McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

The Board of Directors
United Neighborhood Health Services, Inc.
Nashville, Tennessee

We have audited the accompanying balance sheet of United Neighborhood Health Services, Inc. (the "Center") as of January 31, 2008, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Neighborhood Health Services, Inc. as of January 31, 2008, and the changes in its unrestricted net assets and its cash flows for the year 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 September 18, 2008, on our consideration of United Neighborhood Health Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New York, New York
September 18, 2008

United Neighborhood Health Services, Inc.

Balance Sheet
January 31, 2008

ASSETS	
Current Assets:	
Cash	**$ 1,556,401**
Patient services receivable, net (Note 3)	**1,232,158**
Contracts receivable (Note 4)	**108,734**
Prepaid expenses and other current assets	**32,612**
Total current assets	**2,929,905**
Property and Equipment, net (Note 5)	**3,795,851**
Total assets	**$ 6,725,756**
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current Liabilities:	
Accounts payable and accrued expenses	**$ 206,081**
Accrued compensation	**182,809**
Current maturities of long-term debt (Note 6)	**126,744**
Total current liabilities	**515,634**
Long-term Liability - long-term debt, less current maturities (Note 6)	**215,236**
Total liabilities	**730,870**
Commitment and Contingencies (Notes 5, 8 and 10)	
Unrestricted Net Assets	**5,994,886**
Total liabilities and unrestricted net assets	**$ 6,725,756**

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Operations and Changes in Unrestricted Net Assets
Year Ended January 31, 2008

Unrestricted revenue:	
DHHS grants (Note 7)	$ 3,477,624
Patient services, net (Note 8)	3,936,816
Contract services (Note 9)	411,339
Other	123,234
Total unrestricted revenue	7,949,013
Expenses:	
Salaries and benefits	4,863,200
Other than personnel services	1,465,392
Provision for bad debts	321,741
Interest	41,611
Total expenses	6,691,944
Operating income prior to depreciation and amortization	1,257,069
Depreciation and amortization	253,198
Operating income prior to nonoperating revenue	1,003,871
Nonoperating revenue:	
DHHS grants (Note 7)	72,000
Contribution for capital	737,000
Gain on sale of building	416,577
Increase in unrestricted net assets	2,229,448
Net assets:	
Beginning	3,765,438
Ending	$ 5,994,886

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Functional Expenses
Year Ended January 31, 2008

	Program Services	General and Administrative	Total
Salaries and wages	$ 3,422,498	$ 594,293	**$ 4,016,791**
Fringe benefits	721,181	125,228	**846,409**
Healthcare consultants and other contractual services	152,884	5,957	**158,841**
Professional fees	-	130,217	**130,217**
Consumable supplies	133,094	56,949	**190,043**
Laboratory	234,203	-	**234,203**
Radiology	20,925	-	**20,925**
Pharmaceuticals	51,892	-	**51,892**
Occupancy	92,056	5,049	**97,105**
Insurance	43,740	7,233	**50,973**
Repairs and maintenance	174,221	9,556	**183,777**
Telephone	87,204	14,420	**101,624**
Travel, conferences and meetings	52,128	8,620	**60,748**
Dues and subscriptions	61,174	10,116	**71,290**
Printing, postage and publications	40,067	6,626	**46,693**
Staff training	26,141	4,323	**30,464**
Equipment rental	9,988	548	**10,536**
Interest	39,447	2,164	**41,611**
Provision for bad debts	321,741	-	**321,741**
Other	-	26,061	**26,061**
	5,684,584	1,007,360	**6,691,944**
Depreciation and amortization	240,032	13,166	**253,198**
Total expenses	$ 5,924,616	$ 1,020,526	**$ 6,945,142**

See Notes to Financial Statements.

United Neighborhood Health Services, Inc.

Statement of Cash Flows
Year Ended January 31, 2008

Cash Flows From Operating Activities:	
Cash received from DHHS grants	$ 3,549,624
Cash received from patient services	3,518,100
Cash received from contract services	407,077
Cash received from contributions	737,000
Cash received from other	78,662
Cash paid for interest	(41,611)
Cash paid for operations	(6,589,059)
Net cash provided by operating activities	1,659,793
Cash Flows From Investing Activities:	
Purchase of property and equipment	(1,163,849)
Proceeds from sale of land	527,136
Net cash used in investing activities	(636,713)
Cash Flows From Financing Activities:	
Net proceeds from long-term debt	827,086
Principal payments of long-term debt	(1,036,870)
Net cash used in financing activities	(209,784)
Net increase in cash	813,296
Cash:	
Beginning	743,105
Ending	$ 1,556,401
Reconciliation of Increase in Unrestricted Net Assets to Net Cash Provided by Operating Activities:	
Increase in unrestricted net assets	$ 2,229,448
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	253,198
Provision for bad debts	321,741
Gain on sale of building	(416,577)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(418,716)
Increase in contracts receivable	(4,262)
Decrease in prepaid expenses and other current assets	52,869
Decrease in accounts payable and accrued expenses	(253,739)
Decrease in accrued compensation	(104,169)
Total adjustments	(569,655)
Net cash provided by operating activities	$ 1,659,793

Note 1. Organization

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

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

Note 2. Significant Accounting Policies

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

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.

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

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

Property and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for equipment and vehicle, and 30 years for building and improvements.

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in unrestricted net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Donated services are recognized in the accompanying financial statements when they are specifically identifiable and can be objectively valued in monetary terms.

Note 2. Significant Accounting Policies (continued)

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At January 31, 2008, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of $133,576 that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

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

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

Note 3. Patient Services Receivable, Net

Patient services receivable, net, consist of the following at January 31, 2008:

Medicare	$	149,957
Private insurance		188,925
Self-pay		133,820
Tenncare managed care plans		818,940
Medicaid managed care wraparound		425,871
Tennessee Department of Health - Essential Access Pool		165,619
		1,883,132
Less allowance for doubtful accounts		650,974
	$	1,232,158

Note 4. Contracts Receivable

Contracts receivable consist of the following at January 31, 2008:

Tennesse Department of Health:		
Minority Health program	$	25,634
U.S. Corporation for National Health Service:		
National Association of Community Health Centers:		
AmeriCorps		22,000
Metropolitan Department of Nashville and Davidson County:		
Downtown Clinic program		10,409
Tennessee Department of Children's Services:		
Child Abuse Prevention program		41,941
Other		8,750
	$	108,734

Note 5. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at January 31, 2008:

Land	$	533,417
Building and building improvements		3,570,815
Medical and dental equipment		190,608
Office equipment		1,161,121
Automobile		95,300
		5,551,261
Less accumulated depreciation		1,755,410
	$	3,795,851

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to PHS or third parties.

Note 6. Long-term Debt

Long-term debt consists of the following:

The Center entered into a loan agreement on August 11, 2005 in the amount of $265,000. The note matures on August 11, 2010, with interest and principal payable in 59 monthly installments of $5,023, including interest at 6.55% per annum. A final payment of the unpaid principal balance plus accrued and unpaid interest is due and payable on August 11, 2010. The note is secured by property at 617 S. 8th Street, Nashville, TN 37206. On February 21, 2008, the loan was paid in full.	$ 135,934
The Center entered into a mortgage loan agreement on November 15, 2005 in the amount of $360,000 to purchase a building. The note matures on November 15, 2010, with interest and principal payable in 59 monthly installments of $7,125, including interest at 6.878% per annum. A final payment of the unpaid principal balance plus accrued and unpaid interest is due and payable on November 15, 2010. The note is secured by property at 610 Due West Avenue, Madison, TN 37115. On February 21, 2008, the loan was paid in full.	206,046
	341,980
Less current maturities	126,744
Long-term debt	$ 215,236

The aggregate amount of future principal payments on long-term debt is as follows:

Year ending January 31,

2009	$ 126,744
2010	135,980
2011	79,256
	$ 341,980

Note 7. DHHS Grants

For the year ended January 31, 2008, the Center received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	Unrestricted Revenue Recognized
4 H80 CS 00394-05-02	2/1/06-2/28/07	$ 255,969	$ 255,969
3 H80 CS 00394-06-05	3/1/07-1/31/08	3,293,655	3,293,655 *
		$ 3,549,624	$ 3,549,624

* DHHS grant includes $72,000 for capital additions, which is reported as nonoperating revenue in the statement of operations and changes in unrestricted net assets.

Note 8. Patient Services, Net

For the year ended January 31, 2008, patient services revenue, net, consists of the following:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicare	$ 294,692	$ (17,646)	$ 312,338
Private Insurance	375,769	98,188	277,581
Self-pay	4,103,133	3,590,421	512,712
Tenncare managed care plans	2,159,648	661,750	1,497,898
	6,933,242	4,332,713	2,600,529
Medicaid managed care wraparound			742,937
Tennessee Department of Health - Essential Access Pool			593,350
			$ 3,936,816

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 9. Contract Services

For the year ended January 31, 2008, contract services revenue consists of the following:

Tennessee Department of Health:		
MinorityHealth Program	$	65,000
GWEN Line program		9,500
Tennessee Department of Children's Services:		
Child Abuse Prevention program		45,400
U.S. Corporation for National Health Service:		
National Association of Community Health Centers:		
AmeriCorps		66,165
Metropolitan Department of Nashville and Davidson County:		
Downtown Clinic program		72,000
United Way of Metropolitan Nashville		125,573
Other		27,701
	$	411,339

Note 10. Commitment and Contingencies

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

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

The Center has a secured line of credit agreement in the amount of $75,000. This agreement expires October 15, 2008 and is secured by the property located at 1501 12th Avenue South, Nashville, Tennessee. No funds have been drawn on this line of credit as of January 31, 2008.

The Center had a construction line of credit agreement in the amount of $1,000,000 with a three-year term ending August 15, 2009 and an interest rate of 7.35%. The line of credit was closed at July 31, 2007, as the construction project was completed and the line of credit was no longer needed. No funds have been drawn on this line of credit as of January 31, 2008.

The Center is involved in legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Center or the results of its operations.

McGladrey & Pullen
Certified Public Accountants

United Neighborhood Health Services, Inc.

Internal Controls and Compliance Section

January 31, 2008

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

The Board of Directors
United Neighborhood Health Services, Inc.
Nashville, Tennessee

We have audited the financial statements of United Neighborhood Health Services, Inc. (the "Center") as of and for the year ended January 31, 2008, and have issued our report thereon dated September 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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 an instance of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 08-1.

We noted certain matters that we reported to management of the Center in a separate letter dated September 18, 2008.

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

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

McGladrey & Pullen, LLP

New York, New York
September 18, 2008

McGladrey & Pullen
Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Directors
United Neighborhood Health Services, Inc.
Nashville, Tennessee

Compliance - We have audited the compliance of United Neighborhood Health Services, Inc. (the "Center") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended January 31, 2008. The Center's major federal program is 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 its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended January 31, 2008.

Internal Control Over Compliance - The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Center's internal control 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 the board of directors, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
September 18, 2008

United Neighborhood Health Services, Inc.

Schedule of Findings and Questioned Costs
Year Ended January 31, 2008

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 √ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	√ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes √ no

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	___ yes √ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes √ none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ yes √ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
93.224	United States Department of Health and Human Services: Consolidated Health Centers program

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	√ yes ___ no

Section II - Financial Statement Findings

08-1 Accounts Payable and Cash Entries

Criteria: General ledger entries and adjustments should be recorded in the period in which the transactions occur.

Statement of Condition: During the audit, it was determined that accounts payable and cash accounts were inaccurately adjusted for invoices paid after year-end.

Questioned Costs: None

Effect: Accounts payable and cash accounts were inaccurately adjusted for invoices paid after year-end.

Cause: General ledger entries and adjustments are not being administered properly.

Recommendation: We recommend that the Center establish policies to ensure that journal entries and adjustments to general ledger accounts are recorded in the proper period.

Management's Response: Management concurs with this finding and intends to establish policies to ensure that journal entries and adjustments to the general ledger are recorded in the proper period.

Section III - Federal Award Findings and Questioned Costs

None

United Neighborhood Health Services, Inc.

Schedule of Prior-Year's Findings
Year Ended January 31, 2008

Item #	Description of Condition	Status of Corrective Action
07-1	Accounts Payable and Cash Entries	The Center has not fully implemented this in the current year (see 08-1).
07-2	Self-pay Sliding Fee Discount	The Center has corrected this finding during the current year.