

**VISITING NURSE ASSOCIATION OF CENTRAL JERSEY
COMMUNITY HEALTH CENTER, INC.**

FINANCIAL STATEMENTS

December 31, 2012

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Visiting Nurse Association of Central Jersey Community Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Visiting Nurse Association of Central Jersey Community Health Center, Inc. (the "Center") which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year 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.

Auditors' 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 of 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 auditors' 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

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- PENNSYLVANIA INSTITUTE OF
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SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (Continued)

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 reasonable 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 the Center as of December 31, 2012, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and State of New Jersey Circular Letter 04-04-OMB, and are not a required part of the financial statements. The accompanying schedules of budget and actual expenditures for U.S. Department of Health and Human Services grants are presented for the purposes of additional analysis as required by the U.S. Department of Health and Human Services, and are 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 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 August 28, 2013 on our consideration of the Center'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 the Center's internal control over financial reporting and compliance.

Amercador, P.C.
August 28, 2013
Chartered Public Accountants

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 205,333
Patient accounts receivable, net of allowance for uncollectible accounts of \$641,228	464,634
Grants receivable and reimbursement for uncompensated care	443,268
Other receivables	6,020
Prepaid expenses	57,281
Insurance indemnification receivable	<u>1,410,906</u>
Total Current Assets	<u>2,587,442</u>
Property, plant and equipment, net	<u>1,275,835</u>
Total Assets	<u>\$ 3,863,277</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Line of credit	\$ 127,500
Unearned grant revenue	69,200
Accounts payable	46,079
Accrued salaries and related expenses	266,816
Accrued expenses	787,113
Accrued malpractice liability	<u>1,410,906</u>
Total Current Liabilities	2,707,614
Accrued expenses, net of current portion	<u>1,500,000</u>
Total Liabilities	<u>4,207,614</u>

Net Assets (Deficit)

Unrestricted	(355,517)
Temporarily restricted	<u>11,180</u>
Total Net Assets (Deficit)	<u>(344,337)</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 3,863,277</u>

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Other Support			
Net patient service revenue	\$ 2,505,012	\$ -	\$ 2,505,012
Premium revenue (capitation)	632,346	-	632,346
Federal grants	1,149,980	-	1,149,980
State and local grants and other contracts	849,156	-	849,156
Fundraising and other revenue	191,310	-	191,310
Net assets released from restriction	571	(571)	-
Total revenue and other support	<u>5,328,375</u>	<u>(571)</u>	<u>5,327,804</u>
Expenses			
Salaries and benefits	3,480,898	-	3,480,898
Other than personnel services	1,437,980	-	1,437,980
Depreciation	127,287	-	127,287
Provision for bad debts	404,577	-	404,577
Interest	5,348	-	5,348
Total expenses	<u>5,456,090</u>	<u>-</u>	<u>5,456,090</u>
Change in net assets (deficit)	<u>(127,715)</u>	<u>(571)</u>	<u>(128,286)</u>
Net assets (deficit), beginning of year	<u>(227,802)</u>	<u>11,751</u>	<u>(216,051)</u>
Net assets (deficit), end of year	<u>\$ (355,517)</u>	<u>\$ 11,180</u>	<u>\$ (344,337)</u>

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

Cash Flows from Operating Activities	
Change in net assets (deficit)	\$ (128,286)
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:	
Depreciation	127,287
Provision for bad debts	404,577
Change in:	
Patient accounts receivable	(637,619)
Grants receivable and reimbursement for uncompensated care	12,609
Other receivables	(7,498)
Prepaid expenses	6,198
Unearned grant revenue	69,200
Accounts payable	(165,354)
Accrued salaries and related expenses	17,181
Accrued expenses	<u>383,040</u>
Net cash from operating activities	<u>81,335</u>
Cash Flows from Investing Activities	
Purchase of capital assets	<u>(161,915)</u>
Net cash from investing activities	<u>(161,915)</u>
Cash Flows from Financing Activities	
Borrowing on line of credit	45,500
Repayment of line of credit	<u>(8,000)</u>
Net cash from financing activities	<u>37,500</u>
Net change in cash and cash equivalents	(43,080)
Cash and cash equivalents, beginning of year	<u>248,413</u>
Cash and cash equivalents, end of year	<u>\$ 205,333</u>
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for:	
Interest	<u>\$ 5,348</u>

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Visiting Nurse Association of Central Jersey Community Health Center, Inc. (the "Center") is a not-for-profit organization with an innovative model of community-based care. The Center offers primary and preventive health care services for people of all ages, and extends its educational and health screening services in a variety of settings throughout the community. The Center was formed on July 15, 1994, and commenced operations in a site located in Asbury Park, New Jersey. Additional sites were established in subsequent years in Keyport, Red Bank and Keansburg, New Jersey.

The facility located in Asbury Park received its designation as a Federally Qualified Health Center ("FQHC") effective April 1, 2003. The facility located in Keyport received its designation as a FQHC on November 21, 2005. Prior to those dates, they were operating under FQHC Look-Alike status.

The facilities located in Red Bank and Keansburg were designated as FQHCs upon the commencement of operations in May and November 2006, respectively.

The Center has entered into a number of agreements for services with Visiting Nurse Association Health Group, Inc. and Affiliates ("VNA Health Group").

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The classification of the Center's net assets and its revenue, other support and gains and losses is based on the existence or absence of donor or other imposed restrictions. Amounts for each of three classes of net assets; unrestricted, temporarily restricted and permanently restricted are displayed in the statement of financial position and the amount of change in each of those classes of net assets is displayed in the statement of activities.

These classes of net assets are briefly defined as follows:

Unrestricted - Net assets resulting from contributions and other inflows of assets whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions (including contracts with government agencies), unrestricted contributions (including board designated contributions) or temporarily restricted contributions whose restrictions have expired.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Center is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations. When such stipulations end or are fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Center is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Center. At December 31, 2012, the Center had no permanently restricted net assets.

Income Taxes

The Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a) of the Code. The Center is classified as other than a private foundation. Accordingly, no provision for federal income taxes has been provided for in the accompanying financial statements.

The Center's accounting policy is to evaluate uncertain tax positions in accordance with Accounting Standards Codification (ASC) Topic 740 "Income Taxes." Pursuant to the guidance in this accounting pronouncement, the Center has determined that no unrecognized tax benefits exist as of December 31, 2012, and does not expect this determination to change significantly over the next 12 months.

The Center has not incurred any income tax related penalties or interest for the year ended December 31, 2012, and has no open tax years subject to examination prior to 2009.

Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Center considers cash and all highly liquid investments with original maturities of ninety days or less to be cash equivalents.

Patient Accounts Receivable

Patient accounts receivable are recorded at established rates net of contractual and other allowances and do not bear interest. Payments of patient accounts receivable are allocated to the specific invoices identified on the remittance advice or other support received from the patients, third-party payors or other payors. The allowance for uncollectible accounts reflected in the accompanying statement of financial position is the Center's best estimate of the amount of credit losses in the Center's existing patient accounts receivable. The Center reviews its allowance for uncollectible accounts periodically and determines the estimated amount for the allowance for uncollectible accounts based on potential collection issues and historical write-off experience. Past due balances are determined based on payment history and are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories of supplies are not material and, therefore, charged to expense as acquired.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for donated assets which are recorded at fair value at the date of donation. Depreciation is computed on a straight-line method over the estimated useful lives of the assets, which range from three to twenty-five years.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

Donations of long-lived assets such as land, buildings or equipment are recorded at fair value on the date of the donation and reported as other changes in unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Where applicable, donations of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

Operating Indicator

The Center's change in net assets reflected on the accompanying statement of activities represents its operating indicator and includes all revenue, gains, expenses and losses for the reporting period.

Grants and Contracts

The Center annually receives a number of grants. These funds are generally designated to cover current operating costs for specific programs. Revenue related to these programs is recognized as the related expenses are incurred.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts generated from patients, third-party payors and other payors for services rendered.

Donated Services

No amounts have been reflected in the accompanying financial statements for donated services as an objective measurement or valuation has not been determined and these services do not meet the criteria for recognition.

Uncompensated Care Reimbursement

Under a letter of agreement ("LOA") executed with the New Jersey Department of Health and Senior Services, the Center is eligible to receive funds for the purpose of expanding evening and weekend hours to promote the Center as an alternative to hospital emergency departments. The LOA provides reimbursement for uninsured primary care visits for patients with family incomes at or below 250% of the federal poverty level.

Revenue from eligible uninsured patient visits is recorded at an assigned flat rate of reimbursement and is reflected in the accompanying statement of activities as state and local grants and other contracts.

During the year ended December 31, 2012, the reimbursement rate per visit received from the New Jersey Department of Health and Senior Services was \$101.

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.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment charges recorded during the year ended December 31, 2012.

New Accounting Pronouncements

In July 2011, the FASB issued ASU 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities." Under ASU 2011-07, certain health care entities will be required to change the presentation of their statement of activities. The change will require presenting the provision for bad debts associated with patient service revenue as a deduction from patient service revenue as opposed to reflecting it as an operating expense. Also, organizations will need to enhance disclosure about their policies for recognizing revenue and assessing bad debts. These changes are effective for the first annual period beginning after December 15, 2012.

B. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as of December 31, 2012:

Leasehold improvements	\$ 1,500,207
Equipment	972,754
Subtotal	<u>2,472,961</u>
Less: accumulated depreciation	<u>(1,197,126)</u>
Property, plant and equipment, net	<u>\$ 1,275,835</u>

C. RELATED PARTY TRANSACTIONS

The Center has entered into a number of agreements for services with VNA Health Group. A brief summary of the services and related matters are set forth below.

Transactions with Visiting Nurse Association Health Group, Inc.

Effective January 1, 2006, the Center entered into a two year "Administrative Services Agreement" with VNA Health Group to provide general administrative services including, but not limited to, financial, billing, development, management information, facilities, security risk management, marketing, human resources, compliance and financial advisory services. Upon expiration of the initial term, the Agreement was subject to automatic renewal on an annual basis. Administrative fees related to these services for the year ended December 31, 2012 are as follows:

Asbury Park	\$ 281,775
Keyport	166,052
Red Bank	62,177
Keansburg	<u>65,510</u>
Total	<u>\$ 575,514</u>

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

C. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with Visiting Nurse Association of Central Jersey Foundation, Inc.

In connection with the aforementioned "Administrative Services Agreement," Visiting Nurse Association of Central Jersey Foundation, Inc. ("VNACJ Foundation"), an affiliate of VNA Health Group, organizes fundraising events on behalf of the Center. All direct appropriations or funds collected by VNACJ Foundation on behalf of the Center are recorded in the accompanying statement of activities as fundraising and other revenue.

Transactions with Visiting Nurse Association of Central Jersey, Inc.

The Center entered into a lease and a facility agreement, covering two of its facilities, with Visiting Nurse Association of Central Jersey, Inc. ("VNACJ"). The facility agreement is renewed annually. For the year ended December 31, 2012, rent expense related to the leases consisted of the following:

Asbury Park	\$ 115,287
Red Bank	<u>20,280</u>
Total	<u>\$ 135,567</u>

Amounts due from VNA Health Group and Affiliates at December 31, 2012, which are included in other receivables in the accompanying statement of financial position, are as follows:

VNACJ Foundation	\$ 25,127
VNACJ	<u>9,652</u>
Total	<u>\$ 34,779</u>

Amounts due to VNA Health Group and Affiliates at December 31, 2012, which are included in accrued expenses in the accompanying statement of financial position, are as follows:

VNA Health Group*	\$ 2,169,370
VNACJ	<u>18,892</u>
Subtotal	2,188,262
Other accrued expenses	<u>98,851</u>
Total accrued expenses	2,287,113
Less: current portion*	<u>787,113</u>
Noncurrent portion	<u>\$ 1,500,000</u>

* Effective January 1, 2013, the Center entered into a debt reduction agreement for the amount due to VNA Health Group. See Note P regarding subsequent events. Under this agreement, if the Center pays the 2013 management fee of \$20,000 plus \$35,610 of amounts due from prior years by December 31, 2013, a portion of the balance due will be forgiven by VNA Health Group. Provided that the Center complies with the terms of the debt reduction agreement, the current portion of accrued expenses as of December 31, 2012, would be \$153,353.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2012:

Reach Out & Read Program	\$ 7,238
Ryan White Support Group	1,500
Critical Needs in the Community related to Nutrition & Dental Services	<u>2,442</u>
Total temporarily restricted net assets	<u>\$ 11,180</u>

E. NET PATIENT SERVICE REVENUE

The Center has agreements with third-party payors that provide for payments for services at amounts different from its established rates. Patients who do not qualify for third-party reimbursement are charged a fee for services based on a sliding scale, taking into consideration the patient's monthly income and family size. These latter patients are charged a percentage of a visit fee according to a sliding scale and allowances for sliding scale fee adjustments are taken for the portion not charged to the patients. An allowance for uncollectible accounts is provided for the portion of the fee charged to the patients but determined to be uncollectible.

Medicare and Medicaid revenue is recorded as net patient service revenue and is based, in part, on cost reimbursement principles and is subject to audit and retroactive adjustment by the third-party fiscal intermediary. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports.

Net patient service revenue consists of the following for the year ended December 31, 2012:

Patient service revenue	\$ 6,286,326
Contractual allowances	(2,503,042)
Sliding scale fee adjustment	<u>(1,278,272)</u>
Net patient service revenue	<u>\$ 2,505,012</u>

Revenue from Medicare and Medicaid during the year ended December 31, 2012, was approximately 30% of patient service revenue and approximately 76% of net patient service revenue.

F. PREMIUM REVENUE (CAPITATION)

The Center has agreements with various Health Maintenance Organizations ("HMO's") to provide medical services to subscribing participants. Under these agreements, the Center receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Center. In addition, the HMOs make fee-for-service payments to the Center for certain covered services based upon discounted fee schedules.

G. PENSION PLAN

The Center participates in the Noncontributory Defined Contribution Pension Plan of VNA Health Group. The plan covers substantially all employees of the Center. Under the terms of the plan, 7.5% of pensionable compensation for vested employees hired on or before December 31, 2000, and 4% for employees hired after that date, is contributed to the Plan Custodian on behalf of all employees with two years of service and who have attained twenty-one years of age. Contributions to the plan amounted to \$88,002 for the year ended December 31, 2012.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS

H. LEASING ARRANGEMENTS

Facility

As detailed below, during 2012, the Center conducted operations in leased facilities located in Asbury Park and Red Bank, New Jersey. These two facilities are leased from a related party, VNACJ. The leases are classified as operating leases and are renegotiated annually, except as noted below.

The Center entered into a lease agreement with VNACJ, as landlord, on October 30, 2006 for a facility located at Main Street, Asbury Park, New Jersey. The term of the lease is for five years, commencing on January 1, 2007, or thirty days after issuance of a final Certificate of Occupancy for the Center use. The actual lease commencement date was February 1, 2008. For the first three years of the base term, an annual rent of \$115,408 is payable in equal monthly installments. For the remaining two years of the base term, the rent shall be increased annually by the percentage increase in the Consumer Price Index, as defined in the lease. The lease also includes four renewal options, each with a lease term of five years, subject to certain terms and conditions.

In addition to the foregoing lease commitments with the related party, the Center also rents space for the facilities located in Keansburg and Keyport, New Jersey. Rent expense for the year ended December 31, 2012 was \$254,633.

Equipment

The Center leases various equipment under operating leases which expire at varying dates through the year 2017. Lease expense was \$8,093 for the year ended December 31, 2012.

Future minimum lease payments required under these non-cancelable facility and equipment leases in years subsequent to December 31, 2012 are as follows:

2013	\$ 95,223
2014	83,592
2014	83,196
2016	83,196
2017	20,799
Total	<u>\$ 366,006</u>

I. COMMITMENTS AND CONTINGENCIES

The Center is periodically subject to claims and lawsuits that arise in the ordinary course of business. Management believes that any losses resulting from such matters, if any, would be covered in whole or in part by the Center's liability insurance policies or coverage and would not have a material effect on the financial position or changes in net assets of the Center.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

J. LINE OF CREDIT

The Center entered into a commercial line of credit in the amount of \$150,000 with a national bank on January 11, 2007. The credit line is subject to renewal on an annual basis at the sole discretion of the bank. The bank has renewed the credit line and extended the maturity date of the credit line to January 11, 2014. Interest is payable monthly at the index rate, which is defined as the highest Prime Rate as published in the "Money Rates" section of the Wall Street Journal, such rate being 3.25% at December 31, 2012. The line of credit is secured under a first UCC-1 lien security interest on all assets of the Center. The outstanding balance on the line of credit was \$127,500 at December 31, 2012.

K. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash balances in financial institutions in excess of federally insured limits and patient accounts receivable. With respect to cash in financial institutions, which may periodically during the year exceed federally insured limits, the Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk on the balances maintained in the financial institutions.

The Center grants credit without collateral to insured, underinsured, uninsured and disenfranchised patients of the communities served.

L. MALPRACTICE RISK

Effective September 29, 2006, the Center was approved for Malpractice Liability Insurance Coverage by the Health Resources and Services Administration ("HRSA") in accordance with Section 224(g) of the Public Health Service ("PHS") Act, as amended by the Federally Supported Health Centers Assistance Act of 1995 ("FSHCM"). As such, the Center is considered to be an employee of the PHS and is provided liability protection under the Federal Tort Claims Act ("FTCA") for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. This protection is exclusive of any other civil action or proceeding. FTCA coverage is comparable to an "occurrence" policy without a monetary cap. Coverage is contingent on assurances provided by the Center in an annual application and the continued funding to the Center under Section 330 of the PHS Act. Coverage has been renewed by HRSA through December 31, 2012. The Center previously maintained malpractice insurance coverage on a claims-made basis. In connection with the initial application process, the Center was required to obtain tail insurance coverage to cover occurrences prior to the effective date of FTCA coverage. The Center has evaluated the ultimate cost of its malpractice claims under the tail coverage and a liability has been recognized for the estimated exposure to losses arising from such claims. In addition, since the Center anticipates indemnification for these liabilities, a corresponding malpractice insurance receivable has also been recognized in the accompanying statement of financial position.

The Center has determined, based on its own experience and industry experience data, that its potential liability for unreported claims is insignificant, and as such, no liability for unreported claims is included in the accompanying financial statements.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

M. SELF-INSURED HEALTH BENEFITS

The Center participates in a self-insurance program of VNA Health Group which covers health claims for substantially all its employees. VNA Health Group maintained reinsurance of \$150,000 per employee and approximately \$9,200,000 in the aggregate for the policy period January 1, 2012, through December 31, 2012. A liability for the Center's self-insured portion of the estimated incurred but unpaid claims of the VNA Health Group program in the amount of \$30,523 has been recorded as of December 31, 2012, based upon an analysis of historical paid claims activity. This amount is included in accrued salaries and related expenses in the accompanying statement of financial position.

N. FUNCTIONAL EXPENSES

The Center provides primary and preventive health care services to individuals within its geographic locations. Expenses related to providing these services and for administrative expenses for the year ended December 31, 2012, are as follows:

Community-Based Health Care	\$ 3,304,145
Administrative services	2,151,945
Total	<u>\$ 5,456,090</u>

O. OTHER THAN PERSONNEL SERVICES EXPENSES

Other than personnel services expenses incurred by the Center, related to the unrestricted net assets category in the accompanying statement of activities in connection with its operations for the year ended December 31, 2012, are summarized as follows:

Consultants	\$ 209,305
Administrative services	575,513
Professional fees	71,794
Insurance	59,954
Occupancy costs	258,042
Repairs and maintenance	20,116
Licenses, dues and fees	55,336
Printing	3,334
Purchased lab services	9,101
Program supplies, medical supplies, reference materials and other supplies	118,989
Postage	254
Minor equipment and equipment rental	11,611
Training and seminars	16,875
Travel	8,509
Community awareness	8,282
Miscellaneous	10,965
Total other than personnel services expenses	<u>\$ 1,437,980</u>

P. SUBSEQUENT EVENTS

Management has evaluated events occurring after December 31, 2012, but before August 28, 2013, the date the financial statements were available to be issued. No events have occurred that would require disclosure in the financial statements, other than as follows:

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

P. SUBSEQUENT EVENTS (CONTINUED)

The Center entered into a debt reduction agreement with VNA Health Group effective January 1, 2013, that provides for a payment plan for unpaid fees due to VNA Health Group for administrative services. The Center agreed to make annual payments on the debt starting on December 31, 2013, for five years. Provided that the Center stays current on the payments owed to VNA Health Group each year under this agreement, VNA Health Group will forgive a portion of the debt owed by the Center commencing on December 31, 2013. The total debt to be forgiven under this agreement amounts to \$1,989,105.

SUPPLEMENTARY INFORMATION

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

Federal Awarding Agency/Pass-through Entity/ Program Name or Cluster Title	CFDA Number	Award Number	Award Amount	Award Period	Current Year Expenditures	Cumulative Expenditures
U.S. Department of Health and Human Services, Health Resources & Services Administration (HRSA):						
* Health Center Cluster	93.224	6H80CS00874-09-05	\$ 710,216	3/01/2011 - 2/28/2012	120,316	\$ 710,216
* Health Center Cluster	93.224	6H80CS00874-10-9-03	777,104	3/01/2012 - 2/28/2013	579,219	579,219
Ryan White Part C Outpatient EIS Program	93.918	5H76HA00783-09-01	292,500	4/01/2011 - 3/31/2012	81,674	292,500
Ryan White Part C Outpatient EIS Program	93.918	6H76HA00783-10-01	292,500	4/01/2012 - 3/31/2013	224,910	224,910
Capital Improvement Program (ARRA)	93.703	6C81CS14190-01-04	499,441	6/29/2009 - 6/30/2012	143,861	499,441
Total			\$ 2,571,761		\$ 1,149,980	\$ 2,306,286

* Denotes major program.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2012

State Awarding Department Rate	Number of Visits Billed	Uninsured Visit Rate	Award Amount	Award Period	Current Year Expenditures	Cumulative Expenditures
State of New Jersey Department of Health and Senior Services (DHSS):						
* LOA #02-2083-CHS-N-O Uncompensated income/ expenditures for uninsured visits	4,089	\$ 101	\$ 412,989	1/01/2012 - 6/30/2012	\$ 412,989	\$ 412,989
* LOA #02-2083-CHS-N-O Uncompensated income/ expenditures for uninsured visits	3,067	\$ 101	309,767	7/01/2012 - 12/31/2012	309,767	309,767
Total			<u>\$ 722,756</u>		<u>\$ 722,756</u>	<u>\$ 722,756</u>

* Denotes major program.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended December 31, 2012**

Note 1. Basis of Presentation

The accompanying schedules of expenditures of federal and state awards includes the federal and state grant activity of the Center and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Summary of Significant Accounting Policies

- a. Expenditures reported on the schedules of expenditures of federal and state awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. Pass-through entity identifying numbers are presented where available.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

**SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
RYAN WHITE PART C OUTPATIENT EIS PROGRAM
Year Ended December 31, 2012**

Contract #6H76HA00783-09-01
Project Period September 30, 2002 to March 31, 2012
Award Period April 1, 2011 to March 31, 2012

<u>Cost Category</u>	<u>Approved Budget</u>	<u>2012 Expenditures</u>	<u>04/01/11- 03/31/12 Expenditures</u>
Salaries/Wages	238,715	\$ 69,209	\$ 238,715
Fringe Benefits	50,130	12,388	48,961
Supplies	1,055	-	2,080
Travel	2,600	77	2,733
Contractual	-	-	11
Total	\$ 292,500	\$ 81,674	\$ 292,500

Program income collected during this grant period related to Ryan White patients amounted to approximately \$180,000 and is being used for eligible project objectives.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

**SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
RYAN WHITE PART C OUTPATIENT EIS PROGRAM
Year Ended December 31, 2012**

Contract #6H76HA00783-10-01
Project Period September 30, 2002 to March 31, 2015
Award Period April 1, 2012 to March 31, 2013

<u>Cost Category</u>	<u>Approved Budget</u>	<u>2012 Expenditures</u>	<u>04/01/12- 12/31/12 Expenditures</u>
Salaries/Wages	\$ 228,121	\$ 176,345	\$ 176,345
Fringe Benefits	47,904	34,002	34,002
Supplies	4,200	3,230	3,230
Travel	3,040	2,098	2,098
Contractual	9,235	9,235	9,235
Total Cost	<u>\$ 292,500</u>	<u>\$ 224,910</u>	<u>\$ 224,910</u>

Program income collected during this grant period related to Ryan White patients amounted to approximately \$145,000 and is being used for eligible project objectives.

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
ARRA - CAPITAL IMPROVEMENT PROGRAM
Year Ended December 31, 2012

Contract #: C81CS14190-01-04
Project Period June 30, 2009 to June 30, 2012
Award Period June 30, 2009 to June 30, 2012

<u>Cost Category</u>	<u>Approved Budget</u>	<u>2012 Expenditures</u>	<u>06/29/09- 06/30/12 Expenditures</u>
Equipment	\$ 209,785	\$ 17,395	\$ 149,860
Construction/Alteration and Renovation	275,059	126,466	347,614
Other	14,597	-	1,967
Total Cost	<u>\$ 499,441</u>	<u>\$ 143,861</u>	<u>\$ 499,441</u>

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal and State Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to material weaknesses? Yes None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? and State of New Jersey Circular Letter 04-04-OMB? Yes No

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

All Federal and State payroll tax returns were filed timely and all required tax payments were made.

Identification of major programs:

<u>CFDA Number</u>	<u>Award Number</u>	<u>Name of Program or Cluster</u>
93.224	6H80CS00874-09-05 6H80CS00874-10-9-03	U.S. Department of Health and Human Services, Health Resources & Services Administration: Health Center Cluster
N/A	02-2083-CHS-N-0	State of New Jersey Department of Health and Senior Services: Letter of Agreement (LOA) for Uninsured

VISITING NURSE ASSOCIATION OF CENTRAL JERSEY COMMUNITY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2012

Section II - Financial Statement Findings

None

Section III - Federal and State Award Findings and Questioned Costs

None

Summary Schedule of Prior Audit Findings

None

**INDEPENDENT AUDITORS' 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 Trustees of
Visiting Nurse Association of Central Jersey Community Health Center, Inc.

We have audited 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, the statement of financial position and related statements of activities and cash flows of Visiting Nurse Association of Central Jersey Community Health Center, Inc. (the "Center") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Center's financial statements, and have issued our report thereon dated August 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center'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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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. 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.

- AN INDEPENDENTLY OWNED MEMBER,
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CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' 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 (CONTINUED)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 the organization'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadon, P C
Certified Public Accountants

August 28, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND STATE OF NEW JERSEY CIRCULAR LETTER 04-04-OMB

To the Board of Trustees of
Visiting Nurse Association of Central Jersey Community Health Center, Inc.

Report on Compliance for Each Major Federal and State Program

We have audited Visiting Nurse Association of Central Jersey Community Health Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in OMB Circular A-133, *Compliance Supplement* and State of New Jersey Circular Letter 04-04-OMB that could have a direct and material effect on each of the Center's major federal or state programs for the year ended December 31, 2012. The Center's major federal and state programs are identified in the summary of auditors' 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 and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal and state 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and State of New Jersey Circular Letter 04-04-OMB. Those standards, OMB Circular A-133 and Circular Letter 04-04-OMB 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 or state program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

- AN INDEPENDENTLY OWNED, MEMBER, MCGGLADREY ALLIANCE
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- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND STATE OF NEW JERSEY CIRCULAR LETTER 04-04-OMB (CONTINUED)

Auditors' Responsibility (Continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal or state programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Center 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 the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or state 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 and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Circular Letter 04-04-OMB, 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 the Center's internal control over compliance.

A deficiency in internal control over compliance 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 or state 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 or state program will not be prevented, or detected and corrected, on a timely basis. 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 or state 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and Circular Letter 04-04-OMB. Accordingly, this report is not suitable for any

Other purpose
Merrill Lynch, P.C.
Certified Public Accountants

August 28, 2013