

McGladrey & Pullen

Certified Public Accountants

Matthew Walker Comprehensive Health Center, Inc.

Financial Statements in Accordance with *Government Auditing Standards* and OMB Circular A-133

January 31, 2008

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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, 2008, and the related statements of operations and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Matthew Walker Comprehensive Health Center, Inc. as of January 31, 2008, 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 October 23, 2008 on our consideration of Matthew Walker Comprehensive Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

McGladrey & Pullen, LLP

New York, New York
October 23, 2008

Matthew Walker Comprehensive Health Center, Inc.

Balance Sheet
January 31, 2008

ASSETS

Current Assets:

Cash	\$ 1,035,883
Patient services receivable, net (Note 3)	1,219,960
Grants receivable - DHHS	31,648
Contract services receivable	85,164
Prepaid expenses and other	106,337
Pledges receivable - current portion (Note 5)	9,000
Inventory	533,500

Total current assets 3,021,492

Property and Equipment, net (Note 4) 6,830,543

Pledges Receivable (Note 5) 19,640

Total assets \$ 9,871,675

LIABILITIES AND UNRESTRICTED NET ASSETS

Current Liabilities:

Line of credit (Note 6)	\$ 350,000
Accounts payable and accrued expenses	989,605
Accrued compensation	524,143
Loan payable - current maturities of long-term debt (Note 7)	128,852

Total current liabilities 1,992,600

Loan Payable, less current maturities (Note 7) 3,035,730

Total liabilities 5,028,330

Commitments and Contingencies (Notes 4, 9, 11 and 12)

Unrestricted Net Assets 4,843,345

Total liabilities and unrestricted net assets \$ 9,871,675

See Notes to Financial Statements.

Matthew Walker Comprehensive Health Center, Inc.

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

Unrestricted revenue:	
DHHS grants (Note 8)	\$ 4,154,142
Patient services, net (Note 9)	4,668,257
Contract services and other grants (Note 10)	319,813
Donated pharmaceuticals	375,347
Contributions and other	99,024
Total unrestricted revenue	9,616,583
Expenses:	
Salaries and benefits	5,862,427
Other than personnel services	3,021,292
Provision for bad debts	532,000
Interest expense	161,296
Total expenses	9,577,015
Operating Income prior to depreciation and amortization and nonoperating revenue	39,568
Depreciation and amortization	280,129
Operating (loss) prior to nonoperating revenue	(240,561)
Nonoperating revenue:	
Donations for capital	139,000
DHHS grants (Note 8)	150,000
Increase in unrestricted net assets	48,439
Unrestricted net assets:	
Beginning	4,794,906
Ending	\$ 4,843,345

See Notes to Financial Statements.

Matthew Walker Comprehensive Health Center, Inc.

Statement of Functional Expenses
Year Ended January 31, 2008

	Program Services	General and Administrative	Total
Salaries and wages	\$ 3,995,496	\$ 973,388	\$ 4,968,884
Fringe benefits	705,284	188,259	893,543
Healthcare consultants	331,010	-	331,010
Consultants and professional fees	168,140	127,056	295,196
Laboratory fees	399,395	-	399,395
Consumable supplies	1,018,399	130,354	1,148,753
Occupancy	136,648	62,537	199,185
Insurance	8,755	15,800	24,555
Equipment rental and maintenance	113,750	98,553	212,303
Telephone	25,690	18,650	44,340
Travel, conferences and meetings	87,442	28,555	115,997
Dues and subscriptions	16,123	36,494	52,617
Printing, publications and postage	49,333	29,607	78,940
Interest	-	161,296	161,296
Provision for bad debts	532,000	-	532,000
Other	19,312	99,689	119,001
	<u>7,606,777</u>	<u>1,970,238</u>	<u>9,577,015</u>
Depreciation and amortization	221,114	59,015	280,129
Total functional expenses	<u>\$ 7,827,891</u>	<u>\$ 2,029,253</u>	<u>\$ 9,857,144</u>

See Notes to Financial Statements.

Matthew Walker Comprehensive Health Center, Inc.

Statement of Cash Flows
Year Ended January 31, 2008

Cash Flows From Operating Activities:	
Cash received from DHHS grants	\$ 4,185,488
Cash received from patient services	3,955,978
Cash received from contract services	462,879
Cash received from contributions and other	108,024
Cash paid for operations	(7,816,269)
Cash paid for interest	(161,296)
	<u>734,804</u>
Net cash provided by operating activities	<u>734,804</u>
Net Cash Used In Investing Activity - purchases of property and equipment	<u>(1,002,959)</u>
Cash Flows From Financing Activities:	
Proceeds from line of credit	350,000
Principal payments on long term borrowings	(137,740)
Cash received for capital contributions	139,000
	<u>351,260</u>
Net cash provided by financing activities	<u>351,260</u>
Net increase in cash	83,105
Cash:	
Beginning	<u>952,778</u>
Ending	<u>\$ 1,035,883</u>
Reconciliation of Increase In Unrestricted Net Assets to Net Cash Provided By Operating Activities:	
Increase in unrestricted net assets	\$ 48,439
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation	280,129
Provision for bad debts	532,000
Changes in operating assets and liabilities:	
Increase in patient services receivable	(712,279)
Decrease in grants receivable - DHHS	31,346
Increase in contract services receivable	(6,934)
Decrease in prepaid expenses and other	176,088
Decrease in pledges receivable	9,000
Increase in inventory	(176,803)
Increase in accounts payable and accrued expenses	578,258
Increase in accrued compensation	114,560
Contributions restricted for long-term purposes - capital cash contribution	(139,000)
	<u>686,365</u>
Total adjustments	<u>686,365</u>
Net cash provided by operating activities	<u>\$ 734,804</u>

See Notes to Financial Statements.

Matthew Walker Comprehensive Health Center, Inc.

Notes to Financial Statements

Note 1. Organization

Matthew Walker Comprehensive Health Center, Inc. (the "Center") operates community health centers located in Nashville 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.

Note 2. Significant Accounting Policies

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

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts.

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

Pledges (promises to give) are enforceable, but unsecured and principally derived from individuals, corporations and foundations.

Inventory consists of medical supplies and pharmaceuticals and is recorded at the lower of cost (first-in, first-out) or market.

Property and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years for equipment and vehicle, and 40 years for building and building improvements. The Center capitalizes all purchases of property and equipment in excess of \$600.

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

Notes to Financial Statements

Note 2. Significant Accounting Policies (continued)

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At January 31, 2008, the Center has not received any conditional grants and contracts from governmental entities.

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

Donated goods are recognized in the accompanying financial statements based on their fair value.

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

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

Note 3. Patient Services Receivable, Net

Patient services receivable, net, consists of the following:

Medicare	\$ 69,217
Private insurance	247,406
Self-pay	2,857,030
TennCare managed care plans	282,780
Medicaid managed care wraparound	179,813
Tennessee Department of Health - Essential Access Pool	237,893
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	3,874,139
Less allowance for doubtful accounts	2,654,179
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	\$ 1,219,960

Matthew Walker Comprehensive Health Center, Inc.

Notes to Financial Statements

Note 4. Property and Equipment, Net

Property and equipment, net, consists of the following:

Land	\$ 486,642
Building and improvements	5,272,275
Furniture and equipment	2,338,887
Leasehold improvements	208,478
Vehicle	24,093
	<hr/>
	8,330,375
Less accumulated depreciation	1,499,832
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	<u>\$ 6,830,543</u>

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

Note 5. Pledges Receivable

The Center received promises to give from various individuals, corporations and foundations for its capital campaign. The aggregate amount of future receivables is as follows:

Year ending January 31,

2009	\$ 9,000
2010	19,640
	<hr/>
	<u>\$ 28,640</u>

Note 6. Line of Credit

The Center has a line of credit available to it in the amount of \$350,000. This is due August 30, 2009, the date the agreement expires. The line of credit is secured by Certificates of Deposit owned by the Center. This agreement requires interest to be charged at the bank's index rate (6.00% at January 31, 2008). There was an outstanding balance of \$350,000 due as of January 31, 2008.

Matthew Walker Comprehensive Health Center, Inc.

Notes to Financial Statements

Note 7. Long-Term Debt

Long-term debt consists of the following:

Loan payable - on January 31, 2006, the Center entered into a loan agreement for \$3,825,000 for the building located at 1035 14th Avenue North. Interest payments are due monthly based on a fixed rate at 4.75%. The remaining balance is due in full on December 15, 2009.

\$ 3,164,582

Less current maturities

128,852

\$ 3,035,730

The aggregate amount of principal payments on long-term debt during the years following January 31, 2008 is as follows:

Year ending January 31,

2009	\$ 128,852
2010	<u>3,035,730</u>
	<u>\$ 3,164,582</u>

Note 8. DHHS Grants

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

<u>Grant Number</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Unrestricted Amount Recognized</u>
5 H80 CS 00710-05-02	02/01/06 - 02/28/07	\$ 3,246,864	\$ 249,759
2 H80 CS 00710-06-04	02/01/07 - 01/31/08	3,504,650	3,504,650
5 U50/DP422173-05	09/30/06 - 09/29/08	920,810	<u>549,733</u>
			<u>\$ 4,304,142</u>

Grant number 2 H80 CS 00710-06-04 includes \$150,000 for capital additions, which is reported as nonoperating revenue in the statement of operations and changes in net assets.

Matthew Walker Comprehensive Health Center, Inc.**Notes to Financial Statements**

Note 9. Patient Services, Net

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

	<u>Gross Charges</u>	<u>Charitable and Contractual Allowance</u>	<u>Net Revenue</u>
Medicare	\$ 333,021	\$ 113,433	\$ 219,588
Private Insurance	1,014,730	408,280	606,450
Self-pay	6,786,122	4,619,534	2,166,588
TennCare managed care plans	<u>1,117,845</u>	<u>583,866</u>	<u>533,979</u>
	<u>\$ 9,251,718</u>	<u>\$ 5,725,113</u>	<u>3,526,605</u>
Medicaid managed care wraparound			438,026
Tennessee Department of Health - Essential Access Pool			<u>703,626</u>
			<u>\$ 4,668,257</u>

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

Note 10. Contract Services

For the year ended January 31, 2008, contract services and other grants revenue consist of the following:

Meharry Medical College:	
Healthy Communities Access Program	\$ 8,400
Community Networks Program	85,021
State of Tennessee Crime Victims Assistance	26,444
Baptist Healing Trust	51,202
United Way:	
McGruder Family Resource Center	44,973
Managing Your Diabetes	13,117
Southern Community Cohort Study	70,833
Other	<u>19,823</u>
	<u>\$ 319,813</u>

Notes to Financial Statements

Note 11. Pension Plan

The Center has a defined contribution pension plan covering substantially all employees who meet certain eligibility requirements. The amounts contributed to the plan are a fixed percentage of the participant's compensation. Pension expense amounted to \$109,433 for the year ended January 31, 2008.

Note 12. Commitments and Contingencies

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

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

The Center is involved in a claim and legal action 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.