One of the employees should take the checks to the employee responsible for deposits. The other

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

---

employee should take a copy of the signed log to the Director of Finance, who later verifies that the bank deposit receipt agrees to the signed special event cash receipts log.

*Auditee's Response:*

At least two individuals counted receipts at each special event prior to the Director of Finance completing the deposit log. No official forms exist for documenting cash collected at special events nor are any scanners, copy machines or adding machines available at event sites to record these receipts. The supporting documentation referred to above consisted of calculations on scrap paper which was disposed of after comparing to the completed deposit log.

The Director of Finance recognizes the shortcoming of not having at least one other counter sign off on the deposit log. This will be done for all future events.

FINDING 07-4

*Statement of Condition:*

The Director of Finance handles all communication with the outside payroll service and receives and opens all payroll service reports.

*Recommendations:*

We recommend that the Director of Programs open, review, and sign all the outside payroll service reports in a similar manner to that of the bank and investments accounts.

*Auditee's Response:*

Since this deficiency was brought to our attention the Director of Programming has been complying with all recommendations. Moreover it should be noted that a member of the UHS Board of Directors has reviewed the salary of all department heads and above at least annually.

FINDING 07-5

*Statement of Condition:*

The Organization does not have a policy requiring that all employees involved in finance take at least five consecutive days of vacation each year, with someone else performing their duties during the absence.

*Recommendations:*

We recommend that management adopt and enforce a vacation policy requiring finance employees to take at least five consecutive days of vacation each year.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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*Auditee's Response:*

Director of Finance and Director of Programming agree to require all financial employees to take at least five consecutive days off at least once annually.

FINDING 07-6

*Statement of Condition:*

The Organization commingled cash held in an agency capacity with its own cash and used part of it during the year.

*Recommendations:*

We recommend that management adopt a policy that prevents borrowing restricted cash and requires that cash received from third-parties be held in a segregated account.

*Auditee's Response:*

The Director of Finance and Executive Director met with the principal and financial consultant of the third party who agreed that the interest being credited to the third party was substantially better than what they could receive from another source. Further, subsequent to 12/31/07 the funds of the third party were segregated in a separate money market account.

**MATERIAL WEAKNESS**

FINDING 07-7

*Condition:*

As part of our audit, we proposed adjustments relating to complex accounting standards and drafted the Organization's financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely comply with such standards or to prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of our audit function, new professional standards require that we now communicate this because, as the independent auditor, we are not considered to be part of the Organization's internal control.

*Recommendations:*

We recommend that accounting staff take such training courses on nonprofit accounting principles as necessary to develop a sufficient understanding of those principles to either completely comply with U.S. generally accepted accounting principles or to be able to request assistance from another accounting firm when circumstances require.

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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*Auditee's Response:*

Continuing education as it relates to compliance with U.S. generally accepted accounting principles will be an ongoing goal of the Finance Department. Steps will be taken by the Director of Finance to utilize outside consultants when complex issues arise.

**SECTION 3 – FINDINGS IN MAJOR FEDERAL AWARD PROGRAM AUDIT**

**U.S. DEPARTMENT OF EDUCATION**

**Passed-Through Indiana Family and Social Services Administration:**

**CFDA Number 84.181A**

**Special Education-Grants for Infants and Families**

FINDING 07-9

*Condition:*

The Organization billed the award for accrued discretionary retirement benefits at 5% of eligible wages during the year. Subsequent to year-end, the Board of Directors reduced the benefit to 2% of wages for all employees. However, the difference of 3% charged to the award was paid to those employees whose wages were charged to the award as additional payroll rather than reimbursing the grantor for the over-accrued retirement benefits.

*Recommendation:*

We recommend that management take additional training in the provisions of Circular A-122 and make sure to follow its provisions in charging costs to federal awards.

*Auditee's Response:*

Director of Finance agrees that First Steps employees were not paid at a level consistent with that of other UHS employees; they were paid significantly less than non-federal grant employees although at the maximum amount available under the Federal contract ceiling.

The auditors referred to the following A-122 principles:

•To be allowable under an award, costs must meet the following general criteria: í be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.ö

Allowability: Except as otherwise specifically provided in this paragraph, the costs of such compensation are allowable to the extent that: (1) Total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities;ö

While matching responsibilities exactly is not possible, consider the following for comparative purposes:

**UNITED HEALTH SERVICES OF ST. JOSEPH COUNTY, INC.**  
**AUDITEE'S RESPONSE AND CORRECTIVE ACTION PLAN**  
Year Ended December 31, 2007

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First Steps Program Director with a Masters Degree in Speech Language Pathology is paid 97% of the two Hearing & Speech staff SLP. Neither staff SLP manages any other employee; the First Steps Program Director manages 35 employees.

Of the next five highest paid First Steps employees, two have Masters Degrees, four have a minimum of 4 employees each reporting to them and work 37.5 hours per week. The head of the Breast and Cervical Cancer Program for UHS has a Bachelors Degree and four employees reporting to her and works 35 hour per week. The five First Steps employees receive compensation between 78% and 91% of the UHS employee.

öCertain conditions require special consideration and possible limitations in determining costs under Federal awards where amounts or types of compensation appear unreasonable. (2) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it was concurrent with an increase in the ratio of Federal awards to other activities of the organizationí ö

It is management's contention that the 3% retirement paid as compensation was not an increase for First Steps employees or against the Federal contract but rather maintaining the status quo from the beginning of the contract year. At worst it could only be considered a reduction to the non-Federal contract employees.