

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2007

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

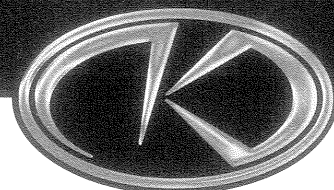
NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
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JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
University Community Health Services, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of University Community Health Services, Inc. (the "Organization"), a Tennessee not-for-profit corporation, as of June 30, 2007 and 2006, the related statements of activities and functional expenses for the year ended June 30, 2007, and the statements of cash flows for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from University Community Health Services, Inc.'s 2006 financial statements and, in our report dated June 6, 2007, we expressed an unqualified opinion on those statements.

We conducted our audits 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 audits provide 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 University Community Health Services, Inc. as of June 30, 2007 and 2006, the changes in its net assets for the year ended June 30, 2007, and its cash flows for the years ended June 30, 2007 and 2006, 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 February 8, 2008 on our consideration of University Community Health Services, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 audits.

As more fully discussed in Note 9, the Organization has received substantial financial support from Vanderbilt University to fund operating deficits. There is no assurance that such funding will be continued in the future, or that the Organization will be able to achieve sufficient profits to sustain operations.

KraftCPAs PLLC

Nashville, Tennessee
February 8, 2008

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 685,975 | \$ 759,117 |
| Accounts receivable: | | |
| Patients, net - Note 2 | 61,029 | 101,134 |
| Other contracts | 362,771 | 116,054 |
| Contributions receivable - Note 3 | - | 250,000 |
| Government grants receivable | 146,779 | - |
| Prepaid expense | 12,000 | - |
| Property and equipment, net - Note 4 | <u>1,047,708</u> | <u>192,420</u> |
| TOTAL ASSETS | <u>\$ 2,316,262</u> | <u>\$ 1,418,725</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES | | |
| Accounts payable | \$ 14,509 | \$ 7,293 |
| Accrued expenses | 98,352 | 42,110 |
| Due to Vanderbilt University | - | 4,341 |
| Loan payable to Vanderbilt University - Note 5 | <u>1,155,694</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>1,268,555</u> | <u>53,744</u> |
| COMMITMENTS AND CONTINGENCIES - Note 9 | | |
| NET ASSETS | | |
| Unrestricted | 1,031,112 | 967,209 |
| Temporarily restricted - Note 8 | <u>16,595</u> | <u>397,772</u> |
| TOTAL NET ASSETS | <u>1,047,707</u> | <u>1,364,981</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,316,262</u> | <u>\$ 1,418,725</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007, WITH COMPARATIVE TOTALS FOR 2006

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>TOTALS</u> | <u>TOTALS</u> |
|--|---------------------|-----------------------------------|---------------------|---------------------|
| | | | 2007 | 2006 |
| REVENUE AND PUBLIC SUPPORT | | | | |
| Revenues: | | | | |
| Net patient service revenue - Note 2 | \$ 644,742 | \$ - | \$ 644,742 | \$ 523,802 |
| Contract services and other | 1,406,098 | - | 1,406,098 | 601,799 |
| Premium program revenue | 330,018 | - | 330,018 | 963,644 |
| Contributions and grants | 327,079 | 29,930 | 357,009 | 551,000 |
| Net assets released resulting from satisfaction of donor restrictions | 411,107 | (411,107) | - | - |
| TOTAL REVENUE AND PUBLIC SUPPORT | <u>3,119,044</u> | <u>(381,177)</u> | <u>2,737,867</u> | <u>2,640,245</u> |
| EXPENSES | | | | |
| Program services | 3,349,720 | - | 3,349,720 | 2,372,988 |
| Management and general | 294,519 | - | 294,519 | 264,901 |
| TOTAL EXPENSES | <u>3,644,239</u> | <u>-</u> | <u>3,644,239</u> | <u>2,637,889</u> |
| CHANGE IN NET ASSETS | (525,195) | (381,177) | (906,372) | 2,356 |
| Equity transfer from Vanderbilt University | 589,098 | - | 589,098 | 588,892 |
| NET ASSETS - BEGINNING OF YEAR | <u>967,209</u> | <u>397,772</u> | <u>1,364,981</u> | <u>773,733</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,031,112</u> | <u>\$ 16,595</u> | <u>\$ 1,047,707</u> | <u>\$ 1,364,981</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ (906,372) | \$ 2,356 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 27,753 | 18,890 |
| Decrease (increase) in: | | |
| Accounts receivable | (206,612) | (167,043) |
| Contributions receivable | 250,000 | (250,000) |
| Government grants receivable | (146,779) | - |
| Prepaid expense | (12,000) | - |
| Increase (decrease) in: | | |
| Accounts payable | 7,216 | (920) |
| Accrued expenses | 56,242 | (18,413) |
| Due to Vanderbilt University | (4,341) | (117,792) |
| TOTAL ADJUSTMENTS | (28,521) | (535,278) |
| NET CASH USED IN OPERATING ACTIVITIES | (934,893) | (532,922) |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| Additions to property and equipment | (883,041) | (36,862) |
| FINANCING ACTIVITIES | | |
| Proceeds from loan payable to Vanderbilt University | 1,155,694 | - |
| Equity transfer from Vanderbilt University | 589,098 | 588,892 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,744,792 | 588,892 |
| INCREASE (DECREASE) IN CASH | (73,142) | 19,108 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 759,117 | 740,009 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 685,975</u> | <u>\$ 759,117</u> |
| ADDITIONAL CASH FLOW INFORMATION | | |
| Interest expense paid | <u>\$ 59,239</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007, WITH COMPARATIVE TOTALS FOR 2006

| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | TOTALS | |
|----------------------------------|---------------------|------------------------------|---------------------|---------------------|
| | | | 2007 | 2006 |
| Salaries and wages | \$ 647,698 | \$ 99,863 | \$ 747,561 | \$ 635,737 |
| Employee benefits - Note 7 | 155,124 | 30,474 | 185,598 | 146,626 |
| Contracted services - Note 6 | 2,018,405 | 118,551 | 2,136,956 | 1,509,183 |
| Advertising | 13,324 | 1,480 | 14,804 | 3,327 |
| Depreciation | 24,978 | 2,775 | 27,753 | 18,890 |
| Equipment rental and maintenance | 40,853 | 4,539 | 45,392 | 29,487 |
| Fees and licenses | 15,356 | 1,706 | 17,062 | 11,916 |
| Insurance | 37,406 | 4,156 | 41,562 | 15,353 |
| Interest | 53,315 | 5,924 | 59,239 | - |
| Medical supplies and services | 117,887 | - | 117,887 | 98,398 |
| Meetings and conferences | 2,076 | 231 | 2,307 | 1,871 |
| Occupancy - Note 9 | 57,486 | 6,387 | 63,873 | 68,910 |
| Postage and shipping | 10,471 | 1,163 | 11,634 | 2,837 |
| Printing and publications | 9,398 | 1,044 | 10,442 | 2,224 |
| Professional services | 15,300 | 1,700 | 17,000 | 16,381 |
| Supplies | 68,492 | 7,610 | 76,102 | 23,294 |
| Telephone | 45,174 | 5,019 | 50,193 | 44,792 |
| Travel and continuing education | 10,600 | 1,178 | 11,778 | 8,569 |
| Miscellaneous | 6,377 | 719 | 7,096 | 94 |
| TOTAL EXPENSES | <u>\$ 3,349,720</u> | <u>\$ 294,519</u> | <u>\$ 3,644,239</u> | <u>\$ 2,637,889</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

University Community Health Services, Inc. (the "Organization" or "UCHS") was formed in July 1990, as a Tennessee not-for-profit corporation. The Organization's sole member was Vanderbilt Health Services, Inc., a Tennessee not-for-profit corporation, which is controlled by Vanderbilt University ("Vanderbilt"). The Organization provides nurse-managed primary care and mental health medical services at three public housing clinics, one senior continuing care community, four employer health sites, and a Housecalls program. With a focus on vulnerable populations, these clinics and programs provide comprehensive, cost effective, medical procedures, treatments and services.

On December 6, 2006, the Organization's charter was amended and restated to provide that the Organization shall have no members, which effectively removed Vanderbilt Health Services, Inc. as the sole member of the Organization. Under the original charter, the Organization was to operate exclusively for the benefit of Vanderbilt Health Services, Inc. Under the amended and restated charter, the Organization's purpose is to own, operate and maintain health centers for the study, diagnosis, and treatment of human ailments and injuries in populations served; to use those health centers as clinical laboratories for health professions training, particularly the education of basic and advanced practice nurses, as well as physicians, osteopaths, physicians assistants and allied health personnel; and to conduct clinical and health services research to improve the health of vulnerable populations, particularly focusing on the elimination of health disparities and the promotion of healthier lifestyles.

The Organization was considered financially interrelated with Vanderbilt through the date the amended and restated charter was approved by the Board. Equity transfers from Vanderbilt during 2007 totaled \$589,098, which includes \$447,000 for the renovation and expansion of UCHS's Vine Hill Community Clinic and \$142,098 to fund UCHS's operating deficits for the period July 1, 2006 through November 30, 2006 (\$588,892 in 2006). UCHS and Vanderbilt have verbally agreed that Vanderbilt's funding of UCHS's operating deficits incurred subsequent to December 1, 2006, will be considered a loan payable to Vanderbilt. (See Note 5.)

The Organization has established itself separate and independent from Vanderbilt under its amended and restated charter, including restructuring of its Board membership to include community representation. UCHS received federally qualified health center ("FQHC") Look-Alike status on August 13, 2007, and on September 1, 2007, UCHS was notified that it had received FQHC full status. This status allows the Organization to receive federal and state awards that cover the costs of providing healthcare services to uninsured clientele.

Effective January 1, 2008, UCHS staff members' payroll and fringe benefits are separate and apart from the Vanderbilt system and are paid directly by UCHS. The practice management business aspect, specifically medical file maintenance and billing, is expected to become independent of Vanderbilt by spring 2008, with the separation of the accounting and all other financial functions to be effective July 1, 2008. (See Notes 6 and 7.)

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Based on the existence or absence of donor-imposed restrictions, the Organization classifies resources into three categories: unrestricted, temporarily restricted and permanently restricted net assets.

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring in perpetuity that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of June 30, 2007 or 2006.

Cash and cash equivalents

Cash and cash equivalents consist principally of checking account balances.

Property and equipment

Property and equipment are reported at cost at the date of purchase, or at estimated fair value at the date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$3,000 or more and an expected useful life greater than one year. Depreciable assets are depreciated by the straight-line method over their estimated useful lives, which range from three to fifteen years.

Net patient service, contract and other revenue

Patient service revenue, contract and other revenues are recorded at the Organization's established rates, with contractual, sliding scale fee and indigent care adjustments deducted to arrive at net reported revenues.

Contractual adjustments represent the difference between the Organization's established rates and third-party payor payments. Contractual adjustments are estimated during the period in which the services are provided and adjusted to actual when payments are received.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premium program revenue

Prior to December 1, 2005, the Organization participated in a capitation program with Victory Health Plans ("VHP"), a TennCare contractor for the State of Tennessee. This program paid \$14.50 per member per month regardless of the level of service, if any, that was provided. Effective December 1, 2005, this program became a fee-for-service program. A second capitation program, with the Veterans Administration ("VA"), pays \$15.00 per member per month (\$17.00 per member per month in 2006). In April 2007, the Organization entered into a third capitation program with Amerigroup ("AG"), a TennCare contractor for the State of Tennessee, which pays \$12.50 per member per month. These programs represent 13% in 2007 (37% in 2006) of the Organization's net revenues (AG - 6.0% and VA - 7%, in 2007; VHP - 30% and VA - 7%, in 2006). Services provided to VHP, AG and VA plan participants are recorded as gross patient service revenue and written off 100%, less any applicable co-pays, through contractual adjustments at the time of service. Such accounting has no effect on net patient service revenue reported. (See Note 2.)

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Grant revenue from federal and state governmental agencies is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Governmental grant funds received prior to expenditure are recorded initially as deferred revenue.

The Organization reports any gifts of equipment or materials as unrestricted support absent any explicit donor restrictions as to how the assets must be used. Gifts of long-lived assets, and/or support that is restricted to the acquisition of long-lived assets, are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. No such discounts were recorded in 2007 or 2006.

Conditional promises to give are not included as support until such time as the conditions are substantially met.

No provision for uncollectible contributions was considered necessary in 2007 or 2006, based on management's review of these pledges and historical trends.

Equity transfers

Transfers of assets from Vanderbilt University are reported as equity transactions based on the financial interrelationship between the organizations and Vanderbilt's control of the Organization's board and operational activities through November 30, 2006, the date of the amended and restated charter. (See Note 1.)

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

Program and supporting services

The following functional expense classifications are included in the accompanying financial statements:

Program services - includes medical services provided at primary care, women's health, and mental health nurse-managed clinics at public housing, senior continuing care community and employer health sites.

Management and general - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts receivable are comprised of payments due from third-party payors and patients and are reported net of an allowance for estimated contractual, sliding scale fee and indigent care adjustments. Third-party payors consist primarily of Medicare, TennCare, Blue Cross Blue Shield and certain commercial insurance carriers. As of June 30, 2007, approximately 92% of patient accounts receivable were due from third-party payors, and 8% were due from patients (96% and 4%, respectively, at June 30, 2006).

Gross billings, including services provided to participants in capitation programs, and contractual, sliding scale fee and indigent care adjustments for the years ended June 30, 2007 and 2006, are as follows:

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 2 - ACCOUNTS RECEIVABLE (CONTINUED)

| | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|
| Gross billings | \$ 2,213,694 | \$ 2,237,431 |
| Contractual adjustments | (1,316,576) | (1,561,083) |
| Sliding scale fee and indigent care adjustments | <u>(252,376)</u> | <u>(152,546)</u> |
| Net patient service revenue | <u>\$ 644,742</u> | <u>\$ 523,802</u> |

Patient receivables consist of the following as of June 30:

| | <u>2007</u> | <u>2006</u> |
|---|------------------|-------------------|
| Gross patient receivables | \$ 245,881 | \$ 326,199 |
| Allowance for contractual adjustments | (180,041) | (210,017) |
| Allowance for sliding scale fee and indigent care adjustments | <u>(4,811)</u> | <u>(15,048)</u> |
| Patient receivables, net | <u>\$ 61,029</u> | <u>\$ 101,134</u> |

NOTE 3 - CONTRIBUTIONS RECEIVABLE

The contribution receivable at June 30, 2006, was from The Memorial Foundation for the expansion and renovation of the Vine Hill Community Clinic, which was completed in May 2007.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|-------------------|
| Medical equipment, computer equipment, furniture and fixtures | \$ 169,145 | \$ 120,868 |
| Leasehold improvements | 1,120,760 | 249,133 |
| Construction in progress | <u>-</u> | <u>36,862</u> |
| | 1,289,905 | 406,863 |
| Less: accumulated depreciation | <u>(242,197)</u> | <u>(214,443)</u> |
| | <u>\$ 1,047,708</u> | <u>\$ 192,420</u> |

Fully depreciated assets at June 30, 2007 had an original cost of approximately \$106,000.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 5 - LOAN PAYABLE TO VANDERBILT UNIVERSITY

The Organization and Vanderbilt University have a verbal agreement that Vanderbilt's funding of UCHS's operating deficits incurred subsequent to December 1, 2006, will be considered a loan payable to Vanderbilt. Interest on the outstanding loan balance is payable monthly at the Prime Rate plus 2%. Subsequent to June 30, 2007, the verbal agreement was changed to cap the loan at \$1,600,000. Any amount loaned in excess of \$1,600,000 is considered due and payable within one month. (See Note 1.) The terms of repayment of the loan have not been determined.

NOTE 6 - CONTRACTED SERVICES

During 2007 and 2006, the Organization contracted for licensed advanced practice nurses, physicians and other administrative support under an agreement with Vanderbilt University, by and through the Vanderbilt University School of Nursing ("VUSN"). The contract requires the Organization to pay all salaries plus a fringe benefit rate that includes an administrative overhead charge related to the healthcare providers from VUSN. Total contracted services expense recognized under the contract amounted to \$2,136,956 in 2007 (\$1,509,183 in 2006).

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization participates in Vanderbilt University's retirement plan. Under the retirement plan, full time staff members participate in defined contribution retirement plans administered by third-party investment and insurance firms. For eligible employees with one year of continuous service, these plans require employee and matching employer contributions. Participant accounts under these plans are immediately 100% vested.

Vanderbilt University's retirement plan contribution obligations are fully funded by periodic transfers to the respective plan administrators. The Organization's share of such contributions, which are expensed in the period incurred, were \$20,478 for the year ended June 30, 2007 (\$18,081 for 2006).

Effective January 1, 2008, the employees of UCHS became participants in a separate employee benefit plan sponsored by UCHS.

UNIVERSITY COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|------------------|-------------------|
| Patient donations | \$ 1,013 | \$ 1,193 |
| Midwifery practice consulting | 9,803 | 29,776 |
| Interpretations of retinal screenings | 665 | 2,765 |
| Vine Hill Community Clinic renovation | <u>5,114</u> | <u>364,038</u> |
| | <u>\$ 16,595</u> | <u>\$ 397,772</u> |

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Organization's clinic facilities are leased under various operating leases that are generally renewable annually, with one site contracted for 10 years, with two five-year renewal options. Metropolitan Development and Housing Authority, which operates the City's public housing projects, provides space for clinics at certain locations at nominal rates of \$1 to \$2,000 per month. Future minimum lease payments required under these leases total \$9,006, substantially all of which is due in 2008. Certain equipment is also leased under various short-term rental agreements. Future minimum lease payments due under these agreements are not significant.

Vanderbilt has verbally agreed to make loans as needed to fund UCHS's operating deficits and to extend the repayment terms accordingly. There is no assurance that Vanderbilt will continue to provide financial support in the future, or that the Organization would have any alternative funding sources if support from Vanderbilt is terminated and/or profitable operations are not achieved.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash and investment balances in bank deposit accounts with financial institutions which, at times, may exceed FDIC insurance limits. Management considers this to be a normal business risk, which is mitigated by the use of high quality financial institutions.

At June 30, 2006, contributions receivable are from one grantor. During 2006, the Organization received contributions and grants from two sources representing approximately 94% of such revenues. There were no such concentrations in 2007.