MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
JANUARY 31, 2014

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.

Table of Contents

HOSKINS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
1900 Church Street, Suite 200 • Nashville, TN 37203
phone 615.321.7333 • *fax* 615.523.1868

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Matthew Walker Comprehensive Health Center (a nonprofit organization), which comprise the statement of financial position as of January 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 as of January 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of Matthew Walker Comprehensive Health 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Matthew Walker Comprehensive Health Center's internal control over financial reporting and compliance.

Hoskins & Company

Hoskins & Company

October 27, 2014

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JANUARY 31, 2014

Assets		
Current Assets		
Cash and Equivalents	$	34,227
Patient Receivables, net		1,143,488
Contract receivables		60,040
Prepaid Expenses and Other		16,122
Inventory and Other Assets		18,621
Total Current Assets		1,272,498
Noncurrent		
Property and Equipment, net		5,914,740
Total Noncurrent Assets		5,914,740
Total Assets	$	7,187,238
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Line of Credit	$	165,749
Deferred Revenue		128,640
Due to Federal Government		621,528
Accounts Payable & Accrued Expenses		1,229,417
Accrued Compensation & Related Payables		2,729,502
Current Portion of Notes Payable		279,227
Total Current Liabilities		5,154,063
Long Term Liabilities		
Long Term Portion of Notes Payable		3,730,837
Total Long Term Liabilities		3,730,837
Net Assets		
Unrestricted net asset (deficit)		(1,697,662)
Total Liabilities and Net Assets (Deficit)	$	7,187,238

The accompanying notes are an integral part of these financial statements

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.
STATEMENT OF ACTIVITES
FOR THE YEAR ENDED JANUARY 31, 2014

Unrestricted Revenue:	
Patient Services	$ 5,071,476
Less: provision for bad debt	1,061,910
Net patient services revenue	4,009,566
Department of Health and Human Services Grant	4,911,007
Grant Revenue	475,273
Contributions	9,151
Other Income	20,290
Total Unrestricted Revenue	9,425,287
Expenses:	
Salaries & Wages	5,408,090
Fringe Benefits & Payroll Taxes	1,141,867
Professional Fees	675,064
Supplies	242,223
Insurance	62,331
Travel & Training	42,772
Administrative & General	694,281
Facility Operations & Maintenance	762,466
Total Expenses	9,029,094
Increase in Revenue over Expenses before Depreciation	396,193
Depreciation	541,991
Change in Unrestricted Net Assets	(145,798)
Beginning Net Assets	(1,229,836)
Prior Period Adjustments to Net Assets (Note 14)	(322,028)
Ending Net Assets	$ (1,697,662)

The accomanying notes are an integral part of these financial statements

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JANUARY 31, 2014

Cash Flows from Operating Activities	
Change in Net Assets (Deficit)	$ (145,798)
Adjustments to Reconcile Change in Net Assets (Deficit) to Net Cash Provided by Operations:	
Depreciations	541,991
Changes in Accounts Receivable	185,887
Changes in Prepaid Expenses	24,996
Changes in Accounts Payable	(571,498)
Changes in Wages and Related Payables	642,265
Changes in Inventory	18,193
Changes in Deferred Revenues	(170,860)
Changes in Beginning Net Assets	(322,028)
Total Adjustment in Net Income to Cash by Operations	348,946
Total Cash Flows Provided by Operating Activities	203,148
Cash Flows from Investing Activities	
Proceeds from Certificate of Deposit	586,277
Purchases of Property and Equipment	(10,760)
Total Cash Flows Used in Investing Activities	575,517
Cash Flows from Financing Activities	
Proceeds from Notes Payable	242,479
Payment of Principle on Notes Payable	(986,917)
Total Cash Flows Used in Financing Activities	(744,438)
Net Increase in Cash and Cash Equivalents	34,227
Cash and Cash Equivalents at Beginning of Period	-
Cash and Cash Equivalents at End of Period	$ 34,227

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JANUARY 31, 2014

	Program Services	General and Administrative	Total
Salaries and wages	$ 4,369,831	$ 1,038,259	$ 5,408,090
Fringe benefits	656,780	485,087	1,141,867
Healthcare consultants	181,738	-	181,738
Consultants and professional fees	30,005	113,494	143,499
Laboratory fees	349,828	-	349,828
Consumable supplies	220,532	21,691	242,223
Occupancy	595,685	92,126	687,810
Insurance	44,575	17,756	62,331
Equipment rental and maintenance	56,987	29,160	86,147
Telephone	53,401	47,696	101,097
Travel, conferences and meetings	37,222	4,898	42,120
Dues and subscriptions	13,807	5,453	19,260
Printing, publications and postage	2,882	10,781	13,663
Interest	180,773	86,925	267,698
Other	198,411	83,312	281,723
	6,992,455	2,036,638	9,029,094
Depreciation	395,367	146,624	541,991
Total Functional Expenses	$ 7,387,822	$ 2,183,262	$ 9,571,085

The accompanying notes are an integral part of these financial statements

NOTE 1---NATURE OF ORGANIZATION

Matthew Walker Comprehensive Health Center, Inc. (the “Center") operates community health centers located in Nashville, Smyrna, and Clarksville, Tennessee. Through March 2013, the Center also had a location in Murfreesboro. The Center provides a broad range of health services to a largely medically underserved population.

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

NOTE 2---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."

<u>Net Assets (Deficit)</u>

When applicable, the Center classifies its net assets (deficit) into three categories, which are unrestricted, temporarily restricted and permanently restricted.

> Unrestricted net assets (deficit) are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations.
>
> The Center does not have any temporarily or permanently restricted net assets at January 31, 2014.

The statements of operations and changes in unrestricted net assets (deficit) include 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).

NOTE 2---SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, bad debt allowances and the recovery period of property and equipment. Actual results could differ from those estimates.

Cash and Cash Equivalents

All highly liquid investments held with maturities of three months or less, when purchased, are considered to be cash equivalents.

Patient Services Revenue and Receivable

Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payers 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 net patient services revenue.

Patient services receivable are reported at their outstanding unpaid balances reduced by allowances for contractual discounts provided to third-party payers 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 receivable against the allowance when a balance is determined to be uncollectible. Recoveries of accounts previously written-off are recorded when received (See Notes 4 and 9).

Inventory

Inventory, included in other assets, consists of certain 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 3 to 10 years for furniture, equipment and vehicles, 5 to 20 years for building improvements and 50 years for building. 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.

NOTE 2---SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 (deficit) 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 disburse the funds allotted under the grants and contracts.

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.

NOTE 2---SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Tax Status - Continued
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 2011, which is the standard statute of limitations look-back period.

Financial Instruments
The Center’s financial instruments consist of a line-of-credit and notes payable. The carrying value of the line-of-credit and notes payable are not materially different from the estimated fair value of these instruments.

NOTE 3---FINANCIAL CONDITION AND RELATED CONTINGENCIES

The Center has incurred substantial operating losses in fiscal years 2011 - 2014 and is in a deficit position at January 31, 2014. Current liabilities exceed current assets by approximately $3.8 million. The financial statements at January 31, 2014 include liabilities due to the IRS for estimates of payroll taxes, penalties and interest of approximately $1.5 million and a liability to Health Resources and Services Administration (HRSA) for approximately $622 thousand for grant proceeds which were not used for the intended purpose or questionable costs.

The payroll tax liability arose from the failure of the Center to remit periodic payments starting in fiscal year 2011. While most payments have been remitted periodically in fiscal year 2013 and 2014, the current (at the date of this report) amount due continues to approximate $1.5 million. The Internal Revenue Service’s (IRS) course of action, with regard to current payments of this obligation, has not been formally determined. During a review conducted by the IRS in November 2013, the Center has been placed in an “uncollectable status,” for an IRS estimated term of 12-18 months, at the end of which another review will be conducted. The Board has included in the Center’s FY2015-2016 approved budget a repayment plan to the IRS to proactively begin making payments.

With regard to the HRSA $622 thousand obligation for questioned grant proceeds, the course of action with respect to settlement has also not been formally determined. Communications with HRSA officials regarding this matter are on-going as of the date of this report. The Board has included in the Center’s FY 2015-2016 approved budget a repayment plan to HRSA.

The Center has submitted their three year Service Area Competition Grant application to HRSA, which has been accepted and is under consideration by HRSA. HRSA will notify the Center regarding the award in January 2015.

NOTE 4---PATIENT SERVICES RECEIVABLES, NET

Patient services receivable, net, consists of the following at January 31, 2014:

Medicare	$ 43,171
Private insurance	187,521
Self-pay	2,736,552
Tenncare managed care plans	275,703
Medicaid managed care wraparound	262,868
Tennessee Department of Health – Essential Access Pool	111,695
	3,617,510
Less allowance for doubtful accounts	(2,474,022)
	$ 1,143,488

See Note 13 regarding contingencies in the collection of patient services receivables.

NOTE 5---PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at January 31, 2014:

Land	$ 506,269
Building and improvements	5,599,618
Furniture and equipment	3,836,814
Leasehold improvements	384,215
Vehicle	24,093
	10,351,009
Less accumulated depreciation	(4,436,269)
	$ 5,914,740

DHHS maintains a federal interest in all property purchased with federal funds. Accordingly, in the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds.

NOTE 6---LINE OF CREDIT

As of January 31, 2014, the Center has a line-of-credit that allows for maximum borrowings of $165,749 and bears interest at a fixed rate of 5.5%. The balance of the line-of-credit at January 31, 2013 was $165,749. In December 2013, the Center liquidated a certificate of deposit and reduced the line-of-credit to $165,749 and extended the maturity date to December 2014. The line-of-credit is collateralized by a second mortgage on the Center's building.

NOTE 7---NOTES PAYABLE

At January 31, 2014, the Center has a note payable agreement for $3,767,574. The loan is collaterized by the Center's building in Nashville. The 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.

At January 31, 2014, The Center had a note payable of $242,491. The note is unsecured, bears interest at 6% and is payable in monthly principal and interest payments of $7,568, with the remaining balance due November 2016

The expected aggregate maturities of notes payable at January 31, 2014, are as follows:

Years Ending January 31,	
2015	$ 279,227
2016	3,649,172
2017	81,665
	$ 4,010,064

NOTE 8---DHHS GRANTS

For the year ended January 31, 2014, the Center received the following grants from the U.S. Department of Health and Human Services ("DHHS"):

Grant Number	Grant Period	Total Grant	Operating Revenue	Nonoperating Revenue
6 H80CS00710	02/01/13 - 01/31/14	$4,911,007	$4,911,007	$ -

NOTE 9---PATIENT SERVICES, NET

For the year ended January 31, 2014, patient services revenue consisted of the following:

	Gross Charges	Charitable and Contractual Allowances	Net Revenue
Medicare	$ 195,952	$ 16,100	$ 179,852
Private insurance	995,740	579,957	415,783
Self-pay	5,289,426	3,209,265	2,080,162
Tenncare managed care plans	1,578,668	761,622	817,045
	$ 8,059,786	$ 4,566,944	$ 3,492,842
Medicaid managed care wraparound			1,103,256
Tennessee Department of Health - Essential Access Pool			475,378
			$ 5,071,476

Medicare and Tenncare reimburses 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 13 regarding contingencies relating to net patient services revenue.

NOTE 10---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 certain records to identify and monitor the level of charity care it provides. The amount of direct and indirect costs of providing charity care, provided during the year ended January 31, 2014, amounted to approximately $3,209,000. Such costs have been determined by applying a ratio of costs to gross charges.

NOTE 11---CONTRACT SERVICES AND OTHER GRANTS

For the year ended January 31, 2014, contract services and other grant revenues consisted of the following:

Astra Zeneca Foundation	$ 160,370
Fatherhood Initiative Grant	102,467
Meharry Medical College - Community Networks Program	66,700
Family Resource Center	49,173
GE Foundation	30,000
Sickle Cell Grant	24,905
Project Diabetes Grants	16,796
Tennessee Primary Care Association	8,000
Austin Peay Grant	7,097
Witness Project Grant	5,298
Vanderbilt Castles Grant	2,229
Hospital Corporation of America Foundation	1,965
State of Tennessee Crime Victims Assistance	273
	$ 475,273

NOTE 12---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 $170,272 for the year ended January 31, 2014.

NOTE 13---COMMITMENTS AND CONTINGENCIES

Insurance and Legal Claims

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. Although the outcome of these items is not presently determinable, 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.

NOTE 13---COMMITMENTS AND CONTINGENCIES - Continued

Operating Leases

The Center leases certain facility space and equipment under noncancelable operating leases. Rent expense for the year ended January 31, 2014 amounted to $248,959, respectively. Facilities and equipment leased under noncancelable operating leases require future minimum payments exceeding one year as follows:

Years Ending January 31,	
2015	$ 236,189
2016	93,480
2017	53,098
	$ 382,767

Healthcare Industry

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. Management and the Board of Directors believe that the Center 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 regarding healthcare laws. As a result of certain deficiencies identified in a previous onsite financial review, and the inappropriate draw-down of federal funds and other issues, HRSA has performed an on-site review, See Note 3. Future reviews may also be conducted. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding any amounts in question, which could be material.

NOTE 13---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 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, but such impact could be significant.

NOTE 14---PRIOR YEAR NET DEFICIT

The Center’s prior year net deficit is restated due to understated liabilities of $322,028 at January 31, 2013. Thus, the net deficit of the Center is adjusted to reflect this change.

NOTE 15---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 is October 27, 2014. The forgoing footnotes disclose substantial information and observations relative to information developed during the period from the date of the financial statements to the date the financial statements were available for issuance.

OTHER INFORMATION

HOSKINS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

1900 Church Street, Suite 200 ▪ Nashville, TN 37203
phone 615.321.7333 ▪ *fax* 615.523.1868

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 of
Matthew Walker Comprehensive Health Center, Inc.

We have audited, in accordance with the 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, the financial statements of Matthew Walker Comprehensive Health Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of January 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Matthew Walker Comprehensive Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Matthew Walker Comprehensive Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding **2014-F1** and **2014-F2** that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Matthew Walker Comprehensive Health Center's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoskins & Company
October 27, 2014

HOSKINS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
1900 Church Street, Suite 200 ▪ Nashville, TN 37203
phone 615.321.7333 ▪ *fax* 615.523.1868

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited *Matthew Walker Comprehensive Health Center's* compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of *Matthew Walker Comprehensive Health Center's* major federal programs for the year ended January 31, 2014. *Matthew Walker Comprehensive Health Center's* major federal programs are identified in the "Summary of Auditors' Results" section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of *Matthew Walker Comprehensive Health Center's* major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *Matthew Walker Comprehensive Health 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 on compliance for each major federal program. However, our audit does not provide a legal determination of *Matthew Walker Comprehensive Health Center's* compliance.

Opinion on Major Federal Program

In our opinion, Matthew Walker Comprehensive Health Center complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 finding **2014-F3**. Our opinion on each major federal program is not modified with respect to these matters.

Matthew Walker Comprehensive Health Center's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Matthew Walker Comprehensive Health Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of *Matthew Walker Comprehensive Health Center* is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered *Matthew Walker Comprehensive Health Center's* internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 *Matthew Walker Comprehensive Health 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hoskins & Company

Hoskins & Company

October 27, 2014

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED JANUARY 31, 2014

Source/Grant Name	CFDA Number	Contract/ Grantor Number	Beginning (Accrued) / Deferred	Cash Receipts	Expenditures	Ending (Accrued) / Deferred
FEDERAL AWARDS						
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES						
Direct Awards						
Health Centers Cluster:						
Consolidated Health Centers Program *	93.224	N/A	$ -	$ 4,911,007	$ (4,911,007)	$ -
Affordable Care Act - Grants for School Based Health Center Capital Expenditures	93.501	C12CS21930	299,500	-	-	299,500
Pass Through Awards						
Passed through Meharry Medical College:						
Cancer Centers Support Grants	93.397	09121MKH358 02-02	(9,892)	45,560	(66,700)	(31,032)
Passed through Vanderbilt University:						
Maternal and Child Health Federal Consolidated Programs (Sickle Cell Program)	93.110	VUMC38771	(32,461)	49,998	(26,105)	(8,568)
Trans - NIH-Recovery Act Research Support (ARRA)	93.701	VUMC35851	(7,044)	7,044	-	-
Passed through the Tennessee Department of Health						
Centers for Disease Control and Prevention - Investigations & Techncial Assistance (Diabetes Prevention Program)	93.283	34352-97612	(17,117)	39,401	(21,854)	431
Total U.S. Department of Health & Human Services			232,986	5,053,010	(5,025,666)	260,331
U.S. DEPARTMENT OF EDUCATION						
Passed through the Tennessee Department of Health:						
State Fiscal Stabilization Fund -Government Services						
Diabetes Prevention Program (ARRA)	84.397	34351-05212	-	-	-	-
Passed through Vanderbilt University:						
Diabetes Prevention Program (ARRA)	84.397	4-04-203-2003	(2,326)	4,320	(1,769)	225
Total U.S. Department of Education (CFDA 84.397)			(2,326)	4,320	(1,769)	225
U.S. DEPARTMENT OF JUSTICE						
Passed through the State of Tennessee - Office of Criminal Justice Programs:						
Crime Victim Assistance	16.575	Z07033117 / 3801				
State Victim Assistance Formula Grant Program (ARRA)	16.801	3905	(1,891)	2,595	(704)	-
Total U.S. Department of Justice			(1,891)	2,595	(704)	-
TOTAL FEDERAL AWARDS			228,769	5,059,925	(5,028,138)	260,556
STATE FINANCIAL ASSISTANCE						
Passed through Tennessee Department of Health:						
Essential Access Pool	N/A	GR-12-36444-00	(154,569)	531,692	(488,818)	(111,695)
Witness Project (TN Breast & Cervical Cancer Early Detection Program)		GR-14-37805-00	-	-	(5,298)	(5,298)
TOTAL STATE AWARDS			(154,569)	531,692	(488,818)	(111,695)
TOTAL FEDERAL & STATE AWARDS			$ 74,200	$ 5,591,618	$ (5,516,956)	$ 148,861

* Denotes major program

See notes to the schedule of expenditures of federal awards.

NOTE 1---BASIS OF PRESENTATION

The accompanying schedule 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.

MATTHEW WALKER COMPREHENSIVE HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JANUARY 31, 2014

SECTION I—Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: [**Unmodified**]

Internal control over financial reporting:

·Material weaknesses identified?	No
·Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:

·Material weaknesses identified?	No
·Significant deficiencies identified that are not considered to be material weaknesses?	No

Type of auditors' report issued on compliance for major programs: [**Unmodified**]

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM	AMOUNT EXPENDED
93.224	U. S. Department of Health and Human Services - Consolidated Health Centers Program	$ 4,911,007

Dollar threshold used to distinguish between type A and type B programs:	$500,000
Auditee qualified as a low-risk auditee?	No

SECTION II—Findings Related to the Financial Statements Audited in Accordance with Government Auditing Standards

2014 – F1 - Payroll Tax Remittances and Tax Filings

Criteria
Payroll taxes and related payroll tax returns should be remitted / filed with the appropriate governmental authorities on a timely basis.

Condition, Context and Cause
During our testing of accrued liabilities, we noted that payroll taxes for payroll periods in fiscal year 2014 were not remitted on a timely basis, as required by law.

Effect
The failure to remit payroll taxes within legal timeframes and late filings of payroll tax returns resulted in significant fines and penalties imposed by the government. The amount owed as of October 20, 2014, including interest and penalties, is approximately $1,500,000.

Recommendation
We recommend that, on an ongoing basis, the Center remit all payroll taxes and tax filings according to the legal timeframes. 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. The Board of Directors should be informed at least monthly of the status of payroll tax remittances and related matters.

Management Response
Finance staff will ensure that all payroll taxes are remitted timely and returns are filed timely as required. The CFO will include status updates of these payments during monthly Board meetings.

SECTION II—Findings Related to the Financial Statements Audited in Accordance with Government Auditing Standards – Continued

2014 – F2 - Property and Equipment

Criteria
Equipment records should be maintained and a physical inventory of equipment taken at least once every two years and reconciled to the equipment records. An appropriate control system should be used to safeguard equipment, and equipment must be adequately maintained.

Condition, Context and Cause
The Center has not performed a physical inventory of equipment in several years.

Effect
Without periodic physical inventories of equipment, there is inadequate oversight, stewardship and accountability. Assets could be damaged, lost, or stolen, thus resulting in overstated financial statements.

Recommendation
Pursuant to its "Financial Management Policies and Procedures Manual", the Center should perform a physical inventory of equipment every two years and reconcile counts against equipment records. Lost, stolen or missing equipment then should be removed from the listing and the accounting records.

Management Response
Finance staff will conduct a fixed asset inventory at least every 2 years. Fixed Asset inventory will be conducted before FY 2015 year-end and any related adjustments to the subledger will be completed. The target date for completion is December 2014.

SECTION III – Findings and Questioned Costs for Federal Awards

U.S. Department of Health and Human Services

Consolidated Health Centers Program
CFDA No. 93.224

2014 – F3 - Lack of Adequate Governance / Oversight

Criteria
Pursuant to the OMB Circular A-133 Compliance Supplement, and specific program requirements for CFDA No. 93.224, unless waived by HRSA, the health center must have a governing board that meets at least once a month.

Condition and Context
The Center's Board of Directors did not meet for three of the 12 months in fiscal year ending 2014.

Questioned Costs
None noted.

Cause
The Board did not meet in May, July, and December.

Effect
The Center was in noncompliance with OMB Circular A-133's Special Tests and Provisions and specific program requirements for CFDA 93.224. In addition, by not holding the required monthly meetings, there was inadequate oversight by the governing body.

Recommendation
To help ensure compliance with Federal and program requirements, and adequate oversight of the Center's operations, the Board of Directors should meet at least monthly. If a board meeting date falls on a holiday, then an alternate meeting date should be planned for and scheduled.

Management Response
Senior Management will ensure that the Board of Directors will meet at least monthly. Board meeting schedule has been adjusted and revised to contain at least one meeting monthly. For FY 2015, the Board has met each month.

Prior Audit Findings and Questioned Costs

Item#	Description of Condition	Status of Corrective Action
2013-1	Patient Accounts Receivable	This item has been resolved.
2013-2	Payroll Tax Remittance and Filings	This finding has been repeated in the current year. See finding 2014 – 1.
2013-3	Bank Reconciliations	This item has been resolved.
2013-4	Cash Flows	This item has been resolved.
2013-5	Accounts Payable and Accrued Expenses including Payroll Tax Liabilities	This item has been resolved.
2013-6	Property and Equipment	This finding has been repeated in the current year. See finding 2014 – 2.
2013-7	Internal Control over Cash Disbursements	This item has been resolved.
2013-8	Annual Audit and Data Collection Form Submission	This item has been resolved.
2013-9	Lack of Adequate Governance / Oversight	This finding has been repeated in the current year. See finding 2014 – 3.
2013-10	Schedule of Fees or Payments	This item has been resolved.

Matthew Walker Comprehensive Health Care- Board Corrective Action Plan - FY 2014 Audit Report

This implementation plan outlines the MWCHC activities required to address all findings and material weaknesses cited in the auditor's letter to the MWCHC Board of Directors.

Audit Finding	Key Action Steps Identify the action steps that must occur to accomplish each goal.	Person/Area Responsible Identify who will be responsible and accountable for carrying out each action step.	Time Frame Identify the expected time frames for carrying out each action step.	Comments As desired, provide supplementary information.
2014-F1 -- Payroll Taxes Not Remitted Timely				
Payroll Taxes should be remitted in accordance with IRS regulations.	Payroll Taxes should be remitted each payroll cycle and 941 tax returns filed quarterly to avoid penalties and interest.	Finance staff will ensure that all payroll taxes are remitted timely and returns are filed timely as required. The CFO will include status updates of these payments during monthly Board meetings.	Already completed	Complete and OnGoing for each quarter elapsed since Q2 of 2013.
2014-F2 -- Fixed Asset Inventories should be Conducted at least every 2 years				
Fixed Asset inventories are required at least every 2 years including reconciliation and adjustment of fixed asset ledger as needed.	The Center should conduct a fixed asset physical inventory every 2 years at a minimum to reconcile the fixed asset ledger to the details of the inventory.	Finance staff will conduct a fixed asset inventory at least every 2 years.	Fixed Asset inventory will be conducted before FY 2015 year-end and any related adjustments to the subledger will be completed.	Target date to complete: By end of December 2014
2014-F3 Board of Directors Should Meet at Least Monthly				
During FY 2014, the Board did not meet the requirement to meet at least monthly.	The Board of Directors should hold regular monthly meetings to monitor the Operations and Financial performance of the Center.	Senior Management will ensure that the Board of Directors will meet at lest monthly.	Board meeting schedule has been adjusted and revised to contain at least 1 meeting monthly.	Completed and On-Going for each month of FY 2015. All meetings are documented and recorded.