



**MATTHEW WALKER  
COMPREHENSIVE HEALTH CENTER, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JANUARY 31, 2011**



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## Independent Auditors' Report

To the Board of Directors  
Matthew Walker Comprehensive Health Center, Inc.  
Nashville, Tennessee

We have audited the accompanying balance sheet of Matthew Walker Comprehensive Health Center, Inc. (the "Center") as of January 31, 2011, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounts 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 Matthew Walker Comprehensive Health Center, Inc., as of January 31, 2011, 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 18, 2012 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on Matthew Walker Comprehensive Health Center Inc.'s basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance, as listed in the table of contents, are 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 the State of Tennessee, and are 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.

*Crosslin & Associates, P.C.*

September 18, 2012

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
BALANCE SHEET  
JANUARY 31, 2011

ASSETS

Current assets:	
Certificate of deposit	\$ 582,883
Patient services receivable, net	1,372,939
Contract services receivable	136,935
Prepaid expenses and other	42,859
Inventory	<u>509,855</u>
Total current assets	2,645,471
Property and equipment, net	7,574,459
Other assets	<u>211,875</u>
Total assets	<u>\$10,431,805</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:	
Bank overdraft	\$ 393,604
Line-of-credit	1,775,000
Accounts payable and accrued expenses	2,031,062
Accrued compensation	799,514
Current portion of notes payable	125,120
Refundable advances - grants	<u>30,601</u>
Total current liabilities	5,154,901
Long-term portion of notes payable	<u>2,914,013</u>
Total liabilities	8,068,914
Commitments and contingencies (Note N)	-
Unrestricted net assets	<u>2,362,891</u>
Total liabilities and unrestricted net assets	<u>\$10,431,805</u>

See accompanying notes to financial statements.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS  
YEAR ENDED JANUARY 31, 2011

Unrestricted revenue:	
DHHS grant	\$ 4,399,619
Patient services, net	6,222,002
Contract services and other grants	409,854
Donated equipment and pharmaceuticals	496,992
Contributions and other	<u>165,841</u>
Total unrestricted revenue	<u>11,694,308</u>
Expenses:	
Salaries and benefits	8,554,000
Other operating expenses	3,200,624
Provision for bad debts	1,677,779
Interest	<u>240,765</u>
Total expenses	<u>13,673,168</u>
Deficit of revenue under expenses prior to depreciation and amortization expense	( 1,978,860)
Depreciation and amortization expense	<u>538,068</u>
Deficit of revenue under expenses	( 2,516,928)
DHHS capital grant	<u>322,617</u>
Decrease in unrestricted net assets	( 2,194,311)
Unrestricted net assets:	
Beginning of year	<u>4,557,202</u>
End of year	<u>\$ 2,362,891</u>

See accompanying notes to financial statements.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JANUARY 31, 2011

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 5,382,006	\$1,908,290	\$ 7,290,296
Employee benefits	1,007,773	255,931	1,263,704
Healthcare consultants	467,069	-	467,069
Consultants and professional fees	143,990	86,096	230,086
Laboratory fees	417,328	-	417,328
Consumable supplies	690,182	75,403	765,585
Occupancy	493,826	93,094	586,920
Insurance	17,087	29,473	46,560
Equipment rental, repairs and maintenance	112,487	120,052	232,539
Telephone	66,364	42,398	108,762
Travel, conferences and meetings	71,009	46,250	117,259
Dues and subscriptions	34,781	4,860	39,641
Printing, publications and postage	28,175	21,236	49,411
Interest	157,869	82,896	240,765
Provision for bad debts	1,677,779	-	1,677,779
Other	<u>27,207</u>	<u>112,257</u>	<u>139,464</u>
	10,794,932	2,878,236	13,673,168
Depreciation and amortization	<u>379,953</u>	<u>158,115</u>	<u>538,068</u>
Total functional expenses	<u>\$11,174,885</u>	<u>\$3,036,351</u>	<u>\$14,211,236</u>

See accompanying notes to financial statements.



MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED JANUARY 31, 2011

Cash flows from operating activities:	
Cash received from DHHS grants	\$ 4,399,619
Cash received from patient services	5,330,429
Cash received from contract services	307,246
Cash received from contributions and other	165,841
Cash paid for interest	( 240,765)
Cash paid for personnel costs	(8,192,954)
Cash paid for other operating expenses	<u>(2,630,510)</u>
Net cash used in operating activities	<u>( 861,094)</u>
Cash flows from investing activities:	
Purchases of property and equipment	( 612,820)
Reinvestment in certificate of deposit	<u>( 8,474)</u>
Cash used in investing activities	<u>( 621,294)</u>
Cash flows from financing activities:	
Cash received from DHHS capital grant	322,617
Bank overdraft assumed to be financed	393,604
Borrowings on line-of-credit	775,000
Acquisition of OB-GYN Associates, P.C.	<u>( 175,000)</u>
Net cash provided by financing activities	1,316,221
Net decrease in cash and cash equivalents	( 166,167)
Cash and cash equivalents:	
Beginning of year	<u>166,167</u>
End of year	<u>\$ -</u>

See accompanying notes to financial statements.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
STATEMENT OF CASH FLOWS - Continued  
YEAR ENDED JANUARY 31, 2011

Reconciliation of decrease in net assets to net cash used in operating activities:

Decrease in unrestricted net assets	\$(2,194,311)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:	
Depreciation and amortization	538,068
Provision for bad debts	1,677,779
DHHS capital grant	( 322,617)
Donated assets	( 447,390)
Changes in operating assets and liabilities:	
Patient services receivable	( 891,573)
Contract services receivable	( 67,653)
Prepaid expenses and other	( 11,426)
Inventory	( 2,397)
Accounts payable and accrued expenses	534,335
Accrued compensation	361,046
Refundable advances - grants	<u>( 34,955)</u>
 Total adjustments	 <u>1,333,217</u>
 Net cash used in operating activities	 <u><u>\$( 861,094)</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH  
INVESTING AND FINANCING ACTIVITIES:

During May 2010, the Center acquired certain net assets and operations of OB-GYN Associates, P.C., a medical clinic with offices in Smyrna and Murfreesboro, Tennessee. The purchase price was \$300,000, of which \$175,000 was paid and the remaining \$125,000 was financed through a note payable (See Note H).

See accompanying notes to financial statements.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

A. ORGANIZATION

Matthew Walker Comprehensive Health Center, Inc. (the "Center") operates community health centers located in Nashville, Smyrna, Murfreesboro, and Clarksville, Tennessee. 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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Center follows accounting standards established by the Financial Accounting Standards Board (the "FASB") to ensure consistent reporting of financial condition, results of operations, and cash flows. References to accounting principles generally accepted in the United States of America in these notes are to the *FASB Accounting Standards Codification*, sometimes referred to as the "Codification" or "ASC."

Net Assets

The Center classifies its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of operations and changes in unrestricted net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements. The Center had no temporarily restricted net assets at January 31, 2011.

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at January 31, 2011.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The statement of operations and changes in unrestricted net assets includes excess or (deficiency) of revenue and support over (under) expenses that represents the results of operations. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue and support over (under) expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Use of Estimates in the Preparation of Financial Statements

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. The more significant estimates include contractual adjustments and related allowances for net patient services receivable and the recovery period of property and equipment. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Patient Services Revenues and Receivables

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 estimated contractual allowances deducted to arrive at patient services, net.

Patient services receivable are reported at their outstanding unpaid balances reduced by allowances for contractual discounts provided to third-party payors and an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payers' ability to pay and current economic trends. The Center writes-off patient services receivables against the allowance when a balance is determined to be uncollectible. Recoveries of accounts previously written-off are recorded when received (See Notes E and N).

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

Inventory consists of medical supplies and pharmaceuticals and is recorded at the lower of cost (first-in, first-out) or market. Donated pharmaceuticals are recorded at fair value on the date of donation.

Property and Equipment

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 furniture, equipment and vehicle, and 40 years for building and building improvements. The Center capitalizes all purchases of property and equipment in excess of \$600. Leasehold improvements are amortized over the shorter of the asset's useful life or the lease term.

Contributions and Donations

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

Conditional contributions are recognized in the period in which the conditions have been substantially met.

Donated goods and services are recognized in the accompanying financial statements based on fair value on the date of donation.

Grants and Contracts

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 non-operating revenue during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Tax Status

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. Accordingly, there is no provision for income taxes in the accompanying financial statements.

The Center recognizes tax benefits from an uncertain tax position only if it is "more likely than not" that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management has evaluated the Center's tax positions and concluded that the Center had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Center is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2008, which is the standard statute of limitations look-back period.

Financial Instruments

The Center's financial instruments consist of a certificate of deposit, receivables, accounts payable and accrued expenses, a line-of-credit and notes payable. The recorded values of the certificate of deposit, receivables, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The carrying value of the line-of-credit and notes payable are not materially different from the estimated fair value of these instruments.

C. SUBSEQUENT EVENTS

The Center evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation has been performed through the date the financial statements were available to be issued, which was September 18, 2012. See Notes G and H for further information regarding subsequent events relating to the Center's line-of-credit and notes payable, respectively.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

D. ACQUISITION OF OB-GYN ASSOCIATES, P.C.

Effective May 1, 2010, the Center entered into an asset purchase agreement to acquire substantially all of the net assets and operations of OB-GYN Associates, P.C. ("OB-GYN"). OB-GYN had been principally engaged in providing professional medical services in Murfreesboro and Smyrna, Tennessee.

The purchase price totaled \$300,000, of which the Center paid \$175,000 upon closing. The remaining purchase price was financed through a note payable to the seller, as further described in Note H.

The acquisition has been accounted for under ASC 958-805, *Not for Profit Entities - Business Combinations*. Accordingly, the tangible assets acquired, which consisted principally of equipment, were recorded at their fair values at the date of acquisition.

The purchase price of OB-GYN exceeded the fair value of the net tangible assets acquired by \$225,000. The purchase price has been recorded to tangible assets, identifiable intangible assets and goodwill as follows:

Property and equipment	\$ 75,000
Intangible assets	112,500
Goodwill	<u>112,500</u>
	<u>\$300,000</u>

The future operations of OB-GYN are not expected to be predominately supported by contributions; therefore, goodwill has been recognized as an asset. Intangible assets and goodwill are included in other assets in the accompanying balance sheet.

The intangible assets have an estimated useful life of 5 years. At January 31, 2011, intangible assets totaled \$99,375, net of accumulated amortization of \$13,125. Future amortization of the intangible assets is \$22,500 in each of fiscal years 2012, 2013, 2014 and 2015 and \$9,375 in fiscal year 2016.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

E. PATIENT SERVICES RECEIVABLES, NET - Continued

Patient services receivable, net, consists of the following:

Medicare	\$ 22,253
Private insurance	166,866
Self-pay	6,379,576
TennCare managed care plans	319,573
Medicaid managed care wraparound	587,976
Tennessee Department of Health - Essential Access Pool	<u>171,899</u>
	7,648,143
Less allowance for doubtful accounts	<u>(6,275,204)</u>
	<u>\$ 1,372,939</u>

See Note N regarding contingencies in the collection of patient services receivables.

F. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following:

Land	\$ 506,269
Building and improvements	5,587,384
Furniture and equipment	3,759,973
Leasehold improvements	384,215
Vehicle	<u>24,093</u>
	10,261,934
Less accumulated depreciation and amortization	<u>( 2,687,475)</u>
	<u>\$ 7,574,459</u>

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

G. LINE-OF-CREDIT

As of January 31, 2011, the Center had a \$1,775,000 line-of-credit agreement with a financial institution. The line-of-credit bears interest at a fixed rate of 6.0% and is partially collateralized by the Center's certificate of deposit. During May 2011, the Center extended the line-of-credit to August 2011. During September 2011, the Center entered into an agreement to amend the line-of-credit and transfer \$1,000,000 of the outstanding balance to the Center's term note, as described in Note H. The amended line-of-credit allows for maximum borrowings of \$750,000 and bears interest at a fixed rate of 4.0%. The amended line-of-credit is due in September 2012.



MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

H. NOTES PAYABLE

At January 31, 2011, the Center had a note payable agreement for \$3,825,000, the outstanding balance of which was \$2,914,133. Interest-only payments are due monthly at a fixed rate of 4.75%. The loan is collateralized by the Center's building in Nashville. The entire outstanding principal amount was due in August 2011. During September 2011, the Center entered into a new loan agreement, which increased the principal amount to \$4,165,000. In conjunction with the new note, the Center transferred \$1,000,000 from its line-of-credit to the new note, as described in Note G. The new note bears interest at a fixed rate of interest at 6.29%, and is payable in monthly principal and interest payments of \$36,039, with the remaining balance due in October 2015.

As part of the purchase agreement of OB-GYN Associates, P.C., the Center financed \$125,000 of the purchase price through the issuance of a note payable to the seller. Under the terms of the agreement, the Center is required to make two equal payments of \$62,500 on May 1, 2012 and 2013.

The expected aggregate maturities of notes payable at January 31, 2011, including the impact of the amended note agreement, are as follows:

Years Ending January 31,	
2012	\$ 125,120
2013	323,033
2014	277,402
2015	295,362
2016	<u>2,018,216</u>
	<u>\$3,039,133</u>

I. DHHS GRANTS

For the year ended January 31, 2011, the Center received the following grants from the U.S. Department of Health and Human Services ("DHHS"):

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue</u>
6 H80CS00710-09-01	02/01/10 - 01/31/11	\$4,399,619	\$4,399,619	\$ -
6 C81CS14339-01-03	06/29/09 - 06/28/11	1,241,235	<u>-</u>	<u>322,617</u>
			<u>\$4,399,619</u>	<u>\$322,617</u>

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

J. PATIENT SERVICES, NET

For the year ended January 31, 2011, patient services revenue consisted of the following:

	<u>Gross Charges</u>	<u>Charitable and Contractual Allowances</u>	<u>Net Revenue</u>
Medicare	\$ 191,629	\$ 172,303	\$ 19,326
Private insurance	1,627,738	960,248	667,490
Self-pay	8,333,266	5,354,170	2,979,096
TennCare managed care plans	<u>2,738,794</u>	<u>1,703,418</u>	<u>1,035,376</u>
	<u>\$12,891,427</u>	<u>\$8,190,139</u>	4,701,288
Medicaid managed care wraparound			988,330
Tennessee Department of Health - Essential Access Pool			<u>532,384</u>
			<u>\$6,222,002</u>

Medicare and TennCare reimburse the Center at the net reimbursement rates as determined by the programs. Reimbursement rates are subject to revisions under the provisions of the reimbursement regulations. Adjustments for such revisions are recognized in the year incurred. See Note N regarding contingencies relating to patient services revenues.

K. CHARITY CARE

The Center is a not-for-profit healthcare provider established to meet the healthcare needs of area residents. The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Center maintains records to identify and monitor the level of charity care it provides. The amount of charity care charges provided during the year ended January 31, 2011 amounted to approximately \$5,460,000.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

L. CONTRACT SERVICES AND OTHER GRANTS

For the year ended January 31, 2011, contract services and other grant revenues consisted of the following:

Meharry Medical College - Community Networks Program	\$ 39,836
State of Tennessee Crime Victims Assistance	33,145
Baptist Healing Trust	4,169
United Way:	
McGruder Family Resource Center	43,950
Flood Relief Grant	112,257
Healthy Start Program	8,549
United Neighborhood Health Services	15,267
Vanderbilt/Meharry Grant	34,576
Austin Peay Grant	17,679
Hospital Corporation of America Grant	39,267
American Cancer Society Grant	10,000
Fisk University	49,873
Safe Child Coalition	<u>1,286</u>
	<u>\$409,854</u>

M. RETIREMENT PLAN

The Center has a defined contribution retirement plan covering substantially all employees who meet certain eligibility requirements. The amounts contributed to the plan are a fixed percentage of a participant's defined compensation. Expense relating to the retirement plan amounted to \$161,583 for the year ended January 31, 2011.

N. COMMITMENTS AND CONTINGENCIES

The Center has contracted with various funding agencies to perform certain healthcare services and receives Medicare and Medicaid revenue from the federal and state governments. Reimbursements received under these contracts and payments from Medicare and Medicaid 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 refunding the amounts in question. As of the date these financial statements were available for issuance, the State of Tennessee had commenced an audit of Medicaid claims for the fiscal years ended January 31, 2009, 2010 and 2011. The outcome of this audit is not presently determinable, but could have a material impact on the Center's financial statements for these periods.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

N. COMMITMENTS AND CONTINGENCIES - Continued

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 is involved in various claims and 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.

The Center leases certain facility space and equipment under noncancelable operating leases. Rent expense for the year ended January 31, 2011 amounted to \$217,106. Facilities and equipment leased under noncancelable operating leases require future minimum payments exceeding one year as follows:

Years Ending <u>January 31,</u>	
2012	\$169,435
2013	160,527
2014	155,964
2015	156,695
2016	<u>27,202</u>
	<u>\$669,823</u>

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding any amounts in question.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2011

N. COMMITMENTS AND CONTINGENCIES - Continued

In March 2010, President Obama signed the Patient Protection and Affordable Care Act ("PPACA") into law. PPACA will result in sweeping changes across the healthcare industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32,000,000 uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in healthcare delivery and to generate budgetary savings in the Medicare and Medicaid programs. The final regulations and interpretive guidelines are being published. Management of the Center is studying and evaluating the anticipated impacts and developing strategies needed to prepare for implementation. The Center is presently unable to fully predict the impact of PPACA on its operations and financial results.

O. NEW ACCOUNTING STANDARDS

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities (Topic 954)-Measuring Charity Care for Disclosure*. ASU 2010-23 requires disclosure of charity care based on the healthcare provider's direct and indirect costs of providing charity care services, the method used to identify or estimate such costs, and funds received to offset or subsidize charity services provided. The disclosures required by ASU 2010-23 are effective for fiscal year beginning after December 15, 2010, and must be applied retrospectively. The Center is assessing the impact of the implementation of ASU 2010-23 on the disclosures in its financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954)-Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 clarifies that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, ASU 2010-24 provides that the amount of the claims liability should be determined without consideration of insurance recoveries. The provisions of ASU 2010-24 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Entities must apply the provisions of ASU 2010-24 by recording a cumulative-effect adjustment to opening unrestricted net assets as of the beginning of the period of adoption. Retrospective application of the provisions of ASU 2010-24 is permitted. The Center is assessing the impact of the implementation of ASU 2010-24 on its financial statements.

## **SUPPLEMENTARY INFORMATION**

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JANUARY 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers Program	93.224*	-	\$4,399,619
ARRA - Health Center Integrated Services Development Initiative	93.703*	-	322,617
Passed through Meharry Medical College:			
Healthy Communities Access Program	93.252	N/A	39,836
ARRA - Passed through Vanderbilt University Medical Center: Trans-NIH Recovery Act Research Support	93.701	VUMC35851	<u>34,576</u>
Total U. S. Department of Health and Human Services			<u>4,796,648</u>
U.S. Department of Justice:			
Passed through Tennessee Department of Health:			
Crime Victim Assistance	16.575	3801	22,323
ARRA - State Victim Assistance Formula Grant Program	16.801	3905	<u>10,822</u>
Total U.S. Department of Justice			<u>33,145</u>
Total expenditures of federal awards			<u>\$4,829,793</u>

\*Denotes major programs

See notes to the schedules of expenditure of federal awards  
and state financial assistance and independent auditors' report.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF STATE FINANCIAL ASSISTANCE  
YEAR ENDED JANUARY 31, 2011

<u>State Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>
State Financial Assistance:		
Tennessee Department of Health:		
Crime Victim Assistance	16.575	3801
ARRA - State Victim Assistance Formula Grant Program	16.801	3905
Tennessee Department of Children's Services:		
Safe Child Coalition	N/A	GR-10-29473-00
Tennessee Department of Health:		
Essential Access Pool	N/A	GR-10-29230-00 GR-11-33251-00
Total state financial assistance		



<u>Beginning Receivable</u>	<u>Cash Receipts</u>	<u>Expenditures/ Revenue</u>	<u>Adjustments</u>	<u>Ending Receivable</u>
\$ 6,622	\$( 20,797)	\$ 22,323	\$ -	\$ 8,148
5,197	( 14,275)	10,822	-	1,744
857	( 1,578)	1,285	-	564
<u>298,528</u>	<u>(519,013)</u>	<u>532,384<sup>(1)</sup></u>	<u>(140,000)</u>	<u>171,899</u>
<u>\$311,204</u>	<u>\$(555,663)</u>	<u>\$566,814</u>	<u>\$(140,000)</u>	<u>\$182,355</u>

<sup>(1)</sup>Based on revenue earned per award

See notes to the schedules of expenditure of federal awards  
and state financial assistance and independent auditors' report.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
NOTES TO SCHEDULES OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED JANUARY 31, 2011

A. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards and state financial assistance include the federal and state grant activity, respectively of Matthew Walker Comprehensive Health Center, Inc. and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee.

B. CONTINGENCY

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Center. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Matthew Walker Comprehensive Health Center, Inc.  
Nashville, Tennessee

We have audited the financial statements of Matthew Walker Comprehensive Health Center, Inc. (the "Center") as of and for the year ended January 31, 2011, and have issued our report thereon dated September 18, 2012. 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

The Center's management is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.



*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 11-3 through 11-9 to be significant deficiencies.

#### 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Crosslin & Associates, P.C.*

Nashville, Tennessee  
September 18, 2012

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

To the Board of Directors  
Matthew Walker Comprehensive Health Center, Inc.  
Nashville, Tennessee

Compliance

We have audited Matthew Walker Comprehensive Health Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended January 31, 2011. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the 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 the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as items 11-6, 11-7, 11-8 and 11-9.



### Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-6, 11-7, 11-8 and 11-9. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Center has prepared a corrective action plan that is not incorporated herein which includes the Center's responses to the audit findings identified in the schedule of findings and questioned costs. We did not audit the Center's responses and, accordingly, we express no opinion on them.

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

*Crosslin & Associates, P.C.*

Nashville, Tennessee  
September 18, 2012

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JANUARY 31, 2011

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:  
Material weakness(es) identified?   x   yes    no  
Significant deficiency(ies) identified not considered to  
be material weaknesses?   x   yes    none reported

Noncompliance material to financial statements noted?    yes   x   no

Federal Awards

Internal control over major programs:  
Material weakness(es) identified?    yes   x   no  
Significant deficiency(ies) identified not considered to  
be material weaknesses?   x   yes    none reported

Type of auditors' 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?   x   yes    no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.224	U. S. Department of Health and Human Services - Consolidated Health Centers Program
93.703	ARRA - Health Center Integrated Services Development Initiative

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?    yes   x   no

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION II - FINANCIAL STATEMENT FINDINGS**

***11-1 - Allowances for Contractual Adjustments and Doubtful Accounts Receivable***

Criteria

Accounts receivable for patient services should be recorded at net realizable value in the financial statements through the recognition of allowances for contractual adjustments and doubtful accounts. Appropriate contractual adjustments and related allowances should be recorded for patient service revenues and receivables based on historical and expected pay rates from third-party payors. Additionally, appropriate allowances for doubtful accounts should be established for self-pay accounts receivable as well as other third-party payor categories when information becomes available.

Condition, Context and Cause

The Center has a methodology for estimating contractual adjustments and allowances and an allowance for doubtful accounts. However, this methodology is used only at year-end, primarily at the time of the audit. Additionally, the Center has not historically performed a hindsight analysis or retrospective review of the prior period contractual and doubtful account allowances to determine if they are adequate to record accounts receivables, at the end of the respective periods, at net realizable value.

Effect

The value of patient accounts receivable is not being presented at net realizable value throughout the year. Patient accounts receivable are presented at net realizable value at year-end. Both the contractual adjustment and bad debt allowances required significant adjustment.

Recommendation

We recommend that the Center improve its methodology and data for estimating the allowances for contractual adjustments and doubtful accounts to include a thorough hindsight analysis on at least a quarterly basis. The Center should take into account historical collection percentages by payor, payor mix, and aging of patient and third-party payor accounts to develop the allowances. This will help ensure the accuracy of the estimation process and will help the Center maintain accounts receivable at net realizable value on a timely basis throughout the year.



MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION II - FINANCIAL STATEMENT FINDINGS - Continued**

**11-2 - Patient Accounts Receivable**

Criteria

Accounts receivable for patient services should be supported by readily available financial reports and records. Reports should be generated on a monthly basis from the Center's billing system to properly reconcile patient accounts receivable in the Center's separate general ledger and record related allowances. For receivables not maintained in the billing system, primarily receivables for Prospective Payment Systems ("PPS") and Essential Access Pool ("EAP"), the Center should maintain regular reconciliations and detailed support for the amounts recorded in the general ledger.

Condition, Context and Cause

Currently, the Center utilizes a computerized billing system to process billing and collection efforts for patient services. During our audit, we noted that the aged accounts receivables per the billing system was not being reconciled to the accounts receivable control account in the general ledger on a monthly basis. Additionally, for PPS and EAP receivables, the Center did not have reconciliations or details of the amounts recorded in the general ledger.

Effect

Significant accounts within the general ledger are not being reconciled to underlying information on a monthly basis. This has resulted in significant, unreconciled differences between the general ledger and underlying support from the billing system or other records, causing adjustments. For PPS and EAP receivables, year-end audit adjustments were required based on reconciliations of the accounts performed for audit purposes. Additionally, for PPS receivables, the lack of monthly reconciliations caused certain significant discrepancies between the reimbursement reports filed with the State of Tennessee and the amounts recorded in the general ledger. The Center is in the process of correcting the discrepancies with the State.

Recommendation

We recommend the Center reconcile the aged accounts receivable per the billing system to the general ledger on a monthly basis, with all discrepancies being investigated and resolved in a timely manner. Additionally, the Center should develop a consistent methodology for review of PPS and EAP receivables. This review should include both monthly and quarterly reconciliations. Reconciliations of accounts receivable will help to ensure accurate and timely financial reporting for accounts receivable throughout the year, and will avoid cumbersome year-end adjustments.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION II - FINANCIAL STATEMENT FINDINGS - Continued**

**11-3 - Payroll Tax Remittances**

Criteria

Payroll taxes should be remitted to the appropriate governmental authorities on a timely basis.

Condition, Context and Cause

During our testing of cash and accrued liabilities, we noted that payroll taxes for payroll periods in December 2010 and January 2011 were not remitted until March 2011 and June 2011, respectively. This was caused primarily by a lack of thorough review and follow-up regarding payroll.

Effect

Remittance of payroll taxes outside of the customary timeframes could result in fines or penalties imposed by the government.

Recommendation

We recommend that the Center remit all payroll taxes according to the timeframes established by the respective governmental authorities. Additionally, a supervisory employee, independent of the payroll department, should review the payroll remittances on at least a monthly basis to ensure that proper remittances are being made.

**11-4 - Pharmaceutical Inventories**

Criteria

The Center maintains a significant supply of pharmaceutical inventory in order to serve patients. Much of the inventory is donated and the value of such inventory is recorded within the financial statements.

Condition, Context and Cause

During our audit, we noted that the Center did not perform a full physical inventory count on donated inventory during fiscal year 2011 or as of January 31, 2011. Lack of physical inventory counts means that the amount of pharmaceutical inventories recorded within the financial statements are not periodically reconciled to the physical quantities on hand. Additionally, physical counts of donated inventories would provide an additional opportunity for review of inventory expiration dates.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION II - FINANCIAL STATEMENT FINDINGS - Continued**

**11-4 - Pharmaceutical Inventories - Continued**

Effect

The lack of physical inventory counts could result in unreconciled differences or misstatement of inventories in the future.

Recommendation

We recommend that the Center establish a policy of performing regular physical inventory counts of pharmaceuticals on a cycle basis throughout the year. Additionally, a full physical count should be performed at year-end. The periodic and year-end physical counts should include a review of the expiration dates of the inventory. Physical inventory counts will help to ensure that inventory is appropriately recorded within the financial statements and that it remains useful for patient service.

**11-5 - Accounts Payable and Accrued Expenses**

Criteria

The recorded amounts of accounts payable and accrued expenses should be supported by underlying detail and reconciliations. Such detail and reconciliations should provide information regarding the Center's obligations, including what obligations are outstanding and when they are due.

Condition, Context and Cause

Certain accounts payable and accrued expense accounts did not have adequate detail of the amounts owed, including detail of the obligations and reconciliation to the general ledger throughout the year or at year-end. Additionally, during our testing, we also noted a significant amount of postings and correcting adjustments to certain accounts payable and accrued expense accounts.

Effect

The lack of reconciliations for accounts payable and accrued expenses caused inaccurate interim financial reporting and resulted in several significant year-end adjustments. Specifically, the preliminary amounts reported for accounts payable and cash were overstated and accrued expenses for payroll liabilities were understated. Lack of reconciliations may cause similar misstatements in interim or year-end financial reporting in the future.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION II - FINANCIAL STATEMENT FINDINGS - Continued**

**11-5 - Accounts Payable and Accrued Expenses - Continued**

Recommendation

We recommend that the Center improve its accounting for accounts payable and accrued expenses through monthly review and reconciliation of such accounts. The reconciliations should be reviewed by supervisory personnel who are independent of the preparation of the reconciliations. The supervisory personnel should also review the general ledger postings on a routing basis throughout the year to determine accuracy and validity of the activity. Timely monitoring of accounts payable and accrued expense accounts will ensure that the amounts reported in the financial statements are appropriately supported by the Center's financial accounting records. Additionally, it will help the Center to manage its obligations, including an understanding of what is owed and when.

**11-6 - Property and Equipment**

Criteria

Detailed property and equipment and related depreciation expense records are essential to ensure that net property and equipment is appropriately reflected in the financial statements. Additionally, accounting records of entities receiving federal funds must be adequately maintained to ensure the accuracy of the accounting and financial reports submitted to federal agencies. During fiscal year 2011, the Center received federal funds which were used to purchase property and equipment.

Condition, Context and Cause

During our testing of property and equipment, we noted that the preliminary listing of property and equipment additions for fiscal year 2011 did not agree to the activity in the general ledger or to the property and equipment detail schedule. Additionally, the depreciation schedule did not agree to the general ledger and depreciation expense was not correctly calculated for several assets. Property and equipment and depreciation schedules are not being maintained and reviewed on a monthly basis.

Questioned Costs

None.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION II - FINANCIAL STATEMENT FINDINGS - Continued**

**11-6 - Property and Equipment**

Effect

As a result of the differences in the property and equipment and depreciation schedules, interim accounting records did not correctly reflect property and equipment, and several year-end adjustments were required to the property and equipment accounts.

Recommendation

We recommend that the Center strengthen its procedures to ensure that all property and equipment activity, including depreciation expense, are recorded and accurately maintained in the detailed records supporting the general ledger. The supporting records should be reconciled to the general ledger on a monthly basis and reviewed by supervisory personnel. Maintaining accurate supporting records for property and equipment will ensure that the Center is properly reflecting assets and depreciation expense within the financial statements.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**U.S. Department of Health and Human Services**

**Consolidated Health Centers Program  
CFDA No. 93.224**

**ARRA – Health Center Integrated Services Development Initiative  
CFDA No. 93.703**

**11-6 - Property and Equipment**

See Section II above.

**11-7 - Charges for Services**

Criteria

In accordance with the OMB Circular A-133 *Compliance Supplement* for the Consolidated Health Centers grant program, health centers “must have a schedule of fees or payments for the provision of their health services consistent with locally prevailing rates or charges and designed to cover their reasonable costs of operation. They are also 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 the U.S. Department of Health and Human Services. The poverty guidelines are issued each year in the *Federal Register*...”

Condition and Context

The Center maintains a policy of establishing charges designed to cover its reasonable costs of operation. The Center also maintains a schedule of discounts (“Sliding Scale”), which is based on the patient’s ability to pay. During our procedures surrounding revenue and accounts receivable, we noted that the Center’s Sliding Scale used during fiscal year 2011 is based on the poverty rates in effect for 2007.

Questioned Costs

None.

Cause

The Center has not recently updated its Sliding Scale.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED  
COSTS - Continued**

**U.S. Department of Health and Human Services**

**Consolidated Health Centers Program  
CFDA No. 93.224**

**ARRA – Health Center Integrated Services Development Initiative  
CFDA No. 93.703**

***11-7 - Charges for Services - Continued***

Effect

The Center's Sliding Scale is not reflective of the most current guidance issued by the federal government.

Recommendation

We recommend that the Center establish a policy to review its fees and related Sliding Scale on an annual basis. The policy should include procedures for when and how to adjust the Sliding Scale to the most recent guidance. This will help to ensure that the Center maintains an appropriate basis for its Sliding Scale and that charges and discounts appropriately reflect current federal regulations.

***11-8 - Collection of Patient Accounts Receivable***

Criteria

In accordance with its federal grant programs, the Center is required to make reasonable collection efforts for its patient accounts receivable. The Center has established an adequate policy for such collection, which is to make three collection attempts over a 90-day period. If no payment is received after the final attempt, the receivable is written-off.

Condition and Context

During our audit, we discussed the Center's collection policy with management, noting that they believe it has been in-place and working effectively. However, we noted that the Center does not currently maintain complete documentation of the collection efforts being made.

Questioned Costs

None.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED  
COSTS - Continued**

**U.S. Department of Health and Human Services**

**Consolidated Health Centers Program  
CFDA No. 93.224**

**ARRA – Health Center Integrated Services Development Initiative  
CFDA No. 93.703**

**11-8 - Collection of Patient Accounts Receivable - Continued**

Cause

The Center does not currently maintain documentation of all of its collection efforts.

Effect

Without records of all of its collection efforts, the Center cannot effectively demonstrate that such efforts are being made on a consistent basis.

Recommendation

We recommend that the Center start maintaining information regarding its collection efforts. The Center should determine the most appropriate records to maintain, including copies of collection letters, logs of collection calls, and any responses of the patients. Maintaining information regarding collection efforts will help the Center to demonstrate its compliance with its grant programs as well as demonstrate the efforts of its personnel.

**11-9 - Annual Audit and Data Collection Form Submission**

Criteria

OMB Circular A-133 requires that the auditee submit the Data Collection Form (Form SF-SAC) and the Single Audit Reporting Package within the earlier of 30-days after receipt of the auditors' report or nine months after the end of the reporting period.

Condition and Context

The Center did not file its Form SF-SAC and Single Audit Reporting Package within nine months after year-end.



MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
YEAR ENDED JANUARY 31, 2011

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED  
COSTS - Continued**

**U.S. Department of Health and Human Services**

**Consolidated Health Centers Program  
CFDA No. 93.224**

**ARRA - Health Center Integrated Services Development Initiative  
CFDA No. 93.703**

**11-9 - Annual Audit and Data Collection Form Submission - Continued**

Questioned Costs

None

Cause

Several factors caused delays in the Single Audit Reporting process, including certain turnover in staff and an overall small financial staff.

Effect

The Center is not in compliance with OMB Circular A-133's reporting requirements.

Recommendation

We recommend that the Center implement the recommendations contained in this report to enable more timely completion of supporting schedules and related internal and external financial reports. This will help the timely completion and filing of the reports required by OMB Circular A-133.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JANUARY 31, 2011

<u>Item #</u>	<u>Description of Condition</u>	<u>Status of Corrective Action</u>
10-1	Allowance for Doubtful Accounts Receivable	This item has been repeated in the current year. See finding 11-1.
10-2	Patient Accounts Receivable	This item has been repeated in the current year. See finding 11-2.
10-3	Property and Equipment Additions	This item has been repeated in the current year. See finding 11-6.
10-4	Cash Disbursements Cycle	This item has been resolved.
10-5	Annual Audit and Data Collection Form Submission	This item has been repeated in the current year. See finding 11-9.