

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

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

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September 30, 2005

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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, 2005 and fieldwork was performed during the period of January 30, 2006 to February 3, 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, 2005, 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, 2005;
- 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, 2005, 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, 2005, 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 February 3, 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

February 3, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

CONSOLIDATED BALANCE SHEET

September 30, 2005

ASSETS (Note 7)

Current Assets:

Cash and cash equivalents (Note 2)	\$ 644,377
Investments (Note 3)	565,864
Patient services receivable, net (Note 4)	2,097,559
Contracts receivable (Note 5)	222,272
Prepaid expenses	257,910

Total current assets	3,787,982
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Property and Equipment, net (Notes 6 and 7)	8,102,567
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Total Assets	\$11,890,549
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 2,256,545
Accrued compensation	1,161,615
Current maturities of long-term debt (Note 7)	658,745
Refundable advances (Note 8)	686,638

Total current liabilities	4,763,543
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Long-term Debt, less current maturities (Note 7)	5,389,064
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Negative Goodwill (Note 2)	167,808
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Total liabilities	10,320,415
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Commitments and Contingencies (Notes 6, 10, 14 and 15)

Unrestricted Net Assets:

Undesignated	760,058
Board-designated reserve (Note 3)	525,537

Total unrestricted net assets	1,285,595
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Temporarily Restricted for Capital Campaign (Note 13)	284,539
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Total net assets	1,570,134
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Total Liabilities and Net Assets	\$11,890,549
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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, 2005

	Unrestricted	Temporarily Restricted	Total
Revenue:			
DHHS grants (Note 9)	\$ 4,080,564		\$ 4,080,564
Patient services, net (Note 10)	11,119,604		11,119,604
Contract services (Note 11)	3,482,659		3,482,659
Donated services and space (Note 12)	637,349		637,349
Other	138,307		138,307
Total revenue	19,458,483		19,458,483
Expenses:			
Salaries and benefits	11,969,012		11,969,012
Other than personnel services	6,367,297		6,367,297
Interest	261,442		261,442
Provision for bad debts	4,504,270		4,504,270
Total expenses	23,102,021		23,102,021
Operating loss prior to depreciation and amortization	(3,643,538)		(3,643,538)
Depreciation and amortization	529,592		529,592
Operating loss	(4,173,130)		(4,173,130)
Nonoperating revenue/expense:			
Amortization of goodwill	671,232		671,232
Capital campaign (Note 13)		\$ 575,069	575,069
Net assets released from restrictions - capital campaign	375,883	(375,883)	
Change in net assets	(3,126,015)	199,186	(2,926,829)
Net assets at beginning of year	4,411,610	85,353	4,496,963
Net assets at end of year	\$ 1,285,595	\$ 284,539	\$ 1,570,134

See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2005

	Program Services	General and Administrative	Total
Salaries and wages	\$ 8,109,471	\$1,457,529	\$ 9,567,000
Fringe benefits	2,108,603	293,409	2,402,012
Healthcare consultants	472,262		472,262
Consultants and professional fees	190,702	600,556	791,258
Consumable supplies	669,543	165,387	834,930
Pharmaceuticals	1,621,693		1,621,693
Telephone	153,424	24,976	178,400
Travel, conferences and meetings	78,402	22,450	100,852
Occupancy	549,811	89,504	639,315
Utility assistance	183,926	29,942	213,868
Insurance	60,402	25,986	86,388
Repairs and maintenance	311,811	50,760	362,571
Laboratory fees	411,786		411,786
Printing, publications and postage	21,035	81,292	102,327
Dues and subscriptions	35,895	187,640	223,535
Personnel recruitment	28,374	14,101	42,475
Patient transportation	24,482		24,482
Provision for bad debts	4,504,270		4,504,270
Interest	224,840	36,602	261,442
State provider taxes	109,739		109,739
Other	75,910	75,506	151,416
Total expenses	19,946,381	3,155,640	23,102,021
Depreciation and amortization	455,449	74,143	529,592
Total functional expenses	\$20,401,830	\$3,229,783	\$23,631,613

See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended September 30, 2005

Cash flows from operating activities:	
Cash received from DHHS grants	\$ 3,599,280
Cash received from patient services	9,356,384
Cash received from contract services	3,549,199
Cash received from contributions	575,069
Cash received from other	138,307
Cash paid for operations	(16,879,942)
Cash paid for interest	(261,442)
Net cash provided by operating activities	76,855
Cash flows from investing activities:	
Purchase of plant and equipment	(470,828)
Proceeds from sale of investments	11,768
Net cash used in investing activities	(459,060)
Cash flows from financing activities:	
Proceeds from long-term debt	723,502
Repayments on long-term debt	(97,324)
Net cash provided by financing activities	626,178
Net increase in cash and cash equivalents	243,973
Cash and cash equivalents at beginning of year	400,404
Cash and cash equivalents at end of year	\$ 644,377
Reconciliation of decrease in net assets to net cash provided by operating activities:	
Decrease in net assets	\$ (2,926,829)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization	529,592
Provision for bad debts	4,504,270
Amortization of negative goodwill	(671,232)
Changes in operating assets and liabilities:	
Increase in patient services receivable	(1,763,220)
Decrease in contracts receivable	66,540
Decrease in other assets	61,317
Increase in prepaid expenses	(80,977)
Increase in accounts payable and accrued expenses	597,037
Increase in accrued compensation	241,641
Decrease in refundable advances	(481,284)
Total adjustments	3,003,684
Net cash provided by operating activities	\$ 76,855

See Notes to Consolidated Financial Statements

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

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 standards 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 is to be amortized over a period of three years. Negative goodwill amounted to \$167,808 as of September 30, 2005.

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

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 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, 2005, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$2,309,038 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	\$ 23,562		\$ 23,562
Investments in bond and equity funds	516,261	\$26,041	542,302
	\$539,823	\$26,041	\$565,864

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

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

4. PATIENT SERVICES RECEIVABLE, NET:

Patient services receivable, net, consist of the following:

Medicaid	\$ 228,761
Medicare	62,930
Other third-party	240,652
Self-pay	3,370,164
Managed care plans	295,832
Medicaid Managed Care Wraparound	900,220
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	5,098,559
Less allowance for doubtful accounts	3,001,000
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	\$2,097,559

5. CONTRACTS RECEIVABLE:

Contracts receivable consist of the following:

State of Minnesota - Department of Health:	
Eliminating Health Disparities - Diabetes	\$ 35,924
Eliminating Health Disparities - Healthy Youth Development	42,658
Ramsey County:	
Maternal and Child Services - Block Grant to the States	138,837
Other	4,853
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	\$222,272

6. PROPERTY AND EQUIPMENT, NET:

Property and equipment, at cost, at September 30, 2005 consists of the following:

Land	\$ 870,456
Building	6,304,148
Furniture and equipment	2,453,427
Leasehold improvement	958,624
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	10,586,655
Less accumulated depreciation and amortization	2,484,088
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	\$ 8,102,567

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, 2005

7. LONG-TERM DEBT:

Long-term debt consists of the following:

The Companies 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. \$4,986,769

On June 26, 2003, the Companies 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. The underlying note matures on June 1, 2028 and is secured by certain property and equipment. 289,794

On January 14 2005, the Companies 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. The loan is secured by accounts receivable, inventory, equipment, investment property and general intangibles. 421,246

The Companies have a revolving line of credit with a bank in the amount of \$350,000. The line of credit has an interest rate of 7.75%. The line of credit expires on June 19, 2006. The line of credit is secured by a first-perfected security interest in all of the Companies' assets. 350,000

	6,047,809
Less current maturities	658,745

Long-term debt	\$5,389,064
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The aggregate amount of principal payments on long-term debt during each of the five years following September 30, 2005 and thereafter is as follows:

Year ending September 30,	
2006	\$ 658,745
2007	301,738
2008	104,696
2009	108,961
2010	113,400
Thereafter	4,760,269
	\$6,047,809

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

8. REFUNDABLE ADVANCES:

Refundable advances consist of the following:

U.S. Department of Health and Human Services grants	\$339,737
Regions Hospital Residency program	332,014
Other	14,887
	\$686,638

9. DHHS GRANTS:

For the year ended September 30, 2005, the Center received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	Revenue Recognized
6 H80 CS 00790-03-04	2/1/04 - 1/31/05	\$3,516,323	\$1,340,650
6 H80 CS 00790-04-03	2/1/05 - 1/31/06	3,997,325	2,450,354
4 H22 CS 00123-03-02	9/1/03 - 6/30/05	505,048	88,207
5 H12HA 23015-05-00	8/1/04 - 7/31/05	289,559	241,298
5 H12HA 23015-06-00	8/1/05 - 7/31/06	289,559	48,262
			4,168,771
Less subgrants passed through to other organizations			88,207
			\$4,080,564

10. PATIENT SERVICES, NET:

For the year ended September 30, 2005, patient services, net, consist of the following:

	Gross Charges	Contractual and Charitable Allowances	Net Revenue
Medicaid	\$ 3,578,350	\$1,739,835	\$ 1,838,515
Medicare	1,734,891	809,681	925,210
Other third-party	1,885,004	850,465	1,034,539
Self-pay	7,769,293	4,551,125	3,218,168
Managed care plans	4,956,187	2,002,015	2,954,172
			19,923,725
Medicaid Managed Care Wraparound		9,953,121	9,970,604
			1,149,000
			\$11,119,604

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

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 \$900,220. This represents approximately 42% of the estimated Medicaid Managed Care Wraparound from 1994 to 2006 due from the State of Minnesota. Subsequent to year-end, approximately \$624,000 has been collected.

11. CONTRACT SERVICES:

For the year ended September 30, 2005, contract services revenue consists of the following:

State of Minnesota - Department of Health:	
State Family program	\$ 88,375
Minnesota Breast and Cervical Cancer Early Detection Program	29,060
Eliminating Health Disparities - Diabetes	125,231
Comprehensive HIV Case Management program	81,123
Eliminating Health Disparities - Healthy Youth Development	160,112
City of St. Paul:	
Emergency Shelter program	28,007
University of Illinois:	
MATEC - Minority Community Training Partnership	25,835
Ramsey County:	
Maternal and Child Health Services Block Grant	553,192
Health Care for the Uninsured, Underinsured	340,897
Eviction Prevention program	172,904
Project Assist	25,452
Child and Teen Checkups	29,103
Hennepin County:	
Ryan White CARE Act Title I	119,064
Medtronics Foundation	278,041
Neighborhood Healthcare Network	91,152
Bremer Foundation grant	34,000
Bright Smiles program	29,668
Sage Case Management Outreach program	44,060
Maternal Child Care program	38,735
Regions Hospital Residency program	813,768
St. Paul Public School - CAPSS plus project	81,604
Heilmaier Foundation grant	15,000
Edward Memorial Trust grant	20,000
Hugh J. Anderson grant	24,500
Child Trust Fund grant	48,063
March of Dimes grant	18,527
Blue Cross Blue Shield grant	25,710
Other	141,476
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	\$3,482,659

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

- 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, 2005, donated services and space consist of the following:

Healthcare consultants	\$225,000
Space costs	120,830
Pharmaceuticals	291,519
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	\$637,349

- 13. CAPITAL CAMPAIGN REVENUE:** The Center has conducted a capital campaign to fund facility expansion efforts including tenant improvements and equipment for a new medical clinic in Minneapolis, relocation of the St. Paul dental clinic and the expansion at the St. Paul main medical clinic site. For the year ended September 30, 2005, the Center received \$575,069, of which \$284,539 is temporarily restricted.

- 14. 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. Pension expense amounted to \$240,964 for the year ended September 30, 2005.

- 15. 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.

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

The Center leases space under noncancelable operating leases. Rent expense for the year ended September 30, 2005 amounted to \$23,300. Facilities leased under noncancelable operating leases require future minimum payments as follows:

Year ending September 30,

2006	\$ 623,535
2007	406,133
2008	435,416
2009	437,628
2010	437,628
Thereafter	840,933

\$3,181,273

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

**INTERNAL CONTROLS AND
COMPLIANCE SECTION**

SEPTEMBER 30, 2005



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, 2005, and have issued our report thereon dated February 3, 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 05-1.

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 05-1.

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 February 3, 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

February 3, 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, 2005. The 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 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 05-1 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 Federal with 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, 2005.



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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-1.

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

February 3, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS September 30, 2005

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 weaknesses? 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

Name of Federal Program or Cluster

U.S. Department of Health and Human Services:
Community Health Center program

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

05-1 Patient Services Receivable and Revenue

Statement of Condition: 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.

Questioned Costs: None

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS September 30, 2005

Effect: The Center did not accurately reflect the patient services receivable and maximize patient services revenue at September 30, 2005.

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

Recommendation: Procedures should be established whereby an employee of the Center periodically reviews and follows up on patient services billing and past-due receivables that are outstanding for a specific period of time (e.g., quarterly). A system needs to be established to determine that all patient services were billed appropriately. When all methods of collection have been exhausted, the patient account should be transferred to 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 that more accurately reflect the cash realizable value of receivables.

Management's Response: Management concurs with this finding and will implement the procedures 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 05-1 for the Community Health Center program (CFDA # 93.224).

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

STATUS OF PRIOR-YEAR'S FINDINGS September 30, 2005

Item #	Description of Condition	Status of Corrective Action
04-1	The Center was delinquent in timely payment of the pension contributions during the fiscal year ended September 30, 2004.	The Center has paid its pension contributions during the year on a timely basis.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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, 2005, 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

February 3, 2006

WEST SIDE COMMUNITY HEALTH SERVICES, INC. AND AFFILIATE

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Center program	93.224	N/A	\$ 3,879,211
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	N/A	289,560
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	29,060
Medical Assistance Program (Medicaid)	93.778	Not Available	29,103
HIV Care Formula Grants	93.917	Not Available	20,281
Passed through Hennepin County:			
HIV Emergency Relief Project Grants	93.914	Not Available	212,362
Passed through City of St. Paul, Ramsey County:			
Maternal and Child Health Services Block Grant to the States	93.994	Not Available	583,566
Temporary Assistance for Needy Families	93.558	Not Available	160,112
Passed through the University of Illinois:			
AIDS Education and Training Centers	93.145	Not Available	25,835
Passed through St. Paul Public School:			
Adolescent Family Life Demonstration Projects	93.995		81,604
Total U.S. Department of Health and Human Services			5,310,694
U.S. Department of Housing and Urban Development:			
Passed through City of St. Paul, Ramsey County:			
Emergency Shelter Grants Program	14.231	Not Available	28,007
Passed through Ramsey County Department of Health:			
Community Development Block Grants/Entitlement Grants	14.218	Not Available	20,092
Total U.S. Department of Housing and Urban Development			48,099
Total federal awards			\$ 5,358,793

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 federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipient
Consolidated Health Center program	93.224	\$ 88,207