

**WILLIAM F. RYAN COMMUNITY  
HEALTH CENTER, INC.**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

**TCBA WATSON RICE LLP  
CERTIFIED PUBLIC ACCOUNTANTS**

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
DECEMBER 31, 2010 AND 2009**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
William F. Ryan Community Health Center, Inc.

We have audited the accompanying balance sheets of William F. Ryan Community Health Center, Inc. (the "Center") as of December 31, 2010 and 2009, and the related statements of operations, changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of William F. Ryan Community Health Center, Inc. as of December 31, 2010 and 2009, 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.

*TCBA Watson Rice LLP*

New York, New York  
June 6, 2011

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

|   | <u>2010</u>                 | <u>2009</u>                 |
|---|-----------------------------|-----------------------------|
| <b><u>Assets</u></b>                                |                             |                             |
| <b><u>Current Assets</u></b>                        |                             |                             |
| Cash  | \$ 2,530,870                | \$ 3,460,718                |
| Patient services receivable - net (Note 3)          | 4,871,139                   | 3,604,344                   |
| DHHS grants receivable                              | 248,826                     | 96,426                      |
| Contracts receivable (Note 4)                       | 969,467                     | 1,432,515                   |
| Prepaid expenses and other current assets (Note 14) | <u>1,780,820</u>            | <u>2,355,689</u>            |
| Total Current Assets                                | 10,401,122                  | 10,949,692                  |
| Property and Equipment - Net (Notes 5 and 14)       | 49,728,229                  | 43,358,295                  |
| Due from Related Parties (Note 12)                  | 6,557,192                   | 7,492,617                   |
| Deferred Compensation Account (Note 13)             | <u>1,307,488</u>            | <u>1,170,095</u>            |
| <b>Total Assets</b>                                 | <b><u>\$ 67,994,031</u></b> | <b><u>\$ 62,970,699</u></b> |
| <b><u>Liabilities and Net Assets</u></b>            |                             |                             |
| <b><u>Current Liabilities</u></b>                   |                             |                             |
| Accounts payable and accrued expenses               | \$ 4,078,533                | \$ 3,280,468                |
| Accrued compensation                                | 2,150,122                   | 2,087,261                   |
| Construction payable                                | 427,332                     | 1,641,984                   |
| Current portion of loans payable (Note 6)           | <u>262,765</u>              | <u>37,851</u>               |
| Total Current Liabilities                           | 6,918,752                   | 7,047,564                   |
| <b><u>Long-term Liabilities</u></b>                 |                             |                             |
| Loans payable (Note 6)                              | 7,202,034                   | 2,959,498                   |
| Deferred compensation account (Note 13)             | 1,307,488                   | 1,170,095                   |
| Obligations under capital lease (Note 14)           | <u>28,042,687</u>           | <u>27,949,059</u>           |
| Total Liabilities                                   | <u>43,470,961</u>           | <u>39,126,216</u>           |
| <b><u>Net Assets</u></b>                            |                             |                             |
| Unrestricted  | 24,113,488                  | 23,666,588                  |
| Temporarily restricted (Note 10)                    | <u>409,582</u>              | <u>177,895</u>              |
| Total Net Assets                                    | <u>24,523,070</u>           | <u>23,844,483</u>           |
| <b>Total Liabilities and Net Assets</b>             | <b><u>\$ 67,994,031</u></b> | <b><u>\$ 62,970,699</u></b> |

See notes to financial statements.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2010**

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|----------------------|
| <b><u>Revenues</u></b>                                     |                      |                                   |                      |
| DHHS grants (Note 7)                                       | \$ 7,765,937         | \$ -                              | \$ 7,765,937         |
| Patient services - net (Note 8)                            | 19,324,228           | -                                 | 19,324,228           |
| Contract services (Note 9)                                 | 10,487,332           | 250,000                           | 10,737,332           |
| Contributions  | 66,919               | -                                 | 66,919               |
| Fundraising - net of expenses of \$98,210                  | 130,684              | -                                 | 130,684              |
| Other  | 705,806              | -                                 | 705,806              |
| Net assets released from restrictions (Note 10)            | 18,313               | (18,313)                          | -                    |
| Total Revenues   | <u>38,499,219</u>    | <u>231,687</u>                    | <u>38,730,906</u>    |
| <b><u>Expenses</u></b>                                     |                      |                                   |                      |
| Salaries and benefits                                      | 26,095,795           | -                                 | 26,095,795           |
| Other than personnel services                              | 9,011,298            | -                                 | 9,011,298            |
| Interest   | 874,184              | -                                 | 874,184              |
| Provision for doubtful accounts                            | 162,493              | -                                 | 162,493              |
| Total Expenses   | <u>36,143,770</u>    | <u>-</u>                          | <u>36,143,770</u>    |
| Operating Income Prior to<br>Depreciation and Amortization | 2,355,449            | 231,687                           | 2,587,136            |
| Depreciation and Amortization                              | <u>1,908,549</u>     | <u>-</u>                          | <u>1,908,549</u>     |
| Changes in Net Assets                                      | 446,900              | 231,687                           | 678,587              |
| Net Assets, Beginning of Year                              | <u>23,666,588</u>    | <u>177,895</u>                    | <u>23,844,483</u>    |
| Net Assets, End of Year                                    | <u>\$ 24,113,488</u> | <u>\$ 409,582</u>                 | <u>\$ 24,523,070</u> |

See notes to financial statements.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2009**

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|----------------------|
| <b><u>Revenues</u></b>  |                      |                                   |                      |
| DHHS grants (Note 7)  | \$ 7,424,975         | \$ -                              | \$ 7,424,975         |
| Patient services - net (Note 8)                                   | 19,542,261           | -                                 | 19,542,261           |
| Contract services (Note 9)  | 5,450,498            | -                                 | 5,450,498            |
| Contributions   | 86,260               | -                                 | 86,260               |
| Other   | 561,852              | -                                 | 561,852              |
| Net assets released from restrictions (Note 10)                   | <u>3,946,944</u>     | <u>(3,946,944)</u>                | <u>-</u>             |
| Total Revenues  | <u>37,012,790</u>    | <u>(3,946,944)</u>                | <u>33,065,846</u>    |
| <b><u>Expenses</u></b>  |                      |                                   |                      |
| Salaries and benefits   | 26,090,441           | -                                 | 26,090,441           |
| Other than personnel services                                     | 9,825,877            | -                                 | 9,825,877            |
| Interest  | 15,220               | -                                 | 15,220               |
| Provision for doubtful accounts                                   | <u>16,023</u>        | <u>-</u>                          | <u>16,023</u>        |
| Total Expenses  | <u>35,947,561</u>    | <u>-</u>                          | <u>35,947,561</u>    |
| Operating Income/(Loss) Prior to<br>Depreciation and Amortization | 1,065,229            | (3,946,944)                       | (2,881,715)          |
| Depreciation and Amortization                                     | <u>1,133,802</u>     | <u>-</u>                          | <u>1,133,802</u>     |
| Changes in Net Assets   | (68,573)             | (3,946,944)                       | (4,015,517)          |
| Net Assets, Beginning of Year                                     | <u>23,735,161</u>    | <u>4,124,839</u>                  | <u>27,860,000</u>    |
| Net Assets, End of Year   | <u>\$ 23,666,588</u> | <u>\$ 177,895</u>                 | <u>\$ 23,844,483</u> |

See notes to financial statements.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2010**

|                                      | <u>Program<br/>Services</u> | <u>General and<br/>Administrative</u> | <u>Total</u>         |
|--------------------------------------|-----------------------------|---------------------------------------|----------------------|
| Salaries and wages                   | \$ 15,218,313               | \$ 4,686,506                          | \$ 19,904,819        |
| Fringe benefits                      | 4,825,078                   | 1,365,898                             | 6,190,976            |
| Consultants and contractual services | 1,157,782                   | 734,409                               | 1,892,191            |
| Professional fees                    | 636                         | 399,803                               | 400,439              |
| Laboratory - outside services        | 254,945                     | -                                     | 254,945              |
| Pharmaceuticals                      | 202,095                     | -                                     | 202,095              |
| Radiology                            | 49,112                      | -                                     | 49,112               |
| Travel, conferences and meetings     | 150,159                     | 50,224                                | 200,383              |
| Occupancy                            | 750,175                     | 132,383                               | 882,558              |
| Consumable supplies                  | 1,569,814                   | 256,333                               | 1,826,147            |
| Repairs and maintenance              | 522,173                     | 92,147                                | 614,320              |
| Insurance                            | 113,708                     | 87,906                                | 201,614              |
| Telephone                            | 264,500                     | 88,166                                | 352,666              |
| Printing, publications and postage   | 134,254                     | 44,752                                | 179,006              |
| Personnel recruitment                | 590,934                     | 138,665                               | 729,599              |
| Provision for doubtful accounts      | 162,493                     | -                                     | 162,493              |
| Interest                             | -                           | 874,184                               | 874,184              |
| Other                                | 211,724                     | 1,014,499                             | 1,226,223            |
|                                      | <u>26,177,895</u>           | <u>9,965,875</u>                      | <u>36,143,770</u>    |
| Depreciation and amortization        | <u>1,622,266</u>            | <u>286,283</u>                        | <u>1,908,549</u>     |
|                                      | <u>\$ 27,800,161</u>        | <u>\$ 10,252,158</u>                  | <u>\$ 38,052,319</u> |

See notes to financial statements.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2009**

|                                      | <u>Program<br/>Services</u> | <u>General and<br/>Administrative</u> | <u>Total</u>         |
|--------------------------------------|-----------------------------|---------------------------------------|----------------------|
| Salaries and wages                   | \$ 15,372,480               | \$ 4,595,113                          | \$ 19,967,593        |
| Fringe benefits                      | 4,746,600                   | 1,376,248                             | 6,122,848            |
| Consultants and contractual services | 1,280,064                   | 1,526,357                             | 2,806,421            |
| Professional fees                    | -                           | 563,059                               | 563,059              |
| Laboratory - outside services        | 437,659                     | -                                     | 437,659              |
| Pharmaceuticals                      | 386,922                     | 637                                   | 387,559              |
| Radiology                            | 60,198                      | -                                     | 60,198               |
| Travel, conferences and meetings     | 180,712                     | 60,237                                | 240,949              |
| Occupancy                            | 562,215                     | 99,214                                | 661,429              |
| Consumable supplies                  | 1,416,363                   | 237,454                               | 1,653,817            |
| Repairs and maintenance              | 643,467                     | 113,553                               | 757,020              |
| Insurance                            | 122,627                     | 80,636                                | 203,263              |
| Telephone                            | 227,329                     | 75,777                                | 303,106              |
| Printing, publications and postage   | 210,094                     | 70,031                                | 280,125              |
| Personnel recruitment                | 611,589                     | 240,271                               | 851,860              |
| Provision for doubtful accounts      | 16,023                      | -                                     | 16,023               |
| Interest                             | -                           | 15,220                                | 15,220               |
| Other                                | 187,667                     | 431,745                               | 619,412              |
|                                      | <u>26,462,009</u>           | <u>9,485,552</u>                      | <u>35,947,561</u>    |
| Depreciation and amortization        | 963,732                     | 170,070                               | 1,133,802            |
|                                      | <u>\$ 27,425,741</u>        | <u>\$ 9,655,622</u>                   | <u>\$ 37,081,363</u> |

See notes to financial statements.



**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

|  | <u>2010</u>         | <u>2009</u>          |
|--|---------------------|----------------------|
| <b><u>Cash Flows from Operating Activities</u></b>   |                     |                      |
| Changes in net assets  | \$ 678,587          | \$ (4,015,517)       |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: |                     |                      |
| Depreciation and amortization  | 1,908,549           | 1,133,802            |
| Provision for doubtful accounts  | 42,493              | 16,023               |
| Bad debts written off  | 120,000             | -                    |
| (Increase)/decrease in operating assets:   |                     |                      |
| Patient services receivable  | (1,309,288)         | 1,743,443            |
| DHHS grants receivable   | (152,400)           | (75,686)             |
| Contracts receivable   | 343,048             | 407,028              |
| Due from related parties   | 935,425             | (751,814)            |
| Prepaid expenses and other current assets  | 574,869             | 34,313               |
| Increase/(decrease) in operating liabilities:  |                     |                      |
| Accounts payable and accrued expenses  | 798,065             | 746,099              |
| Accrued compensation   | 62,861              | 119,989              |
| Construction payable   | <u>(1,214,652)</u>  | <u>1,641,984</u>     |
| Net cash provided by operating activities  | 2,787,557           | 999,664              |
| <b><u>Cash Flows from Investing Activities</u></b>   |                     |                      |
| Net purchase of property and equipment   | (8,184,855)         | (5,313,647)          |
| <b><u>Cash Flows from Financing Activities</u></b>   |                     |                      |
| Net proceeds from loans  | <u>4,467,450</u>    | <u>2,997,349</u>     |
| <b>Net Decrease in Cash</b>  | (929,848)           | (1,316,634)          |
| <b>Cash, Beginning of Year</b>   | <u>3,460,718</u>    | <u>4,777,352</u>     |
| <b>Cash, End of Year</b>   | <u>\$ 2,530,870</u> | <u>\$ 3,460,718</u>  |
| <b>SUPPLEMENTAL DISCLOSURE<br/>OF CASH FLOW INFORMATION</b>                                  |                     |                      |
| Interest paid  | <u>\$ 171,063</u>   | <u>\$ 7,074</u>      |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH<br/>OPERATING AND INVESTING ACTIVITIES</b>             |                     |                      |
| Capital lease obligations for lease of office and clinical space                             | <u>\$ -</u>         | <u>\$ 27,949,059</u> |

See notes to financial statements.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**1. ORGANIZATION**

William F. Ryan Community Health Center, Inc. (the "Center") operates freestanding diagnostic and treatment centers, located in Manhattan, licensed under Article 28 of the New York State Health Law. The Center provides a broad range of health services to a largely medically underserved population.

The U.S. Department of Health and Human Services ("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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

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

**Basis of Presentation**

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classes are defined as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Center and/or passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center.

Currently, the Center has no permanently restricted net assets.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Cash**

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

**Patient Services Receivable**

Patient services receivable is reported at its outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payor's ability to pay, and current economic trends. The Center writes off patient services receivable against the allowance when a balance is determined to be uncollectible.

**Property and Equipment**

Property and equipment is recorded at cost. Depreciation and amortization are recorded on the straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. 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.

Assets under capital lease are recorded at the present value of the minimum lease payments and are amortized on a straight-line basis over the term of the lease. The amortization expense on assets under capital lease is included with amortization expense on owned assets.

Interest cost on borrowings incurred during the new construction or upgrade of qualifying assets are capitalized. Capitalized interest is added to the cost of the underlying assets and is amortized over the term of the lease.

Construction-in-progress is recorded at cost. The Center capitalizes construction, insurance, and other costs during the period of construction. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Revenue Recognition**

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

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the 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 non operating revenue, in the absence of donor stipulations to the contrary, during the calendar year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At December 31, 2010, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$5,092,355 that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified future 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 estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. 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 ("PHS") in compliance with OMB Circular A-110.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Functional Allocation of Expenses**

The costs of providing for the Center’s programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services that are benefited.

**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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes**

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

**Reclassifications**

Reclassifications were made to the December 31, 2009 amounts to provide consistency with the December 2010 presentation.

**3. PATIENT SERVICES RECEIVABLE**

Patient services receivable consists of:

|                                      | <b>2010</b>         | <b>2009</b>         |
|--------------------------------------|---------------------|---------------------|
| Medicaid                             | \$ 3,777,522        | \$ 2,737,998        |
| Medicare                             | 153,283             | 301,839             |
| Private insurance                    | 123,075             | 80,524              |
| Self-pay                             | 64,638              | 56,103              |
| New York State Uncompensated Care    | 847,744             | 480,510             |
|                                      | <u>4,966,262</u>    | <u>3,656,974</u>    |
| Less allowance for doubtful accounts | <u>(95,123)</u>     | <u>(52,630)</u>     |
|                                      | <u>\$ 4,871,139</u> | <u>\$ 3,604,344</u> |

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**4. CONTRACTS RECEIVABLE**

Contracts receivable consists of:

|                                      | <u>2010</u>       | <u>2009</u>         |
|--------------------------------------|-------------------|---------------------|
| New York State Department of Health: |                   |                     |
| AIDS Institute                       | \$ 217,522        | \$ 304,749          |
| Women, Infants and Children Program  | 201,674           | 255,258             |
| High School Health Program           | 118,920           | 117,918             |
| New York City Department of Health:  |                   |                     |
| HIV Care Services Program            | 192,770           | 380,718             |
| Community Support System             | -                 | 120,000             |
| Health Research Institute:           |                   |                     |
| AIDS Institute - Shout Van Program   | 55,833            | 57,570              |
| United Way                           | 23,507            | 37,500              |
| New York Minority Initiative         | 26,575            | 31,086              |
| Other                                | <u>132,666</u>    | <u>127,716</u>      |
|                                      | <u>\$ 969,467</u> | <u>\$ 1,432,515</u> |

**5. PROPERTY AND EQUIPMENT**

Property and equipment consists of:

|  | <u>2010</u>          | <u>2009</u>          |
|--|----------------------|----------------------|
| Land   | \$ 76,145            | \$ 76,145            |
| Building and improvements, including assets<br>under capital lease of \$28,451,884 in 2010<br>and \$27,949,059 in 2009 | 43,426,669           | 34,488,225           |
| Leasehold improvements   | 15,191,627           | 12,152,362           |
| Furniture and equipment  | <u>9,378,544</u>     | <u>10,115,272</u>    |
|  | 68,072,985           | 56,832,004           |
| Less accumulated depreciation and amortization   | (19,985,404)         | (19,797,952)         |
| Construction-in-progress   | <u>1,640,648</u>     | <u>6,324,243</u>     |
|  | <u>\$ 49,728,229</u> | <u>\$ 43,358,295</u> |

During 2010, interest costs related to the capital lease amounting to \$502,825 incurred during the construction period, have been capitalized as part of the assets under capital lease. Accumulated amortization included in the accumulated depreciation and amortization associated with assets under capital lease was \$296,374 at December 31, 2010.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**5. PROPERTY AND EQUIPMENT – CONTINUED**

In the event 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.

**6. LOANS PAYABLE**

On October 16, 2009 (the “Closing Date”), the Center entered into a loan agreement with Afia Foundation, Inc. (“Afia”) with a maximum principal amount of \$6,500,000, to be advanced by Afia to the Center on a monthly basis commencing on October 16, 2009 in monthly installments of \$1,000,000, to be used by the Center to pay for the costs of the construction, renovation and build out and equipping and furnishing of the Center’s tenant leasehold improvements at 801 Amsterdam Avenue, New York, New York.

The loan has a term of 20 years and bears interest at the United States Prime Rate as listed in the Eastern print edition of the Wall Street Journal (“U.S. Prime Rate”) plus 1% as of the Closing Date. On each anniversary of the Closing Date, the interest rate shall be reset to the rate equal to the U.S. Prime Rate plus 1%, which shall never exceed 7% per annum. During the first twelve (12) months after the Closing Date, the Center shall pay interest only on the loan commencing December 1, 2009 and continuing on the first business day of each month through and including November 1, 2010. Principal and interest on the loan shall thereafter be paid by the Center to Afia on the first business day of each month commencing on December 1, 2010 and continuing thereafter on the first business day of each month until the loan has been repaid in full so as to fully amortize the loan by December 1, 2030. As of December 31, 2010 and 2009, this loan has a balance of \$6,500,000 and \$2,000,000, respectively.

Also on October 16, 2009, the Center entered into a separate loan agreement with Afia with a principal amount of \$1,000,000, to pay for the costs of the implementation of the Electronic Medical Records (“EMR”) project on behalf of the Center and used by Ryan-NENA Community Health Center.

The loan has a term of 20 years and bears interest at the U. S. Prime Rate plus 1% as of the Closing Date. On each anniversary of the Closing Date, the interest rate shall be reset to the rate equal to the U. S. Prime Rate plus 1%, which shall never exceed 7% per annum. Principal and interest on the loan shall be paid by the Center on the first business day of each month commencing on December 1, 2009 and continuing thereafter on the first business day of each month until the loan has been repaid in full so as to amortize the loan by December 1, 2029. As of December 31, 2010 and 2009, this loan has a balance of \$964,799 and \$997,349, respectively.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**6. LOANS PAYABLE – CONTINUED**

The future scheduled maturities of loans payable are as follows:

|                          |                     |
|--------------------------|---------------------|
| Year ending December 31, |                     |
| 2011                     | \$ 262,765          |
| 2012                     | 256,176             |
| 2013                     | 267,279             |
| 2014                     | 278,862             |
| 2015                     | 290,947             |
| Thereafter               | <u>6,108,770</u>    |
|                          | <u>\$ 7,464,799</u> |

**7. DHHS GRANTS**

For the years ended December 31, 2010 and 2009, the Center received the following grants from DHHS:

| <u>Grant Number</u>                                  | <u>Grant Period</u> | <u>Total Grant Amount</u> | <u>2010<br/>Unrestricted<br/>Revenue<br/>Recognized</u> | <u>2009<br/>Unrestricted<br/>Revenue<br/>Recognized</u> |
|--|---------------------|---------------------------|---|---|
| 6H80CS00061-09-01                                    | 12/01/09-11/30/10   | \$ 7,086,984              | \$ 6,504,701  | \$ -  |
| 2H80CS00061-09-00                                    | 12/01/09-11/30/10   | 3,543,492                 | -   | 582,283   |
| 6H80CS00061-10-01                                    | 12/01/10-11/30/11   | 3,543,492                 | 576,465   | -   |
| 6H76HA00024-19-02                                    | 01/01/09-12/31/09   | 741,842                   | -   | 741,842   |
| 5H76HA00024-20-00                                    | 01/01/10-12/31/10   | 741,842                   | 741,842   | -   |
| U65/PS223839-05W1                                    | 07/01/09-06/30/10   | 328,817                   | 164,381   | 164,431   |
| 5U79SP013385-05                                      | 09/30/09-09/29/10   | 254,320                   | 190,741   | 134,810   |
| 1U79SP016428-01                                      | 09/30/10-09/29/11   | 300,000                   | 75,000  | -   |
| 1H8BCS12529-01-00                                    | 03/27/09-03/26/11   | 629,146                   | 319,207   | 310,939   |
| 6H97HA15305-01-01                                    | 09/01/09-08/31/10   | 85,445                    | 59,463  | 25,982  |
| 1H97HA19767-01-00                                    | 09/01/10-08/31/11   | 80,000                    | 19,167  | -   |
| 6C81CS13379-01-01                                    | 06/29/09-06/28/11   | 1,722,730                 | 248,826   | -   |
| 1H4MHP20311-01-00                                    | 09/01/10-08/31/11   | 381,735                   | 16,144  | -   |
| 6H80CS00061-08-04                                    | 12/01/08-11/30/09   | 6,861,984                 | -   | 6,332,207   |
| U65/PS223839-05                                      | 07/01/08-06/30/09   | 328,817                   | -   | 164,411   |
| 5U79SP013385-04                                      | 09/30/08-09/29/09   | 254,320                   | -   | <u>118,070</u>  |
|  |                     |                           | 8,915,937   | 8,574,975   |
| Less subgrants passed through to other organizations |                     |                           | <u>(1,150,000)</u>                                      | <u>(1,150,000)</u>                                      |
|  |                     |                           | <u>\$ 7,765,937</u>                                     | <u>\$ 7,424,975</u>                                     |



**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**8. PATIENT SERVICES**

Patient services consists of:

|   | <b>Gross<br/>Charges</b> | <b>Contractual<br/>and Charitable<br/>Allowances</b> | <b>Net<br/>Revenue<br/>2010</b> | <b>Net<br/>Revenue<br/>2009</b> |
|---|--------------------------|--|---------------------------------|---------------------------------|
| Medicaid  | \$ 8,360,448             | \$ 1,542,820   | \$ 6,817,628                    | \$ 5,453,063                    |
| Medicaid Managed Care                                 | 13,471,836               | 9,178,709  | 4,293,127                       | 4,596,564                       |
| Medicare  | 1,501,160                | 709,023  | 792,137                         | 1,377,487                       |
| Private insurance                                     | 2,743,879                | 2,406,559  | 337,320                         | 186,940                         |
| Patient fees  | 4,952,506                | 4,102,639  | 849,867                         | 862,398                         |
|   | <u>\$ 31,029,829</u>     | <u>\$ 17,939,750</u>                                 | 13,090,079                      | 12,476,452                      |
| New York State<br>Uncompensated Care                  |                          |  | 1,101,246                       | 1,083,167                       |
| New York State and<br>Child Health Plus<br>Wraparound |                          |  | 4,716,278                       | 5,516,619                       |
| Medicaid Managed Care<br>Incentives                   |                          |  | 416,625                         | 466,023                         |
|   |                          |  | <u>\$ 19,324,228</u>            | <u>\$ 19,542,261</u>            |

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 calendar year received.

In 2010, net patient services revenue decreased approximately by \$600,000 due to prior year retroactive adjustments (see Note 13).

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**9. CONTRACT SERVICES**

For the years ended December 31, 2010 and 2009, contract services revenue consist of the following:

|  | <u>2010</u>          | <u>2009</u>         |
|--|----------------------|---------------------|
| New York State Department of Health:                         |                      |                     |
| Women, Infants and Children Program                          | \$ 893,888           | \$ 1,071,855        |
| High School Health Program                                   | 508,139              | 292,048             |
| AIDS Institute - Multi-service Agency                        | 552,901              | 349,038             |
| AIDS Institute - Primary Care                                | 110,665              | 234,316             |
| Family Centered Care Program                                 | 189,387              | 153,247             |
| HEAL NY Phase 6  | 4,653,017            | 346,983             |
| Health Foundation  | 183,334              | 16,667              |
| Health Research, Inc.:                                       |                      |                     |
| Ryan White Consortium  | 49,926               | 116,679             |
| Primary Care Program   | 240,848              | 242,299             |
| New York City Department of Health:                          |                      |                     |
| HIV Care Services Program                                    | 858,578              | 1,313,208           |
| Community Support System                                     | -                    | 200,948             |
| City of New York Department of Mental<br>Health and Hygiene: |                      |                     |
| Vaccines for Children Program                                | 768,260              | 528,505             |
| Entertainment Industry Foundation - Revlon<br>Program        | 20,000               | 65,600              |
| The Sophie Davis School Program                              | 18,486               | 9,243               |
| United Way   | 167,467              | 146,242             |
| Avon Breast Cancer Center                                    | 20,450               | 20,000              |
| Afia Foundation, Inc. (Note 12)                              | 967,500              | -                   |
| Other  | 534,486              | 343,620             |
|  | <u>\$ 10,737,332</u> | <u>\$ 5,450,498</u> |

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**10. TEMPORARILY RESTRICTED NET ASSETS**

In 2008, the Center received grants from Afia amounting to \$5,000,000 for the Center's EMR project and construction of a new site at 801 Amsterdam Avenue, New York, New York. In 2009, the Center incurred \$3,946,944 in expenses and purchases of property and equipment related to the construction and the EMR project.

As of December 31, 2010 and 2009, the amounts of \$409,582 and \$177,895, respectively, are temporarily restricted for the Center's construction of the 801 Amsterdam Avenue and 97<sup>th</sup> Street sites, the Center's Development Proposal and the EMR project.

**11. PENSION PLANS**

The Center has a defined contribution pension plan covering substantially all nonunion full-time employees meeting certain eligibility requirements. Contributions to the plan are based on a percentage of salaries. In addition, the Center has adopted a supplemental executive retirement plan for selected key management personnel. Pension expense amounted to \$218,699 and \$409,088 for the years ended December 31, 2010 and 2009, respectively.

Also, in connection with its collective bargaining agreement with 1199SEIU United Healthcare Workers East, the Center participates in a defined benefit pension plan. The plan covers substantially all of the Center's union employees. Pension expense amounted to \$600,066 and \$587,471 for the years ended December 31, 2010 and 2009, respectively.

**12. RELATED PARTY TRANSACTIONS**

The Center is related to the Ryan/Chelsea-Clinton Community Health Center, Inc. ("RCC") through the existence of economic interest. The Center has paid for expenses on behalf of RCC since inception, and in 2004 issued a subvention certificate in the amount of \$1,600,000. The Center evaluated the collectibility of the subvention certificate and, as a result, reserved the amount in 2004. In addition, the Center evaluated the collectibility of \$622,341 due from RCC and reserved this amount in 2004. A subrecipient agreement exists between RCC and the Center whereby the Center provides federal awards as well as administrative, fiscal and support services to RCC. Federal funding totaling \$1,150,000 was awarded to RCC for each of the years ended December 31, 2010 and 2009. Services provided related to this agreement amounted to \$500,000 and \$300,000 for the years ended December 31, 2010 and 2009, respectively.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**12. RELATED PARTY TRANSACTIONS – CONTINUED**

As of December 31, 2010 and 2009, the Center's receivable from RCC amounted to \$6,556,828 and \$7,442,310, respectively.

The Center and RCC are the corporate members of Afia acting through their individual board of directors. In 2010, the Center received grants from Afia totaling \$967,500.

**13. COMMITMENTS AND CONTINGENCIES**

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

On June 4, 2010, the Center received a final audit report from the Office of the Medicaid Inspector General ("OMIG") covering the completed review of payments made to the Center under the New York State Medicaid Program for the period January 1, 2005 to December 31, 2006. The Center is challenging the findings through administrative hearings. The accompanying financial statements for 2010 reflect the Center's estimate of approximately \$600,000 amount due to the funding agency resulting from this audit.

The Center has executed an elective deferred compensation agreement with a key employee in accordance with the supplemental executive retirement plan. Elective deferrals are accumulated based upon the contributions made by the Center, with respect to the key employee's plan account. Investments in these accounts, including any gains or losses, remain subject to the creditors of the Center until they are distributed upon termination of employment as defined in the agreement.

The investments consist of cash and equities valued at the fair market value as of December 31, 2010 and 2009.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**13. COMMITMENTS AND CONTINGENCIES – CONTINUED**

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 has been named in litigation claims in the normal course of its operations. These claims will, in the opinion of management, be fully covered by the Center’s insurance coverage and will not have a material adverse effect upon the financial position of the Center.

**14. LEASE AGREEMENT**

On February 28, 2008, the Center entered into a 49 year lease agreement for office and clinical space (the “Leased Premises”) in a building located at 801 Amsterdam Avenue, New York, New York.

At December 31, 2009, the lease was recorded as a capital lease at the present value of the future payments due under the lease, amounting to \$27,949,059. The related liability under the capital lease amounting to \$27,949,059 as of December 31, 2009, is due in monthly installments for principal and interest until June 2058.

Under the terms of the lease, during the first four lease years, the Center shall pay 50% of fixed rent for the first eleven months of each of the first four lease years, and on the first day of the 12th month of each of the four lease years, the Center shall pay the balance of the fixed rent due for such lease year. In December 2008, the Center paid the lessor \$2 million as prepaid rent, which shall cover the payments during the 12th month of each of the first four lease years. As of December 31, 2010 and 2009, prepaid rent has a balance of \$1,494,246 and \$2,000,000, respectively.

**WILLIAM F. RYAN COMMUNITY HEALTH CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**14. LEASE AGREEMENT – CONTINUED**

The following is a schedule by years of future minimum lease payments under capital lease together with the present value of the minimum lease payments as of December 31, 2010:

|                                   |                      |
|-----------------------------------|----------------------|
| Year ending December 31,          |                      |
| 2011                              | \$ 1,011,507         |
| 2012                              | 1,011,507            |
| 2013                              | 1,011,507            |
| 2014                              | 1,132,888            |
| 2015                              | 1,132,888            |
| Thereafter                        | <u>64,754,873</u>    |
| Total minimum lease payments      | 70,055,170           |
| Less amount representing interest | <u>(42,012,483)</u>  |
|                                   | <u>\$ 28,042,687</u> |

The Center also has an option to purchase the Leased Premises at any time after the tenth (10<sup>th</sup>) anniversary of the Commencement Date but prior to the twentieth (20<sup>th</sup>) anniversary of the Commencement Date, at a purchase price of \$19,800,000.

**15. SUBSEQUENT EVENT**

On January 31, 2011, the transfer of the title of the space the Center currently occupies at 110 West 97<sup>th</sup> Street, New York, New York was completed.

The Center evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are issued, which was June 6, 2011 for these financial statements.