

**UNITED NEIGHBORHOOD HEALTH
SERVICES, INC.**

FINANCIAL STATEMENTS

JANUARY 31, 2007

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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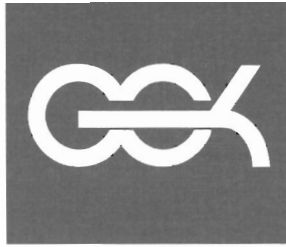
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**UNITED NEIGHBORHOOD HEALTH
SERVICES, INC.**

FINANCIAL STATEMENTS

JANUARY 31, 2007

GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

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INTRODUCTION

Background

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

Scope of Audit

The financial audit of the Center was performed in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audit covered the 12-month period ended January 31, 2007 and fieldwork was performed during the period from April 23, 2007 to April 27, 2007.

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

- The expression of an opinion on the balance sheet as of January 31, 2007, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended;
- The expression of an opinion on the schedule of expenditures of federal awards for the year ended January 31, 2007;
- The expression of an opinion on the schedule of state financial assistance for the year ended January 31, 2007;
- The assessment of the Center's internal accounting and administrative control structures;
- The performance of cost validations of transaction costs on a test basis;
- The assessment, on a test basis, of the Center's compliance with the prescribed U.S. Department of Health and Human Services cost principles (45 CFR 74, as amended, subpart Q) for selected functional types of costs; and
- To ascertain whether costs claimed for funding under specific grants are fairly presented in conformity with the terms of the grant and related U.S. Department of Health and Human Services cost principles.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
United Neighborhood Health Services, Inc.

We have audited the accompanying balance sheet of United Neighborhood Health Services, Inc. (the "Center") as of January 31, 2007, and the related statements of operations and changes in 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, 2007, and the changes in its 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 12, 2007 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 12, 2007

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

BALANCE SHEET

January 31, 2007

ASSETS

Current Assets:

Cash	\$ 743,105
Patient services receivable, net (Note 3)	1,135,183
Contracts receivable (Note 4)	104,472
Prepaid expenses and other	85,481

Total current assets	2,068,241
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Property and Equipment, net (Notes 5, 6 and 10)	3,028,800
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Total Assets	\$5,097,041
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 459,820
Accrued compensation	286,978
Retainage payable	33,041
Current maturities of long-term debt (Note 6)	209,385

Total current liabilities	989,224
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Long-term Liability - long-term debt, less current maturities (Note 6)	342,379
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Total liabilities	1,331,603
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Commitments and Contingencies (Notes 5, 8 and 10)

Net Assets	3,765,438
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Total Liabilities and Net Assets	\$5,097,041
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See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended January 31, 2007

	Unrestricted	Temporarily Restricted	Total
Unrestricted revenue:			
DHHS grant (Note 7)	\$3,071,614		\$3,071,614
Patient services, net (Note 8)	3,218,901		3,218,901
Contract services (Note 9)	427,005		427,005
Other	94,252		94,252
Total unrestricted revenue	6,811,772		6,811,772
Expenses:			
Salaries and benefits	4,620,881		4,620,881
Other than personnel services	1,591,374		1,591,374
Interest	46,978		46,978
Provision for bad debts	168,576		168,576
Total expenses	6,427,809		6,427,809
Operating income prior to depreciation	383,963		383,963
Depreciation	252,885		252,885
Operating income	131,078		131,078
Nonoperating revenue:			
Contribution for capital	250,000		250,000
Donated equipment	31,175		31,175
Net assets released from restrictions - capital	400,000	\$(400,000)	
Increase (decrease) in net assets	812,253	(400,000)	412,253
Net assets at beginning of year	2,953,185	400,000	3,353,185
Net assets at end of year	\$3,765,438	\$ - 0 -	\$3,765,438

See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended January 31, 2007

	Program Services	General and Administrative	Total
Salaries and wages	\$3,192,215	\$643,518	\$3,835,733
Fringe benefits	653,424	131,724	785,148
Healthcare consultants and other contractual services	182,134	4,923	187,057
Professional fees		99,047	99,047
Consumable supplies	140,522	12,811	153,333
Laboratory	269,080		269,080
Pharmaceuticals	245,422		245,422
Occupancy	75,142	4,205	79,347
Insurance	24,065	5,045	29,110
Repairs and maintenance	133,038	7,446	140,484
Telephone	77,940	16,338	94,278
Travel, conferences and meetings	22,698	4,758	27,456
Dues and subscriptions	54,713	11,469	66,182
Printing, publications and postage	70,923	14,867	85,790
Staff training	38,183	8,004	46,187
Equipment rental	16,769	939	17,708
Interest	44,488	2,490	46,978
Provision for bad debts	168,576		168,576
Other	37,604	13,289	50,893
	5,446,936	980,873	6,427,809
Depreciation	239,482	13,403	252,885
Total functional expenses	\$5,686,418	\$994,276	\$6,680,694

See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

Year ended January 31, 2007

Cash flows from operating activities:	
Cash received from DHHS grant	\$ 3,071,614
Cash received from patient services	2,580,428
Cash received from contract services	451,458
Cash received from other	69,488
Cash received from contributions for capital	250,000
Cash paid for interest	(22,214)
Cash paid for operations	(6,072,854)
Net cash provided by operating activities	327,920
Cash used in investing activity - purchase of property and equipment	(574,584)
Cash used in financing activity - principal payments on long-term debt	(131,420)
Net decrease in cash	(378,084)
Cash at beginning of year	1,121,189
Cash at end of year	\$ 743,105

Reconciliation of increase in net assets to net cash provided by operating activities:

Increase in net assets	\$ 412,253
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	252,885
Provision for bad debts	168,576
Donated equipment	(31,175)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(638,473)
Decrease in contracts receivable	24,453
Decrease in prepaid expenses and other	12,127
Increase in accounts payable and accrued expenses	109,973
Increase in accrued compensation	17,301
Total adjustments	(84,333)
Net cash provided by operating activities	\$ 327,920

See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

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.

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 net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

January 31, 2007

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

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, 2007, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$389,218 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 (the "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.

**3. PATIENT
SERVICES
RECEIVABLE,
NET:**

Patient services receivable, net, consist of the following:

Medicare	\$ 159,219
Private insurance	303,338
Self-pay	425,983
TennCare managed care plans	558,115
Medicaid managed care wraparound	481,554
Tennessee Department of Health - Essential Access Pool	188,280
	<hr/>
	2,116,489
Less allowance for doubtful accounts	981,306
	<hr/>
	\$1,135,183
	<hr/>

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

January 31, 2007

4. CONTRACTS RECEIVABLE:	Contracts receivable consist of the following:	
	Tennessee Department of Health:	
	Minority Health program	\$ 27,369
	U.S. Corporation for National Health Service:	
	National Association of Community Health Centers:	
	AmeriCorps	28,350
	Metropolitan Department of Nashville and Davidson County:	
	Downtown Clinic program	26,556
	Other	22,197
		<hr/> \$104,472 <hr/>

5. PROPERTY AND EQUIPMENT, NET:	Property and equipment, net, at cost, consists of the following:	
	Land	\$ 576,617
	Building and improvements	2,229,938
	Medical and dental equipment	129,879
	Office equipment	1,061,745
	Automobile	95,300
	Construction-in-progress	446,975
		<hr/> 4,540,454
	Less accumulated depreciation	1,511,654
		<hr/> \$3,028,800 <hr/>

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

On August 24, 2005, the Center purchased property commonly known as 107 Charles E. Davis Boulevard in Nashville, Tennessee for \$85,000. The Center recorded the property at its purchase price of \$85,000 in the January 31, 2006 fiscal year. On July 21, 2006, the Metropolitan Development and Housing Agency ("MDHA") sold property commonly known as 101 and 103 Charles E. Davis Boulevard in Nashville, Tennessee to the Center for the consideration of \$10. The Center is in the process of building a new site on the three properties listed above. The properties' fair market value was appraised on July 7, 2006 for \$85,000, which is also the book value included in land. As stipulated in the purchase agreement with MDHA, the Center is required to operate a health services facility during the period of twenty-five years from the date of the sale. If the property ceases to exist as a health services facility, the title to the property reverts to MDHA.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

6. LONG-TERM DEBT:

Long-term debt consists of the following:

The Center entered into a mortgage loan agreement on April 2, 2002 in the amount of \$115,000 to purchase a building. The note matures on May 5, 2007, with interest and principal payable in 59 monthly installments of \$1,029, including interest at 6.814% per annum. Payments are applied first to interest and the balance, if any, to principal. A final payment of the unpaid principal balance plus accrued interest is due and payable on May 5, 2007. \$ 90,503

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 \$5,023.10, 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. 188,018

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 \$7,125.50, 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. 273,243

	551,764
Less current maturities	209,385
	\$342,379

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

Year ending January 31,	
2008	\$209,385
2009	127,144
2010	135,980
2011	79,255
	\$551,764

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

7. DHHS GRANT: For the year ended January 31, 2007, the Center received the following grant from the DHHS:

Grant Number	Grant Period	Total Grant	Unrestricted Revenue Recognized
4H80CS00394-05-02	02/01/06 - 02/28/07	\$3,327,593	\$3,071,614

8. PATIENT SERVICES, NET: For the year ended January 31, 2007, patient services revenue consists of the following:

	Gross Charges	Charitable and Contractual Allowances	Net Revenue
Medicare	\$ 252,036	\$ 80,666	\$ 171,370
Private insurance	662,629	276,543	386,086
Self-pay	4,245,669	3,488,142	757,527
TennCare managed care plans	1,582,282	794,969	787,313
	6,742,616	4,640,320	2,102,296
Medicaid managed care wraparound			508,878
Tennessee Department of Health - Essential Access Pool			607,727
			\$3,218,901

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as 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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

9. CONTRACT SERVICES:

For the year ended January 31, 2007, contract services revenue consists of the following:

Tennessee Department of Health:	
Minority Health program	\$ 64,161
GWEN Line program	24,338
Tennessee Department of Children's Services:	
Child Abuse Prevention program	37,833
U.S. Corporation for National Health Service:	
National Association of Community Health Centers:	
AmeriCorps	67,733
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic program	89,938
United Way of Metropolitan Nashville	128,002
Other	15,000
	<hr/>
	\$427,005

10. COMMITMENTS 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, 2007 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, 2007.

The Center has 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%. No funds have been drawn on this line of credit as of January 31, 2007.

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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

**11. SUBSEQUENT
EVENTS:**

Subsequent to year-end, the Center sold the South 10th Street property for \$604,088, which resulted in a net gain of \$436,636 after the mortgage payoff.

The Center entered into a loan agreement for \$1,300,000 for construction of a clinic with project costs of \$1,800,000 to open in August 2007.

**UNITED NEIGHBORHOOD HEALTH
SERVICES, INC.**

**INTERNAL CONTROLS AND
COMPLIANCE SECTION**

JANUARY 31, 2007



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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.

We have audited the financial statements of United Neighborhood Health Services, Inc. (the "Center") as of and for the year ended January 31, 2007, and have issued our report thereon dated September 12, 2007. 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 07-1 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 instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-1 and 07-2.

We noted certain matters that we reported to management of the Center in a separate letter dated September 12, 2007.

The Center's response to the findings identified in our audit are 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 12, 2007



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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.

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 each of its major federal programs for the year ended January 31, 2007. 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.

As described in item 07-2 in the accompanying schedule of findings and questioned costs, the Center did not comply with requirements regarding self-pay sliding fee discounts that are referred to in Sections II and III of the schedule of findings and questioned costs. Compliance with such requirements is necessary, in our opinion, for the Center to comply with requirements applicable to the federal program for the year ended January 31, 2007.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

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.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-2 to be a significant deficiency.

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

The Center's response to the findings identified in our audit are 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 12, 2007

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS January 31, 2007

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 weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Qualified

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(s)

93.224

Name of Federal Program or Cluster

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

07-1 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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS January 31, 2007

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, United States Department of Health and Human Services: Consolidated Health Centers (CFDA # 93.224)

07-2 Self-pay Sliding Fee Discount

Criteria: Health centers are required to have a corresponding schedule of discounts applied and adjusted on the basis of the patient's ability to pay. The patient's ability to pay is determined on the basis of the official poverty guideline, as revised annually by HHS (42 CFR sections 51c.107(b)(5), 56.108(b)(5), and 56.303(f)). The Center should be maintaining appropriate and up-to-date information in the patient's medical records in order to correctly determine a patient's ability to pay.

Statement of Condition: During the audit, it was determined that self-pay patients sliding fee discounts were calculated incorrectly based on the sliding fee scale. Also, it was noted that medical records were not up to date with information regarding the patient's proof of income and family size.

Questioned Costs: None

Effect: Self-pay sliding fee discounts were incorrectly applied and calculated.

Cause: Self-pay sliding fee discounts are not being administered properly.

Recommendation: We recommend that the Center implement procedures to review medical records to ensure that sliding fee discounts for patients are calculated correctly based on their proof of income and to ensure that information, per the medical record, is up to date.

Management's Response: Management concurs with this finding and intends to implement procedures to review medical records to ensure that sliding fee discounts for patients are calculated correctly based on their proof of income and to ensure that information, per the medical record, is up to date.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATUS OF PRIOR-YEAR'S FINDINGS
January 31, 2007

There were no prior-year's findings.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
United Neighborhood Health Services, Inc.

We have audited the basic financial statements of United Neighborhood Health Services, Inc. for the year ended January 31, 2007, and those statements, together with our opinion thereon, appear in the first section of this report. Our audit was conducted for the purpose of forming an opinion on those basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 12, 2007

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended January 31, 2007

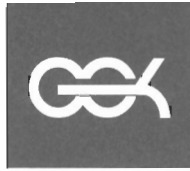
Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Health and Human Services:			
Direct program:			
Consolidated Health Centers program Passed through Tennessee Department of Health:	93.224	Not Available	\$3,071,614
Maternal and Child Health Services Block Grant to the States	93.994	Not Available	24,338
Subtotal - U.S. Department of Health and Human Services			3,095,952
U.S. Corporation for National Health Service:			
Passed through National Association of Community Health Centers: AmeriCorps	94.006	Not Available	70,627
Total federal awards			\$3,166,579

Note 1: Basis of presentation

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

Note 2: Subrecipients

Of the federal expenditures presented in the schedule, the Center provided no federal awards to subrecipients.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION - SCHEDULE OF STATE FINANCIAL ASSISTANCE

The Board of Directors
United Neighborhood Health Services, Inc.

We have audited the basic financial statements of United Neighborhood Health Services, Inc. for the year ended January 31, 2007, and those statements, together with our opinion thereon, appear in the first section of this report. Our audit was conducted for the purpose of forming an opinion on those basic financial statements taken as a whole. The accompanying schedule of state financial assistance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 12, 2007

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

SUPPLEMENTARY INFORMATION

SCHEDULE OF STATE FINANCIAL ASSISTANCE

Year ended January 31, 2007

State Grantor	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
State Financial Assistance:						
Tennessee Department of Health:						
Minority Health program	N/A	Z0600230800	\$47,019	\$83,811	\$14,751	\$(22,041)
Minority Health program	N/A	Z0703290300			49,410	49,410
U.S. Department of Health and Human Services:						
Passed through Tennessee Department of Health:						
Maternal and Child Health Services Block Grant to the States	93.994	GR-06-16881-00		14,594	24,338	9,744
Total state financial assistance			\$47,019	\$98,405	\$88,499	\$ 37,113

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
United Neighborhood Health Services, Inc.

We have audited the accompanying balance sheet of United Neighborhood Health Services, Inc. (the "Center") as of January 31, 2007, and the related statements of operations and changes in 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, 2007, and the changes in its 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 12, 2007 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

September 12, 2007

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

BALANCE SHEET

January 31, 2007

ASSETS

Current Assets:

Cash	\$ 743,105
Patient services receivable, net (Note 3)	1,135,183
Contracts receivable (Note 4)	104,472
Prepaid expenses and other	85,481

Total current assets	2,068,241
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Property and Equipment, net (Notes 5, 6 and 10)	3,028,800
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Total Assets	\$5,097,041
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 459,820
Accrued compensation	286,978
Retainage payable	33,041
Current maturities of long-term debt (Note 6)	209,385

Total current liabilities	989,224
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Long-term Liability - long-term debt, less current maturities (Note 6)	342,379
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Total liabilities	1,331,603
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Commitments and Contingencies (Notes 5, 8 and 10)

Net Assets	3,765,438
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Total Liabilities and Net Assets	\$5,097,041
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See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended January 31, 2007

	Unrestricted	Temporarily Restricted	Total
Unrestricted revenue:			
DHHS grant (Note 7)	\$3,071,614		\$3,071,614
Patient services, net (Note 8)	3,218,901		3,218,901
Contract services (Note 9)	427,005		427,005
Other	94,252		94,252
Total unrestricted revenue	6,811,772		6,811,772
Expenses:			
Salaries and benefits	4,620,881		4,620,881
Other than personnel services	1,591,374		1,591,374
Interest	46,978		46,978
Provision for bad debts	168,576		168,576
Total expenses	6,427,809		6,427,809
Operating income prior to depreciation	383,963		383,963
Depreciation	252,885		252,885
Operating income	131,078		131,078
Nonoperating revenue:			
Contribution for capital	250,000		250,000
Donated equipment	31,175		31,175
Net assets released from restrictions - capital	400,000	\$(400,000)	
Increase (decrease) in net assets	812,253	(400,000)	412,253
Net assets at beginning of year	2,953,185	400,000	3,353,185
Net assets at end of year	\$3,765,438	\$ - 0 -	\$3,765,438

See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended January 31, 2007

	Program Services	General and Administrative	Total
Salaries and wages	\$3,192,215	\$643,518	\$3,835,733
Fringe benefits	653,424	131,724	785,148
Healthcare consultants and other contractual services	182,134	4,923	187,057
Professional fees		99,047	99,047
Consumable supplies	140,522	12,811	153,333
Laboratory	269,080		269,080
Pharmaceuticals	245,422		245,422
Occupancy	75,142	4,205	79,347
Insurance	24,065	5,045	29,110
Repairs and maintenance	133,038	7,446	140,484
Telephone	77,940	16,338	94,278
Travel, conferences and meetings	22,698	4,758	27,456
Dues and subscriptions	54,713	11,469	66,182
Printing, publications and postage	70,923	14,867	85,790
Staff training	38,183	8,004	46,187
Equipment rental	16,769	939	17,708
Interest	44,488	2,490	46,978
Provision for bad debts	168,576		168,576
Other	37,604	13,289	50,893
	5,446,936	980,873	6,427,809
Depreciation	239,482	13,403	252,885
Total functional expenses	\$5,686,418	\$994,276	\$6,680,694

See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

Year ended January 31, 2007

Cash flows from operating activities:	
Cash received from DHHS grant	\$ 3,071,614
Cash received from patient services	2,580,428
Cash received from contract services	451,458
Cash received from other	69,488
Cash received from contributions for capital	250,000
Cash paid for interest	(22,214)
Cash paid for operations	(6,072,854)
Net cash provided by operating activities	327,920
Cash used in investing activity - purchase of property and equipment	(574,584)
Cash used in financing activity - principal payments on long-term debt	(131,420)
Net decrease in cash	(378,084)
Cash at beginning of year	1,121,189
Cash at end of year	\$ 743,105

Reconciliation of increase in net assets to net cash provided by operating activities:

Increase in net assets	\$ 412,253
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	252,885
Provision for bad debts	168,576
Donated equipment	(31,175)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(638,473)
Decrease in contracts receivable	24,453
Decrease in prepaid expenses and other	12,127
Increase in accounts payable and accrued expenses	109,973
Increase in accrued compensation	17,301
Total adjustments	(84,333)
Net cash provided by operating activities	\$ 327,920

See Notes to Financial Statements

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

January 31, 2007

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.

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 net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

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

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, 2007, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$389,218 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 (the "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.

3. PATIENT SERVICES RECEIVABLE, NET:

Patient services receivable, net, consist of the following:

Medicare	\$ 159,219
Private insurance	303,338
Self-pay	425,983
TennCare managed care plans	558,115
Medicaid managed care wraparound	481,554
Tennessee Department of Health - Essential Access Pool	188,280
	<hr/>
	2,116,489
Less allowance for doubtful accounts	981,306
	<hr/>
	\$1,135,183

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

4. CONTRACTS RECEIVABLE:

Contracts receivable consist of the following:

Tennessee Department of Health:	
Minority Health program	\$ 27,369
U.S. Corporation for National Health Service:	
National Association of Community Health Centers:	
AmeriCorps	28,350
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic program	26,556
Other	22,197
	<hr/>
	\$104,472

5. PROPERTY AND EQUIPMENT, NET:

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

Land	\$ 576,617
Building and improvements	2,229,938
Medical and dental equipment	129,879
Office equipment	1,061,745
Automobile	95,300
Construction-in-progress	446,975
	<hr/>
	4,540,454
Less accumulated depreciation	1,511,654
	<hr/>
	\$3,028,800

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

On August 24, 2005, the Center purchased property commonly known as 107 Charles E. Davis Boulevard in Nashville, Tennessee for \$85,000. The Center recorded the property at its purchase price of \$85,000 in the January 31, 2006 fiscal year. On July 21, 2006, the Metropolitan Development and Housing Agency ("MDHA") sold property commonly known as 101 and 103 Charles E. Davis Boulevard in Nashville, Tennessee to the Center for the consideration of \$10. The Center is in the process of building a new site on the three properties listed above. The properties' fair market value was appraised on July 7, 2006 for \$85,000, which is also the book value included in land. As stipulated in the purchase agreement with MDHA, the Center is required to operate a health services facility during the period of twenty-five years from the date of the sale. If the property ceases to exist as a health services facility, the title to the property reverts to MDHA.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

6. LONG-TERM DEBT:

Long-term debt consists of the following:

The Center entered into a mortgage loan agreement on April 2, 2002 in the amount of \$115,000 to purchase a building. The note matures on May 5, 2007, with interest and principal payable in 59 monthly installments of \$1,029, including interest at 6.814% per annum. Payments are applied first to interest and the balance, if any, to principal. A final payment of the unpaid principal balance plus accrued interest is due and payable on May 5, 2007. \$ 90,503

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 \$5,023.10, 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. 188,018

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 \$7,125.50, 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. 273,243

	551,764
Less current maturities	209,385
	\$342,379

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

Year ending January 31,	
2008	\$209,385
2009	127,144
2010	135,980
2011	79,255
	\$551,764

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

- 7. DHHS GRANT:** For the year ended January 31, 2007, the Center received the following grant from the DHHS:

Grant Number	Grant Period	Total Grant	Unrestricted Revenue Recognized
4H80CS00394-05-02	02/01/06 - 02/28/07	\$3,327,593	\$3,071,614

- 8. PATIENT SERVICES, NET:** For the year ended January 31, 2007, patient services revenue consists of the following:

	Gross Charges	Charitable and Contractual Allowances	Net Revenue
Medicare	\$ 252,036	\$ 80,666	\$ 171,370
Private insurance	662,629	276,543	386,086
Self-pay	4,245,669	3,488,142	757,527
TennCare managed care plans	1,582,282	794,969	787,313
	6,742,616	4,640,320	2,102,296
Medicaid managed care wraparound			508,878
Tennessee Department of Health - Essential Access Pool			607,727
			\$3,218,901

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as 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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

January 31, 2007

9. CONTRACT SERVICES:

For the year ended January 31, 2007, contract services revenue consists of the following:

Tennessee Department of Health:	
Minority Health program	\$ 64,161
GWEN Line program	24,338
Tennessee Department of Children's Services:	
Child Abuse Prevention program	37,833
U.S. Corporation for National Health Service:	
National Association of Community Health Centers:	
AmeriCorps	67,733
Metropolitan Department of Nashville and Davidson County:	
Downtown Clinic program	89,938
United Way of Metropolitan Nashville	128,002
Other	15,000
	<hr/>
	\$427,005

10. COMMITMENTS 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, 2007 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, 2007.

The Center has 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%. No funds have been drawn on this line of credit as of January 31, 2007.

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.

UNITED NEIGHBORHOOD HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS January 31, 2007

**11. SUBSEQUENT
EVENTS:**

Subsequent to year-end, the Center sold the South 10th Street property for \$604,088, which resulted in a net gain of \$436,636 after the mortgage payoff.

The Center entered into a loan agreement for \$1,300,000 for construction of a clinic with project costs of \$1,800,000 to open in August 2007.