

**JWCH INSTITUTE, INC.**  
**(A Non-Profit Corporation)**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**  
**(With Independent Auditor's Report Thereon)**



**JWCH INSTITUTE, INC.**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
JWCH Institute, Inc.

We have audited the accompanying statements of financial position of JWCH Institute, Inc. (JWCH), as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of JWCH's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

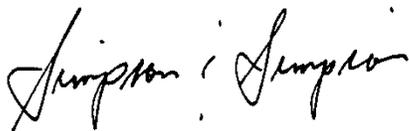
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JWCH as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note K to the financial statements, JWCH determined that the Medi-Cal Managed Care receivables were not properly accrued for in prior periods. As a result, fiscal year 2011 program service income and corresponding receivables and beginning unrestricted net assets were overstated by \$169,996, \$682,784, and \$512,788, respectively. The 2011 financial statements have been restated to reflect this correction.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2013 on our consideration of JWCH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements of JWCH taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by OMB Circular A-133 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying schedule of functional expenses is presented for purposes of additional analysis. 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 schedule of functional expenses is fairly stated in all material respects in relation to the financial statements as a whole.



March 31, 2013  
Los Angeles, California

***JWCH INSTITUTE, INC.***

**STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Current Assets:		
Cash and Cash Equivalents	\$ 497,072	\$ 194,849
Grants and Contracts Receivable	2,604,497	2,547,957
Program Service Receivable (Note K)	2,351,432	1,581,238
Other Receivables	107,100	238,876
Inventory	37,248	35,278
Prepaid Expenses	49,500	53,192
Total Current Assets	<u>5,646,849</u>	<u>4,651,390</u>
Noncurrent Assets:		
Deposits	46,345	23,045
Property and Equipment, Net (Note D)	4,014,296	3,464,554
Total Noncurrent Assets	<u>4,060,641</u>	<u>3,487,599</u>
Total Assets	<u>\$ 9,707,490</u>	<u>\$ 8,138,989</u>
<b>LIABILITIES &amp; NET ASSETS</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 1,548,176	\$ 723,458
Payroll and Related Liabilities	1,447,574	1,466,248
Grant Advances	581,579	847,008
Current Portion of Long Term Loans (Note E)	211,414	81,691
Line of Credit (Note F)	2,000,000	1,100,000
Total Current Liabilities	<u>5,788,743</u>	<u>4,218,405</u>
Long Term Liabilities:		
Long Term Loans (Note E)	671,966	847,860
Total Long Term Liabilities	<u>671,966</u>	<u>847,860</u>
Total Liabilities	6,460,709	5,066,265
Commitments and Contingencies (Note I)		
Unrestricted Net Assets	<u>3,246,781</u>	<u>3,072,724</u>
Total Liabilities & Net Assets	<u>\$ 9,707,490</u>	<u>\$ 8,138,989</u>

*The accompanying notes are an integral part of the financial statements.*

**JWCH INSTITUTE, INC.**

**STATEMENTS OF ACTIVITIES**

For the Year Ended June 30

	2012	2011
<b>Support and Revenues:</b>		
Government Grants and Contracts	\$ 10,354,497	\$ 10,067,210
Private Foundation Grants	1,641,502	1,689,178
Program Service Income (Notes C & K)	9,649,713	7,389,757
Donations	153,978	164,637
Interest Income	49	43
Other Revenue	237,279	124,603
Total Support and Revenues	22,037,018	19,435,428
<b>Expenses:</b>		
<b>Program Services:</b>		
AIDS Prevention and Education	2,181,779	1,934,255
Family Planning	2,322,997	2,405,351
Information and Education Services	106,702	195,327
HIV Case Management	174,526	151,508
Recuperative Care	1,997,981	1,971,733
Substance Abuse Treatment	813,334	102,628
JWCH Clinic at Weingart	5,090,017	4,565,089
JWCH Clinic at Bell Gardens	1,643,157	1,373,654
JWCH Clinic at Norwalk	1,722,438	1,469,907
JWCH Clinic at Lynwood	1,065,426	591,315
JWCH Clinic at P.A.T.H.	347,269	280,037
JWCH Other Clinic	708,100	292,974
SHIP-CDC	327,181	292,254
Bureau of Primary Health Care-Health Center Cluster	1,939,665	1,513,578
ARRA - Increase Services to Health Centers	-	184,408
ARRA - Capital Improvement Program	45,072	236,441
Other Programs Services	260,146	250,771
Total Program Services	20,745,790	17,811,230
<b>Supporting Services:</b>		
General and Administrative	854,963	789,299
Other Supportive Service	229,068	247,980
Fundraising	33,140	103,377
Total Supporting Services	1,117,171	1,140,656
Total Expenses	21,862,961	18,951,886
Change in Net Assets	174,057	483,542
Excess of Fair Value of Net Assets Acquired over Liabilities in Acquisition of Mini Twelve (Note J)	-	784,095
Unrestricted Net Assets Beginning of Year, Restated (Note K)	3,072,724	1,805,087
Unrestricted Net Assets End of Year	\$ 3,246,781	\$ 3,072,724

*The accompanying notes are an integral part of the financial statements.*

**JWCH INSTITUTE, INC.**

**STATEMENTS OF CASH FLOWS**

For the Year Ended June 30

	2012	2011
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 174,057	\$ 483,542
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	292,593	(512,788)
Gain on Disposal of Property and Equipment	(1,832)	173,295
(Increase) Decrease in:		-
Grants and Contracts Receivable	(56,540)	99,073
Program Service Receivable	(770,194)	334,221
Other Receivables	131,776	(60,774)
Inventory	(1,970)	(14,479)
Prepaid Expenses	3,692	(18,261)
Deposits	(23,300)	(9,120)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	824,718	387,562
Payroll and Related Liabilities	(18,674)	29,410
Grant Advances	(265,429)	11,098
Net Cash Provided by Operating Activities		
Operating Activities	288,897	902,779
<b>Cash Flows From Investing Activities</b>		
Purchase of Property and Equipment	(738,140)	(1,256,598)
Payment for Acquisition of Mini Twelve, net of Cash Acquired	-	(16,547)
Net Cash Used in Investing Activities	(738,140)	(1,273,145)
<b>Cash Flows From Financing Activities</b>		
Proceeds from Line of Credit	900,000	950,000
Principal Payments on Line of Credit	-	(700,000)
Principal Payments	(148,534)	(47,261)
Net Cash Used in Financing Activities	751,466	202,739
Net Increase in Cash	302,223	(167,627)
Cash Beginning of Year	194,849	362,476
Cash End of Year	\$ 497,072	\$ 194,849
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash Paid for Interest	\$ 112,017	\$ 75,886
Fair Value of Assets Acquired	\$ -	\$ 1,195,281
Cash Transferred to Mini Twelve	-	(21,500)
Liabilities Assumed	-	(389,686)
Excess of Fair Value of Net Assets Acquired over Liabilities in Acquisition of Mini Twelve	\$ -	\$ 784,095
<b>Noncash Investing and Financing Activity:</b>		
Capital Lease - Equipment	\$ 67,991	\$ -

*The accompanying notes are an integral part of the financial statements.*

**JWCH INSTITUTE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011

**NOTE A - ORGANIZATION**

JWCH Institute, Inc. (JWCH) is a non-profit health agency that was established as an Attending Staff Association of the John Wesley County Hospital in 1960 by concerned Los Angeles County physicians. These staff physicians sought to establish an agency that could obtain additional funds to support and augment patient care, education, and research.

JWCH Institute's mission is to improve the health status and well-being of underserved segments of the population of the Los Angeles County through the direct provision or coordination of health care, health education services and research. The mission is being accomplished through a variety of programs and activities.

Effective May 1, 2011, JWCH acquired Mini Twelve Step House, Inc. (Mini Twelve), a 501(c)(3) private nonprofit corporation. Mini Twelve ceased operation and become a disappearing corporation. Mini Twelve was in the business of providing substance abuse treatment services to women and families in the Los Angeles County. With the acquisition, JWCH will be able to expand the continuum of care to include substance abuse programs and services and to provide JWCH patient and clients with additional comprehensive health services including healthcare, housing, and substance abuse programs and services.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of JWCH conform to accounting principles generally accepted in the United States of America as applicable to voluntary health and welfare organizations. The significant accounting policies including those prescribed by the Department of Health and Human Services and the State of California Department of Health, which have been applied by JWCH in the preparation of the financial statements, are described below.

**1. Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting.

**2. Cash and Cash Equivalents**

JWCH considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements, or otherwise designated or restricted. The carrying amount approximates fair value because of the short maturity of these instruments.

**JWCH INSTITUTE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011  
(Continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Property and Equipment**

Property and equipment are recorded at cost if purchased or, if contributed, at fair value at date of contribution. JWCH capitalizes all expenditures for property and equipment in excess of \$1,000 effective July 1, 2009 (\$500 before July 1, 2009); the fair value of contributed property, plant, and equipment is similarly capitalized. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 25 years.

Property and equipment acquired with government grants, is considered to be owned by JWCH while used in the program for which it was purchased or in other future authorized programs; however, the grantor may have a reversionary interest in the property. Property and equipment acquired with government grants amounted to \$455,011 and \$567,317 during fiscal years 2012 and 2011, respectively.

JWCH reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair market value of the asset. During fiscal years 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

**4. Accrued Vacation and Sick Leave**

JWCH regular full time and regular part-time employees are eligible to accumulate vacation and sick leave during their employment. Only unused vacation time is allowed to be redeemed in cash upon termination of employment subject to certain limitations and is accrued and reported under payroll and related liabilities.

**JWCH INSTITUTE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011  
(Continued)

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5. Revenue Recognition**

Grants and Contracts

JWCH recognizes revenues when eligible costs are incurred for cost-reimbursement grants and contracts and when contracted services are performed for fee-for-service grants and contracts.

Program Service Income

Program service income consists of Medi-Cal, Medi-Medi, Medicare, PPP, Medi-Cal HMO, managed care contract capitation, and other patient revenues. JWCH recognizes program service income when services are performed. Program service income is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Program service receivable is reported net of both an allowance for contractual adjustments and an allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medi-Cal, Medi-Medi, Medicare, PPP and other third-party payment programs.

Charity Care

JWCH provides care to patients who are unable to pay for services, based on federal guidelines and/or JWCH's Sliding Fee Schedule Program, under its charity care policy without charge or at amounts less than its established rates. Because JWCH does not pursue collection of amounts determined to qualify as charity care, they are not included in program service income.

Donations

JWCH reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations limiting the use of the donated assets if the restrictions are not met in the period of receipt. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. If a stipulated time restriction ends or a purpose restriction is accomplished during the year the donation is received, the donation is recognized as unrestricted revenue.

Interest Income

Interest income is recognized as interest is earned on money deposited into savings and money market accounts.

**JWCH INSTITUTE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011  
(Continued)

**NOTE B - SUMMARY OF ACCOUNTING POLICIES (Continued)**

Other Revenue

Revenue received that is not classified into a specific category is recorded as other revenue.

**6. In-kind Contributions**

Donated materials, property and equipment, and certain services are reflected as contributions at their estimated fair market values at the date of receipt and are recorded in the appropriate asset or expense account. Donated services are recorded if they (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donors.

**7. Net Assets**

JWCH classifies net assets into three categories:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of JWCH and/or the passage of time.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they must be maintained in perpetuity. Generally, the donors of these assets permit JWCH to use all or part of the income earned on the related investments for general or specific purposes.

**8. Non-Profit Status**

JWCH is a non-profit corporation organized under the laws of the State of California. JWCH is exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Service Code. Accordingly, no provisions for income taxes or related credits are included in the accompanying combined financial statements.

**JWCH INSTITUTE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011  
(Continued)

**NOTE B - SUMMARY OF ACCOUNTING POLICIES (Continued)**

**9. Off-Balance Sheet Risk and Concentration of Credit Risk**

Financial instruments that potentially subject JWCH to concentrations of credit risk consist principally of cash accounts in financial institutions. At times during the years ended June 30, 2012 and 2011, balances on deposit in financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) insured limits of \$250,000.

JWCH receives payment for services from Federal, state, and local agencies. Revenue and receivables from Federal, state, and local agencies are significant to JWCH's operations. However, management do not believe that there are any significant credit risk associated with these government agencies.

**10. Reclassifications**

Certain 2011 amounts have been reclassified to conform to the current year presentation.

**11. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**12. Subsequent Events**

Subsequent events have been evaluated through March 31, 2013, which is the date the financial statements were available to be issued.

**JWCH INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011  
(Continued)

**NOTE C – PROGRAM SERVICE INCOME**

A reconciliation of the amount of services provided to patients at established rates to net program service income as reflected in the financial statements for the year ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Gross Program Service Income	\$ 14,843,021	\$ 12,739,165
Less: Contractual Adjustments and Other Discounts	<u>(5,193,308)</u>	<u>(5,349,408)</u>
Net Program Service Income	<u>\$ 9,649,713</u>	<u>\$ 7,389,757</u>

**NOTE D – PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
<u>Non-depreciable Assets</u>		
Land	\$1,112,757	\$1,112,757
Construction in Progress	<u>26,457</u>	<u>885,334</u>
Total Non-depreciable Assets	1,139,214	1,998,091
<u>Depreciable Assets</u>		
Building	737,243	737,243
Building Improvement	1,052,279	230,212
Equipment & Furniture	<u>2,408,786</u>	<u>1,541,098</u>
Total Depreciable Assets	4,198,308	2,508,553
Less Accumulated Depreciation	<u>(1,323,226)</u>	<u>(1,042,090)</u>
Total Depreciable Assets, Net	2,875,082	1,466,463
Total Property and Equipment, Net	<u>\$4,014,296</u>	<u>\$3,464,554</u>

**JWCH INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011  
(Continued)

**NOTE E – LONG TERM LOANS**

Long term loans at June 30, 2012 and 2011 consist of the following:

		2012	2011
Loan from California Health Facilities Financing Authority; collateralized by the Deed of Trust on property; original principal amount of \$750,000; due April 1, 2024	3%	\$ 618,449	\$ 657,821
Loan from Norm Reeves Honda Super Store; collateralized by the vehicle purchased; original principal amount of \$22,279; due March 20, 2013	4.84%	3,656	8,366
Loan from City of Los Angeles; secured by a trust deed; loan is to be repaid in services with an annual write-off of \$21,160; original principal amount of \$423,200; due July 31, 2016	0%	86,403	116,380
Loan from Comerica Bank; secured by the Deed of Trust; due July 1, 2012	8.59%	115,693	122,237
Loan from Quality Toyota; collateralized by the vehicle purchased; due September 11, 2014	0%	-	24,747
Capital lease from De Lage Landen Financial Services, Inc.; term of lease is 42 months		<u>59,179</u>	<u>-</u>
Total Long Term Loans		883,380	929,551
Less Current Portion		<u>(211,414)</u>	<u>(81,691)</u>
Total Long Term Loans – Noncurrent Portion		<u>\$ 671,966</u>	<u>\$ 847,860</u>

A schedule of maturities for the next five years is as follows:

Year ending June 30	
2013	\$ 211,414
2014	86,250
2015	87,639
2016	70,537
2017	50,685
Thereafter	376,855
Total	<u>\$ 883,380</u>

**JWCH INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011  
(Continued)

**NOTE F – LINE OF CREDIT**

JWCH has obtained a revolving line of credit from a bank for \$2,000,000 to finance working capital requirements. The revolving line of credit bears interest at a rate per annum equal to the greater of the bank's prime rate or the Minimum Interest Rate plus in each case a margin of 1%. The revolving line of credit is offered until cancellation by either JWCH or the bank. As of June 30, 2012 and 2011, \$2,000,000 and \$1,100,000, respectively, were drawn and outstanding under the line of credit. Also, see Note L – Subsequent Events.

**NOTE G – PENSION PLAN**

JWCH has a defined contribution pension plan covering all eligible employees. After one year of employment eligible employees who have worked 500 hours are enrolled and are 33% vested for their first year of participation. Thereafter they are 33% vested for each subsequent year until they are 100% vested at the third year of participation. JWCH contributes a safe harbor contribution of 3% and a matching contribution of up to 1% (total maximum 4%) of the eligible employee's annual compensation for fiscal years 2012 and 2011. JWCH's contributions amounted to \$326,080 and \$429,533 for fiscal years 2012 and 2011, respectively.

**NOTE H – LEASES**

JWCH leases certain facilities and equipment under various operating lease agreements, which expire through September 2016. JWCH incurred \$917,833 and \$838,416 in operating lease expenses in 2012 and 2011, respectively. Minimum commitments under the various operating lease agreements having an initial or remaining noncancelable term of more than one year are as follows:

Year ending June 30	
2013	\$ 303,868
2014	290,128
2015	205,464
2016	98,432
2017	7,200
Total Minimum Rental Obligations	<u>\$ 905,092</u>

**JWCH INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011  
(Continued)

**NOTE 1 – COMMITMENTS AND CONTINGENCIES**

Government Grants

Costs charged to the federal government under cost-reimbursement grants are subject to audit; therefore, all such costs are subject to adjustments. Management believes that JWCH has complied with the applicable grant terms and conditions and adjustments, if any, would not have a significant effect on the financial statements.

Medicare and Medicaid Program

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Litigations

JWCH is a defendant in a number of lawsuits incidental to its operations. These lawsuits against JWCH have been evaluated and upon consultation with the attorney, JWCH management believes that the ultimate resolution of such lawsuits would not have a material adverse impact on the financial statements.

**JWCH INSTITUTE, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011  
(Continued)

**NOTE J – ACQUISITION OF MINI TWELVE**

JWCH acquired Mini Twelve effective May 1, 2011. The respective boards of directors of JWCH and Mini Twelve have determined that it is in the best interests of their respective corporation for JWCH to acquire Mini Twelve. As a result of the acquisition, Mini Twelve ceased operation and become a disappearing corporation.

The acquisition of Mini Twelve by JWCH was accounted for by the acquisition method. The following table summarizes the consideration paid for Mini Twelve and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Consideration:	
Cash	<u>\$ 21,500</u>
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:	
Financial Assets	\$ 159,604
Property and Equipment	1,035,677
Financial Liabilities	<u>(389,686)</u>
Total Identifiable Net Assets	805,595
Inherent Contribution Received	<u>(784,095)</u>
	<u>\$ 21,500</u>

On the statement of activities for the year ended June 30, 2011, the inherent contribution received is recorded as the excess of fair value of net assets acquired over liabilities in acquisition of Mini Twelve, which increases the unrestricted net assets.

**JWCH INSTITUTE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011  
(Continued)

**NOTE K – RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS**

In connection with the preparation of its financial statements for the year ended June 30, 2012, JWCH determined that the Medi-Cal Managed Care receivables were not properly accrued for in prior periods. As a result, fiscal year 2011 program service income and corresponding receivables and beginning unrestricted net assets were overstated by \$169,996, \$682,784, and \$512,788, respectively. JWCH restated its statement of financial position as of June 30, 2011 and statement of activities and cash flows for the year ended June 30, 2011. The impact of the over accrual was a reduction in change in net assets of \$169,996 for the year ended June 30, 2011.

**NOTE L – SUBSEQUENT EVENTS**

On June 29, 2012, JWCH was approved a term loan in the amount of \$1,000,000; portion of the loan proceeds are used to repay portion of the outstanding balance under the existing revolving line of credit. The term loan proceeds are not funded until July 2012; and therefore, not recorded in the 2012 financial statements. The term loan bears interest at a rate per annum equal to 3.8% and shall be repaid in 60 equal monthly installments of principal and interest in the amount of \$18,351 each, with the unpaid balance due and payable on the maturity date. At the same time, the amount of credit available under the existing revolving line of credit is reduced by \$500,000 to \$1,500,000.

***SUPPLEMENTARY INFORMATION***

**JWCH INSTITUTE, INC.**

SCHEDULE OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2012  
(With summarized financial information for the year ended June 30, 2011)

	2012											
	Program Services											
	AIDS Prevention & Education	Family Planning	Information & Education	HIV Case Management	Recuperative Care	Substance Abuse Treatment	JWCH Weingart Clinic	JWCH Bell Gardens Clinic	JWCH Norwalk Clinic	JWCH Lynwood Primary Care Clinic	JWCH P.A.T.H. Clinic	JWCH Other Clinic
Personal	\$ 1,140,463	\$ 1,339,961	\$ 65,562	\$ 122,898	\$ 911,723	\$ 409,335	\$ 2,875,727	\$ 786,821	\$ 807,068	\$ 500,368	\$ 159,946	\$ 339,415
Fringe Benefits	281,200	339,329	13,394	32,134	207,986	97,717	604,826	164,759	185,421	110,408	40,379	62,449
<b>Total Personal and Fringe Benefits</b>	<b>1,421,663</b>	<b>1,679,290</b>	<b>78,956</b>	<b>155,032</b>	<b>1,119,709</b>	<b>507,052</b>	<b>3,480,553</b>	<b>951,580</b>	<b>992,489</b>	<b>610,776</b>	<b>200,325</b>	<b>401,864</b>
Other Operating Expenses:												
Professional Services	275,303	43,786	810	9,450	34,764	105,574	545,572	123,585	160,997	125,931	16,455	34,973
Medical and Laboratory	69,573	149,732	-	-	50,636	9,250	304,794	182,368	170,689	132,099	54,275	63,843
Patient Welfare	31,355	22,456	9,504	500	99,880	46,222	7,517	1,512	1,253	672	536	492
Leases	18,950	22,532	-	-	515,329	33,860	47,991	3,674	3,669	2,066	2,784	100,643
Rentals	6,728	5,708	-	280	-	-	47,322	1,513	431	1,500	1,317	1,644
Insurance	3,027	4,220	-	-	648	1,423	14,404	4,945	4,425	-	4,765	1,302
Utilities	9,078	17,619	1,487	683	10,164	54,199	33,227	20,673	30,722	9,486	-	28,202
Repair and Maintenance	14,561	34,032	-	-	3,471	3,260	60,184	19,844	18,623	16,473	10,535	5,541
Office Supplies	26,463	35,488	2,742	2,117	8,579	16,524	82,100	28,571	30,318	24,641	11,940	15,646
Equipment (Under \$1,000)	4,620	502	-	-	468	-	3,417	865	-	2,982	489	1,835
Travel/Mileage	43,144	6,460	2,618	109	924	8,284	10,343	2,898	2,240	1,045	3,126	2,991
Training	16,903	1,608	861	-	-	2,365	1,433	585	210	125	234	435
Fees	1,434	2,116	-	-	625	1,856	21,142	4,469	3,207	11,908	1,707	2,131
Other Costs	35,042	863	2,932	-	412	540	25,792	109,683	127,484	23,789	2,327	868
<b>Total Other Operating Expenses</b>	<b>556,181</b>	<b>347,122</b>	<b>20,954</b>	<b>13,139</b>	<b>725,900</b>	<b>283,357</b>	<b>1,205,238</b>	<b>505,185</b>	<b>554,268</b>	<b>352,717</b>	<b>110,490</b>	<b>260,546</b>
<b>Total Operating Expenses Before Indirect Costs and Depreciation</b>	<b>1,977,844</b>	<b>2,026,412</b>	<b>99,910</b>	<b>168,171</b>	<b>1,845,609</b>	<b>790,409</b>	<b>4,685,791</b>	<b>1,456,765</b>	<b>1,546,757</b>	<b>963,493</b>	<b>310,815</b>	<b>662,410</b>
Indirect Costs	203,935	296,585	6,792	6,355	152,372	22,925	404,226	186,392	175,681	101,933	36,454	45,690
<b>Total Expenses Before Depreciation Depreciation</b>	<b>2,181,779</b>	<b>2,322,997</b>	<b>106,702</b>	<b>174,526</b>	<b>1,997,981</b>	<b>813,334</b>	<b>5,090,017</b>	<b>1,643,157</b>	<b>1,722,438</b>	<b>1,065,426</b>	<b>347,269</b>	<b>708,100</b>
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>\$ 2,181,779</b>	<b>\$ 2,322,997</b>	<b>\$ 106,702</b>	<b>\$ 174,526</b>	<b>\$ 1,997,981</b>	<b>\$ 813,334</b>	<b>\$ 5,090,017</b>	<b>\$ 1,643,157</b>	<b>\$ 1,722,438</b>	<b>\$ 1,065,426</b>	<b>\$ 347,269</b>	<b>\$ 708,100</b>

*The accompanying notes are an integral part of the financial statements.*

**JWCH INSTITUTE, INC.**

**SCHEDULE OF FUNCTIONAL EXPENSES**  
For the Year Ended June 30, 2012  
(With summarized financial information for the year ended June 30, 2011)

	2012					2011					
	Program Services					Supporting Services					
	SHIP-CDC	BPHC-Health Center Cluster	ARRA-CIP	Other Programs Services	Total	General and Administrative	Other Supporting Services	Fund- raising	Total	Total Expenses	Total Expenses
Personal	\$ 171,886	\$ 1,395,017	\$ 30,350	\$ 118,178	\$ 11,174,718	\$ 1,308,436	\$ 82,725	\$ 16,471	\$ 1,407,632	\$ 12,582,350	\$ 10,747,500
Fringe Benefits	46,345	262,226	4,603	27,272	2,480,448	311,847	20,055	3,607	335,509	2,815,957	2,633,670
<b>Total Personal and Fringe Benefits</b>	<b>218,231</b>	<b>1,657,243</b>	<b>34,953</b>	<b>145,450</b>	<b>13,655,166</b>	<b>1,620,283</b>	<b>102,780</b>	<b>20,078</b>	<b>1,743,141</b>	<b>15,398,307</b>	<b>13,381,170</b>
Other Operating Expenses:											
Professional Services	-	-	5,995	29,860	1,513,055	295,258	87,175	11,522	393,955	1,907,010	1,849,540
Medical and Laboratory	11,928	-	-	2,832	1,202,019	189	-	-	189	1,202,208	1,001,996
Patient Welfare	14,506	-	-	23,803	260,208	7,371	488	-	7,859	268,067	203,202
Leases	16,684	-	-	27,532	795,714	122,118	-	-	122,118	917,832.00	838,416
Rentals	3,358	-	-	1,255	71,056	17,669	-	-	17,669	88,725	74,185
Insurance	-	-	-	-	39,159	132,254	5,449	-	137,703	176,862	148,104
Utilities	3,098	-	-	807	219,445	53,063	1,747	-	54,810	274,255	186,590
Repair and Maintenance	-	-	-	333	186,857	17,760	4,249	-	22,009	208,866	193,453
Office Supplies	2,509	-	4,124	4,578	296,340	44,331	2,179	1,464	47,974	344,314	273,233
Equipment (Under \$1,000)	-	-	-	-	15,178	2,296	-	-	2,296	17,474.00	23,329
Travel/Mileage	9,654	12,744	-	1,367	107,947	15,745	13,563	-	29,308	137,255.00	127,643
Training	2,030	5,820	-	120	32,729	12,353	-	-	12,353	45,082.00	47,337
Fees	100	-	-	-	50,695	16,287	531	42	16,860	67,555	90,227
Other Costs	6,580	-	-	1,480	337,792	178,730	-	34	178,764	516,556	340,166
<b>Total Other Operating Expenses</b>	<b>70,447</b>	<b>18,564</b>	<b>10,119</b>	<b>93,967</b>	<b>5,128,194</b>	<b>915,424</b>	<b>115,381</b>	<b>13,062</b>	<b>1,043,867</b>	<b>6,172,061</b>	<b>5,397,421</b>
Total Operating Expenses Before Indirect Costs and Depreciation	288,678	1,675,807	45,072	239,417	18,783,360	2,535,707	218,161	33,140	2,787,008	21,570,368	18,778,591
Indirect Costs	38,503	263,858	-	20,729	1,962,430	(1,973,337)	10,907	-	(1,962,430)	-	-
<b>Total Expenses Before Depreciation</b>	<b>327,181</b>	<b>1,939,665</b>	<b>45,072</b>	<b>260,146</b>	<b>20,745,790</b>	<b>562,370</b>	<b>229,068</b>	<b>33,140</b>	<b>824,578</b>	<b>21,570,368</b>	<b>18,778,591</b>
Depreciation	-	-	-	-	-	292,593	-	-	292,593	292,593	173,295
<b>Total Expenses</b>	<b>\$ 327,181</b>	<b>\$ 1,939,665</b>	<b>\$ 45,072</b>	<b>\$ 260,146</b>	<b>\$ 20,745,790</b>	<b>\$ 854,963</b>	<b>\$ 229,068</b>	<b>\$ 33,140</b>	<b>\$ 1,117,171</b>	<b>\$ 21,862,961</b>	<b>\$ 18,951,886</b>

*The accompanying notes are an integral part of the financial statements.*

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS AND  
OMB CIRCULAR A-133***

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Grant Term</u>	<u>Grant Award Amount</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>					
<i>Direct Program:</i>					
Health Care and Supportive Services Intervention Team	14.235	CA0389B9D001003	07/01/11 - 06/30/12	\$ 308,999	\$ 229,067
<i>Passed through Los Angeles Homeless Services Authority:</i>					
Recuperative Care Transitional Housing	14.235	CA0504B9D001003	05/01/11 - 04/30/12	570,870	472,007
Recuperative Care Transitional Housing	14.235	CA0504B9D001104	05/01/12 - 04/30/13	570,870	90,066
Subtotal				<u>1,141,740</u>	<u>562,073</u>
<i>Passed through City of Los Angeles Housing Department:</i>					
Housing Opportunities for Persons with AIDS	14.241	C-112156	04/01/11 - 09/30/11	57,900	20,000
Housing Opportunities for Persons with AIDS	14.241	C-120288	10/01/11 - 03/31/12	88,362	50,517
Housing Opportunities for Persons with AIDS	14.241	C-120288-1	04/1/12-03/31/13	176,724	23,322
Subtotal				<u>322,986</u>	<u>93,839</u>
<b>Total U.S. Department of Housing and Urban Development</b>				<u>1,773,725</u>	<u>884,979</u>
<b><u>U.S. Department of Health and Human Services - Public Health Service Act</u></b>					
Health Centers Cluster					
<i>Direct Programs:</i>					
Health Centers Cluster	93.224	H80CS06673	01/01/06 - 12/31/13	10,343,556	1,940,934
Health Centers Cluster	93.527	H80CS06673	06/1/12-12/31/12	395,833	33,731
<i>Passed through Northeast Valley Health Corporation:</i>					
Health Centers Cluster - Health Care for the Homeless	93.224	H80CS00139	12/01/10 - 11/30/11	230,015	96,233
Health Centers Cluster - Health Care for the Homeless	93.224	H80CS00139	12/01/11 - 11/30/12	239,789	144,695
Subtotal				<u>469,804</u>	<u>240,928</u>
Total Health Centers Cluster				<u>11,209,193</u>	<u>2,215,593</u>
<i>Direct Programs:</i>					
HIV/AIDS Substance Abuse Services	93.243	3H79TI018690-05S1	9/30/07 - 9/29/12	2,499,190	532,641
HIV/Substance Abuse Capacity Building Initiative	93.243	1U79SP018145-02	09/30/10-09/29/15	1,500,000	255,686
Residential Substance Abuse Treatment Program	93.243	1H79TI023764-01	09/30/11-09/29/14	1,571,479	220,043
Special Projects of National Significance	93.928	H97HA15145	09/01/09 - 08/31/14	2,049,531	407,853
HIV Prevention Projects for CBO	93.943	5U65PS002452-02	07/01/10 - 06/30/15	1,684,740	327,179
Subtotal				<u>9,304,940</u>	<u>1,743,402</u>
<i>Passed through Special Service for Groups:</i>					
Chronic Disease Management	93.137	Unknown	10/1/10 - 09/30/12	300,000	127,862

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2012

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Grant Term</b>	<b>Grant Award Amount</b>	<b>Federal Expenditures</b>
<i>Passed through County of Los Angeles Department of Health Services:</i>					
Family Planning Services	93.217	H-704670	01/01/11 - 12/31/11	247,919	127,053
Family Planning Services	93.217	H-704670	01/01/12 - 12/31/12	238,342	119,624
Subtotal				486,261	246,677
<i>Passed through California Family Health Council, Inc.:</i>					
Family Planning Services	93.217	2850-5320-71209-11	01/01/11 - 12/31/11	115,345	55,986
Family Planning Services	93.217	2850-5320-71209-12	01/01/12 - 12/31/12	115,345	61,764
Subtotal				230,690	117,750
<i>Passed through County of Los Angeles Office of AIDS Programs and Policy:</i>					
HIV Prevention Programs	93.940	PH 000829	01/01/11 - 12/31/12	600,000	304,767
HIV/AIDS Counseling and Testing Prevention Services	93.940	PH 000813	01/01/11 - 12/31/12	258,336	60,136
Subtotal				858,336	364,903
<i>Passed through County of Los Angeles Department of Public Health:</i>					
Block Grants for Prevention and Treatment of Substance Abuse	93.959	PH001201A/H702309A	07/1/10-6/30/12	184,140	146,466
<b><u>U.S. Department of Health and Human Services - American Recovery and Reinvestment Act</u></b>					
<i>Direct Program:</i>					
ARRA - Capital Improvement Program	93.703	C81CS13942	06/29/09 - 06/28/12	814,795	115,963
<b><u>U.S. Department of Health and Human Services - Social Security Act</u></b>					
<i>Passed through County of Los Angeles Department of Public Health:</i>					
Tempoarty Assistance For Needy Families (TANF)	93.558	PH001193	7/1/11-12/31/11	47,509	29,146
<i>Passed through California Department of Public Health:</i>					
Temporary Assistance For Needy Families (TANF)	93.558	03-75831 (I&E)	7/1/11-6/30/12	100,000	83,846
<b><u>U.S. Department of Health and Human Services - Patient Protection and Affordable Care Act</u></b>					
<i>Direct Programs:</i>					
Capital Development	93.526	C8ACS23728	5/1/12-4/30/15	2,738,824	15,181
Capital Development	93.526	C8BCS24010	5/1/12-4/30/15	498,905	10,707
Subtotal				3,237,729	25,888

**JWCH INSTITUTE, INC.**  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Grant Term</u>	<u>Grant Award Amount</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Health and Human Services - Ryan White HIV/AIDS Treatment Modernization Act</u></b>					
<i>Passed through County of Los Angeles Office of AIDS Programs and Policy:</i>					
HIV Case Management, Psychosocial - Transitional Case Management Services	93.914	H-300114	4/1/10-3/31/12	178,926	79,481
HIV/AIDS Oral Health Care (Dental) Services	93.914	PH-002156	5/1/12-2/28/14	624,512	12,143
HIV Case Management, Psychosocial	93.917	H-210816	4/1/10-3/31/12	219,485	95,046
Subtotal				<u>1,022,923</u>	<u>186,670</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>27,796,516</u>	<u>5,404,166</u>
<b>TOTAL FEDERAL AWARDS</b>				<u>\$ 29,570,241</u>	<u>\$ 6,289,145</u>

**JWCH INSTITUTE, INC.**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2012

**1. General**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all Federal programs of JWCH Institute, Inc. (JWCH). The JWCH reporting entity is defined in Note 1 of the Notes to Financial Statements of JWCH as of and for the year ended June 30, 2012. All Federal awards, including Federal awards passed through intermediate governmental and nonprofit agencies to JWCH, are included in the accompanying Schedule.

**2. Basis of Accounting**

The accompanying Schedule is presented using the accrual basis of accounting, which is described in Note 2 of the Notes to Financial Statements of JWCH as of and for the year ended June 30, 2012.

**3. Relationship to Federal Financial Reports**

Expenditures reported in the accompanying Schedule agree with the expenditures reported in the related Federal Financial Reports in all material respects.

**4. Payments to Subrecipients**

During fiscal year 2012, JWCH's payments to subrecipients are as follow:

Health Care and Supportive Services Intervention Team Program (CFDA No. 14.235)	\$ 84,549
HIV/AIDS Substance Abuse Services Program (CFDA No. 93.243)	189,485
HIV/AIDS Substance Capacity Building Initiative Program (CFDA No. 93.243)	39,973
Residential Substance Abuse Treatment Program (CFDA No. 93.243)	50,326
Total Payments to Subrecipients	<u>\$ 364,333</u>



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FOUNDING PARTNERS  
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***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  
JWCH Institute, Inc.

We have audited the financial statements of JWCH Institute, Inc. (JWCH) as of and for the year ended June 30, 2011, and have issued our report thereon dated March 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of JWCH is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered JWCH's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing opinions on the effectiveness of JWCH's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of JWCH's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, described in Findings 2012-FS-1 and 2012-FS-2 in Section II and Finding 2011-FS-2 in Section IV of the accompanying Schedule of Findings and Questioned Costs, which we consider to be significant deficiencies in internal control over financial reporting. 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.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether JWCH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, others within the entity, audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Simpson &amp; Simpson'.

March 31, 2013  
Los Angeles, California



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***REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133***

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
JWCH Institute, Inc.

**Compliance**

We have audited the compliance of JWCH Institute, Inc. (JWCH) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of JWCH's major federal programs for the year ended June 30, 2012. JWCH's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of JWCH's management. Our responsibility is to express an opinion on JWCH's compliance based on our audit.

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

In our opinion, JWCH complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III in the accompanying schedule of findings and questioned costs as Findings 2012-1 and 2012-2.

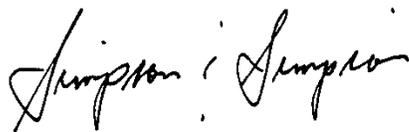
### Internal Control Over Compliance

Management of JWCH is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered JWCH's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 JWCH'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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, others within the entity, audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 31, 2013  
Los Angeles, California

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

*Financial Statements*

- |   |   |
|---|---|
| 1. Type of auditor’s report issued:   | Unqualified                                       |
| 2. Internal control over financial reporting:   |   |
| • Material weakness(es) identified?   | None  |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | Yes, Findings 2012-FS-1, 2012-FS-2, and 2011-FS-2 |
| 3. Noncompliance material to financial statements noted?                                      | None  |

*Federal Awards*

- |   |                                 |
|---|---------------------------------|
| 4. Internal control over major programs:  |                                 |
| • Material weakness(es) identified?   | None                            |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)?                         | None                            |
| 5. Type of auditor’s report issued on compliance for major programs:  | Unqualified                     |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes, Findings 2012-1 and 2012-2 |
| 7. Major programs are identified as follows:  |                                 |

CFDA No.	Program Title	Amount
14.235	Health Care and Supportive Services Intervention Team	\$ 229,067
14.235	Recuperative Care Transitional Housing	562,073
93.217	Family Planning Services	364,427
93.703	ARRA – Capital Improvement Program	115,963
93.943	HIV Prevention Projects for CBO	327,179
TOTAL		\$ 1,598,709

- |   |           |
|---|-----------|
| 8. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 9. JWCH qualified as a low-risk auditee?                                    | Yes       |

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

**SECTION II – FINDINGS AND QUESTIONED COSTS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Finding 2012-FS-1 Monitor Accounts Receivable and Improve the Method of Establishing an Allowance for Contractual allowance and Uncollectible (Significant Deficiency)

Criteria

Management of JWCH is responsible for establishing and maintaining effective internal control over financial reporting.

Condition

We noted that JWCH do not have a formal policy for establishing allowance for contractual, allowance and uncollectible, and the allowance for uncollectible accounts is not being analyzed periodically. Also, we noted that certain program service receivables in the amount of \$874,322 were subsequently written off after the year-end closing.

Cause

JWCH does not have a formal policy for establishing allowance for contractual allowance and uncollectible.

Effect or Potential Effect

The accounts receivable balance may be overstated and not be collected in a timely manner.

Recommendation

We recommend that management prepare an analysis of uncollectible accounts at least quarterly. This analysis should consider prior charge-off and collection experience. Management should adjust the allowance after reviewing the analysis and making appropriate collection efforts.

Views of Responsible Officials and Corrective Action Plan

We agree with the finding. JWCH Management will prepare an analysis of uncollectible accounts on a periodic basis and reconcile the accounts receivable balances to the billing and collection reports. Management is in the process of developing a formal policy for establishing allowance for contractual allowance and uncollectible.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

Finding 2012-FS-2 Timely Remittance of Participant Contributions to the Plan (Significant Deficiency)

Criteria

Department of Labor (DOL) Regulation 2510.3-102 requires that participant contributions be remitted to the Plan on the earliest date on which they can be reasonably segregated from the company's general assets, but in no event later than the 15<sup>th</sup> business day following the end of the month in which amounts are contributed by employee or withheld from the wages.

Condition

During our audit, we noted that remittances of the employee deferrals to the Plan were deposited at sporadic time spans after pay dates. Some of the remittances were deposited after the 15<sup>th</sup> business day following the end of the month of deferral.

Cause

Insufficient controls in place to ensure participant contributions are remitted to the Plan in a timely manner.

Effect or Potential Effect

Failure to remit participant contributions to the Plan in a timely manner results in prohibited transactions which must be separately reported to the DOL and may result in penalties to JWCH, the Plan Sponsor.

Recommendation

We recommend that management correct the current process to assure self-correction of these late remittances and submit the deferrals on the earliest date on which they can be reasonably segregated from the JWCH's general assets, but in no event later than the 15<sup>th</sup> business day following the end of the month in which amounts are contributed by employee or withheld from the wages.

Views of Responsible Officials and Corrective Action Plan

JWCH was late in submitting the employee 401 K contribution to the Plan for the period of 1/25/12, 2/10/12 and 2/24/12. JWCH has self-corrected this deficiency. All subsequent employee 401 K contribution has been remitted to the Plan timely.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

**SECTION III – FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS**

Finding 2012-1 – Noncompliance with Annual Progress Reporting (Noncompliance)

Federal Grantor:	Department of Housing and Urban Development (HUD)
Pass-through Grantor:	Los Angeles Homeless Services Authority (LAHSA)
Grant Award Number:	CA0504B9D001003
Program:	Recuperative Care Transitional Housing
CFDA No.:	14.235

Criteria

According to 24 Code of Federal Regulation Section 582.300 (d), Annual Progress Report is due from each grantee (and separately for each component funded) within 90 days after the end of its operating year.

According to CFR Title 24 Housing and Urban Development, Part 583 Supportive Housing Program, Subpart D Program Requirements, section 583.300 General Operation, (g) Records and reports: Each recipient of assistance under this part must keep any records and make any reports (including those pertaining to race, ethnicity, gender, and disability status data) that HUD may require within the timeframe required.

Condition

JWCH is required to submit an Annual Progress Report for the period from May 1, 2011 to April 30, 2012. We selected 25 samples out of 72 participants (seven participants from Placement in Permanent Housing data, eight participants from Length of Stay data, and 10 participants from Income data) to test the accuracy of the data reported. Based on testing, we noted the following discrepancies:

- 1) Two out of seven participants selected from Placement in Permanent Housing data, there were no copy of verification of acceptance in the participant file.
- 2) Two out of eight participants selected from Length of Stay data, one participant's exit date was recorded in the participant file but it was not recorded in the participant chart (extracted from LAHSA's HMIS system) and one participant's exit date in the participant chart (extracted from LAHSA's HMIS system) did not match with the exit date in the participant's file.
- 3) Eight out of 10 participants selected from Income data, six participants did not have the income verification documents including benefit award letters and two participants' income recorded in participant chart did not match with the income recorded in the participant' file.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

Finding 2012-1 – Noncompliance with Annual Progress Reporting (Noncompliance) (Continued)

Questioned Costs

\$0

Cause and Effect

According to JWCH's Program Director, the discrepancies in exit date and income reported were attributed to human error in inputting data and possible problem with LAHSA's HMIS system. For the missing income verification documents, JWCH's Program Director explained that the documentation may be located at another JWCH's shelter or the participants were not willing to provide the documents. For missing verification of acceptance, some permanent housing agencies were not willing to provide verification.

Recommendation

We recommend that JWCH continue to strengthen the review process over the preparation of Annual Progress Report. Also, JWCH should consult with LAHSA to resolve the discrepancies noted between HMIS system and participants' record.

Views of Responsible Officials and Corrective Action Plan

JWCH will strengthen the review process of the annual progress report to ensure its compliance. Additionally, JWCH will schedule for assistance with LAHSA to resolve any technical issues related to the data and submission of the report.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

Finding 12-2 Noncompliance with Reporting Requirement (Noncompliance)

Federal Grantor: Department of Housing and Urban Development (HUD)  
Pass-through Grantor: N/A – Direct Award  
Grant Award Number: CA0389B9D001003  
Programs: Health Care and Supportive Services Intervention Team  
CFDA Nos.: 14.235

Criteria

According to the Federal Funding Accountability and Transparency Act (FFATA or Transparency Act), the Federal prime awardees are required to report the following information by using FFATA Sub-award Reporting System (FSRS) for sub-awards to subrecipients and subcontractors:

1. The following data about sub-awards greater than \$25,000:
  - a. Name of entity receiving award
  - b. Amount of award
  - c. Funding agency
  - d. NAICS code for contracts / CFDA program number for grants
  - e. Program source
  - f. Award title descriptive of the purpose of the funding action
  - g. Location of the entity (including congressional district)
  - h. Place of performance (including congressional district)
  - i. Unique identifier of the entity and its parent; and
  - j. Total compensation and names of top five executives (same thresholds as for primes)
2. The total compensation and names of the top five executives if:
  - a. More than 80% of annual gross revenues are from the Federal government, and those revenues are greater than \$25 million annually and
  - b. Compensation information is not already available through reporting to the Security and Exchange Commission (SEC).

Condition

JWCH is subject to the Transparency Act reporting requirement for the Health Care and Supportive Services Intervention Team program. However, JWCH did not complete the required information via FSRS.

Questioned Costs

\$0

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

Finding 12-2 Noncompliance with Reporting Requirement (Noncompliance) (Continued)

Cause and Effect

JWCH's program personnel are not aware of the applicability of the Transparency Act to JWCH. JWCH is not in compliance with the reporting requirement.

Recommendation

We recommend that JWCH comply with the Transparency Act and report the required information via FSRS.

Views of Responsible Officials and Corrective Action Plan

JWCH will immediately comply with the Transparency Act and report the required information via FSRS. Although we did not complete the required information via FSRS, JWCH has made available all the requested info via the Form 990 and all of our federal grants have been reported to the Federal Audit Clearinghouse.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

**SECTION IV – STATUS OF PRIOR YEAR FINDINGS**

Finding 2011-FS-1 MIPS Password Security (Significant Deficiency)

Criteria

Physical security and access to programs and data should be appropriately controlled to prevent unauthorized use, disclosure, modification, damage, or loss of data.

Condition

We noted the following password security controls are not enabled for MIPS users:

- Character complexity
- Forced password change after a predetermined period of time
- Disable account after a predetermined number of invalid attempts

Cause

The condition is due primarily to Sages MIPS “Windows Authentication” functionality is not enabled.

Effect

Lack of stringent accounting application password security controls could increase the likelihood of system intruders gaining access to the MIPS accounting application via executing password cracking routines.

Recommendation

We recommend that IT and accounting management coordinate enabling Sages MIPS “Windows Authentication” functionality. This will ensure that MIPS user accounts inherit Windows password policy level security controls.

Views of Responsible Officials and Corrective Action Plan

We are in agreement with the auditor’s finding. We will enable Sages MIPS “Windows Authentication” functionality immediately to ensure maximum security controls.

Current Year Status

The recommendation has been implemented.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

Finding 2011-FS-2 Improve Accounting and Financial Reporting Process (Significant Deficiency)

Criteria

Management is responsible for 1) maintaining accurate financial information with proper account and functional activity classification and 2) timely preparing financial statements in conformity with generally accepted accounting principles.

Condition

JWCH's accounting department was finalizing the accounting entries while the audit was in progress. The final trial balance for the balance sheet accounts was not provided to the external auditors until March 30, 2012. JWCH acquired Mini Twelve effective May 1, 2011. The fair value of the assets and liabilities transferred as of April 30, 2011 and the resulting excess of net assets acquired have to be recorded in JWCH's accounting records as of June 30, 2011. The fair value of the assets and liabilities transferred are based on the Mini Twelve's audited financial statements as of April 30, 2011 and an independent valuation of the land, building, and improvements transferred. Mini Twelve's audited financial statements were not available to JWCH until the second week of March 2012 and the independent valuation was performed the last week of March 2012.

This is a repeat finding from the prior year.

Cause

The above condition is due to the delay in receiving Mini Twelve's audited financial statements as of April 30, 2011 and insufficient resources in accounting department to analyze the accounting entries related to the acquisition.

Effect

The condition above resulted in delays in the audit process and increase in audit hours required to test the assets and liabilities transferred and the related note disclosures.

Recommendation

We recommend that JWCH allocates sufficient resources to assist the chief financial officer in performing accounting and financial reporting functions.

Views of Responsible Officials and Corrective Action Plan

We are in agreement with the auditor's finding. We have increased resources in the accounting department by hiring a Financial Analyst and an Accountant. We have brought over two accountant staff from Mini Twelve Step House as a result of the acquisition. We have allocated additional resources to hire a Controller to accommodate the program expansion within the next four months.

**JWCH INSTITUTE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2012  
(Continued)

Finding 2011-FS-2 Improve Accounting and Financial Reporting Process (Significant Deficiency)  
(Continued)

Current Year Status

The recommendation has not been fully implemented. JWCH's accounting department was finalizing the accounting entries while the audit was in progress. The trial balance and general ledger were provided to the external auditors on March 12, 2013.