



**Financial Statements
June 30, 2011 and 2010**

**Together with
Independent Auditors' Report**

THE UNITY CARE GROUP
TABLE OF CONTENTS
June 30, 2011

	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8 - 9
Notes to Financial Statements	10 – 24
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	27 – 28
Schedule of Expenditures of Federal Awards	29
Notes to the Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31 - 35



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Unity Care Group
San Jose, California

We have audited the accompanying statements of financial position of The Unity Care Group (the "Organization"), a California public benefit corporation, as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, 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 State 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Organization as of June 30, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

To the Board of Directors of
The Unity Care Group
San Jose, California

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. 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 audits 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

 Robert Lee & Associates, LLP

San Jose, California
August 23, 2011

THE UNITY CARE GROUP
Statements of Financial Position
For the Year Ended June 30, 2011

	June 30,	
	2011	2010
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 816,894	\$ 1,061,189
Accounts receivable, net	962,616	929,749
Investments	162,550	135,730
Prepaid expenses	74,920	65,972
Contributions receivable - use of facility, net	107,568	170,544
Total current assets	2,124,548	2,363,184
Property and equipment, net	5,986,379	5,542,204
Non-current assets:		
Contributions receivable - use of facility, net	734,931	754,037
Deposits	27,450	30,338
Total assets	\$ 8,873,308	\$ 8,689,763
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 53,071	\$ 111,008
Accrued expenses	531,194	657,191
Note payable to related party	-	60,000
Housing and flexible fund reimbursements	140,370	179,633
Capital leases payable	10,476	12,560
Notes payable	40,989	38,630
Reimbursement payable to HUD	300,000	155,000
Total current liabilities	1,076,100	1,214,022
Non-current liabilities:		
Capital leases payable	35,064	4,462
Notes payable	3,680,660	5,572,453
Reimbursement payable to HUD	174,919	474,919
Total non-current liabilities	3,890,643	6,051,834
Total liabilities	4,966,743	7,265,856
Net assets:		
Unrestricted	594,437	478,645
Temporarily restricted	3,312,128	945,262
Total net assets	3,906,565	1,423,907
Total liabilities and net assets	\$ 8,873,308	\$ 8,689,763

The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Program service fees	\$ 8,532,314	\$ 25,000	\$ 8,557,314
City of San Jose grant	-	2,527,143	2,527,143
Contributions	76,541	-	76,541
Special event	44,750	-	44,750
Investment income	30,093	-	30,093
In-kind contributions	49,666	-	49,666
Rental income	17,205	-	17,205
Net assets released from restrictions	185,277	(185,277)	-
Total support and revenues	<u>8,935,846</u>	<u>2,366,866</u>	<u>11,302,712</u>
Expenses:			
Program expenses	<u>7,271,796</u>	<u>-</u>	<u>7,271,796</u>
Supporting services:			
General and administrative	1,190,410	-	1,190,410
Fundraising	357,848	-	357,848
Total supporting services	<u>1,548,258</u>	<u>-</u>	<u>1,548,258</u>
Total expenses	<u>8,820,054</u>	<u>-</u>	<u>8,820,054</u>
Change in net assets	115,792	2,366,866	2,482,658
Net assets, beginning of year	<u>478,645</u>	<u>945,262</u>	<u>1,423,907</u>
Net assets, end of year	<u>\$ 594,437</u>	<u>\$ 3,312,128</u>	<u>\$ 3,906,565</u>

The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Program service fees	\$ 7,958,324	\$ 22,000	\$ 7,980,324
Contributions	62,241	-	62,241
Special event	22,342	-	22,342
Investment income	22,889	-	22,889
In-kind contributions	87,796	-	87,796
Rental income	45,510	-	45,510
Net assets released from restrictions	<u>77,343</u>	<u>(77,343)</u>	<u>-</u>
Total support and revenues	<u>8,276,445</u>	<u>(55,343)</u>	<u>8,221,102</u>
Expenses:			
Program expenses	<u>6,881,220</u>	<u>-</u>	<u>6,881,220</u>
Supporting services:			
General and administrative	1,022,684	-	1,022,684
Fundraising	<u>200,825</u>	<u>-</u>	<u>200,825</u>
Total supporting services	<u>1,223,509</u>	<u>-</u>	<u>1,223,509</u>
Total expenses	<u>8,104,729</u>	<u>-</u>	<u>8,104,729</u>
Change in net assets	171,716	(55,343)	116,373
Net assets, beginning of year	<u>306,929</u>	<u>1,000,605</u>	<u>1,307,534</u>
Net assets, end of year	<u>\$ 478,645</u>	<u>\$ 945,262</u>	<u>\$ 1,423,907</u>

The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP

Statement of Functional Expenses

For the Year Ended June 30, 2011

	Program Services				Supporting Services			Total Functional Expenses
	Residential Services	Mental Health Services	Community and Development	Total	General and Administrative	Fundraising	Total	
Salaries and related expenses:								
Salaries	\$ 1,606,868	\$ 2,034,643	\$ 401,254	\$ 4,042,765	\$ 628,311	\$ 181,205	\$ 809,516	\$ 4,852,281
Payroll taxes and employee benefits	435,889	538,814	115,706	1,090,409	167,063	45,663	212,726	1,303,135
Total salaries and related expenses	<u>2,042,757</u>	<u>2,573,457</u>	<u>516,960</u>	<u>5,133,174</u>	<u>795,374</u>	<u>226,868</u>	<u>1,022,242</u>	<u>6,155,416</u>
Program related expenses:								
Groceries, household and clothing	279,875	6,321	39,269	325,465	-	-	-	325,465
Outings, sports and educational	18,906	110,437	360	129,703	-	-	-	129,703
Rental assistance	59,065	1,180	-	60,245	-	-	-	60,245
Total program related expenses	<u>357,846</u>	<u>117,938</u>	<u>39,629</u>	<u>515,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,413</u>
Professional and contract fees	44,831	107,856	70,135	222,822	44,963	65,558	110,521	333,343
Occupancy	229,536	60,611	71,403	361,550	54,890	28,651	83,541	445,091
Depreciation and amortization	256,835	7,762	2,622	267,219	17,405	2,903	20,308	287,527
Office and computer supplies	58,608	53,566	14,123	126,297	49,876	21,209	71,085	197,382
Travel, meals and entertainment	17,522	123,915	22,379	163,816	6,579	791	7,370	171,186
Interest	148,705	-	-	148,705	19,819	1,986	21,805	170,510
Telephone and utilities	95,210	28,419	25,010	148,639	6,982	28	7,010	155,649
Repairs and maintenance	138,203	9,022	4,625	151,850	266	99	365	152,215
Insurance	-	-	-	-	77,842	-	77,842	77,842
Banking and related	-	-	-	-	60,457	119	60,576	60,576
Auditing and accounting	-	-	-	-	50,792	-	50,792	50,792
Advertising	448	20,173	447	21,068	3,343	1,948	5,291	26,359
Events and training	4,748	2,291	4,204	11,243	1,822	7,688	9,510	20,753
Total expenses	<u>\$ 3,395,249</u>	<u>\$ 3,105,010</u>	<u>\$ 771,537</u>	<u>\$ 7,271,796</u>	<u>\$ 1,190,410</u>	<u>\$ 357,848</u>	<u>\$ 1,548,258</u>	<u>\$ 8,820,054</u>

The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP
Statement of Functional Expenses (continued)
For the Year Ended June 30, 2010

	Program Services				Supporting Services			Total Functional Expenses
	Residential Services	Mental Health Services	Community and Development	Total	General and Administrative	Fundraising	Total	
Salaries and related expenses:								
Salaries	\$ 1,499,740	\$ 1,731,335	\$ 428,263	\$ 3,659,338	\$ 477,713	\$ 91,003	\$ 568,716	\$ 4,228,054
Payroll taxes and employee benefits	396,343	405,139	102,968	904,450	110,669	24,408	135,077	1,039,527
Total salaries and related expenses:	<u>1,896,083</u>	<u>2,136,474</u>	<u>531,231</u>	<u>4,563,788</u>	<u>588,382</u>	<u>115,411</u>	<u>703,793</u>	<u>5,267,581</u>
Program related expenses:								
Groceries, household and clothing	329,843	1,614	63,320	394,777	-	-	-	394,777
Rental assistance	143,663	-	-	143,663	-	-	-	143,663
Outings, sports and educational	3,086	52,519	2,092	57,697	-	-	-	57,697
Total program related expenses:	<u>476,592</u>	<u>54,133</u>	<u>65,412</u>	<u>596,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>596,137</u>
Professional and contract fees	93,535	133,358	59,891	286,784	56,630	68,635	125,265	412,049
Occupancy	208,278	158,905	30,028	397,211	41,232	2,506	43,738	440,949
Depreciation and amortization	280,681	14,273	4,459	299,413	14,756	-	14,756	314,169
Repairs and maintenance	166,749	25,626	6,493	198,868	4,976	170	5,146	204,014
Telephone and utilities	102,005	41,764	9,935	153,704	7,824	450	8,274	161,978
Interest	133,711	-	-	133,711	11,422	-	11,422	145,133
Travel, meals and entertainment	15,055	95,043	20,030	130,128	2,959	673	3,632	133,760
Office and computer supplies	43,988	43,117	18,085	105,190	15,980	12,122	28,102	133,292
Banking and related	5,941	27	-	5,968	120,101	5	120,106	126,074
Insurance	-	755	-	755	89,004	-	89,004	89,759
Auditing and accounting	-	-	-	-	66,931	-	66,931	66,931
Events and training	3,034	2,520	945	6,499	1,358	408	1,766	8,265
Advertising	566	2,289	209	3,064	1,129	445	1,574	4,638
Total expenses	<u>\$ 3,426,218</u>	<u>\$ 2,708,284</u>	<u>\$ 746,718</u>	<u>\$ 6,881,220</u>	<u>\$ 1,022,684</u>	<u>\$ 200,825</u>	<u>\$ 1,223,509</u>	<u>\$ 8,104,729</u>

The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP
Statements of Cash Flows

	For the Year Ended	
	June 30,	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,482,658	\$ 116,373
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	287,527	314,169
Change in allowance for doubtful accounts	(25,000)	(68,617)
Non-cash City of San Jose grant	(2,527,143)	-
Unrealized gains on investments	(29,074)	(6,008)
Loss on disposal of property and equipment	-	4,575
Contributions receivable - use of facility, net	82,082	76,024
Changes in operating assets and liabilities:		
Accounts receivable	(7,867)	136,434
Prepaid expenses	(8,948)	(15,428)
Deposits	2,888	2,843
Accounts payable	(57,937)	(23,298)
Accrued expenses	(125,997)	233,454
Housing and flexible funds reimbursements	(39,263)	(310,785)
Reimbursement payable to HUD	(155,000)	(50,000)
Retirement plan contribution payable	-	(50,000)
Net cash provided by (used in) operating activities	<u>(121,074)</u>	<u>359,736</u>
Cash flows from investing activities:		
Proceeds from sale of investments	80,367	285,396
Acquisition of investments	(75,510)	(163,397)
Net proceeds from sales of assets	-	198,406
Acquisition of property and equipment	<u>(1,252)</u>	<u>(12,606)</u>
Net cash provided by (used in) investing activities	<u>3,605</u>	<u>307,799</u>

The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP
Statements of Cash Flows (Continued)

	For the Year Ended	
	June 30,	
	2011	2010
Cash flows from financing activities:		
Repayment of note payable to related party	\$ (60,000)	\$ (75,000)
Repayment of capital leases payable	(29,535)	(29,160)
Repayment of notes payable	(37,291)	(155,612)
Net cash used in financing activities	(126,826)	(259,772)
Net change in cash and cash equivalents	(244,295)	407,763
Cash and cash equivalents at beginning of year	1,061,189	653,426
Cash and cash equivalents at end of year	\$ 816,894	\$ 1,061,189

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 146,365	\$ 137,633
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Supplemental disclosure of non-cash investing and financing information:

Acquisition of property and equipment under capital leases	\$ 58,053	\$ -
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The accompanying notes are an integral part of these financial statements

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 1 - Organization and operations:

The Unity Care Group (“Unity Care” or the “Organization”) was incorporated on July 30, 1992 as a community-based nonprofit public benefit corporation. The purpose of Unity Care is to provide educational and social programs designed to enrich the lives of disadvantaged, at-risk and gang-affiliated youths through group homes, youth outreach and education, day treatment, and other services. Unity Care provides quality youth programs for the purpose of creating healthier communities through life-long partnerships.

Unity Care has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with Generally Accepted Accounting Principles (“GAAP”), the Organization reports information regarding its financial position and operating activities in three classes of net assets:

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. The Organization has elected to report as an increase in unrestricted net assets any restricted revenue received in the current year for which the restrictions have been met in the current year.
- *Temporarily restricted net assets* - include those assets which are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting year.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments. The Organization has no such net assets at June 30, 2011 and 2010.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 2 - Summary of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include the allowance for doubtful accounts, the discount for present value on contributions receivable, the useful lives of property and equipment, future payment estimates on loans, and the allocation of expenses by function. Actual results could differ from these estimates under different conditions.

Revenue recognition - The Organization's programs are supported by government grants and contracts and by contributions from individuals, corporations and foundations. The Organization recognizes support and revenue on the accrual basis of accounting. Grants and contracts which are exchange transactions (service contracts) are recognized as program service fees in the period in which the service is provided. These contracts are reported as an increase in unrestricted revenue if expenditures are incurred in the current period that effectively fulfilled the conditions of the contract.

Contributions are recognized when the donor makes a pledge that is, in substance, an unconditional promise to give. Unconditional promises to give are recorded as unrestricted, temporarily restricted or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current period. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisor. There were no conditional promises to give at June 30, 2011 and 2010.

In-kind contributions - Significant donated equipment, facility and other goods are recorded at their estimated fair market value as of the date of receipt. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. The Organization may also receive donated services that do not require specific expertise but which are nonetheless central to the Organization's operations; these amounts are not recorded.

Functional expense allocations - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, specifically identified expenses are charged to the applicable program. The remaining costs are allocated among the programs and services benefited based on management estimates.

Cash and cash equivalents - Cash and cash equivalents include demand deposits in banks, money market funds and liquid asset accounts held in brokerage accounts with a maturity of three months or less. The carrying amount in the Statements of Financial Position approximates fair value.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 2 - Summary of significant accounting policies (continued):

Accounts receivable and allowance for doubtful accounts - Accounts receivable consists primarily of amounts billed for services provided. The Organization provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The valuation allowances at June 30, 2011 and 2010 were approximately \$225,000 and \$250,000, respectively. At June 30, 2011 and 2010, approximately \$97,000 and \$23,000 of the accounts receivable balance was over 90 days past due.

Contributions receivable - use of facility - This amount includes in-kind contributions which consist of an unconditional promise to give. Such contributions are recorded as revenue when promised at their net realizable value. Contributions which are expected to be collected after one year are discounted to their net present value using a reasonable discount rate.

Investments - The Organization's investments are valued in accordance with GAAP, including Fair Value Measurements. Investments consist primarily of mutual funds and equity securities. Contributions of investments are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the year such fluctuations occur. Realized gains or losses resulting from sales or maturities are determined by comparison of specific costs of acquisition to proceeds at the time of disposal. Dividend and interest income are recognized when earned.

Prepaid expenses - Prepaid expenses primarily consists of payments made associated with the Organization's health insurance benefits as of June 30, 2011 and workers' compensation insurance program as of June 30, 2010. Such prepayments are amortized over the term of the related insurance coverage.

Deposits - Deposits consist of various operating facility rental security deposits.

Property, equipment, depreciation and amortization - Property and equipment are recorded at cost, or if contributed, at the estimated fair market value when donated. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. There were no restrictions placed on property plant and equipment at June 30, 2011 and 2010.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 2 - Summary of significant accounting policies (continued):

Property, equipment, depreciation and amortization (continued)

Depreciation is computed using the straight-line method over estimated useful lives of the related assets which range from five to seven years for automobiles, furniture and equipment and ten to twenty years for buildings and improvements. The Organization capitalizes all headquarters expenditures for equipment and improvements in excess of \$1,000. The Organization capitalizes all program-specific expenditures for equipment and improvements in excess of \$5,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Long-lived assets - The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. No such impairments have been identified to date.

Accounts payable and accrued expenses - Accounts payable and accrued expenses consist of normal operating liabilities due and payable within the following 12 months.

Housing and flexible fund reimbursements - Housing reimbursements represent overpayments made by various agencies to the Organization for group homes, day treatment and other services. Such overpayments are subject to various repayment schedules agreed upon by the agencies and the Organization.

Federal awards - Federal awards consist of funds received from the federal government for specific research projects. Substantially all of the Organization's federal award revenue is derived from cost reimbursement grants, which are billed to the grantor after costs have been incurred. Federal award revenue and unbilled federal awards are recognized to the extent the related costs are incurred.

Federal awards are subject to review and audit by the grantor agencies in accordance with the Single Audit Act and Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("A-133 audit"). Although such audits could result in expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material to the financial statements at June 30, 2011 and 2010.

Fair value of financial instruments - Financial instruments included in the Organization's statement of financial position as of June 30, 2011 and 2010 include cash and cash equivalents, receivables, investments, accounts payable, accrued expenses and notes payable. The balances of these instruments represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying statement of financial position at their estimated fair values using methodologies described above.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 2 - Summary of significant accounting policies (continued):

Concentration of credit risk - Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash, cash equivalents and receivables. The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions. At times, such amounts might exceed Federal Deposit Insurance Corporation ("FDIC") limits. It is the Organization's opinion that it is not exposed to any significant credit risks.

Concentration of revenue sources - For the years ending June 30, 2011 and 2010, approximately 98% and 97%, respectively, of the Organization's revenue is derived from grants from Federal, State and County government agencies.

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2011 management did not identify any uncertain tax positions.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is June 30, 2008 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years June 30, 2007 and forward.

Subsequent events - Subsequent events are evaluated through August 22, 2011, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2011.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 3 - Investments:

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

All investments are at quoted prices in active markets for identical assets (Level 1 inputs) as follows at June 30:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 156,922	\$ 130,650
Equity securities	<u>5,628</u>	<u>5,080</u>
Net investments	<u>\$ 162,550</u>	<u>\$ 135,730</u>

The following schedule summarizes the investment income and losses in the statement of activities as of June 30:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 5,608	\$ 6,486
Realized gain (loss) on investments	(4,589)	10,395
Unrealized gain on investments	<u>29,074</u>	<u>6,008</u>
Net investment income	<u>\$ 30,093</u>	<u>\$ 22,889</u>

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 4 - Contributions receivable - use of facility:

The Organization entered into a lease agreement with another charitable organization during the year ended June 30, 2009 for the lease of its administrative facility for \$1 per month. The receivable for the contributed use of the facility reflects the fair value of the use of the facility for 10 years (through 2019). The Organization has recognized contribution revenue and a receivable for the present value of the promise for use of the facility with the annual maturity of contributed support receivable recognized as rent expense. The receivable was recorded after discounting the future cash flows to present value using a discount rate of 2.6%.

The maturities of this receivable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 107,568
2013	111,872
2014	116,347
2015	121,001
2016	125,841
Thereafter	<u>336,376</u>
Total receivable	919,005
Less discount for present value	<u>(76,506)</u>
Present value of future rent receivable	842,499
Less non-current portion of receivable	<u>(734,931)</u>
Current portion of receivable	<u>\$ 107,568</u>

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 5 - Property and equipment:

Property and equipment consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Buildings	\$ 4,241,259	\$ 4,241,259
Leasehold improvements	385,889	384,637
Furniture and fixtures	128,291	128,291
Computer and equipment	119,214	119,214
Computer and equipment, under capital lease	82,731	82,731
Office equipment	63,577	63,577
Office equipment, under capital lease	65,769	54,007
Vehicles	222,936	555,936
Construction-in-progress	<u>675,000</u>	<u>-</u>
Total property and equipment	5,984,666	5,296,652
Less accumulated depreciation	(2,166,057)	(1,922,218)
Land	<u>2,167,770</u>	<u>2,167,770</u>
Property and equipment, net	<u>\$ 5,986,379</u>	<u>\$ 5,542,204</u>

Depreciation and amortization expense was approximately \$288,000 and \$314,000 for the years ended June 30, 2011 and 2010, respectively.

Note 6 - Accrued expenses:

Accrued expenses consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Wages, salaries and related taxes	\$ 229,513	\$ 442,625
Vacation	118,300	109,608
Interest	16,473	37,507
Deferred rent	50,956	-
Other accrued expenses	<u>115,952</u>	<u>67,451</u>
Total accrued expenses	<u>\$ 531,194</u>	<u>\$ 657,191</u>

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 7 - Notes payable:

The Organization's notes payable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Mortgage loan, due in monthly installments of \$1,167 including 6.125% interest through October 1, 2034, secured by real property.	\$ 453,117	\$ 459,658
Mortgage loan, due in monthly installments of \$1,991 including 5.25% interest through August 1, 2033, secured by real property.	312,548	319,819
Mortgage loan, due in monthly installments of \$2,041 including 5.875% interest through July 1, 2034, secured by real property.	309,088	315,222
Mortgage loan, due in monthly installments of \$2,449 including 5.875% interest through July 1, 2034, secured by real property.	370,906	378,267
Mortgage loan, due in monthly installments of \$3,397 including 6.72% interest through October 1, 2033, secured by real property.	498,177	504,764
Mortgage loan, due in monthly installments of \$1,716 including 7.5% interest through March 27, 2013, secured by real property.	209,956	213,353
Note payable to the County of Santa Clara, 3% interest, due in March 2036, secured by real property. If property is profitable, annual payments will be required prior to maturity. The Organization estimates no payment will be due until 2036.	250,000	250,000
Note payable to the City of San Jose, 3% interest, due in March 2061, secured by real property. If property is profitable, annual payments will be required prior to maturity. The Organization estimates no payment will be due until 2061. See Note 8 for forgiveness of debt.	651,429	1,520,000

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 7 - Notes payable (continued):

	<u>2011</u>	<u>2010</u>
Note payable to the City of San Jose, 3% interest, due in September 2066, secured by real property. If property is profitable, annual payments will be required prior to maturity. The Organization estimates no payment will be due until 2066. See Note 8 for forgiveness of debt.	666,428	1,650,000
Total notes payable	3,721,649	5,611,083
Less current maturities	<u>(40,989)</u>	<u>(38,630)</u>
Non-current portion	<u>\$ 3,680,660</u>	<u>\$ 5,572,453</u>

The future scheduled principal payments under these notes are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 40,989
2013	250,410
2014	40,419
2015	42,689
2016	45,006
Thereafter	<u>3,302,136</u>
Total	<u>\$ 3,721,649</u>

Note 8 - Forgivable loans:

Unity Place I

Unity Care owns and operates an apartment complex (Unity Place I) in San Jose in support of the Transitional Housing Placement Plus Program (THP-Plus) program. The THP-Plus Program offers affordable and stable housing to young adults ages 18-24, while they focus on attending school, receiving job training, securing sustainable employment, or learning and practicing skills for independent living.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 8 - Forgivable loans (continued):

Unity Place I (continued)

The acquisition and renovation of Unity Place I was partially financed with loan proceeds from the City of San Jose (the "City"), Department of Housing in the amount of \$1,520,000 during fiscal year 2006. The loan is non-interest bearing and is collateralized by a deed of trust on the real property, and a balloon payment of \$1,520,000 due in the year 2061. Of the original loan, \$651,429 was funded from Proposition 46 funds and the remaining \$868,571 from Housing Trust Funds.

During the fiscal year ended June 30, 2011, upon further review of the loan, it was determined by the City that only the Proposition 46 funds portion of the loan, or \$651,429, is deemed to be a repayable loan, and the remaining loan portion of \$868,571 is deemed to be a forgivable loan.

Based upon this review, the repayable loan of \$651,429 was modified to a loan with 3% simple interest charged annually, due from program residual receipts. In the event that the annual residual receipts are not sufficient to pay the full interest in a given year, the City will write-off / forgive the balance of the interest owed on the loan. Principal and interest outstanding in the final year shall be due in their entirety at maturity.

Also based upon this review, as long as the Organization does not use the property for an unauthorized purpose, the remaining loan of \$868,571 will be forgiven in its entirety at Maturity. As a result of this analysis, the amount of \$868,571 was recorded as revenues in fiscal year 2011.

Unity Place II

Unity Care owns and operates an apartment complex (Unity Place II) in San Jose to house special needs households with a priority for youth aging out of foster care whose incomes are to be at or below 30% Area Median Income ("AMI") or Extremely Low Income ("ELI").

The acquisition and renovation of Unity Place II was partially financed with loan proceeds from the City of San Jose, Department of Housing in the amount of \$2,125,000 during fiscal year 2007. The loan is non-interest bearing and is collateralized by a deed of trust on the real property, and a balloon payment of \$2,125,000 due in the year 2062. Of the original loan, \$666,428 was funded from Proposition 46 funds, \$570,000 from 20% Tax Increment Funds, and the remaining \$888,572 from Housing Trust Funds.

During the fiscal year ended June 30, 2011, upon further review of the loan, it was determined by the City that only the Proposition 46 funds portion of the loan, or \$666,428, is deemed to be a repayable loan, and the remaining loan portion of \$1,458,572 (comprised of the 20% Tax Increment Funds and Housing Trust Funds) is deemed to be a forgivable loan.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 8 - Forgivable loans (continued):

Unity Place II (continued)

During the fiscal year ended June 30, 2011, \$475,000 of previously undrawn loan value was exercised. Also during the fiscal year ended June 30, 2011, the forgivable loan value was increased by an additional \$200,000, bringing the total forgivable loan value to \$1,658,572, and total principal value to \$2,325,000.

Based upon this review, the repayable loan of \$666,428 was modified to a loan with 3% simple interest charged annually, due from program residual receipts. In the event that the annual residual receipts is not sufficient to pay the full interest in a given year, the City will write-off / forgive the balance of the interest owed on the loan. Principal and interest outstanding in the final year shall be due in their entirety at maturity.

Also based upon this review, as long as Unity Care does not use the property for an unauthorized purpose, the forgivable loan of \$1,658,572 will be forgiven in its entirety at maturity. As a result of this analysis, the amount of \$1,658,572 was recorded as revenues in fiscal year 2011.

The total amount of forgivable loans was \$2,527,143. Management of the Organization plans to meet all restrictions associated with the forgivable loans to be able to take advantage of the forgiveness clause. As a result, the total amount of \$2,527,143 was recorded as revenues in fiscal year 2011.

Note 9 - Note payable to related party:

In September 2008, the Organization borrowed \$135,000 from the Organization's president. The note bore interest at 7% per year and matured during the fiscal year. Interest expense on the borrowings was approximately \$600 and \$8,000 during the years ended June 30, 2011, and 2010, respectively. The note was fully repaid during the fiscal year ended June 30, 2011.

Note 10 - Reimbursement payable to HUD:

The Organization was audited by the U.S. Department of Housing and Urban Development (HUD) in October 2007 for grants received in the years 2000 through 2007. HUD's audit resulted in a repayment demand of approximately \$680,000 for disallowed expenses. The Organization vigorously contested the claim.

During the year ended June 30, 2010, the Organization settled the case and agreed on installment payments to repay the obligation over four years. The Organization is required to fund the obligation from sources that excludes federal and restricted funds. Management believes that by controlling expenses, fundraising, and selling property, they can satisfy the demand.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 10 - Reimbursement payable to HUD:

The future scheduled payments of reimbursements to HUD are as follow:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 300,000
2013	174,919
Total	\$ <u>474,919</u>

Note 11 - Rental income:

The Organization received rental income from leasing apartment buildings and a group home. Rental income for the years ended June 30, 2011 and 2010 were approximately \$17,000 and \$46,000, respectively.

Note 12 - Temporarily restricted net assets and net assets released from restrictions:

The temporarily restricted net asset activity for the years ended June 30, 2011 and 2010 were as follows:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Release</u>	<u>June 30, 2011</u>
Program purpose	\$ 20,681	\$ 2,552,143	\$ (103,195)	\$ 2,469,629
Contributed use of facility	924,581	-	(82,082)	842,499
Total	\$ <u>945,262</u>	\$ <u>2,552,143</u>	\$ <u>(185,277)</u>	\$ <u>3,312,128</u>

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Release</u>	<u>June 30, 2010</u>
Program purpose	\$ -	\$ 22,000	\$ (1,319)	\$ 20,681
Contributed use of facility	1,000,605	-	(76,024)	924,581
Total	\$ <u>1,000,605</u>	\$ <u>22,000</u>	\$ <u>(77,343)</u>	\$ <u>945,262</u>

Note 13 - Operating leases:

The Organization leases three of its group home facilities from the executive director and the executive director's relatives. In addition, the Organization also leases office facilities and other group homes and transitional houses. All leases are non-cancellable and expire at various times through December 2018.

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 13 - Operating leases (continued):

The future annual minimum lease payments under noncancellable operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 200,877
2013	120,492
2014	125,292
2015	128,892
2016	32,892
Thereafter	<u>82,229</u>
Total	<u>\$ 690,674</u>

Total rent expense for the years ended June 30, 2011 and 2010 was approximately \$316,000 and \$339,000, respectively. Total rent expense paid to related parties for the years ended June 30, 2011 and 2010 was approximately \$92,000 and \$91,000, respectively.

Note 14 - Capital leases:

The Organization leases certain equipment under capital leases expiring in October 2015. The assets and liabilities under the capital leases are recorded at the present value of the minimum lease payments. The assets are depreciated over 36 months. The interest rate on the capital leases ranges between 10% and 19% per annum.

The present values of future minimum annual obligations under the agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 16,308
2013	16,308
2014	16,308
2015	<u>9,515</u>
Total payments	58,439
Less amount representing interest	<u>(12,899)</u>
Present value of minimum lease payments	45,540
Less current portion	<u>(10,476)</u>
Total non-current portion	<u>\$ 35,064</u>

THE UNITY CARE GROUP

Notes to Financial Statements

June 30, 2011

Note 14 - Capital leases (continued):

Leased assets included in property and equipment is as follows as of June 30:

	<u>2011</u>	<u>2010</u>
Office equipment	\$ 65,769	\$ 54,007
Computers and networking equipment	82,731	82,730
Less accumulated depreciation	<u>(105,928)</u>	<u>(136,737)</u>
Property and equipment under capital leases	<u>\$ 42,572</u>	<u>\$ -</u>

Note 15 - Retirement plans:

401(k) plan - In 2002, the Organization implemented a 401(k) retirement plan (“401(k) plan”) covering substantially all employees who are regularly scheduled to work at least 32 hours per week, as defined in the 401(k) plan document. Under the 401(k) plan, eligible employees may make contributions through a salary reduction agreement. The 401(k) plan also allows for an employer matching contribution. During the years ended June 30, 2011 and 2010, the Organization matched up to \$500 to participating employees. Employer contributions to the 401(k) plan for the years ended June 30, 2011 and 2010 were approximately \$2,000 and \$7,000, respectively.

Unqualified retirement plan - In 2004, the Organization implemented an unqualified retirement plan (“retirement plan”) covering key employees. During the years ended June 30, 2011 and 2010, no contributions were made to the retirement plan.



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 of
The Unity Care Group

We have audited the financial statements of The Unity Care Group (the “Organization”), a nonprofit organization, as of and for the year ended June 30, 2011, and have issued our report thereon dated August 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we considered to be significant deficiencies

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.

To the Board of Directors of
The Unity Care Group

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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated August 23, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and 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.



San Jose, California
August 23, 2011



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

To the Board of Directors of
The Unity Care Group

Compliance

We have audited the compliance of The Unity Care Group (the "Organization") a nonprofit organization, with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ending June 30, 2011. The Organization's major federal programs are identified in the summary of auditors' 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 provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization 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 June 30, 2011.



To the Board of Directors of
The Unity Care Group

Internal Control over Compliance

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

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

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

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.

A handwritten signature in black ink that reads 'Robert Lee & Associates, LLP'. The signature is written in a cursive, flowing style.

San Jose, California
August 23, 2011

THE UNITY CARE GROUP
Single Audit Reports
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA number	Pass-through entity identifying number	Federal Program Expenditures
<u>EXPENDITURES OF FEDERAL AWARDS:</u>			
<u>Pass - Through Programs</u>			
U.S. Department of Health and Human Services:			
Passed through Various Counties			
Foster Care - Aid to Families with Dependent Children	93.658	* Note 3	<u>\$ 1,021,385</u>
U.S. Department of Labor - Employment:			
Passed through Monterey County			
Workforce Investment Board - WIA Youth Services			
Follow Up Program	17.259	A-11205	105,000
Active Program	17.259	A-11205	<u>99,330</u>
Total Workforce Investment Board - WIA Youth Services			204,330
U.S. Department of Agriculture			
Passed through California Department of Education			
National School Lunch Program	10.555		<u>25,835</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,251,550</u></u>

* Denotes a major program

The Organization had no direct programs

THE UNITY CARE GROUP
Single Audit Reports
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note 1 - Organization and operations:

The Unity Care Group (“Unity Care” or the “Organization”) was incorporated on July 30, 1992 as a community-based nonprofit public benefit corporation. The purpose of Unity Care is to provide educational and social programs designed to enrich the lives of disadvantaged, at-risk and gang-affiliated youths through group homes, youth outreach and education, day treatment, and other services. Unity Care provides quality youth programs for the purpose of creating healthier communities through life-long partnerships.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities.

The information in the accompanying Schedule of Expenditures of Federal Awards (“SEFA”) include federal grant and loan activities of the Organization and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

THE UNITY CARE GROUP
Single Audit Reports
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of The Unity Care Group.
2. No significant deficiencies relating to the audit of the financial statements are reported in the basic financial statements.
3. No instances of noncompliance material to the financial statements of the Organization were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the financial statements.
5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the Organization is reported in Part C of this Schedule below.
7. The programs tested as major programs include:

<u>Major program</u>	<u>C DFA</u>	<u>Expenditures</u>
Foster Care - Aid to Familites with Dependent Children	93.658	<u>1,021,385</u>
Total Major program expenditures		<u><u>\$ 1,021,385</u></u>
Total Federal awards		<u><u>\$ 1,251,550</u></u>
Percent of total Federal awards expenditures tested		<u><u>82%</u></u>

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Organization was determined to be a high risk auditee.

THE UNITY CARE GROUP
Single Audit Reports
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Current Year Findings

No financial statements audit findings noted in the current year.

Prior Year Findings

Material Weakness

2010-01

Prior period adjustment - All unconditional contributions, including in-kind contributions, should be recognized and recorded in the year of receipt. While performing our audit procedures, we noted that the Organization had entered into a ten year lease agreement at a rent rate of \$1 per month on 12/1/2008. The fair value of the lease was determined to be \$8,000 per month for the space which resulted in a long-term unconditional pledge of contributed facilities. This contribution should have been recorded during the fiscal year in which the Organization entered into the lease agreement. As a result, a prior period adjustment was required to recognize this contribution.

Management response 6/30/2010 - Management agrees that the Non-Profit Rent Waiver fair value rental of the 10-year lease agreement was not properly recorded during the fiscal year ending June 30, 2009 audit process, and that therefore, a prior period adjustment was required during the fiscal year ending June 30, 2010 audit process.

Status as of 6/30/2011 - No prior period adjustments reported in the current year. The deficiency has been corrected.

Significant Deficiencies

2010-02

Adherence to disbursement related internal control policies - Good controls over disbursements are critical to an organization's ability to accurately record transactions and prevent misstatements on the financial statements. During our examination of the Organization's internal controls relating to disbursements, we noted certain areas where the Organization's written policies were not being followed.

The Organization has a policy to obtain e-mail approvals for each disbursement run prior to check preparation. We noted some instances where the e-mail approval was unable to be located. It was determined that these checks were not prepared as part of the standard check runs, but done in emergency situations.

The Organization has granted the Accounts Payable Administrator authorization to approve all recurring monthly expenses. This approval has not been documented, but has been consistently used for a number of years. The CFO reviews the supporting documents for these disbursements when he signs the checks but he does not document his review and approval of the supporting documentation.

THE UNITY CARE GROUP
Single Audit Reports
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Prior Year Findings (continued)

Significant Deficiencies (continued)

2010-02 (continued)

We noted that the Organization's disbursement policy, which requires that the CEO approve check requests in excess of \$500 prior to the checks being issued, is not followed consistently.

These policies were implemented to ensure accuracy of the Organization's records. Not adhering to these policies could cause the financial statements to be significantly misstated.

Management response 6/30/2010 - Management fully agrees that good controls over disbursements are critical to an organization's ability to accurately record transactions and prevent misstatements on the financial statements, and feels that Unity Care employs very strong controls to prevent such misstatements.

Management is constantly looking for areas to further tighten controls over disbursements, but recognizes that a series of individually nominal instances occurred during the course of the fiscal year that highlighted areas for improvements.

Checks prepared in emergency situations, while having full and complete proper supporting documentation and approvals, did not, in some cases, have a corresponding email approval prior to preparation. Management will strive to ensure such email approvals are obtained in the future, prior to check preparation.

Status as of 6/30/2011 - The Organization has taken some steps towards correcting this deficiency. The Organization has implemented procedures to ensure that email approvals are obtained prior to check preparation and that the CFO documents the approval of recurring monthly expenses. However, email approval and CFO approval is not in the Organization's policy and the accounts payable clerk holds invoices to be signed and approved after the disbursement has been processed.

The Organization has initiated, but not yet completed, the implementation of revising the \$500 CEO approval threshold to be in alignment with the dual check signing policy via the usage of the Electronic Purchase Order module of the Sage MIP accounting system.

Management's Response to Deficiency 6/30/2011 - Management will amend the policy to allow email approvals prior to processing of disbursements. Management will also complete the implementation of the Electronic Purchase Order module of the Sage MIP accounting system and accordingly modify the \$500 CEO approval threshold to be in alignment with the dual check signing policy.

THE UNITY CARE GROUP
Single Audit Reports
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Prior Year Findings (continued)

Significant Deficiency (continued)

2010-03

Segregation of Duties - Lack of segregation of duties is one of the most common areas of weak internal controls. During our examination of the Organization's internal controls, we noted that the Accounts Payable Administrator has full responsibility for the accounts payable cycle which includes duties that may provide an opportunity inaccurate records and fraud.

The Accounts Payable Administrator's duties include the creation of new vendors within the Organization's general ledger, the preparation of checks for authorized signature, mailing signed checks, recording disbursements into the Organization's general ledger, and opening the Organization's received mail. In addition, the Accounts Payable Administrator has authority to initiate payment requests for certain recurring expenses, for which there does not appear to be any other review or approval documented.

The combination of these duties may provide an opportunity for misstated financials statements and misappropriation of the Organization's assets.

Management response 6/30/2010 - Management is very focused on the prevention of inaccurate records, and especially on the elimination of opportunities for fraud to occur. The current structure of duties within the Accounting Department provides for a very high level of segregation of potentially incompatible duties.

However, a thorough review of job duties and responsibilities will be performed of all positions within the Accounting Department with the intent of increased prevention of the possibility of inaccurate records and the elimination of opportunities for fraud potential.

Status as of 6/30/2011 - The Organization has implemented procedures to provide for staff other than the Accounts Payable Administrator to open the Organization's received mail and that the CFO documents the approval of recurring monthly expenses.

However, other duties such as the creation of new vendors within the Organization's general ledger and the mailing of signed checks still exist as of June 30, 2011.

Management's Response to Deficiency 6/30/2011 - Management will immediately implement revised procedures to correct these deficiencies.

THE UNITY CARE GROUP
Single Audit Reports
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

Current Year Findings

No findings or questioned costs were noted on the Organization's major programs in the current year.

Prior Year Findings

No findings or questioned costs were noted on the Organization's major programs in the prior year.