

**WEST SIDE COMMUNITY HEALTH
SERVICES, INC. AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

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September 30, 2006

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INTRODUCTION

Background

West Side Community Health Services, Inc. and Affiliate (the "Companies") operate healthcare centers located in St. Paul and Minneapolis, Minnesota. The Companies provide a broad range of health services to a largely medically underserved population.

Scope of Audit

The financial audit of the Companies was performed 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audit covered the 12-month period ended September 30, 2006 and fieldwork was performed during the period from November 13, 2006 to November 17, 2006.

The following were the principal objectives of the organization-wide audit:

- The expression of an opinion on the consolidated balance sheet as of September 30, 2006, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended;
- The expression of an opinion on the schedule of expenditures of federal awards for the year ended September 30, 2006;
- The assessment of the Companies' internal accounting and administrative control structures;
- The performance of cost validations of transaction costs on a test basis;
- The assessment, on a test basis, of the Companies' compliance with the prescribed U.S. Department of Health and Human Services cost principles (45 CFR 74, as amended, subpart Q) for selected functional types of costs; and
- To ascertain whether costs claimed for funding under specific grants are fairly presented in conformity with the terms of the grant and related U.S. Department of Health and Human Services cost principles.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
West Side Community Health Services, Inc.

We have audited the accompanying consolidated balance sheet of West Side Community Health Services, Inc. and Affiliate (the "Companies") as of September 30, 2006, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Companies' 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. These 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Side Community Health Services, Inc. and Affiliate as of September 30, 2006, and the changes in their net assets and their 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 a report dated November 17, 2006 on our consideration of West Side 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 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 read in conjunction with this report in considering the results of our audit.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

November 17, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

CONSOLIDATED BALANCE SHEET

September 30, 2006

ASSETS (Note 7)

Current Assets:

Cash and cash equivalents	\$ 1,311,258
Investments (Note 3)	572,495
DHHS grants receivable	66,534
Patient services receivable, net (Note 4)	1,390,987
Contracts receivable (Note 5)	447,841
Prepaid expenses and other assets	73,679

Total current assets	3,862,794
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Property and Equipment, net (Notes 6 and 7)	6,795,074
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Total Assets	\$10,657,868
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 727,268
Accrued compensation	926,371
Current maturities of long-term debt (Note 7)	405,521
Refundable advances (Note 8)	648,107

Total current liabilities	2,707,267
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Long-term Debt, less current maturities (Note 7)	5,323,684
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Total liabilities	8,030,951
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Commitments and Contingencies (Notes 6, 10, 13 and 14)

Unrestricted Net Assets:

Undesignated	2,101,380
Board-designated reserve (Note 3)	525,537

Total net assets	2,626,917
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Total Liabilities and Net Assets	\$10,657,868
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See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended September 30, 2006

	Unrestricted	Temporarily Restricted	Total
Revenue:			
DHHS grants (Note 9)	\$ 4,435,426		\$ 4,435,426
Patient services, net (Note 10)	11,521,023		11,521,023
Contract services (Note 11)	4,603,798		4,603,798
Donated services and space (Note 12)	720,869		720,869
Contributions	543,755		543,755
Other	133,930		133,930
Total revenue	21,958,801		21,958,801
Expenses:			
Salaries and benefits	11,876,192		11,876,192
Other than personnel services	6,240,195		6,240,195
Interest	277,213		277,213
Provision for bad debts	2,519,737		2,519,737
Total expenses	20,913,337		20,913,337
Operating income prior to depreciation and amortization	1,045,464		1,045,464
Depreciation and amortization	493,439		493,439
Operating income	552,025		552,025
Nonoperating revenue:			
Amortization of negative goodwill	167,808		167,808
Net gain on sale of assets	336,950		336,950
Net assets released from restrictions - capital campaign	284,539	\$(284,539)	
Change in net assets	1,341,322	(284,539)	1,056,783
Net assets at beginning of year	1,285,595	284,539	1,570,134
Net assets at end of year	\$ 2,626,917	\$ - 0 -	\$ 2,626,917

See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2006

	Program Services	General and Administrative	Total
Salaries and wages	\$ 8,552,575	\$1,429,066	\$ 9,981,641
Fringe benefits	1,630,065	264,486	1,894,551
Healthcare consultants	509,746		509,746
Consultants and professional fees	174,989	434,300	609,289
Consumable supplies	540,013	98,707	638,720
Pharmaceuticals	1,820,664		1,820,664
Telephone	175,600	28,586	204,186
Travel, conferences and meetings	28,406	10,323	38,729
Occupancy	806,196	131,241	937,437
Utility assistance	234,774	38,219	272,993
Insurance	56,813	28,905	85,718
Repairs and maintenance	315,957	51,435	367,392
Laboratory fees	466,061		466,061
Printing, publications and postage	9,864	30,514	40,378
Dues and subscriptions	12,098	18,051	30,149
Personnel recruitment	7,728	19,714	27,442
Patient transportation	17,390		17,390
Provision for bad debts	2,519,737		2,519,737
Interest	238,403	38,810	277,213
Other	12,715	161,186	173,901
Total expenses	18,129,794	2,783,543	20,913,337
Depreciation and amortization	424,358	69,081	493,439
Total functional expenses	\$18,554,152	\$2,852,624	\$21,406,776

See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended September 30, 2006

Cash flows from operating activities:	
Cash received from DHHS grants	\$ 4,368,892
Cash received from patient services	9,707,858
Cash received from contract services	4,339,698
Cash received from contributions	543,755
Cash received from other	133,930
Cash paid for operations	(18,975,808)
Cash paid for interest	(277,213)
Net cash used in operating activities	(158,888)
Cash flows from investing activities:	
Proceeds from sale of assets	1,299,390
Purchase of plant and equipment	(148,386)
Purchase of investments	(6,631)
Net cash provided by investing activities	1,144,373
Cash flows from financing activities:	
Proceeds from long-term debt	423,523
Repayments on long-term debt	(742,127)
Net cash used in financing activities	(318,604)
Net increase in cash and cash equivalents	666,881
Cash and cash equivalents at beginning of year	644,377
Cash and cash equivalents at end of year	\$ 1,311,258
Reconciliation of increase in net assets to net cash used in operating activities:	
Increase in net assets	\$ 1,056,783
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Depreciation and amortization	493,439
Provision for bad debts	2,519,737
Amortization of negative goodwill	(167,808)
Net gain on sale of assets	(336,950)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(1,813,165)
Increase in DHHS grants receivable	(66,534)
Increase in contracts receivable	(225,569)
Decrease in prepaid expenses and other assets	184,231
Decrease in accounts payable and accrued expenses	(1,529,277)
Decrease in accrued compensation	(235,244)
Decrease in refundable advances	(38,531)
Total adjustments	(1,215,671)
Net cash used in operating activities	\$ (158,888)

See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

1. ORGANIZATION: West Side Community Health Services, Inc. (the "Center") operates healthcare centers located in St. Paul and Minneapolis, Minnesota. The Center provides a broad range of health services to a largely medically underserved population.

The Center is affiliated with Propiedades, Inc. through common board membership. Propiedades, Inc. is operated exclusively for the purpose of holding title to property and transferring any operating income to the Center. Propiedades was inactive during the fiscal year.

The Center and Propiedades, Inc. are collectively referred to as the "Companies."

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.

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 consolidated financial statements include the accounts of the Center and Propiedades, Inc. All intercompany transactions and balances have been eliminated.

Cash and cash equivalents include short-term investments with a maturity of three months or less. The Companies maintain their cash in bank deposit accounts which, at times, may exceed federally insured limits. The Companies have not experienced any losses in such accounts.

Patient services receivable are reported at their outstanding unpaid principal balances reduced by any 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.

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 15 years for furniture and equipment and 40 years for building and building improvements. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less.

Negative goodwill as a result of the merger with Healthstart, Inc. in 2003 was fully amortized during the year ended September 30, 2006.

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

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 net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

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 September 30, 2006, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$2,439,067 that have not been recorded in these consolidated financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

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.

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 Companies were incorporated as not-for-profit corporations under the laws of the State of Minnesota and are exempt from income taxes under Section 501(c) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

3. INVESTMENTS:

Investments are carried at quoted market value. Cost and quoted market value of investments are as follows:

	Cost	Unrealized Gain	Quoted Market Value
Money market fund	\$ 11,480		\$ 11,480
Investments in bond and equity funds	522,892	\$38,123	561,015
	\$534,372	\$38,123	\$572,495

Investments include a board-designated reserve in the amount of \$525,537.

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

4. PATIENT SERVICES RECEIVABLE, NET:	Patient services receivable, net, consist of the following:	
	Medicaid	\$ 243,695
	Medicare	53,131
	Other third-party	173,669
	Self-pay	5,014,529
	Managed care plans	192,957
	Medicaid Managed Care Wraparound	573,006
		6,250,987
	Less allowance for doubtful accounts	4,860,000
		\$1,390,987

5. CONTRACTS RECEIVABLE:	Contracts receivable consist of the following:	
	State of Minnesota - Department of Health:	
	Eliminating Health Disparities - Diabetes	\$ 48,750
	City of Minneapolis Health and Family Support	33,333
	Family Planning Special Project program	25,166
	Ramsey County:	
	Maternal and Child Services - Adolescent Health	112,678
	Maternal and Child Services - Improve Pregnancy	32,000
	Child and Teen Checkups	37,412
	Eviction Prevention Services program	57,873
	Hennepin County Community Health Department:	
	HIV Title I programs	32,787
	Other	67,842
		\$447,841

6. PROPERTY AND EQUIPMENT, NET:	Property and equipment, net, at cost, at September 30, 2006 consists of the following:	
	Land	\$ 615,140
	Building	5,788,843
	Furniture and equipment	2,287,770
	Leasehold improvements	438,928
		9,130,681
	Less accumulated depreciation and amortization	2,335,607
		\$6,795,074

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.

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

7. LONG-TERM DEBT:

Long-term debt consists of the following:

The Center entered into a loan agreement on April 28, 2004 in the amount of \$5,000,000. The loan is payable in 360 consecutive installments of principal and interest at an annual rate of 4% on July 1, 2005 and on the same day of each month thereafter. The loan is secured by the land and building at 153 Cesar Chavez Street in St. Paul, Minnesota. \$4,818,344

On June 26, 2003, the Center entered into a loan agreement in the amount of \$300,000. Payments on the loan were not due until July 1, 2004. The loan is payable in monthly payments of principal and interest at an annual rate of 4% due on the first of each month for the term of the loan. Payment of the monthly installments due for the months of September 1, 2005 through December 1, 2006 are deferred, but not forgiven, and shall be part of the final payment made on the maturity date. Monthly payments of \$1,622.07 shall resume on January 1, 2007 and continue each month. The underlying note matures on June 1, 2028 and is secured by certain property and equipment. 289,794

On January 14, 2005, the Center entered into two separate loan agreements with the same financial institution in the amount of \$500,000. The loan requires interest-only payments until January 2006, and then nine consecutive payments of \$14,500 for each loan, including principal and interest at an annual rate of 5.5%, and one final installment payment in November 2006 of the entire unpaid balance. Subsequent to year-end, the Center refinanced the two loan agreements into 11 monthly payments of \$10,000 including principal and interest at an annual rate of 5.5% and one final installment payment due December 2, 2007 of the entire unpaid balance. The loan is secured by accounts receivable, inventory, equipment, investment property and general intangibles. 400,681

The Center has a revolving line of credit with a bank in the amount of \$450,000. The line of credit has an interest rate of 9.25%. The line of credit expires on December 19, 2007. The line of credit is secured by a first-perfected security interest in all of the Center's assets. There was no amount outstanding as of September 30, 2006.

On March 24, 2006, the Center entered into a note payable in the amount of \$342,734. The loan is payable in monthly payments of \$20,000, including principal and interest at an annual rate of 12% per annum. The note matures on September 30, 2007 and is secured by certain property and equipment. 220,386

5,729,205

Less current maturities 405,521

Long-term debt **\$5,323,684**

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

The aggregate amount of principal payments on long-term debt during each of the five years following September 30, 2006 and thereafter is as follows:

Year ending September 30,	
2007	\$ 405,521
2008	104,696
2009	108,961
2010	113,400
2011	118,020
Thereafter	4,878,607
	\$5,729,205

8. REFUNDABLE ADVANCES:

Refundable advances consist of the following:

Regions Hospital Community Benefit Support grant	\$408,250
United Way - Bright Smiles program	40,000
Ramsey County Programs	69,265
Phillips Foundation grant	50,000
George Family Foundation grant	16,667
Other	63,925
	\$648,107

9. DHHS GRANTS:

For the year ended September 30, 2006, the Center received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	Revenue Recognized
6 H80 CS 00790-04-03	2/1/05 - 1/31/06	\$3,997,325	\$1,398,121
6 H80 CS 00790-05-02	2/1/06 - 1/31/07	4,122,352	2,748,235
5 H12HA 23015-06-00	8/1/05 - 7/31/06	289,559	241,297
2 H12HA 23015-07-00	8/1/06 - 7/31/07	286,663	47,773
			\$4,435,426

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

10. **PATIENT SERVICES, NET:** For the year ended September 30, 2006, patient services, net, consist of the following:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicaid	\$ 4,121,442	\$ 1,499,243	\$ 2,622,199
Medicare	1,128,226	608,258	519,968
Other third-party	3,686,598	2,071,753	1,614,845
Self-pay	8,301,959	4,191,258	4,110,701
Managed care plans	4,400,487	2,421,177	1,979,310
	21,638,712	10,791,689	10,847,023
Medicaid Managed Care Wraparound			674,000
			\$11,521,023

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

Included in the Medicaid revenue and Medicaid receivable (see Note 4) is an estimated adjustment in the amount of \$573,006. This represents approximately 48% of the estimated Medicaid Managed Care Wraparound from 1998 to 2006 due from the State of Minnesota.

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

11. CONTRACT SERVICES:

For the year ended September 30, 2006, contract services revenue consists of the following:

State of Minnesota - Department of Health:	
State Family Planning program	\$ 97,218
Minnesota Breast and Cervical Cancer Early Detection Program	61,824
Eliminating Health Disparities - Diabetes	171,007
Comprehensive HIV Case Management program	81,971
Eliminating Health Disparities - Healthy Youth Development	125,093
City of Minneapolis Healthy Start Program	108,333
Community Clinic Grant	22,500
STD Screening	55,113
City of St. Paul:	
Emergency Shelter program	26,000
Ramsey County:	
Maternal and Child Health Services Block Grant	695,887
Health Care for the Uninsured, Underinsured	357,409
Eviction Prevention Services program	131,423
Child and Teen Checkups	66,964
Hennepin County:	
Ryan White CARE Act Title I	126,929
Medtronics Foundation	76,221
Neighborhood Healthcare Network	81,408
Bremer Foundation Grant	100,000
United Way - Bright Smiles program	140,931
GAP Grants	25,162
Regions Hospital:	
Residency program	1,121,983
Community Benefit Support Grant	624,750
Hugh J. Anderson Grant	41,500
George Family Foundation Grant	25,000
Children's Trust Fund Grant	35,971
Community Development Block Grant	23,095
Other	180,106
	\$4,603,798

12. DONATED SERVICES AND SPACE:

Donated services and space are recognized in the consolidated financial statements when they are specifically identifiable and can be objectively valued in monetary terms. For the year ended September 30, 2006, donated services and space consist of the following:

Healthcare consultants	\$ 40,000
Medical supplies	35,000
Space costs	165,000
Pharmaceuticals	480,869
	\$720,869

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

13. PENSION PLAN: The Center has a defined contribution plan covering employees who meet eligibility requirements. The Center contributes a 50% match on employee contributions to the plan, with a maximum contribution set at 5% of the participant's compensation. Effective November 2005, the Center suspended contributions to the plan. Pension expense amounted to \$25,858 for the year ended September 30, 2006.

14. COMMITMENTS AND CONTINGENCIES: The Center has contracted with various governmental agencies to monitor and distribute funds through grants and contracts to subrecipients for the provision of certain healthcare services. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by federal and state governments. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

The Center maintains its 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 maintains gap insurance for claims that are not covered by FTCA.

The Center leases space under noncancelable operating leases. Rent expense for the year ended September 30, 2006 amounted to \$11,006. Facilities leased under noncancelable operating leases require future minimum payments as follows:

Year ending September 30,	
2007	\$ 448,661
2008	480,079
2009	437,628
2010	437,628
2011	415,273
Thereafter	425,661
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	\$2,644,930
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**WEST SIDE COMMUNITY HEALTH
SERVICES, INC.**

**INTERNAL CONTROLS AND
COMPLIANCE SECTION**

SEPTEMBER 30, 2006



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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

The Board of Directors
West Side Community Health Services, Inc.

We have audited the financial statements of West Side Community Health Services, Inc. (the "Center") as of and for the year ended September 30, 2006, and have issued our report thereon dated November 17, 2006. 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 Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our



audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 06-1.

We noted other matters involving the internal control structure and its operation that we have reported to the management of the Center in a separate letter dated November 17, 2006.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

November 17, 2006



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
West Side Community Health Services, Inc.

Compliance - We have audited the compliance of West Side Community Health Services, Inc. (the "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 each of its major federal programs as of and for the year ended September 30, 2006. The Center's major federal programs are 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 each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

As described in item 06-1 in the accompanying schedule of findings and questioned costs, the Center did not comply with the requirements regarding patient services receivable and revenue that are applicable to its major program. Compliance with such requirements is necessary, in our opinion, for the Center to comply with Federal requirements applicable to those federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.



Internal Control Over Compliance - The management of the 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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Center's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

November 17, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major program:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs:

Qualified

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

yes no

Identification of major programs:

CFDA Number(s)

93.224
93.994

Name of Federal Program or Cluster

U.S. Department of Health and Human Services:
Consolidated Health Center program
Maternal and Child Health Services Block Grant
to the States

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Section II - Financial Statement Findings

06-1 Patient Services Receivable and Revenue

Statement of Condition: Currently, the patient services receivables have been impacted by the Center's lack of applying appropriate resources in the following areas: (1) reviewing and evaluating specific past-due accounts, (2) rebilling denied claims in a timely manner and (3) determining bad debts by periodic review of the accounts receivable aging reports per the billing system.

Questioned Costs: None

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS September 30, 2006

Effect: The Center did not accurately reflect the patient services receivable and maximize patient services revenue at September 30, 2006.

Cause: The Center did not have the resources in place to review and follow up on past-due receivables and ensure patient services revenue was being maximized.

Recommendation: We recommend that resources be put in place whereby an employee of the Center would periodically review and follow up on patient services billing and past-due receivables that are outstanding for a specific period of time (e.g., quarterly). When all methods of collection have been exhausted, the account should be transferred to the proper payor and adjusted with the balance written off as uncollectible in the general ledger, based on a policy approved by the board of directors. This will reduce the gross receivable and allowance accounts to amounts which more accurately reflect the cash realizable value of receivables.

Management's Response: Management concurs with this finding and have implemented the resources necessary to review patient services billing and follow up on past-due receivables.

Section III - Federal Award Findings and Questioned Costs: United States Department of Health and Human Services

Same comment as detailed above for Financial Statement Finding 06-1 for the Consolidated Health Center program (CFDA # 93.224).

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

STATUS OF PRIOR-YEAR'S FINDINGS September 30, 2006

Item #	Description of Condition	Status of Corrective Action
05-1	The Center has no formalized control procedures for: (1) reviewing and evaluating specific past-due accounts, (2) rebilling denied claims in a timely manner and (3) determining bad debts by periodic review of the accounts receivable aging reports per the billing system. In addition, billings for patient services were not being prepared and submitted on a routine basis.	The Center has implemented policies and control procedures during the fiscal year related to 05-1, however, the Center did not apply the resources necessary to correct the issues fully in the current fiscal year. See 06-1.



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
West Side Community Health Services, Inc.

We have audited the basic consolidated financial statements of West Side Community Health Services, Inc. as of and for the year ended September 30, 2006, and those statements, together with our opinion thereon, appear in the first section of this report. Our audit was conducted for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is the responsibility of management and is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

November 17, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Center program	93.224	N/A	\$4,146,356
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	N/A	289,073
Passed through State of Minnesota Department of Health:			
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	Not Available	61,824
Medical Assistance Program (Medicaid)	93.778	Not Available	66,964
HIV Care Formula Grants	93.917	Not Available	20,493
Passed through Hennepin County:			
HIV Emergency Relief Project Grants	93.914	Not Available	193,595
Passed through City of St. Paul, Ramsey County:			
Maternal and Child Health Services Block Grant to the States	93.994	Not Available	707,871
Temporary Assistance for Needy Families	93.558	Not Available	123,852
Passed through the City of Minneapolis:			
Healthy Start Initiative	93.926	Not Available	108,333
Total U.S. Department of Health and Human Services			5,718,361
U.S. Department of Housing and Urban Development:			
Passed through City of St. Paul, Ramsey County:			
Emergency Shelter Grants program	14.231	Not Available	26,000
Passed through Ramsey County Department of Health:			
Community Development Block Grants/Entitlement Grants	14.218	Not Available	23,095
Total U.S. Department of Housing and Urban Development			49,095
U.S. Department of Education:			
Passed through Community of Peace Academy:			
Safe and Drug-Free Schools and Communities; National Programs	84.184	Not Available	12,960
Total federal awards			\$5,780,416

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in the 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.

Note 2. Subrecipients

Of the federal expenditures presented in this schedule, the Center provided no federal awards to subrecipients.