JEFFERSON COMMUNITY HEALTH CARE CENTERS, INC.

FINANCIAL STATEMENTS

December 31, 2013 and 2012

Jefferson Community Health Care Centers, Inc.
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December 31, 2013

CRI CARR RIGGS & INGRAM
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Jefferson Community Health Care Centers, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson Community Health Care Centers, Inc. ("JCHCC"), which comprise the Statements of Financial Position as of December 31, 2013 and 2012, and the related Statements of Activities, Cash Flows and Functional Expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JCHCC as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, certain errors resulting in understatement of previously reported revenues and receivables as of December 31, 2012, were discovered by management of JCHCC during the current year. Accordingly, an adjustment to the financial statements has been made to net assets as of December 31, 2012, to correct the errors.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014 on our consideration of JCHCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering JCHCC's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, LLC

May 27, 2014

FINANCIAL STATEMENTS

December 31,	**2013**	2012 (As Restated)
Assets		
Current Assets		
Cash and cash equivalents	**$ 2,642,466**	$ 2,397,815
Investments	**1,476,350**	-
Patient and contracts receivable, net	**1,156,367**	2,275,351
Other current assets	**80,898**	92,980
Total Current Assets	**5,356,081**	4,766,146
Non-Current Assets		
Property and equipment, net of accumulated depreciation	**3,079,488**	1,753,563
Total Non-Current Assets	**3,079,488**	1,753,563
Total Assets	**$ 8,435,569**	$ 6,519,709
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 281,790**	$ 318,273
Accrued expenses	**570,177**	182,954
Current portion of long-term debt	**18,907**	72,550
Deferred revenue	**258,751**	145,536
Total Current Liabilities	**1,129,625**	719,313
Long-term Liabilities		
Long-term debt	**1,283,607**	250,000
Total Liabilities	**2,413,232**	969,313
Net Assets		
Unrestricted	**6,022,337**	5,550,396
Total Net Assets	**6,022,337**	5,550,396
Total Liabilities and Net Assets	**$ 8,435,569**	$ 6,519,709

See accompanying notes to financial statements.

For the years ended,	**2013**	2012 (As Restated)
Unrestricted Net Assets		
Public Support and Other Income		
Federal program revenues	**$ 2,189,246**	$ 2,209,475
Other program revenues	**1,311,080**	1,621,658
Contractual revenues	**4,976,539**	5,058,672
Other income	**16,568**	618,428
Total Public Support and Other Income	**8,493,433**	9,508,233
Expenses		
Program services	**6,557,797**	6,374,317
Supporting services	**1,463,695**	1,349,091
Total Expenses	**8,021,492**	7,723,408
Increase in Unrestricted Net Assets	**471,941**	1,784,825
Net Assets at beginning of year	**5,550,396**	3,765,571
Net Assets at end of year	**$ 6,022,337**	$ 5,550,396

See accompanying notes to financial statements.

For the years ended,	**2013**	2012 (As Restated)
Cash flows from operating activities		
Increase in net assets	**$ 471,941**	$ 1,784,825
Depreciation expense	**293,030**	236,568
Gain on sale of investment in LPC&A	**-**	(424,760)
(Increase) decrease in operating assets:		
Other assets	**12,082**	(59,217)
Contracts receivable	**1,118,984**	(565,117)
Increase (decrease) in operating liabilities:		
Accounts payable	**(36,483)**	(154,742)
Accrued expenses	**387,223**	94,609
Deferred revenue	**113,215**	(28,214)
Net cash provided by operating activities	**2,359,992**	883,952
Cash flows from investing activities		
Purchase of Investments	**(1,476,350)**	-
Sale of investment in LPC&A	**-**	516,760
Purchase of property and equipment	**(1,618,955)**	(944,859)
Other	**-**	20,092
Net cash used in investing activities	**(3,095,305)**	(408,007)
Cash flows from financing activities		
Proceeds from long-term debt	**1,052,514**	-
Proceeds from line of credit	**-**	72,550
Payments on line of credit	**(72,550)**	-
Net cash provided by financing activities	**979,964**	72,550
Net increase in cash and cash equivalents	**244,651**	548,495
Cash and cash equivalents, beginning of year	**2,397,815**	1,849,320
Cash and cash equivalents, end of year	**$2,642,466**	$ 2,397,815
SUPPLEMENTARY DISCLOSURE OF NONCASH INFORMATION:		
Interest paid	**$ 26,432**	$ 7,254

See accompanying notes to financial statements.

For the year ended December 31, 2013	**Program Services**	**Support Services**	**Total**
Salaries and fringe benefits	$ 3,895,360	$ 841,458	$ 4,736,818
Contract labor and services	712,581	176,984	889,565
Supplies	385,944	15,212	401,156
Bad debt expense	373,482	-	373,482
Equipment	329,613	8,424	338,037
Depreciation expense	-	293,030	293,030
Telephone and utilities	203,863	-	203,863
Rent and leasing	154,771	-	154,771
Repairs and maintenance	152,357	-	152,357
Travel and development	18,302	100,044	118,346
Dues and subscriptions	102,590	-	102,590
Insurance	61,604	-	61,604
Information technology	49,410	12,105	61,515
Marketing and advertising	33,793	14,522	48,315
Interest expense	26,432	-	26,432
Banking fees	24,347	-	24,347
Postage and printing	18,280	-	18,280
Community outreach	5,546	-	5,546
Patient refunds	4,791	-	4,791
Miscellaneous expense	3,931	-	3,931
Property taxes	-	1,916	1,916
Security services	549	-	549
Licenses	251	-	251
Total Expenses	$ 6,557,797	$ 1,463,695	$ 8,021,492

For the year ended December 31, 2012 (As Restated)	**Program Services**	**Support Services**	**Total**
Salaries and fringe benefits	$ 3,366,474	$ 957,333	$ 4,323,807
Bad debt expense	927,375	-	927,375
Contract labor and services	866,596	39,829	906,425
Supplies	307,806	11,138	318,944
Depreciation expense	167,303	69,265	236,568
Information technology	178,507	12,401	190,908
Telephone and utilities	121,698	13,308	135,006
Travel and professional	38,006	82,872	120,878
Litigation expense	1,500	115,617	117,117
Rent and leasing	98,166	150	98,316
Office expense	60,393	1,823	62,216
Repairs and maintenance	58,438	319	58,757
Insurance	50,885	4,092	54,977
Marketing and advertising	32,758	8,942	41,700
Banking fees and service charges	20,117	4,103	24,220
Equipment	21,104	2,443	23,547
Dues and subscriptions	9,373	13,825	23,198
Licenses	14,877	3,569	18,446
Interest expense	-	7,254	7,254
Miscellaneous expense	6,870	-	6,870
Patient refunds	6,533	-	6,533
Property taxes	5,881	41	5,922
Postage and printing	4,970	504	5,474
Community outreach	4,546	-	4,546
Security services	2,777	-	2,777
Patient transportation	1,319	263	1,582
Staff recruiting	45	-	45
Total Expenses	$ 6,374,317	$ 1,349,091	$ 7,723,408

See accompanying notes to financial statements.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Jefferson Community Health Care Centers, Inc. ("JCHCC") is a nonprofit organization organized under the laws of the State of Louisiana. Its mission is to provide healthcare services, including medical, mental health, optometry, dental, and social services to underinsured and uninsured citizens of Jefferson Parish, Louisiana. JCHCC has four (4) locations: Avondale, Marrero, River Ridge, and Lafitte, Louisiana. Each location is considered a federally qualified health center.

Basis of Accounting

JCHCC's financial statements are prepared on the accrual basis of accounting, whereby revenue is recorded when earned and expenses are recorded when incurred.

Public Support and Revenue

JCHCC receives its support primarily from federal, state, and local governmental agencies. Revenue is recorded on the accrual basis as they are earned, and allowances are provided for receivables that are estimated to be uncollectible. Revenues are considered available for unrestricted use unless specifically restricted by the grant. Grants which relate to a subsequent year are recorded as receivables and temporarily restricted net assets in the year the commitment is received. Grants whose restrictions are met in the same reporting period are reported as unrestricted support.

Receivables that are considered uncollectible are written-off. The allowance for uncollectible accounts is an amount management believes will be adequate to absorb receivables that may become uncollectible based on historical trends and current economic conditions. The allowance was $373,482 and $689,340 at December 31, 2013 and 2012, respectively.

Deferred Revenue

Grant funds are considered to be earned when qualifying expenditures are made and all other grant requirements have been met and accordingly, when such funds are received, they are recorded as deferred revenue until earned.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The cost of program and supporting services has been reported on a functional basis. This requires the allocation of certain costs based on total program costs and estimates made by management.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Improvements which significantly extend the useful life of an asset and purchases of furniture, fixtures and equipment in excess of $1,500 are capitalized. The straight line method of depreciation is used for the assets owned by JCHCC. Useful lives of furniture and equipment are between 5-10 years, leasehold improvements are 10 years, and buildings are 40 years.

Income Taxes

JCHCC is a tax exempt organization under Internal Revenue Code Section 501(c)(3) and as such is not subject to income tax. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by JCHCC and recognize a tax liability if JCHCC has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by JCHCC, and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a tax liability or disclosure in the financial statements. JCHCC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. JCHCC’s open audit periods are 2010 – 2012.

Cash and Cash Equivalents

Cash is comprised of cash on hand and in banks. JCHCC considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Louisiana Partnership for Choice and Access, LLC

JCHCC uses the cost method to account for its 4.69% investment in the partnership. Under the cost method, JCHCC recognizes its share of the earnings and losses of the partnership as they are realized. JCHCC entered the partnership in 2009 with a cash investment of $92,000. JCHCC sold its investment in 2012 recording a gain on the sale of the investment in the amount of $424,760. There was no balance recorded in the Statements of Financial Position as of December 31, 2013 and 2012.

Basis of Presentation

JCHCC follows the provisions of Not-For-Profit Entities Topic of FASB ASC (FASB ASC 958), which establishes external financial reporting for not-for-profit organizations which includes three basic financial statements and classification of resources into separate categories of net assets, as follows:

- Unrestricted - Net assets which are free of donor imposed restrictions; all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.

- Temporarily Restricted - Net assets whose use by JCHCC is limited by donor-imposed stipulations that either expire by the passage of time or that can be fulfilled or removed by actions of JCHCC pursuant to such stipulations.

- Permanently Restricted - Net assets whose use by JCHCC is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled and removed by actions of JCHCC.

Advertising Expense

JCHCC uses advertising to promote the operations of its clinics and the costs associated with advertising are expensed when incurred. Advertising and marketing expenses for the years ended December 31, 2013 and 2012 were $48,315 and $41,700, respectively.

Subsequent Events

JCHCC has evaluated subsequent events through May 27, 2014, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS

Under State law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or pledged securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2013 and 2012, cash and cash equivalents consisted of deposits with financial institutions with carrying balances of approximately $2.6 million and $2.4 million, respectively. These deposits are secured from risk by $250,000 for interest bearing accounts from the Federal Deposit Insurance Corporation (FDIC). The Dodd-Frank Act provides temporary unlimited coverage on amounts in non-interest bearing accounts through December 31, 2012. At December 31, 2012, JCHCC's cash deposits were insured. At December 31, 2013, JCHCC had cash deposits in excess of federally insured limits of approximately $586,000.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments

Cost, market values, and fair value hierarchy classification are summarized as follows:

December 31, 2013	**Cost**	**Market Value**	**Hierarchy**
U.S. Commercial Paper	$ 699,047	$ 699,624	Level 2
U.S. Municipal Bonds	452,194	453,659	Level 2
U.S. Corporate Bonds	314,945	323,067	Level 2
Total	$1,466,186	$1,476,350	

There were no investments at December 31, 2012.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") and FASB ASC 825, *Financial Instruments* ("ASC 825") require disclosure of fair value information about financial instruments, whether or not recognized in the Statements of Financial Position. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for JCHCC's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. ASC 825 excludes certain financial instruments from its disclosure requirements.

In accordance with FASB ASC 820, JCHCC establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on adjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 – Valuations based on inputs are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

NOTE 4 - BUSINESS AND CREDIT CONCENTRATIONS

Most of JCHCC's patients are Greater New Orleans residents insured under third-party payor agreements. The mix of revenues from third-party payors for the year ended December 31, 2013 and 2012 were as follows:

December 31,	**2013**	**2012**
Medicare	4%	4%
Medicaid	4%	8%
GNOCHC	39%	33%
Commercial insurance and managed care organizations	53%	55%
	100%	100%

NOTE 4 - BUSINESS AND CREDIT CONCENTRATIONS (CONTINUED)

If significant adverse changes are made at the Federal, State, and/or local level regarding the use of community health care centers to provide services to indigent and underinsured patients, the amount of contract revenue that JCHCC receives could be significantly reduced. This could have an adverse impact on JCHCC's operations, its financial position and results of operations. JCHCC's grant revenue was approximately 30% and 33% of total revenues for the years ended December 31, 2013 and 2012, respectively.

NOTE 5 – PATIENT / CONTRACTS RECEIVABLE

JCHCC net patient service revenue for the years ended December 31, 2013 and 2012 is earned under agreements with third-party payors. These agreements with third-party payors provide for payments to JCHCC at amounts different from its established rates. These third-party payors include the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations. A summary of the payment arrangements with major third-party payors follows:

- Medicare and Medicaid: JCHCC is paid for inpatient acute care services rendered to Medicare and Medicaid program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

  Outpatient services are paid via the outpatient prospective payment system. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

- Other Agreements: JCHCC has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to JCHCC under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and capitated per member per month rates.

NOTE 5 – PATIENT / CONTRACTS RECEIVABLE (CONTINUED)

Presented below is a summary of net patient service revenue for the years ended December 31, 2013 and 2012:

For the years ended December 31,	2013	2012
Gross patient service revenue	$ 8,715,927	$ 9,594,553
Less discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	3,739,388	4,535,881
Patient service revenue (net of contractual allowances and discounts)	$ 4,976,539	$ 5,058,672

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 consist of the following:

December 31,	2013	2012
Furniture, fixtures, & equipment	$ 1,436,518	$ 1,151,906
Building and leasehold improvements	2,495,994	481,098
Construction in process	6,965	687,518
Land	255,000	255,000
Accumulated depreciation	(1,114,989)	(821,959)
Property and equipment, net	$ 3,079,488	$ 1,753,563

Depreciation expense for the years ended December 31, 2013 and 2012 was $293,030 and $236,568, respectively.

NOTE 7 – BOARD OF DIRECTORS COMPENSATION

The Board of Directors is a voluntary board. Therefore, no compensation was paid to any Board member during the years ended December 31, 2013 and 2012.

NOTE 8 – IN-KIND CONTRIBUTIONS

JCHCC has four (4) locations in which it provides services, of these locations JCHCC receives free rent on two (2) of the locations in Marrero and River Ridge. There are two (2) leases for the premises located in Avondale and Jean Lafitte. The Avondale Facility lease is between JCHCC and West Jefferson Medical Center (WJMC) and the Jean Lafitte Facility lease is between JCHCC and the Town of Lafitte.

JCHCC is unable to determine a value of these in-kind contributions as of the date of this report.

NOTE 9 – RENT EXPENSE

During the years ended December 31, 2013 and 2012, JCHCC had rent and leasing expense related to its medical and administrative office space and for offsite storage for $154,770 and $98,316, respectively. The rent and lease agreements are renewed annually.

NOTE 10 – LINE OF CREDIT

JCHCC has a line of credit for $200,000 with a bank bearing interest at PRIME plus 1.5 basis points subject to a floor of 4.75%. The line is secured by JCHCC's deposits at the bank, along with interest in both present and future real property of JCHCC. JCHCC had an outstanding balance of $0 and $72,550 on the line of credit as of December 31, 2013 and 2012, respectively.

NOTE 11 – LONG-TERM DEBT

In December 2012, JCHCC entered into a construction loan with a bank which allowed JCHCC to borrow up to $1,440,000. JCHCC paid interest on the loan at a variable rate until December 31, 2013 at which time the loan became a mortgage loan. As of December 31, 2012, the construction loan carried an interest rate of 4.24% and had an outstanding balance of $250,000.

NOTE 11 – LONG-TERM DEBT (CONTINUED)

The mortgage loan at December 31, 2013 consists of the following:

5.09% collateral mortgage loan, due in monthly installments of $8,882, including interest, through December 2043, secured by the value of the land and building.	$ 1,302,514
Less current portion	(18,907)
Long-term debt	$ 1,283,607

The future scheduled maturities of long-term debt at December 31, 2013 are as follows:

Years ending December 31:		
2014	$	18,907
2015		19,892
2016		20,929
2017		22,019
2018		23,166
Thereafter	$	1,197,601
Long-term debt	$	1,302,514

NOTE 12 – PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

JCHCC recorded prior period adjustments in 2013 related to correction of errors that occurred in 2012 but were discovered by management in 2013. The adjusting entries were primarily related to timing issues for receipts of revenues. The entries were recorded to beginning unrestricted net assets. Had the errors not occurred, the net assets reported on the 2012 financial statements would have increased by $1,160,864. The adjustments resulted in an increase in receivables, net assets, revenues and operating cash flows of $1,160,864 in the 2012 financial statements.

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INDEPENDENT AUDITOR'S 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*

To the Board of Directors of
Jefferson Community Health Care Centers, Inc.

We have audited, in accordance with the 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, the financial statements of Jefferson Community Health Care Centers, Inc. ("JCHCC") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered JCHCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of JCHCC's internal control. Accordingly, we do not express an opinion on the effectiveness of JCHCC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the

accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 2013-01.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2013-02 & 2013-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether JCHCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 2013-04.

JCHCC's Response to Findings

JCHCC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. JCHCC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of JCHCC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the JCHCC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC

May 27, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Jefferson Community Health Care Centers, Inc.

Report on Compliance for Each Major Federal Program

We have audited Jefferson Community Health Care Center, Inc.'s ("JCHCC") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of JCHCC's major federal programs for the year ended December 31, 2013. JCHCC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of JCHCC's major federal programs based on our audit of the types of compliance requirements referred to above. 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 JCHCC'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 on compliance for each major federal program. However, our audit does not provide a legal determination of JCHCC's compliance.

Basis for Qualified Opinion on Health Centers Program

As described in the accompanying schedule of findings and questioned costs, JCHCC did not comply with requirements regarding CFDA #93.224, Health Centers Program, as described in finding number 2013-04 for Program Income. Compliance with such requirements is necessary, in our opinion, for JCHCC to comply with the requirements applicable to that program.

Qualified Opinion on Health Centers Program

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, JCHCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Health Centers Program for the year ended December 31, 2013.

Other Matters

JCHCC's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. JCHCC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of JCHCC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered JCHCC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of JCHCC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over complianc*e exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-04 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We noted no deficiencies considered significant deficiencies other than the item described above as a material weakness.

JCHCC's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. JCHCC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, LLC

May 27, 2014

Jefferson Community Health Care Centers, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Grantor	CFDA Number	Expenditures
U.S. Department of Health and Human Services: Health Resources and Services Administration	93.224	$ 2,226,591
Total Expenditures of Federal Awards		$ 2,226,591

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the revenues from federal awards of JCHCC as defined in Note 1 to JCHCC's basic financial statements. All federal awards were received directly from Federal agencies.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of JCHCC and is presented on the accrual basis of accounting.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in JCHCC's basic financial statements as program revenues.

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards are derived from revenues as expenditures related to federal financial reports were not available.

NOTE 5 - FEDERAL AWARDS

Federal awards do not include JCHCC's operating income from rents or income from investments (or other non-federal sources).

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Jefferson Community Health Care Centers, Inc. ("JCHCC").

2. Control deficiencies were disclosed by the audit of the financial statements: Yes
   Material weaknesses: Yes

3. Noncompliance which is material to the financial statements: No

4. Control deficiencies over major program: Yes
   Material weaknesses: Yes

5. Management Letter Issued: Yes

6. The type of report issued on compliance for major program: qualified

7. Major program: Department of Health and Human Services – Health Resources and Services Administration, CFDA Number 93.224.

8. The threshold for distinguishing between Type A and Type B programs was $300,000.

9. JCHCC did not qualify as a low-risk auditee.

B. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Material Weakness

<u>2013-01 - *Reconcile the General Ledger Balance with the Subsidiary Ledger*</u>

Condition: At December 31, 2013 and 2012, JCHCC's detailed accounts receivable records did not agree with the general ledger control accounts by approximately $231,000.

Criteria: Controls should be in place to provide reasonable assurance that subsidiary ledgers agree to the general ledger.

Cause: Accounts receivable were not properly reconciled throughout the year.

Effect: Because of the failure to reconcile receivables properly, receivables were misstated and revenues were recognized in the incorrect period.

Recommendation: To help ensure the accuracy of accounts receivable, management should determine the underlying reason for the difference and should take steps to correct current account reconciliation procedures as deemed necessary. In addition, management should develop procedures to ensure that differences are identified, researched, and resolved on a timely basis.

Significant Deficiencies

2013-02 – *Defer Recognition of Revenue on Advance Receipts until Earned*

Condition: Our review of revenue revealed that receipts from a grantor, were recorded in revenue for the current year.

Criteria: Such revenue should be included in income in the month in which it is earned, not in the month received.

Cause: Accounting Department did not recognize the purpose of this grant as described in the grant agreement.

Effect: The failure to recognize deferred revenue resulted in an overstatement of current year revenue.

Recommendation: JCHCC should record advance receipts in a deferred revenue account supported by a subsidiary ledger and transferring the amounts to revenue in the month in which they are earned.

2013-03 – *Record Accounts Payable on Jobs in Process*

Condition: During the audit, we observed that accounts payable on jobs in process were not timely recorded.

Criteria: All expenses incurred as of year-end should be recorded so that costs to date on jobs in process reflect all work performed on the jobs.

Cause: Invoices were not received prior to year-end.

Effect: The failure to properly accrue payables resulted in an understatement of current year expenses.

Recommendation: All invoices received for a period of two to three weeks after each month and year end, that apply to services or goods purchased before the period end, be recorded as costs and liabilities. This will result in more accurate financial statements, will keep management current on its financial status, and may highlight a problem area more timely allowing corrective action to be taken.

C. FINDINGS RELATED TO COMPLIANCE AND OTHER MATTERS

None Noted

D. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

Health Resources and Services Administration – Health Centers Cluster, CFDA #93.224

2013-04 – *Review of Patient Documentation Obtained during Office Visits*

Condition: Documentation of verification of low income status could not be located for five (5) selected patients.

Criteria: Program income requirements require patients to be charged according to their poverty level.

Cause: Proper documentation was not collected or updated at the time of the patient visit at the clinic.

Effect: Grant revenue may be disallowed.

Context: A sample of 40 patients totaling $9,852 in patient charges was selected. The test found five (5) patients that were not in compliance with questioned costs totaling $892.

Recommendation: JCHCC should again verify the poverty level of the patients whose documentation could not be located. Additionally, JCHCC should institute policies and procedures during the patient admittance and billing processes to obtain the proper income verification.

Jefferson Community Health Care Centers, Inc.

2013 AUDIT FINDING CORRECTIVE ACTION PLAN
Date Submitted: June 25, 2014
Submitted by: Dr. Shondra Williams, CEO

NOTE: ***All findings were a direct result of transitions in the Accounting Department of JCHCC in 2013. JCHCC intends to comply with all recommendations made by the independent auditors.***

Citation	Corrective Action	Responsible Party	Deadline for Completion/ Status Update	Monitoring Evaluation	Board Notification
2013 – 01 Reconcile the General Ledger Balance with the Subsidiary Ledger	A Bad Debt Allowance & Accounts Receivable Analysis Policy/Procedure was board approved & implemented as of January 1, 2014. The Patient Accounts Receivable will be analyzed monthly and a bad debt entry will be made to write off any uncollectable accounts per the policy in place.	Chief Financial Officer Billing Director	New Policy implemented January 1, 2014	CFO will ensure that the General Ledger and Subsidiary Ledger are in balance on a monthly basis.	YES
2013 – 02 Defer Recognition of Revenue on Advance Receipts until earned	A monthly detailed reconciliation including monthly analysis of all revenues to ensure proper allocation of receipts to expenses with the appropriate periods. Ensure proper recording of revenues In compliance with GAAP. JCHCC policies and procedures and grantor stipulations.	Chief Financial Officer Billing Director Sr. Staff Accountant	New Policy implemented January 1, 2014	CFO will review/approve the monthly accounts receivable analysis, journal entry and reconciliation during the month end close process to ensure all deferred revenue is accounted for the month in which is earned.	Yes

2013 – 03 Record Accounts Payable on Jobs in Process	Procedures involving month end close using tracking tools have been implemented to ensure all expenses are either paid or accrued in the month incurred. Projects in progress will be analyzed for percentage of completeness and liabilities accrued.	Chief Financial Officer Sr. Staff Accountant	January 1, 2014	CFO reviews the general ledger and all Accounts Payable Payments on a weekly basis.	Yes
2013 – 04 Review of Patient Documentation Obtained during Office Visits	Internal random monthly audits will be performed to ensure compliance.	Chief Financial Officer Billing Director Patient Support Supervisor	Sliding Fee Policy was revised and Board Approved as of January 2014. Ongoing Trainings on patient documentation and sliding fee policy/procedures have been implemented.	Billing Director will submit a monthly report of the Patient Documentation Audits to the CFO & Patient Support Supervisor who will address any issues timely.	Yes

Status of Prior Year Findings

For the Year Ended December 31, 2012

No prior year findings

JEFFERSON COMMUNITY HEALTH CARE CENTERS, INC.

MEMORANDUM OF ADVISORY COMMENTS

December 31, 2013

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December 31, 2013

CRI CARR RIGGS & INGRAM
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May 27, 2014

To the Board of Directors of
Jefferson Community Health Care Centers, Inc.

Dear Members:

In planning and performing our audit of the financial statements of Jefferson Community Health Care Centers, Inc. ("JCHCC") as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the JCHCC's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of JCHCC's internal control. Accordingly, we do not express an opinion on the effectiveness of JCHCC's internal control.

However, during our audit we became aware of a deficiency in internal control other than a significant deficiency and material weakness and a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our observations and recommendations regarding these matters. This letter does not affect our report dated May 27, 2014 on the financial statements of JCHCC.

We will review the status of our observations during our next audit engagement. We have already discussed these observations and recommendations with JCHCC personnel and have included their corrective action plan, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or assist you in implementing our recommendations.

Sincerely,

Carr, Riggs & Ingram, LLC

1. Allocation of Functional Expenses

Observation:
JCHCC allocates its expenses as either program or supporting services. The requires JCHCC to allocate certain expenses based on total program costs and estimates made by management on certain supporting costs that should be allocated to program costs. We observed that it appears JCHCC's allocation of functional expenses does not appear consistent from year to year, especially with respect to bad debts, insurance, and depreciation expenses.

Recommendation:
We recommend JCHCC develop a written methodology and supporting accounting policy regarding the allocation of its functional expenses and adhere to the policy to ensure comparability of the Statement of Functional Expenses on an annual basis.

The process of expense allocation on a functional basis enables an organization to better understand its costs associated with operating its programs and its financial position and results of operations of those programs.

Corrective Action Plan:

JCHCC's finance team will continue to allocate the cost using the budgetary methodology in which has been determined best for the organization going forward by ensuring that a strict departmental budget is established yearly. JCHCC will also ensure that the allocation of Management & Program Costs are allocated correctly in the system by ensuring the internal setup of expense accounts are allocating correctly on the front end mitigating the same issue from occurring in the general system going forward.

1. Accrual and Payment of Earned Paid Time Off

Observation:
JCHCC policy allows an employee to receive payment of accrued time off earned in the year of separation. We noted two (2) exceptions in which terminated employees received payment for accrued time off earned in prior years along with the current year paid time off. JCHCC overpaid the aforementioned terminated employees approximately $11,800 for the year ending December 31, 2012 for earned paid time.

Recommendation:
We recommend the Director of Human Resources prepare the calculation of earned paid time off to be paid to the employee upon separation and that the amount be reviewed for accuracy and approved by the Chief Financial Officer or Chief Executive Officer.

Status:

Resolved.

2. Allowance for Uncollectible Accounts and Bad Debt Write-offs

Observation:
Due to the nature of the services provided by JCHCC, contractual adjustments for medical billings and collections on receivables from patients can result in receivables becoming either partially collectible or fully uncollectible, which require JCHCC to either create an allowance for these uncollectible accounts or write-off these bad debts when considered by management to be uncollectible. We noted JCHCC elected to wait until year end to review its receivables, which contributed to JCHCC having several significant closing adjusting entries related to contract receivables, specifically the allowance for uncollectible accounts and bad debt write-offs.

Recommendation:
We recommend JCHCC create an allowance for uncollectible.

Status:

JCHCC was able to record and correct many of the issues related to Allowance of Uncollectible Accounts and Bad Debt Write-offs in 2013. However, in 2013 we noted issues surrounding its reconciliation of the AR subsidiary ledgers. See current year finding 2013 – 01 in the audited financial statements.