COHEN
RUTHERFORD
+ KNIGHT PC
Certified Public Accountants

Unity Health Care, Inc.

Financial and Compliance Report

December 31, 2012

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Contents

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Independent Auditor's Report

To the Board of Directors
Unity Health Care, Inc.
Washington, District of Columbia

We have audited the accompanying balance sheet of Unity Health Care, Inc. (the "Center") as of December 31, 2012, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of December 31, 2012, and the results of its operations and changes in its net assets and cash flows for the year end ended in conformity with accounting principles generally accepted in the United States of America.

6903 Rockledge Drive, Suite 500, Bethesda, MD 20817 **Tel:** 301.828.1000 **Fax:** 301.530.3625

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Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying financial statements are those of Unity Health Care, Inc. (parent company), and are not those of the primary reporting entity. The consolidated financial statements of Unity Health Care, Inc. and its subsidiaries have been issued as the financial statements of the primary reporting entity.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and 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* in considering the Center's internal control over financial reporting or compliance.

Emphasis of a Matter

As described in *Note 18*, the Center changed its presentation of revenues and provision for bad debts as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Healthcare Entities*.

Cohen, Rutherford + Knight, P.C.

May 31, 2013
Bethesda, Maryland

Unity Health Care, Inc.

Balance Sheet
December 31, 2012

ASSETS		
Current Assets:		
Cash and cash equivalents	$	5,900,855
Patient services receivable, net		15,491,331
Contracts receivable		3,925,208
Prepaid expenses and other current assets		783,363
Total current assets		26,100,757
Property and Equipment:		
Land		2,723,572
Building		40,760,721
Leasehold improvements		21,117
Furniture and equipment		10,003,690
Vehicles		574,539
Construction-in-progress		59,530
		54,143,169
Less accumulated depreciation and amortization		10,769,149
Net property and equipment		43,374,020
Loan receivable		18,426,844
Other assets		560,152
Total assets	$	88,461,773
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current Liabilities:		
Medical claims payable	$	1,210,309
Accounts payable and accrued expenses		2,335,974
Accrued compensation and related benefits		4,317,582
Current maturities of long-term debt		1,068,014
Total current liabilities		8,931,879
Long-Term Debt, less current maturities		10,786,150
Other Long-Term Liabilities		653,977
Total liabilities		20,372,006
Commitments and Contingencies		
Unrestricted net assets - General		67,511,340
Temporarily restricted net assets		578,427
Total net assets		68,089,767
Total liabilities and net assets	$	88,461,773

See Notes to Financial Statements.

Unity Health Care, Inc.

Statement of Operations and Changes in Net Assets
Year Ended December 31, 2012

Unrestricted Revenue:	
Patient service revenue (net of contractual allowances and discounts)	$ 46,394,686
Provision for bad debts	(1,283,708)
Net patient service revenue	45,110,978
DHHS grants	10,087,717
Contract services	11,530,328
Department of Corrections contract	23,600,580
Contributions	3,518,939
Other	851,255
Total unrestricted revenue	94,699,797
Expenses:	
Salaries and wages	57,703,559
Consultants and contractual fees	6,938,842
Fringe benefits	10,459,604
Occupancy and utilities	4,075,990
Consumable supplies	3,228,924
Telephone	1,763,488
Depreciation and amortization	2,466,364
Laboratory and radiology	4,035,593
Information technology	696,830
Equipment rental, repairs and maintenance	665,639
Professional fees	845,505
Miscellaneous	403,027
Insurance	469,189
Printing, postage and publications	289,484
Staff training and education	261,774
Travel, conferences and meetings	201,318
Dues and subscriptions	258,734
Donated services and materials	74,513
Interest	383,836
Health promotion	45,108
Total expenses	95,267,321
Excess expenses over revenue	(567,524)
DHHS grants for capital expenditures	2,392,657
Contributed capital - *Note 16*	30,213,760
Increase in unrestricted net assets	$ 32,038,893

See Notes to Financial Statements.

Unity Health Care, Inc.

Statement of Changes in Net Assets
Year Ended December 31, 2012

Unrestricted Net Assets		
Excess expenses over revenue	$	(567,524)
Other changes in unrestricted net assets		32,606,417
Increase in unrestricted net assets		32,038,893
Temporarily Restricted Net Assets		
Temporarily restricted contributions		578,427
Net assets released from restriction		(383,131)
Increase in temporarily net assets		195,296
Increase in net assets		32,234,189
Net Assets at Beginning of Year		35,855,578
Net Assets at End of Year	$	68,089,767

See Notes to Financial Statements.

Unity Health Care, Inc.

Statement of Cash Flows
Year Ended December 31, 2012

Cash Flows From Operating Activities:		
Increase in net assets	$	32,234,189
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation		2,377,186
Amortization of deferred finance charges		89,178
Provision for bad debts		1,283,708
Grants/contributions for capital expenditures		(17,967,533)
Donated assets		(14,638,884)
Changes in operating assets and liabilities:		
Increase in patient services receivable		(2,861,153)
Decrease in contracts receivable		1,794,877
Increase in prepaid expenses and other current assets		(468,017)
Increase in other assets		(134,799)
Decrease in accounts payable and accrued expenses		(2,037,428)
Decrease in medical claims payable		(65,375)
Increase in accrued compensation and related benefits		1,034,057
Decrease in refundable advances		(750,000)
Increase in other long-term liabilities		59,623
Net cash used in operating activities		(50,371)
Cash Flows from Investing Activities:		
Purchase of property and equipment		(917,997)
Increase in loan receivable		(18,426,844)
Net cash used in investing activities		(19,344,841)
Cash Flows From Financing Activities:		
Proceeds from long-term debt		4,086,989
Principal payments of long-term debt		(733,871)
Cash paid for deferred financing costs		20,000
Cash received for capital expenditures		17,967,533
Net cash provided by financing activities		21,340,651
Net increase in cash and cash equivalents		1,945,439
Cash and Cash Equivalents:		
Beginning		3,955,416
Ending	$	5,900,855
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest, including capitalized interest	$	383,926
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Assets under capital lease	$	181,000
Donation of capital assets	$	14,638,884

See Notes to Financial Statements.

Note 1. Organization

Unity Health Care, Inc. (the "Center") was incorporated as a not-for-profit healthcare agency dedicated to providing primary healthcare, disease prevention, health promotion, mental health, outreach, HIV, and case management services to the homeless and medically indigent of Washington, D.C. The Center's mission is to provide accessible, quality healthcare in a cost-effective manner through a coordinated service delivery. The Center's role is to help empower clients to improve their lives regardless of financial circumstances, ethnic background, race, creed or color.

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

The Center was awarded a fixed price contract to provide or arrange for certain inpatient hospital and specialty services for persons in the custody of the District of Columbia Department of Corrections ("DOC"). The DOC contract was effective October 16, 2006 and has been extended through September 2013.

The accompanying financial statements are those of Unity Health Care, Inc. only and are not those of the primary reporting entity. The consolidated financial statements of Unity Health Care, Inc. and its subsidiaries have been issued as the financial statements of the primary reporting entity.

Note 2. Significant Accounting Policies

Basis of Presentation: The Center classifies its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. Temporarily restricted net assets are restricted to provide specific services for specific sites.

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at December 31, 2012.

Results of Operations: The statement of operations and changes in net assets includes the excess of expenses over revenue and support that represent the results of operations. Changes in unrestricted net assets which are excluded from excess of expenses over revenue and support, consistent with industry practice, includes contributions of long-lived assets (including contributed assets which by donor restriction are to be used for the purpose of acquiring such assets).

Note 2. Significant Accounting Policies (Continued)

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

Cash and Cash Equivalents: The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. All highly liquid investments held with maturities of three months or less, when purchased, are considered to be cash equivalents.

Contracts Receivable: Contracts receivable reflect amounts earned but not yet collected which the Center expects to realize.

Patient Services Receivable: The collection of receivables from third-party payers and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payer has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient accounts receivables from third-party payers are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payers.

Accounts receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payers and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts pay due when they are outstanding beyond sixty days with no payment. The Center generally does not charge interest on past due accounts. Patient accounts receivables are written off as bad debt expense when deemed uncollectible. Recoveries of patient accounts receivables previously written off are recorded as a reduction of bad debt expense when received. The allowance for doubtful accounts was $7,634,001 at December 31, 2012.

Property and Equipment: Property and equipment is recorded at cost or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which range from three to forty years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment equal to or in excess of $5,000.

According to federal regulations, any equipment items obtained through federal funds are subject to a lien by the federal government. As long as the Center maintains its tax-exempt status, or so long as the equipment is used for its intended purpose, the Center is not required to reimburse the federal government. If the stated requirements are not met, the Center would be obligated to the federal government in an amount equal to the fair value of the equipment.

Medical Claims Payable: Medical claims payable include estimates of payments to be made on claims reported and estimates of healthcare services rendered, as well as claim adjustment expenses, as of December 31, 2012, and is based on past experience. Medical claims payable estimates are reviewed and adjusted periodically and, as adjustments are made, differences are included in current operations.

Note 2. Significant Accounting Policies (Continued)

Patient Services Revenue: Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded based on published charges less charitable allowances.

Grant Revenue: Grants are recognized as revenue when earned. Expense reimbursement based grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred.

At December 31, 2012, the Center has received grants from governmental entities that have not been recorded in these financial statements as they have not been earned. These grants require the Center to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants. Grants awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating support during the fiscal year in which the assets are acquired.

Contract Revenue: Contract revenue is recognized as revenue when the related services are provided.

Contributions: Contributions, some of which are multi-year, are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they have donor stipulations that limit the use of the donated asset. Bequests are recognized when the probate court declares the will valid. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions.

Tax Status: The Center was incorporated as a not-for-profit corporation under the laws of the District of Columbia and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. In addition, the Center is not classified as a private foundation.

The Center files a Form 990 (Return of Organization Exempt from Income Taxes) with the Internal Revenue Service. Tax positions taken on the Form 990 are tax positions that may be subject to uncertainty regarding the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to tax-exempt organizations are the tax-exempt status of the entity and various positions relative to potential sources of unrelated business taxable income.

A tax-exempt organization that has more than $1,000 of gross income from any unrelated business must file the Internal Revenue Service form 990-T. The Center intends to file a Form 990-T for its 2012 tax year prior to the final extended deadline of November 15, 2013.

Note 2. Significant Accounting Policies (Continued)

The benefit of a tax position is recognized in the financial statements in the period during which, based on available evidence, management believes it is more likely than not the tax position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At December 31, 2012, there were no unrecognized tax benefits identified or recorded as liabilities.

Subsequent Events: Management has evaluated subsequent events through May 31, 2013, the date that the financial statements were available to be issued.

Note 3. Net Patient Services Revenue

The Center has agreements with third-party payers which provide for reimbursement to the Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at list price and the amounts reimbursed by Medicare, Medicaid and certain other third-party payers, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the basis of reimbursement with major third-party payers follows:

Medicare: The Center is paid or patient care services rendered to Medicare program beneficiaries primarily under contractual agreements with the Centers for Medicare and Medicaid Services and with third-party Medicare Advantage plans. The majority of the Center's Medicare reimbursement is paid on a per encounter basis, according to a cost-based reimbursement system, with a cap for health centers in urban communities. For the year ended December 31, 2012, the Center recognized approximately 8% of net patient services revenue from services provided to Medicare patients.

Medicaid: The Center is paid for patient services rendered to Medicaid program beneficiaries primarily under contractual agreements with third-party Medicaid managed care organizations, with payments based on a fee scale applicable to the service provided. Additional wraparound reimbursement, paid by the District of Columbia Department of Healthcare Finance, is paid on a per encounter basis to result in a net per visit payment equal to a prospectively set rate adjusted annually for inflation. For the year ended December 31, 2012, the Center recognized approximately 79% of net patient services revenue from services provided to Medicaid patients.

Other Third Party: The Center has also entered into reimbursement agreements with certain non-Medicare and non-Medicaid commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per visit rates. For the year ended December 31, 2012, the Center recognized approximately 10% of net patient services revenue from services provided to these other third-party payers.

Note 3. Net Patient Services Revenue (Continued)

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Note 4. Charity Care and Social Accountability

The Center is a not-for-profit healthcare provider established to meet the healthcare needs of a largely medically underserved population. The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Center maintains records to identify and monitor the level of charity care it provides. The amount of charity care provided based on the charges of the Center during the year ended December 31, 2012 was approximately $5,000,000. The cost associated with this care was approximately $4,800,000 in 2012. The cost of uncompensated care includes both direct and indirect costs, and is calculated based on the ratio of cost to charges.

Note 5. Concentrations of Credit Risk

The mix of net patient accounts receivable from patient services and third-party payers is as follows:

Medicaid and Medicaid managed care	91	%
Other third-party payers	4	
Medicare	4	
Self-pay	1	
	100	%

Note 6. Contracts Receivable

Contracts receivable consist of the following at December 31:

Department of Corrections	$	1,966,715
Alliance Pharmacy Program		200,000
Alliance Contract		809,356
Women, Infants, and Children		452,204
Ryan White Title I		183,848
Ryan White Title II		73,505
Other		239,580
	$	3,925,208

Note 7. Long-term Debt

Long-term debt consists of the following:

The Center entered into a loan payable with a face amount of $2,000,000 on June 19, 2009. The loan requires monthly payments of principal and interest of $37,037, which includes interest at 4.25%. The note matures on June 5, 2014. The loan is collaterized by a blanket lien on patient accounts receivable and certain equipment.	$	619,030
The Center entered into a loan payable with a face amount of up to $8,000,000 on February 1, 2010. The loan requires monthly payments of principal and interest. Interest is payable at the London Interbank Offered Rate ("LIBOR") plus 2.5%, with a floor of 3.5% and a ceiling of 9%. The interest rate was 3.5% at December 31, 2012 and 2011. The note matures on February 17, 2015. The loan is collaterized by the deed of trust on the Upper Cardozo property located at 3020 14th Street NW, Washington, DC and revenues of the Center, excluding restricted grants and revenue from Health Right, Inc.		7,090,266
The Center entered into a loan payable with a face amount of $4,000,000 on December 17, 2012. The loan requires monthly payments of principal and interest. Interest is payable at the London Interbank Offered Rate ("LIBOR") plus 2.5%, with a floor of 3.5%. The interest rate was 3.5% at December 31, 2012. The note matures on February 17, 2015. The loan is collaterized by the deed of trust on the Upper Cardozo property located at 3020 14th Street NW, Washington, DC and revenues of the Center, excluding restricted grants and revenue from Health Right, Inc.		4,000,000
Capital lease obligation		144,868
		11,854,164
Less current maturities		1,068,014
Long-term debt, less current maturities	$	10,786,150

The aggregate amounts of principal payments on long-term debt during the years following December 31, 2012 are as follows:

Year ending December 31,		
2013	$	1,068,014
2014		822,029
2015		9,964,121
2016		-
2017		-
Thereafter		-
	$	11,854,164

Note 8. Line of Credit

The Center had a line of credit with a face amount of $3,000,000, which was due and payable by August 5, 2012, the date the agreement expired. The line of credit was secured by a blanket lien on patient accounts receivable and certain equipment. This agreement required interest to be charged at 4.25% per annum. There was no outstanding balance as of December 31, 2012. On August 13, 2012 the Center increased the line of credit to $5,000,000 and the new agreement will expire on February 17, 2015.

Note 9. Functional Expenses

Expenses were incurred and allocated as follows:

Program services	$	73,692,631
Supporting services		21,559,553
	$	95,252,184

Note 10. Contract Services

For the year ended December 31, 2012, contract services revenue consists of the following:

Alliance Contract	$	3,236,976
Alliance Pharmacy Program		2,400,000
Women, Infants, and Children		1,406,996
Ryan White Title I		1,207,348
Ryan White Title II		463,660
Ballou High School		330,717
Woodson High School		327,691
Supportive Housing Program		188,355
CDC Grant		149,816
Tuberculosis Program		158,463
Pathway to Housing		139,274
State Grant		76,422
Other		1,444,610
	$	11,530,328

Note 11. Retirement Plans

The Center has a defined contribution deferred annuity plan (the "Plan") covering all regular full-time employees. The Center contributes to the Plan up to 2% of an employee's base salary. Contributions to the Plan amounted to $855,793 for the year ended December 31, 2012.

Note 12. Deferred Compensation

The Center established an Executive 457(b) Retirement Plan (the "457 Plan"). The 457 Plan is a deferred compensation plan under Section 457(b) of the Internal Revenue Code. The 457 Plan provides deferred compensation benefits for management and highly compensated employees. Deferred compensation amounted to $218,434 for the year ended December 31, 2012. Assets and liabilities related to the 457 Plan are included in other assets and in other long-term liabilities, respectively, on the balance sheet.

Note 13. Investment in Subsidiaries

Health Right, Inc. ("HRI"), a for-profit subsidiary, was incorporated on November 1, 1996 under the applicable provisions of the District of Columbia's Business Corporation Act. HRI was organized to engage in the business of providing managed healthcare services under the laws of the District of Columbia and any other jurisdictions in which it shall qualify to do business as a managed care organization or similar healthcare entity.

The District of Columbia Department of Health Care Finance's ("DHCF") contracts with HRI to provide healthcare services for the District's DC Healthy Families (Medicaid) and Alliance populations expired on April 30, 2010. HRI was notified in a letter dated April 1, 2010 of DHCF's intent not to exercise Option Year Two of the contract. The contract with DHCF provided approximately 93% of HRI's revenues.

As a result of the nonrenewal of the DHCF contract, substantial doubt existed about HRI's ability to continue as a going concern and all services were terminated.

Unity-Parkside Property, Inc. (Parkside) is a District of Columbia non-profit corporation established during August 2012 to participate in the Internal Revenue Service's New Market Tax Credit program to finance construction of a new health care facility for the community. Parkside is controlled by the Center.

Note 14. Operating Leases

The Center leases facility space under noncancelable operating leases. Aggregate space costs for the year ended December 31, 2012 amounted to $2,579,379, including utilities and other common charges.

Minimum future lease payments under these noncancelable operating leases are as follows:

Year ending December 31,		
2013	$	1,742,661
2014		1,673,070
2015		1,655,193
2016		1,513,563
2017		1,234,946
Thereafter		307,961
	$	8,127,394

Note 15. Information Concerning Parent and Subsidiaries

The Center performs certain management and administrative services on behalf of its subsidiaries without compensation.

Note 16. Commitments and Contingencies

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

Note 16. Commitments and Contingencies (Continued)

Malpractice Risk: The Center is deemed an employee of the federal government for purposes of malpractice protection and is thus covered under the Federal Tort Claims Act ("FTCA"). The FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities.

The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

Regulatory Investigation: The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and other compliance audits of healthcare providers. The Center is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Center's financial position or results of operations.

Patient Protection and Affordable Care and Reconciliation Act: The Reconciliation Act amends various provisions of the Patient Protection and Affordable Care Act and adds some new provisions that were not originally included. The Center is not able to determine what impact this legislation may have on its operations.

Litigation: The Center has been named in various litigation claims in the normal course of its operations. Management, after taking into consideration legal counsel's evaluation, is of the opinion that these matters will not have a material adverse effect on the Center's financial statements. Accordingly, no loss provision has been made in the financial statements.

Note 17. Recent Pronouncements

In July 2011, the FASB issued ASU 2011-7, "*Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*." ASU 2011-7 requires healthcare organizations to present their provision for doubtful accounts related to patient service revenue as a deduction from revenue, similar to contractual discounts. In addition, all healthcare organizations will be required to provide certain disclosures designed to help users understand how contractual discounts and bad debts affect recorded revenue in both interim and annual financial statements. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012. Management adopted this accounting change during 2012.

Unity Health Care, Inc.

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Health Center Cluster:			
Consolidated Health Centers	93.224	N/A	$ 7,819,288
ARRA - Capital Improvement Program	93.703	N/A	47,414
ARRA - Facility Investment Program	93.703	N/A	2,345,243
Total Health and Human Services Cluster			10,211,945
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	617,546
Family Planning Services	93.217	N/A	1,650,888
Passed through District of Columbia Department of Health:			
HIV Emergency Relief Project Grants	93.914	2 H89HA00012-22-00	1,207,348
HIV Prevention Activities: Health Department Based	93.940	5U62PS323517-07	149,816
HIV Care Formula Grants	93.917	X07HA00045	463,660
Total U.S. Department of Health and Human Services			14,301,203
U.S. Department of Agriculture:			
Passed through District of Columbia Department of Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (2)	10.557	1DC700700	7,777,822
Total U.S. Department of Agriculture			7,777,822
Total expenditures of federal awards			$ 22,079,025

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

(2) Nonmonetary assistance is reported in the schedule at the fair market value of the WIC checks received. The total federal share of food instruments distributed by the Center amounted to $6,370,826, and is included in the schedule of expenditures of federal awards.

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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
Unity Health Care, Inc.
Washington, District of Columbia

We have audited the financial statements of Unity Health Care, Inc. (the "Center") as of and for the year ended December 31, 2012, and have issued our report thereon dated May 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting
In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Cohen, Rutherford + Knight, P.C.

May 31, 2013
Bethesda, Maryland

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Certified Public Accountants

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
Unity Health Care, Inc.
Washington, District of Columbia

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

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

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

Internal Control over Compliance
Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

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

Cohen, Rutherford + Knight, P.C.

May 31, 2013
Bethesda, Maryland

Unity Health Care, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

SECTION I - Summary of Auditor's Results

Financial Statements		
Type of Auditor's Report Issued:	Unqualified	
Internal Control Over Financial Reporting:		
Material Weakness(es) Identified?	____ Yes	✓ None reported
Significant Deficiency(ies) Identified Not Considered To Be Material Weaknesses?	____ Yes	✓ None reported
Noncompliance Material to Financial Statements Noted?	____ Yes	✓ No
Federal Awards		
Internal Control Over Major Programs:		
Material Weakness(es) Identified?	____ Yes	✓ No
Significant Deficiency(ies) Identified Not Considered To Be Material Weaknesses?	____ Yes	✓ None reported
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 Circular A-133, Section .510(a)?	____ Yes	✓ No

Identification of Major Programs:

CFDA Number(s)	PROGRAM TITLE
93.224	U.S. Department of Health and Human Services: Grants to Health Center Programs
93.703	U.S. Department of Health and Human Services: Grants to Health Center Programs
93.918	U.S. Department of Health and Human Services: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.914	U.S. Department of Health and Human Services: HIV Emergency Relief Project Grants

Dollar Threshold Used to Distinguish between Type A and Type B Programs:	$662,371	
Auditee Qualified as Low-Risk Auditee?	✓ Yes	____ No

SECTION II - Financial Statement Findings

No matters were reported

SECTION III - Federal Award Findings And Questioned Costs

No matters were reported