

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center**

Accountants' Reports and Consolidated Financial Statements

June 30, 2009 and 2008

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
June 30, 2009 and 2008**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Houston, Texas

We have audited the accompanying consolidated statements of financial position of Fourth Ward Clinic, dba Good Neighbor Healthcare Center, as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fourth Ward Clinic, dba Good Neighbor Healthcare Center, as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 10*, in 2009 the Health Center changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2009, on our consideration of the Health Center'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 audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. 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 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

October 6, 2009

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Consolidated Statements of Financial Position  
June 30, 2009 and 2008**

**Assets**

	<u>2009</u>	<u>2008</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,055,810	\$ 618,188
Patient accounts receivable, net of allowance; 2009 - \$115,000, 2008 - \$120,000	88,551	56,521
Grants receivable	-	54,125
Contributions receivable, current	397,023	888,951
Estimated amounts due from third-party payers	14,964	14,000
Inventories	88,236	57,262
Prepaid expenses and other	56,638	86,086
	<u>1,701,222</u>	<u>1,775,133</u>
<b>Assets Limited As To Use</b>		
Externally restricted by donor	446,325	515,079
Internally designated by board	353,278	350,328
	<u>799,603</u>	<u>865,407</u>
<b>Contributions Receivable</b>	<u>25,000</u>	<u>181,729</u>
<b>Property and Equipment, At Cost</b>		
Equipment	556,705	421,914
Less accumulated depreciation	218,690	130,005
	<u>338,015</u>	<u>291,909</u>
Total assets	<u>\$ 2,863,840</u>	<u>\$ 3,114,178</u>

## Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
<b>Liabilities</b>		
Accounts payable	\$ 26,845	\$ 44,759
Accrued expenses	<u>186,242</u>	<u>149,540</u>
Total liabilities	<u>213,087</u>	<u>194,299</u>
<b>Net Assets</b>		
Unrestricted	1,055,637	920,266
Temporarily restricted	<u>1,595,116</u>	<u>1,999,613</u>
Total net assets	<u>2,650,753</u>	<u>2,919,879</u>
Total liabilities and net assets	<u><u>\$ 2,863,840</u></u>	<u><u>\$ 3,114,178</u></u>

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2009 and 2008**

	Unrestricted	2009 Temporarily Restricted	Total
<b>Revenues, Gains and Other Support</b>			
Net patient service revenue	\$ 1,054,520	\$ -	\$ 1,054,520
Grant revenue	705,452	-	705,452
Contribution revenue			
Contributions	904,551	540,294	1,444,845
In-kind contributions - laboratory fees	902,680	-	902,680
In-kind contributions - pharmacy supplies	174,316	-	174,316
In-kind contributions - donated rent	296,525	-	296,525
Other	17,997	-	17,997
Investment return	8,038	(68,754)	(60,716)
Net assets released from restrictions	876,037	(876,037)	-
Total revenues, gains and other support	<u>4,940,116</u>	<u>(404,497)</u>	<u>4,535,619</u>
<b>Expenses and Losses</b>			
Salaries	1,939,270	-	1,939,270
Employee benefits	148,193	-	148,193
Payroll taxes	137,605	-	137,605
Professional fees	318,621	-	318,621
Supplies	352,329	-	352,329
In-kind services - laboratory fees	902,680	-	902,680
Telephone	19,016	-	19,016
Shipping and postage	5,972	-	5,972
Occupancy costs	422,789	-	422,789
Equipment rent and maintenance	58,922	-	58,922
Printing and publications	15,090	-	15,090
Travel and transportation	745	-	745
Conference, conventions, meetings	67,537	-	67,537
Special assistance	60	-	60
Fundraising	55,587	-	55,587
Insurance	92,787	-	92,787
Other/miscellaneous	51,454	-	51,454
Depreciation	87,602	-	87,602
(Gain) loss on disposal	(150)	-	(150)
Bad debt expense	128,636	-	128,636
Total expenses and losses	<u>4,804,745</u>	<u>-</u>	<u>4,804,745</u>
<b>Change in Net Assets</b>	135,371	(404,497)	(269,126)
<b>Net Assets, Beginning of Year</b>	<u>920,266</u>	<u>1,999,613</u>	<u>2,919,879</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,055,637</u>	<u>\$ 1,595,116</u>	<u>\$ 2,650,753</u>

*See Notes to Consolidated Financial Statements*

	<b>2008</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	
\$ 1,064,541	\$ -	\$ 1,064,541	
652,679	-	652,679	
1,404,261	1,244,534	2,648,795	
1,102,454	-	1,102,454	
113,006	-	113,006	
98,553	-	98,553	
13,653	-	13,653	
24,743	(68,501)	(43,758)	
411,936	(411,936)	-	
<u>4,885,826</u>	<u>764,097</u>	<u>5,649,923</u>	
1,799,623	-	1,799,623	
142,984	-	142,984	
120,801	-	120,801	
269,766	-	269,766	
360,394	-	360,394	
1,102,454	-	1,102,454	
19,782	-	19,782	
7,033	-	7,033	
244,972	-	244,972	
70,550	-	70,550	
20,239	-	20,239	
442	-	442	
56,628	-	56,628	
56	-	56	
100,156	-	100,156	
103,470	-	103,470	
13,700	554	14,254	
64,802	-	64,802	
119,633	-	119,633	
139,906	-	139,906	
<u>4,757,391</u>	<u>554</u>	<u>4,757,945</u>	
128,435	763,543	891,978	
<u>791,831</u>	<u>1,236,070</u>	<u>2,027,901</u>	
<u>\$ 920,266</u>	<u>\$ 1,999,613</u>	<u>\$ 2,919,879</u>	

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center**  
**Consolidated Statements of Functional Expenses**  
**Year Ended June 30, 2009**

	<b>Adult</b>	<b>Midwife</b>	<b>Pediatric</b>	<b>Dental</b>	<b>Support</b>	<b>Allied Services</b>
Salaries	\$ 384,913	\$ 142,639	\$ 375,420	\$ 472,449	\$ 258,569	\$ -
Employee benefits	29,414	10,900	28,688	36,103	19,759	-
Payroll taxes	27,312	10,121	26,639	33,524	18,347	-
Professional fees	27,199	104,850	26,525	1,381	14,381	-
Supplies	139,837	12,501	76,227	90,324	18,713	-
In-kind services - laboratory fees	315,938	315,938	270,804	-	-	-
Telephone	2,727	2,727	2,727	2,727	2,727	13
Shipping and postage	685	632	663	641	1,424	-
Occupancy costs	2,970	2,389	3,133	2,118	919	407,965
Equipment rent and maintenance	6,128	5,000	5,875	5,965	22,470	-
Printing and publications	3,338	3,351	2,279	293	3,845	-
Travel and transportation	33	-	89	-	553	-
Conference, conventions, meetings	1,635	646	1,039	759	400	-
Special assistance	40	-	20	-	-	-
Fundraising	-	-	-	-	-	-
Insurance	15,083	10,821	15,083	15,476	10,603	-
Other/miscellaneous	425	335	559	636	3,507	-
Depreciation	4,709	4,709	6,278	47,212	4,709	1,570
Loss on disposal	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-
<b>Total</b>	<b><u>\$ 962,386</u></b>	<b><u>\$ 627,559</u></b>	<b><u>\$ 842,048</u></b>	<b><u>\$ 709,608</u></b>	<b><u>\$ 380,926</u></b>	<b><u>\$ 409,548</u></b>

<b>FQHC</b>	<b>Pharmacy</b>	<b>Behavioral Health</b>	<b>Total Program Services</b>	<b>Administration</b>	<b>Capital Campaign</b>	<b>Total</b>
\$ -	\$ 4,470	\$ -	\$ 1,638,460	\$ 300,810	\$ -	\$ 1,939,270
-	342	-	125,206	22,987	-	148,193
-	317	-	116,260	21,345	-	137,605
-	125	39,325	213,786	87,235	17,600	318,621
-	1,581	522	339,705	12,624	-	352,329
-	-	-	902,680	-	-	902,680
-	357	2,861	16,866	2,150	-	19,016
-	171	579	4,795	1,177	-	5,972
-	117	917	420,528	2,261	-	422,789
-	648	3,362	49,448	3,356	6,118	58,922
-	117	38	13,261	1,829	-	15,090
-	35	-	710	35	-	745
-	(839)	-	3,640	63,897	-	67,537
-	-	-	60	-	-	60
-	-	-	-	55,587	-	55,587
-	-	9,128	76,194	16,593	-	92,787
-	-	-	5,462	9,024	36,968	51,454
12,242	3,033	1,570	86,032	1,570	-	87,602
-	-	-	-	(150)	-	(150)
-	-	-	-	128,636	-	128,636
<u>\$ 12,242</u>	<u>\$ 10,474</u>	<u>\$ 58,302</u>	<u>\$ 4,013,093</u>	<u>\$ 730,966</u>	<u>\$ 60,686</u>	<u>\$ 4,804,745</u>

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Consolidated Statements of Functional Expenses  
Year Ended June 30, 2008**

	<b>Adult</b>	<b>Midwife</b>	<b>Pediatric</b>	<b>Dental</b>	<b>Support</b>	<b>Allied Services</b>
Salaries	\$ 359,548	\$ 134,441	\$ 352,873	\$ 413,631	\$ 238,131	\$ -
Employee benefits	28,567	10,682	28,036	32,864	18,920	-
Payroll taxes	24,135	9,025	23,687	27,765	15,985	-
Professional fees	23,719	98,625	23,589	1,132	947	-
Supplies	65,333	6,548	107,061	99,533	21,766	900
In-kind services -						
laboratory fees	385,859	385,859	330,736	-	-	-
Telephone	2,429	2,429	2,429	2,429	2,429	641
Shipping and postage	507	458	502	576	3,001	-
Occupancy costs	13,150	13,137	16,526	13,150	12,552	148,624
Equipment rent and maintenance	7,718	5,685	6,199	7,596	16,071	-
Printing and publications	4,584	2,604	4,283	1,050	3,256	-
Travel and transportation	-	23	-	-	369	-
Conference, conventions, meetings	4,156	430	4,051	2,218	281	-
Special assistance	16	20	20	-	-	-
Fundraising	-	-	-	-	-	-
Insurance	14,461	11,635	14,461	10,918	11,418	-
Other/miscellaneous	659	-	60	120	600	30
Depreciation	5,574	5,574	8,362	12,196	2,788	4,181
Loss on disposal	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-
<b>Total</b>	<b><u>\$ 940,415</u></b>	<b><u>\$ 687,175</u></b>	<b><u>\$ 922,875</u></b>	<b><u>\$ 625,178</u></b>	<b><u>\$ 348,514</u></b>	<b><u>\$ 154,376</u></b>

<b>FQHC</b>	<b>Pharmacy</b>	<b>Behavioral Health</b>	<b>Total Program Services</b>	<b>Administration</b>	<b>Capital Campaign</b>	<b>Total</b>
\$ -	\$ 43,370	\$ -	\$ 1,541,994	\$ 239,853	\$ 17,776	\$ 1,799,623
-	3,446	-	122,515	19,057	1,412	142,984
-	2,911	-	103,508	16,100	1,193	120,801
5,055	737	36,628	190,432	79,334	-	269,766
-	19,079	746	320,966	13,084	26,344	360,394
-	-	-	1,102,454	-	-	1,102,454
-	2,429	2,429	17,644	2,138	-	19,782
-	371	330	5,745	1,159	129	7,033
-	5,781	5,781	228,701	8,794	7,477	244,972
-	7,673	2,416	53,358	6,622	10,570	70,550
-	65	25	15,867	2,096	2,276	20,239
-	-	-	392	50	-	442
17	405	-	11,558	41,592	3,478	56,628
-	-	-	56	-	-	56
-	-	-	-	57,006	43,150	100,156
-	11,419	10,353	84,665	18,805	-	103,470
-	-	-	1,469	786	11,445	13,700
23,271	1,463	-	63,409	1,393	-	64,802
-	-	-	-	119,633	-	119,633
-	-	-	-	139,906	-	139,906
<u>\$ 28,343</u>	<u>\$ 99,149</u>	<u>\$ 58,708</u>	<u>\$ 3,864,733</u>	<u>\$ 767,408</u>	<u>\$ 125,250</u>	<u>\$ 4,757,391</u>

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2009 and 2008**

	2009	2008
<b>Operating Activities</b>		
Change in net assets	\$ (269,126)	\$ 891,978
Items not requiring (providing) cash		
(Gain) loss on sale of property and equipment	(150)	119,633
Depreciation and amortization	87,602	64,802
Net realized and unrealized (gains) losses on investments	82,393	76,913
Contributions of or for acquisition of equipment	(135,841)	(208,313)
Changes in		
Patient accounts receivable, net	(32,030)	1,131
Grants and contributions receivable	702,782	(495,237)
Estimated amounts from third-party payers	(964)	(14,000)
Accounts payable and accrued expenses	18,788	38,952
Other current assets and liabilities	(1,526)	(33,177)
	451,928	442,682
Net cash provided by operating activities		
<b>Investing Activities</b>		
Purchase of property and equipment	(104,749)	(287,805)
Acquisition of assets limited as to use	(16,589)	(278,186)
	(121,338)	(565,991)
Net cash used in investing activities		
<b>Financing Activities</b>		
Proceeds from contributions for acquisition of property and equipment	107,032	208,313
	107,032	208,313
Net cash provided by financing activities		
<b>Increase in Cash and Cash Equivalents</b>	437,622	85,004
<b>Cash and Cash Equivalents, Beginning of Year</b>	618,188	533,184
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,055,810	\$ 618,188
<b>Supplementary Information</b>		
Equipment acquired through noncash contributions	\$ 28,809	\$ -

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Fourth Ward Clinic, dba Good Neighbor Healthcare Center, (the “Health Center”) earns revenues by providing primary and preventive health care, mental health services, substance abuse and dental care to indigent and low-income patients in the Houston, Texas, Medically Underserved Area (MUA). The Health Center is recognized as a Federally Qualified Health Center (FQHC) by the U.S. Department of Health and Human Services and the State of Texas and is subject to established regulations. The Health Center was organized in 1968 as the Fourth Ward Clinic. The Health Center is governed by a Board of Directors of no less than nine members, of which greater than 50 percent must be health care service users of the Health Center.

***Principles of Consolidation***

The consolidated financial statements include the Good Neighbor Healthcare Foundation (the “Foundation”), which was established from an initial contribution of \$500,000 to be used for Health Center operations. The Foundation holds investments for the sole benefit of the Health Center.

***Use of Estimates***

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.

***Cash Equivalents***

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted of money market accounts with brokers.

The Health Center maintains a substantial portion of its cash in one financial institution. The financial institution holding the Health Center’s cash account is participating in the FDIC’s Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC’s insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At June 30, 2009, the Health Center’s interest-bearing cash accounts exceeded federally insured limits by approximately \$823,000.

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of activities and changes in net assets as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

***Assets Limited As To Use***

Assets limited as to use include assets restricted by donors and internally designated cash set aside by the Board of Directors to be used for future capital expenditures and operating expenses over which the Board retains control and may at its discretion subsequently use for other purposes.

***Patient Accounts Receivable***

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

***Inventories***

The Health Center states supply inventories at the lower of cost, determined using the first-in, first-out method or market.

***Property and Equipment***

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. Donor restricted contributions

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

for property and equipment whose restrictions are met within the same year as received are reported as unrestricted contributions.

***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Health Center has been limited by donors to a specific time period or purpose.

***Net Patient Service Revenue***

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

***In-Kind Contributions***

In addition to receiving cash contributions, the Health Center receives in-kind contributions of pharmacy and medical supplies, lab services and consulting services. The Health Center also receives donated rent from the City of Houston. It is the policy of the Health Center to record the estimated fair value of these in-kind contributions as an expense in its consolidated financial statements and similarly increase contribution revenue by a like amount. For the years ended June 30, 2009 and 2008, \$1,380,471 and \$1,314,013, respectively, were received in in-kind contributions.

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Certain costs have been allocated among the program and support services categories based on various methods. The statement of functional expenses presents, by natural classification, the expenses of each program and support service.

***Income Taxes***

The Health Center has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Health Center is subject to federal income tax on any unrelated business taxable income.

***Uncertain Tax Positions***

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Health Center has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ending June 30, 2010. The Health Center has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

**Note 2: Grant Revenue**

The Health Center is the recipient of a Community Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care services in Houston, Texas. Terms of the grant generally provide for funding of the Health Center's operations based on an approved budget.

During the years ended June 30, 2009 and 2008, the Health Center received \$672,569 and \$653,000 in grant funds, respectively.

The Health Center's present CHC grant award covers the grant period ending November 30, 2009. Future funding will be determined by the granting agency based on an application to be submitted by the Health Center prior to the expiration of the present grant award.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under an Increased Demand for Services (IDS) grant. The Health Center has been awarded \$207,303 for the March 27, 2009, to March 26, 2011, period to assist in meeting the needs of their community. No revenue was recognized from this award during the year ended June 30, 2009.

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

The Health Center has also been awarded \$426,505 for the period June 29, 2009, to June 28, 2011, under the Capital Improvement Program. This award is to be used for certified electronic health records (EHR) purchase and implementation. No revenue was recognized from this award during the year ended June 30, 2009.

During the year ended June 30, 2009, the Health Center also received \$32,883 under the FQHC Incubator Program administered by the Texas Department of State Health Services. Such funds were provided to develop and expand Health Center operations. No grant funds from this award were recognized for the year ended June 30, 2008.

The Health Center also receives additional financial support from private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements.

**Note 3: Net Patient Service Revenue**

The Health Center is approved as an FQHC for both Medicare and Medicaid reimbursement purposes. The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. These payment arrangements include:

*Medicare.* Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Health Center and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid.* Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Health Center is reimbursed a set encounter rate for all services under the plan.

Approximately 27% and 21% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2009 and 2008, respectively. Laws and regulations governing these programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

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**Note 4: Concentration of Credit Risk**

The Health Center grants credit without collateral to its patients, some of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2009 and 2008, is:

	<u>2009</u>	<u>2008</u>
Medicare	28%	31%
Medicaid	49%	29%
Patients and other third-party payers	23%	40%
	<u>100%</u>	<u>100%</u>

**Note 5: Investments and Investment Return**

***Assets Limited As To Use***

Assets limited as to use at June 30, 2009 and 2008, consisted of the following:

	<u>2009</u>	<u>2008</u>
Externally restricted by donors		
Cash and cash equivalents	\$ 4,860	\$ 4,807
Equity funds	264,756	342,834
Debt funds	176,709	167,438
	<u>446,325</u>	<u>515,079</u>
Internally restricted by board		
Cash and cash equivalents	16	350,328
Money market fund	353,262	-
	<u>353,278</u>	<u>350,328</u>
	<u>\$ 799,603</u>	<u>\$ 865,407</u>

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Good Neighbor Healthcare Center  
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June 30, 2009 and 2008**

Total investment return at June 30, 2009 and 2008, is comprised of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 21,677	\$ 33,155
Net realized and unrealized gains (losses) on investments reported at fair value	<u>(82,393)</u>	<u>(76,913)</u>
	<u>\$ (60,716)</u>	<u>\$ (43,758)</u>

Total investment return is reflected in the consolidated statements of activities as follows:

	<u>2009</u>	<u>2008</u>
Unrestricted net assets	\$ 8,038	\$ 24,743
Temporarily restricted net assets	<u>(68,754)</u>	<u>(68,501)</u>
	<u>\$ (60,716)</u>	<u>\$ (43,758)</u>

**Note 6: Contributions Receivable**

Contributions receivable consisted of the following:

	<u>2009</u>	<u>2008</u>
Temporarily restricted		
Due within one year	\$ 397,023	\$ 888,951
Due in one to five years	<u>25,000</u>	<u>190,000</u>
	422,023	1,078,951
Less unamortized discount	<u>-</u>	<u>8,271</u>
	<u>\$ 422,023</u>	<u>\$ 1,070,680</u>

The discount rate was 3% for 2008. No discount was recorded for 2009.

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Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

**Note 7: Medical Malpractice Claims**

The Health Center purchases medical malpractice insurance under an occurrence based policy on a fixed premium basis. Effective March 1, 2008, the U.S. Department of Health and Human Services, deemed the Health Center and its participating physicians covered under the Federal Torts Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the period by estimating the probable ultimate costs of the incidents. Based upon the Health Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 8: Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2009 and 2008, are available for the following purposes or periods:

	2009	2008
Health care services	\$ 736,598	\$ 981,091
Facility renovation and enhancements	776,768	620,999
For periods after June 30	81,750	397,523
	\$ 1,595,116	\$ 1,999,613

During 2009, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services and facility renovation and enhancements in the amount of \$876,037. During 2008, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amount of \$411,936.

**Note 9: Operating Leases**

The Health Center has operating leases for facility and equipment which expire in various years through 2013.

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Future minimum lease payments at June 30, 2009, were:

2010		\$	139,867
2011			139,867
2012			139,867
2013			101,988
			101,988
Future minimum lease payments		\$	521,589

**Note 10: Disclosures About Fair Value of Assets and Liabilities**

Effective July 1, 2008, the Health Center adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full-term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity and corporate debt funds, as well as money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and would be classified as Level 2. In certain cases where Level 1 or

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June 30, 2009 and 2008**

Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Health Center has no securities classified as Level 2 or Level 3 in the valuation hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets limited as to use				
Equity funds	\$ 264,756	\$ 264,756	\$ -	\$ -
Debt funds	\$ 176,709	\$ 176,709	\$ -	\$ -
Money market funds	\$ 353,262	\$ 353,262	\$ -	\$ -

**Note 11: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 3*.

***Grant Revenue***

Concentration of revenues related to grant awards and other support are described in *Note 2*.

***Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Note 7*.

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Notes to Consolidated Financial Statements  
June 30, 2009 and 2008**

***Investments***

The Health Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

***Current Economic Conditions***

The current economic environment presents health centers with circumstances and challenges, which could result in declines in the fair value of investments and declines in contributions. The financial statements have been prepared using values and information currently available to the Health Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may impact net patient service revenue. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the current economic conditions, the values of assets and liabilities recorded in the financial statements could change in the future, resulting in adjustments in investment values and allowances for accounts and contributions receivable.

## **Supplementary Information**

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2009**

<u>Cluster/Program</u>	<u>Federal Agency/Pass- Through Entity</u>	<u>CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Amount Expended</u>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 06445-03-03	\$ 281,594
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 06445-04-03	<u>390,975</u>
				<u><u>\$ 672,569</u></u>

***Notes to Schedule***

1. This schedule includes the federal awards activity of the Fourth Ward Clinic, dba Good Neighbor Healthcare Center, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.
2. The Health Center did not provide any federal awards to a subrecipient during the year ended June 30, 2009.

**Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Directors  
Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Houston, Texas

We have audited the consolidated financial statements of Fourth Ward Clinic, dba Good Neighbor Healthcare Center, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 6, 2009, which contained an explanatory paragraph regarding a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Health Center's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Health Center's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Health Center's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Health Center's internal control.

Board of Directors  
Fourth Ward Clinic dba  
Good Neighbor Healthcare Center

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency, item 09-1, described above to be a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Health Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

We also noted certain additional matters that we reported to the Health Center's management in a separate letter dated October 6, 2009.

The Health Center's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Health Center's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Health Center and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

October 6, 2009

## **Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs**

Board of Directors  
Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Houston, Texas

### **Compliance**

We have audited the compliance of Fourth Ward Clinic, dba Good Neighbor Healthcare Center, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Health Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Health Center's management. Our responsibility is to express an opinion on the compliance of the Health Center based on our audit.

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

In our opinion, the Health Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

### **Internal Control Over Compliance**

The management of the Health Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Health Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 on the Health Center's internal control over compliance.

Board of Directors  
Fourth Ward Clinic dba  
Good Neighbor Healthcare Center

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

October 6, 2009

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

**Summary of Auditor's Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
Significant deficiency(ies) noted considered material weakness(es)?       Yes       No  
Significant deficiency(ies) noted that are not considered to be a material weakness?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
Significant deficiency(ies) noted considered material weakness(es)?       Yes       No  
Significant deficiency(ies) noted that are not considered to be a material weakness?       Yes       No
  
5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

7. The Organization's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Consolidated Health Centers	93.224

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133.  Yes  No

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

***Findings Required to be Reported by Government Auditing Standards***

Reference Number	Finding	Questioned Costs
09-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over external financial reporting.</p> <p>Condition – The Health Center’s consolidated financial statements required adjusting entries. Areas in which adjustments were proposed, including those which management recorded, include:</p> <ul style="list-style-type: none"> <li>• Accounts receivable</li> <li>• Contributions receivable</li> <li>• Grants receivable</li> <li>• Net assets</li> <li>• Contribution and grant revenue</li> <li>• Expenses</li> </ul> <p>Context – The Health Center’s consolidated financial statements should be presented in conformity with generally accepted accounting principles.</p> <p>Effect – Certain accounts on the unadjusted financial statements were materially misstated.</p> <p>Cause – The Health Center’s policies and procedures in effect at June 30, 2009, did not identify certain necessary adjustments required to present the consolidated financial statements in accordance with generally accepted accounting principles.</p> <p>Recommendation – Management should modify monthly and year-end closing procedures to ensure controls in place are sufficient to assure accounts and financial statements are prepared in accordance with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We have made significant improvements in our accounting processes and just identified a remaining area of confusion. Administration and bookkeeper will continue to work with the auditing firm to resolve this issue prior to the end of the fiscal year.</p>	None

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009**

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
No matters are reportable.		

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2009**

Reference Number	Finding	Status
08-3	<p>Consolidated Health Centers CFDA No. 93.224</p> <p>U.S. Department of Health and Human Services Award No. 6H80CS06445-03-03 Program Year 2008</p> <p>Criteria or Specific Requirement – Program Income</p> <p>Condition – Patients were given inappropriate sliding fee adjustments under the Health Center’s policy and supporting documentation could not be provided for all sliding fee adjustments given.</p> <p>Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$1,307,284, a sample of 30 patients who received sliding fee adjustments of \$3,625 was tested. Two patients received an inappropriate adjustment based on the Health Center’s sliding fee scale. Ten patient files lacked documentation to support the need for sliding fee scale status.</p> <p>Effect – Improper sliding fee adjustments were given and appropriate documentation was not maintained for all adjustments given.</p> <p>Cause – Health Center personnel were not appropriately following the sliding fee policy.</p>	Resolved

**Fourth Ward Clinic dba  
Good Neighbor Healthcare Center  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2009**

Reference Number	Finding	Status
07-4	Consolidated Health Centers CFDA No. 93.224  U.S. Department of Health and Human Services Award No. 6H80CS06445-02-01 Program Year 2007  Criteria or Specific Requirement – Program Income  Condition – Eight patients were given an inappropriate sliding fee adjustment under the Health Center’s policy. In addition, documentation of income supporting the sliding fee charged to seven patients was not located.  Context – Out of 2,067 patients who received total sliding fee scale adjustments, a sample of 30 patients who received sliding fee adjustments were tested. Eight patients were given an inappropriate slide adjustment based on the Health Center’s sliding fee scale. In addition, documentation of income supporting the sliding fee charged to seven patients was not located.  Effect – An improper sliding fee adjustment was given.  Cause – Health Center personnel did not appropriately follow the sliding fee policy.	Resolved