

McGladrey & Pullen

Certified Public Accountants

West Side Community Health Services, Inc.

Financial Statements

September 30, 2007

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

CONTENTS
September 30, 2007

Introduction:

Background	1
Scope of Audit	1

Financial Section:

Independent Auditor's Report	2
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Financial Statements:

Balance Sheet	3
Statement of Operations and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 14

Internal Controls and Compliance Section:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15 - 16
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	17 - 18
Schedule of Findings and Questioned Costs	19
Status of Prior-Year's Findings	20
Independent Auditor's Report on Supplementary Information - Schedule of Expenditures of Federal Awards	21
Schedule of Expenditures of Federal Awards	22

INTRODUCTION

Background

West Side Community Health Services, Inc. (the "Center") operates a healthcare center located in St. Paul, Minnesota. 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 September 30, 2007 and fieldwork was performed during the period from November 26, 2007 to November 30, 2007.

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

- The expression of an opinion on the balance sheet as of September 30, 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 September 30, 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.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

The Board of Directors
West Side Community Health Services, Inc.

We have audited the accompanying balance sheet of West Side Community Health Services, Inc. (the "Center") as of September 30, 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. These 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 West Side Community Health Services, Inc. as of September 30, 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 a report dated January 24, 2008 on our consideration of West Side Community Health Services, Inc.'s internal control over financial reporting and 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McGladrey & Pullen, LLP

New York, New York
January 31, 2008

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

BALANCE SHEET

September 30, 2007

ASSETS

Current Assets:

Cash and cash equivalents	\$ 3,252,429
Investments (Note 3)	622,794
DHHS grants receivable	62,647
Patient services receivable, net (Note 4)	1,219,691
Contracts receivable (Note 5)	498,901
Prepaid expenses and other assets	24,821

Total current assets 5,681,283

Property and Equipment, net (Notes 6 and 7) 6,526,927

Total Assets \$12,208,210

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 403,055
Accrued compensation	1,019,708
Current maturities of long-term debt (Note 7)	188,632
Refundable advances (Note 8)	906,371

Total current liabilities 2,517,766

Long-term Debt, less current maturities (Note 7) 4,750,871

Total liabilities 7,268,637

Commitments and Contingencies (Notes 6, 10, 13 and 14)

Unrestricted Net Assets:

Undesignated	4,316,779
Board-designated reserve (Note 3)	622,794

Total unrestricted net assets 4,939,573

Total Liabilities and Unrestricted Net Assets \$12,208,210

See Notes to Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended September 30, 2007

Revenue:	
DHHS grants (Note 9)	\$ 4,461,349
Patient services, net (Note 10)	12,063,368
Contract services (Note 11)	3,729,325
Donated services and space (Note 12)	503,448
Contributions	246,849
Other	297,812
Total revenue	21,302,151
Expenses:	
Salaries and benefits	11,431,949
Other than personnel services	5,534,433
Interest	242,204
Provision for bad debts	1,396,658
Total expenses	18,605,244
Operating income prior to depreciation and amortization	2,696,907
Depreciation and amortization	384,251
Increase in unrestricted net assets	2,312,656
Unrestricted net assets at beginning of year	2,626,917
Unrestricted net assets at end of year	\$ 4,939,573

See Notes to Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2007

	Program Services	General and Administrative	Total
Salaries and wages	\$ 8,068,548	\$1,344,167	\$ 9,412,715
Fringe benefits	1,838,989	180,245	2,019,234
Healthcare consultants	284,111		284,111
Consultants and professional fees	163,522	399,690	563,212
Consumable supplies	472,876	113,450	586,326
Pharmaceuticals	1,643,684		1,643,684
Telephone	142,841	23,253	166,094
Travel, conferences and meetings	27,113	35,019	62,132
Occupancy	873,890	142,261	1,016,151
Utility assistance	109,305	17,794	127,099
Insurance	31,211	24,613	55,824
Repairs and maintenance	188,570	30,697	219,267
Laboratory fees	442,945		442,945
Printing, publications and postage	12,553	48,043	60,596
Dues and subscriptions	24,937	4,109	29,046
Personnel recruitment	13,615	25,056	38,671
Patient transportation	13,496		13,496
Provision for bad debts	1,396,658		1,396,658
Interest	208,295	33,909	242,204
Other	34,705	191,074	225,779
Total expenses	15,991,864	2,613,380	18,605,244
Depreciation and amortization	330,456	53,795	384,251
Total functional expenses	\$16,322,320	\$2,667,175	\$18,989,495

See Notes to Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

Year ended September 30, 2007

Cash flows from operating activities:	
Cash received from DHHS grants	\$ 4,465,236
Cash received from patient services	10,838,006
Cash received from contract services	3,936,529
Cash received from contributions	246,849
Cash received from other	297,812
Cash paid for operations	(16,644,952)
Cash paid for interest	(242,204)
Net cash provided by operating activities	2,897,276
Cash flows from investing activities:	
Purchase of plant and equipment	(116,104)
Purchase of investments	(50,299)
Cash used in investing activities	(166,403)
Cash flows from financing activities:	
Proceeds from long-term debt	14,944
Repayments on long-term debt	(804,646)
Net cash used in financing activities	(789,702)
Net increase in cash and cash equivalents	1,941,171
Cash and cash equivalents at beginning of year	1,311,258
Cash and cash equivalents at end of year	\$ 3,252,429
Reconciliation of increase in net assets to net cash provided by operating activities:	
Increase in net assets	\$ 2,312,656
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	384,251
Provision for bad debts	1,396,658
Changes in operating assets and liabilities:	
Increase in patient services receivable	(1,225,362)
Decrease in DHHS grants receivable	3,887
Increase in contracts receivable	(51,060)
Decrease in prepaid expenses and other assets	48,858
Decrease in accounts payable and accrued expenses	(324,213)
Increase in accrued compensation	93,337
Increase in refundable advances	258,264
Total adjustments	584,620
Net cash provided by operating activities	\$ 2,897,276

See Notes to Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

1. ORGANIZATION: West Side Community Health Services, Inc. (the "Center") operates a healthcare center located in St. Paul, Minnesota. The Center provides a broad range of health services to a largely medically underserved population.

The Center was affiliated with Propiedades, Inc. through common board membership. Propiedades, Inc. was operated exclusively for the purpose of holding title to property and transferring any operating income to the Center. As of January 16, 2007, Propiedades, Inc. has been dissolved.

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.

Cash and cash equivalents include short-term investments with a maturity of three months or less. The Center maintains their 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 any 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.

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 15 years for furniture and equipment and 40 years for building and building improvements. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less.

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted 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.

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS September 30, 2007

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 September 30, 2007, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$2,839,038 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.

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.

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 Minnesota and is exempt from income taxes under Section 501(c) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

3. INVESTMENTS:

Investments are carried at quoted market value. Cost and quoted market value of investments are as follows:

	Cost	Unrealized Gain	Quoted Market Value
Money market fund	\$ 10,056		\$ 10,056
Investments in bond and equity funds	570,361	\$42,377	612,738
	\$580,417	\$42,377	\$622,794

Investments constitute a board-designated reserve.

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

4. PATIENT SERVICES RECEIVABLE, NET:	Patient services receivable, net, consist of the following:	
	Medicaid	\$ 174,909
	Medicare	50,141
	Other third-party	376,333
	Self-pay	2,480,184
	Managed care plans	275,123
	Medicaid managed care wraparound	354,001
		<hr/>
		3,710,691
	Less allowance for doubtful accounts	2,491,000
		<hr/>
		\$1,219,691
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5. CONTRACTS RECEIVABLE:	Contracts receivable consist of the following:	
	State of Minnesota - Department of Health:	
	Eliminating Health Disparities - Diabetes	\$ 53,752
	City of Minneapolis Health and Family Support	21,700
	Family Planning Special Project program	37,563
	Sage Case Management and Outreach	26,953
	Comprehensive HIV Case Management	27,201
	HIV Health Education Risk and Reduction	27,468
	HIV Medication Adherence Counseling	26,875
	Ramsey County:	
	Maternal and Child Services - Adolescent Health	59,983
	Maternal and Child Services - Improve Pregnancy	32,000
	Child and Teen Checkups	26,652
	Eviction Prevention Services program	40,500
	Hennepin County Community Health Department:	
	HIV Title I programs	51,374
	Other	66,880
		<hr/>
		\$498,901
		<hr/> <hr/>
6. PROPERTY AND EQUIPMENT, NET:	Property and equipment, net, at cost, at September 30, 2007 consists of the following:	
	Land	\$ 615,140
	Building	5,813,336
	Furniture and equipment	1,395,425
	Leasehold improvements	466,469
		<hr/>
		8,290,370
	Less accumulated depreciation and amortization	1,763,443
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		\$6,526,927
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WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

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.

7. LONG-TERM DEBT:

Long-term debt consists of the following:

The Center entered into a loan agreement on April 28, 2004 in the amount of \$5,000,000. The loan is payable in monthly installments of principal and interest, with the final payment due July 1, 2025. The initial annual interest rate is 4%, and the loan agreement allows the rate to be reset on July 1, of 2009, 2014, and 2019. At the adjustment dates, the interest rate may be increased to 85% of the current prime rate, provided that the rate will not increase by more than 1% over the interest rate in effect prior to the adjustment; additionally, the interest rate may not be decreased below 4%. The loan is secured by the land and building at 153 Cesar Chavez Street in St. Paul, Minnesota.

\$4,642,453

On June 26, 2003, the Center entered into a loan agreement in the amount of \$300,000. Payments on the loan were not due until July 1, 2004. The loan is payable in monthly payments of principal and interest at an annual rate of 4% due on the first of each month for the term of the loan. Payment of the monthly installments due for the months of September 1, 2005 through December 1, 2006 were deferred, but not forgiven, and will be part of the final payment made on the maturity date. Monthly payments of \$1,622.07 resumed on January 1, 2007 and continue each month. The underlying note matures on May 1, 2028 and is secured by a second lien on the land and building at 153 Cesar Chavez Street.

297,050

The Center has a revolving line of credit with a bank in the amount of \$450,000. The line of credit has an interest rate of prime + 1% (prime rate was 8.25% at September 30, 2007). The line of credit expires on March 18, 2008 and is secured by a first-perfected security interest in all of the Center's assets. The Center had no borrowings outstanding under the line of credit at September 30, 2007.

4,939,503

Less current maturities

188,632

Long-term debt

\$4,750,871

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

The aggregate amount of principal payments on long-term debt during each of the five years following September 30, 2007 and thereafter is as follows:

Year ending September 30,		
2008		\$ 188,632
2009		196,939
2010		205,071
2011		213,538
2012		221,926
Thereafter		3,913,397
		\$4,939,503
		\$4,939,503

8. REFUNDABLE ADVANCES:

Refundable advances consist of the following:

State of Minnesota - Department of Health:		
State Aid to Community Health Centers		\$450,000
Regions Hospital Community Benefit Support grant		54,167
United Way - Bright Smiles program		40,000
Ramsey County Programs		82,509
Katherine B. Anderson Fund		50,000
Hugh Anderson Foundation		24,750
Edwards Memorial Trust		18,000
UCare Minnesota Fund		37,500
Portico Healthier Minnesota Communities		87,083
Other		62,362
		\$906,371
		\$906,371

9. DHHS GRANTS:

For the year ended September 30, 2007, the Center received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	Revenue Recognized
6 H80 CS 00790-05-04	2/1/06 - 2/28/07	\$4,512,538	\$1,720,989
6 H80 CS 00790-06-01	3/1/07 - 1/31/08	4,122,352	2,453,706
2 H12HA 23015-07-00	8/1/06 - 7/31/07	286,663	238,887
3 H12HA 23015-08-01	8/1/07 - 7/31/08	321,113	47,767
			\$4,461,349
			\$4,461,349

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS September 30, 2007

10. PATIENT SERVICES, NET:

For the year ended September 30, 2007, patient services, net, consist of the following:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicaid	\$ 3,999,358	\$ 1,995,694	\$ 2,003,664
Medicare	898,244	536,428	361,816
Other third-party	3,752,081	1,978,074	1,774,007
Self-pay	7,405,568	4,472,470	2,933,098
Managed care plans	5,067,431	2,975,775	2,091,656
	21,122,682	11,958,441	9,164,241
Medicaid managed care wraparound			1,037,690
Pharmacy revenue			1,861,437
			\$12,063,368

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 regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Included in the Medicaid revenue and Medicaid receivable (see Note 4) is an estimated adjustment in the amount of \$54,001. This represents Medicaid managed care wraparound for the fiscal year ended September 30, 2007.

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

11. CONTRACT SERVICES:

For the year ended September 30, 2007, contract services revenue consists of the following:

State of Minnesota - Department of Health:	
State Family Planning program	\$ 112,867
Eliminating Health Disparities - Diabetes	145,000
Comprehensive HIV Case Management program	98,217
City of Minneapolis Healthy Start program	111,739
Community Clinic Grant	22,500
HIV Testing	74,349
Sage Case Management	89,188
HIV Health Education and Risk Reduction	69,287
City of St. Paul:	
Emergency Shelter program	33,125
Ramsey County:	
Maternal and Child Health Services Block Grant	578,713
Health Care for the Uninsured, Underinsured	316,761
Eviction Prevention Services program	125,026
Child and Teen Checkups	48,418
Community Development Block Grant	34,261
Hennepin County:	
Ryan White CARE Act Title I	152,384
Medtronics Foundation	148,500
Neighborhood Healthcare Network	177,826
United Way - Bright Smiles program	160,000
Regions Hospital:	
Community Benefit Support Grant	895,753
The Jay and Rose Phillips Family Foundation	50,000
Katherine B Anderson Fund	50,000
Children's Trust Fund Grant	58,861
Other	176,550
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	\$3,729,325

12. DONATED SERVICES AND SPACE:

Donated services and space are recognized in the financial statements based on the fair value. For the year ended September 30, 2007, donated services and space consist of the following:

Healthcare consultants	\$ 11,000
Medical supplies	2,000
Space costs	165,000
Pharmaceuticals	325,448
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	\$503,448

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS September 30, 2007

**13. RETIREMENT
PLAN:**

The Center sponsors a 403(b) retirement plan (defined contribution plan) for employees who meet eligibility requirements. Employees may choose to save a portion of eligible compensation on a pre-tax basis, subject to certain IRS limitations. The Center may match up to 50% of employee contributions on the first 5% of eligible compensation. During fiscal year 2007, the Center matched 25% of eligible employee contributions made during the period from February 2007 through September 2007; the related retirement plan expense was \$70,791.

**14. COMMITMENTS
AND
CONTINGENCIES:**

The Center has contracted with various governmental agencies to monitor and distribute funds through grants and contracts to subrecipients for the provision of certain healthcare services. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by federal and state governments. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

The Center maintains its 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 maintains gap insurance for claims that are not covered by FTCA.

The Center leases space under noncancelable operating leases. Rent expense for the year ended September 30, 2007 amounted to \$41,556. Facilities leased under noncancelable operating leases require future minimum payments as follows:

Year ending September 30,	
2008	\$ 468,786
2009	425,307
2010	425,307
2011	402,953
2012	380,598
Thereafter	31,716
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	\$2,134,667
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**WEST SIDE COMMUNITY HEALTH
SERVICES, INC.**

**INTERNAL CONTROLS AND
COMPLIANCE SECTION**

SEPTEMBER 30, 2007

McGladrey & Pullen

Certified Public Accountants

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
West Side Community Health Services, Inc.

We have audited the financial statements of West Side Community Health Services, Inc. (the "Center") as of and for the year ended September 30, 2007, and have issued our report thereon dated January 31, 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.

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 accounting principles generally accepted in the United States of America 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.

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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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

McGladrey & Pullen, LLP

New York, New York
January 31, 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
West Side Community Health Services, Inc.

Compliance - We have audited the compliance of West Side Community Health Services, Inc. (the "Center") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A133 *Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 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 A133 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 September 30, 2007.

Internal Control Over Compliance - The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance. 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 the internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses, as defined below. 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, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
January 31, 2008

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 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 weakness(es)? yes √ none reported

Noncompliance material to financial statements noted? yes √ no

Federal Awards

Internal control over major program:

- 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

93.224

Name of Federal Program or Cluster

U.S. 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

None

Section III - Federal Award Findings and Questioned Costs

None

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

STATUS OF PRIOR-YEAR'S FINDINGS September 30, 2007

Item #	Description of Condition	Status of Corrective Action
06-1	The Center has no formalized control procedures for: (1) reviewing and evaluating specific past-due accounts, (2) rebilling denied claims in a timely manner and (3) determining bad debts by periodic review of billing system.	This action has been corrected in the current year.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Supplementary Information - Schedule of Expenditures of Federal Awards

The Board of Directors
West Side Community Health Services, Inc.

We have audited the basic financial statements of West Side Community Health Services, Inc. as of and for the year ended September 30, 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 the responsibility of management and is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A 133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

McGladrey & Pullen, LLP

New York, New York
January 31, 2008

WEST SIDE COMMUNITY HEALTH SERVICES, INC.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers program	93.224	N/A	\$4,174,695
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	N/A	286,654
Passed through State of Minnesota Department of Health:			
Centers for Disease Control and Prevention:			
Investigations and Technical Assistance	93.283	Not Available	82,259
Medical Assistance Program (Medicaid)	93.778	Not Available	48,418
HIV Prevention Activities: Health Department Based	93.940	Not Available	143,636
Community Based Child Abuse Prevention Grants	93.590	Not Available	58,861
Passed through Hennepin County:			
HIV Emergency Relief Project Grants	93.914	Not Available	245,813
Passed through City of St. Paul, Ramsey County:			
Maternal and Child Health Services Block Grant to the States	93.994	Not Available	578,714
Temporary Assistance for Needy Families	93.558	Not Available	71,920
Passed through the City of Minneapolis:			
Healthy Start Initiative	93.926	Not Available	109,784
Total U.S. Department of Health and Human Services			5,800,754
U.S. Department of Housing and Urban Development:			
Passed through City of St. Paul, Ramsey County:			
Emergency Shelter Grants program	14.231	Not Available	33,125
Passed through Ramsey County Department of Health:			
Community Development Block Grants/Entitlement Grants	14.218	Not Available	34,261
Total U.S. Department of Housing and Urban Development			67,386
Total federal awards			\$5,868,140

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in the 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 this schedule, the Center provided no federal awards to subrecipients.