

NEIGHBORHOOD HEALTH SERVICES CORPORATION

Financial Statements

June 30, 2012

With Independent Auditors' Reports

Neighborhood Health Services Corporation
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Independent Auditors' Report

To the Board of Directors,
Neighborhood Health Services Corporation:

We have audited the accompanying statement of financial position of Neighborhood Health Services Corporation (the "Center") as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Neighborhood Health Services Corporation as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 2013 on our consideration of Neighborhood Health Services Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of Federal and state awards and the schedule of findings and questioned costs, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State of New Jersey, Department of Treasury Circular 04-04-OMB and the schedules of disbursements by grant are presented for purposes of additional analysis 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 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 expenditures of Federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Withinsmith + Brown PC

May 30, 2013

Neighborhood Health Services Corporation
Statement of Financial Position
June 30, 2012

Assets

Current assets

Cash and cash equivalents	\$ 51,747
Patient services receivable, net	2,343,058
Grants and contracts receivable	169,570
Other current assets	9,563
Total current assets	<u>2,573,938</u>

Property and equipment, net

7,130,371
<u>\$ 9,704,309</u>

Liabilities and Net Assets

Current liabilities

Bank overdraft	\$ 480,170
Accounts payable and accrued expenses	2,668,654
Federal and state payroll tax liabilities	2,440,063
Accrued compensation	460,874
Other short term payables	43,000
Due to pension fund, current portion	11,088
Mortgage payable - in default	1,354,992
Refundable advances	183,880
Total current liabilities	<u>7,642,721</u>

Due to pension fund, net of current portion

<u>591,120</u>

Total liabilities

8,233,841

Commitments and contingencies

Unrestricted net assets

<u>1,470,468</u>
<u>\$ 9,704,309</u>

Neighborhood Health Services Corporation
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2012

Unrestricted revenue	
DHHS grant revenue	\$ 2,988,754
Patient services, net of charitable and contractual allowance of \$2,431,546	9,708,453
Contract services and other grants	1,101,203
Donated vaccines	675,642
Other revenue	100,988
	<u>14,575,040</u>
 Expenses	
Salaries and related benefits	11,674,387
Other than personnel services	3,199,134
Provision for bad debt expense	93,189
Interest	143,300
	<u>15,110,010</u>
 Operating loss before depreciation and amortization	(534,970)
 Depreciation and amortization	503,357
Loss on impairment	1,025,123
	<u> </u>
Operating loss	(2,063,450)
 Nonoperating revenue: DHHS grant revenue for capital projects	61,719
	<u> </u>
Decrease in unrestricted net assets	(2,001,731)
 Unrestricted net assets, beginning of year	3,472,199
	<u> </u>
Unrestricted net assets, end of year	<u>\$ 1,470,468</u>

The Notes to Financial Statements are an integral part of this statement.

Neighborhood Health Services Corporation
Statement of Functional Expenses
Year Ended June 30, 2012

	Program Services	General and Administrative	Total
Salaries and wages	\$ 7,894,764	\$ 1,701,400	\$ 9,596,164
Fringe benefits	1,709,754	368,469	2,078,223
Consultants and contractual services	147,584	374,373	521,957
Professional fees	--	93,280	93,280
Pharmacy, laboratory and radiology fees	86,556	--	86,556
Staff training	20,722	4,466	25,188
Consumable supplies	454,275	97,900	552,175
Donated vaccines	675,642	--	675,642
Occupancy	264,156	93,053	357,209
Insurance	53,206	18,742	71,948
Repairs and maintenance	64,792	22,824	87,616
Equipment rental	81,454	28,694	110,148
Telephone	217,343	46,839	264,182
Travel, conferences and meetings	59,910	12,911	72,821
Dues and subscriptions	64,697	13,943	78,640
Printing, publications and postage	21,026	4,532	25,558
Public information	29,237	--	29,237
Interest expense	105,971	37,329	143,300
Provision for bad debt expense	93,189	--	93,189
Other	146,977	--	146,977
Total operating expenses	<u>12,191,255</u>	<u>2,918,755</u>	<u>15,110,010</u>
Depreciation and amortization	362,417	140,940	503,357
Loss on impairment	<u>738,088</u>	<u>287,035</u>	<u>1,025,123</u>
Total functional expenses	<u>\$ 13,291,760</u>	<u>\$ 3,346,730</u>	<u>\$ 16,638,490</u>

The Notes to Financial Statements are an integral part of this statement.

Neighborhood Health Services Corporation
Statement of Cash Flows
Year Ended June 30, 2012

Operating activities	
Decrease in unrestricted net assets	\$ (2,001,731)
Adjustment to reconcile changes in net assets to net cash provided by operating activities	
Provision for bad debt expense	93,189
Depreciation and amortization	503,357
Loss on impairment	1,025,123
Loss on disposal of equipment	80,378
Non-operating grants and contract revenue	(61,719)
Change in	
Patient services receivable	(1,286,707)
Grants and contract receivable	(6,725)
Other current assets	34,795
Bank overdraft	(192,976)
Accounts payable and accrued expenses	806,233
Federal and state payroll tax liabilities	2,440,063
Accrued compensation	(22,318)
Other short term payables	(101,995)
Other long term payables	(92,674)
Refundable advances	(217,593)
Net cash provided by operating activities	<u>998,700</u>
Cash flows from investing activities	
Purchase of property and equipment	(648,857)
Cash flows from financing activities	
Repayment of long-term debt	(370,148)
Receipt of non-operating grants and contracts	61,719
Net cash used by financing activities	<u>(308,429)</u>
Net change in cash and cash equivalents	41,414
Cash and cash equivalents	
Beginning of year	<u>10,333</u>
End of year	<u>\$ 51,747</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for	
Interest	\$ 143,300

The Notes to Financial Statements are an integral part of this statement.

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

Neighborhood Health Services Corporation (the "Center") is a not for profit corporation which operates primary healthcare centers located in Plainfield, Elizabeth, Newton and Phillipsburg, New Jersey. The Center provides a broad range of health services to a largely medically underserved population.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Basis of Presentation

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.

Classification of Net Assets

The accompanying financial statements present information regarding the Center's financial position and activities according to the following three categories:

Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Center and an outside party other than a donor or grantor.

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions.

Permanently restricted net assets are net assets whose use 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. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

There are no temporarily or permanently restricted net assets at June 30, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. The Center has not experienced any losses in such accounts. All highly-liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Patient Services Receivable

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Grants and Contracts Receivable

Grants and contracts receivable consists of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets which are seven years for equipment and forty years for building and building improvements. The Center capitalizes all purchases of property and equipment in excess of \$1,000.

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

According to Federal regulations, any equipment items obtained through Federal funds are subject to a lien by the Federal government. As long as the Center maintains its tax-exempt status, or so long as the equipment is used for its intended purpose, the Center is not required to reimburse the Federal government. If the stated requirements are not met, the Center would be obligated to the Federal government in an amount equal to the fair value of the equipment.

Impairment of Long-lived Assets

The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Center compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends.

Contributions

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor intentions that limit the use of the donated asset. When a donor intention expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the donor.

Grants and Contracts

Revenue from government grants and contracts designated for use in specified activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restriction. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

At June 30, 2012, the Center has been awarded conditional grants and contracts from governmental entities in the aggregate amount of \$2,938,998 that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Interest earned on Federal funds is recorded as a payable to the United States Public Health Service (the "PHS") in compliance with the regulations of the United States Office of Management and Budget.

Patient Services Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding fee scale deducted to arrive at net self-pay revenue.

Donated Vaccines

The Center records donated items at fair value. During 2012, the Center received \$675,642 of vaccines, which are recorded in the statement of activities and changes in net assets as both revenue and expense.

Functional Expenses

Expenses are charged to program or general and administrative based on a combination of specific identification and allocation by management.

Tax Status

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

The Center has no unrecognized tax benefits at June 30, 2012. The Center's U.S. Federal and state income tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Center recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the statement of financial position. There are no income tax related interest or penalties included in the financial statements presented.

The Center has filed all required payroll tax returns and payroll taxes due have been paid.

2. Liquidity and Management's Plans

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Center incurred an operating loss of \$2,001,731 for the year ended June 30, 2012 and had a working capital deficit of \$5,068,783 as of June 30, 2012. In addition, during 2012 the Center's cash position at times was not sufficient to pay operating liabilities. These matters raise substantial doubt about the Center's ability to continue as a going concern. The financial statements do not include any adjustment to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the Center's ability to continue as a going concern. However, there can be no assurance that the Center will be able to operate profitably or obtain sufficient cash either through operating activities or third parties to continue its operations.

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

The Center is operating under a two year financial recovery plan that is reflective of recommendations by the Health Resources and Services Administration ("HRSA") and in accordance with HRSA Policy Information Note 2002-18. The plan addresses areas of improvement, such as cost reduction and savings, initiatives to increase patient volume and productivity, implementation of financial controls and accounting processes and other opportunities to improve working capital. The Center is in the process of bringing its cost report submissions up to date and achieving greater timeliness of reporting Medicaid Wrap-Around submissions. Other initiatives include improving collection activities and assessments of patients' ability to pay for services. The Center reviews its programs by site to determine ongoing financial viability and has applied for meaningful use incentives which will continue to generate revenues through 2013. The Center has focused on improving its billings and collections efforts and reducing the claim denial rate. In addition, the sliding fee scales and co-payment allowances have been increased, and the onsite co-payment collections have increased as well as the charge entry for services. The managed care contracts have been negotiated to reflect increased reimbursement. Patient outreach initiatives have been redesigned resulting in increased encounters. The Center continues to increase collaborations with community partners for expansion and/or enhancement of the current service model. These actions, taken under the guidance and supervision of HRSA financial advisors, are done so with the expressed intent of curing the current going concern and to improve the Center's financial position.

3. Patient Services Receivable, Net

Patient services receivable, net consist of the following:

Medicaid	\$ 305,724
Medicare	239,423
Medicaid managed care plan	1,039,173
Other third party	397,948
Self pay	1,087,696
Plainfield Board of Education	355,673
Medicaid managed care wraparound	1,603,736
State of New Jersey uncompensated care	237,956
	<u>5,267,329</u>
Less: Contractual and doubtful account allowances	(2,924,271)
	<u>\$ 2,343,058</u>

4. Grants and Contracts Receivable:

Grants and contracts receivable consist of the following:

Ryan White Part A	\$ 158,570
State of New Jersey Department of Health and Senior Services: HIV Counseling, Testing & Referral Services	11,000
	<u>\$ 169,570</u>

5. Property and Equipment

Property and equipment, net consist of the following:

Land	\$ 708,000
Building and improvements	5,370,902
Equipment	2,209,269
	<u>8,288,171</u>
Less: Accumulated depreciation and amortization	(1,157,800)
	<u>\$ 7,130,371</u>

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

In the event the DHHS grants are terminated, DHHS reserves the right to transfer all property and equipment purchased with grant funds to PHS or third parties.

6. Impairment of Long-lived Assets

During 2012, the Center identified indicators of impairment, including the history of net operating losses to date combined with weak general industry conditions. With the assistance of independent valuation experts, the Center determined the fair value of the impaired long-lived assets. Fair value for the building was determined using the sales comparison approach. Write-downs of long-lived assets totaling \$1,025,123 were recorded in 2012 for the building.

7. Due to Pension Fund

Prior to the year ended June 30, 2012, the Center contributed to a union-sponsored multiemployer benefit plan in accordance with negotiated labor contracts. The benefit plan covered all of the Center's union employees. During February 2011, the Center incurred a complete withdrawal from the plan. On October 2, 2012 in connection with this withdrawal, the plan assessed a gross withdrawal liability to the Center in the amount of \$602,208 based on the plan's unfunded vested liability as of December 31, 2010. An accrual was made as of June 30, 2012 for this amount.

Aggregate maturities of the pension withdrawal liability debt due within the next 5 years are as follows:

Year Ending June 30,	Amount
2013	\$ 11,088
2014	12,643
2015	13,591
2016	14,610
2017	15,706
Thereafter	534,570
	<u>\$ 602,208</u>

8. Mortgage Payable:

Mortgage payable consists of the following:

Mortgage payable - \$5,000,000 face amount, due in August 2016 and payable in 240 monthly installments. The current monthly installments are \$33,074, including interest at 66 percent of prime plus 0.75 percent (2.89 percent at June 30, 2012). The loan is secured by the Center's property and equipment.

\$ 1,354,992

The long-term portion of the mortgage amounting to \$990,088 as of June 30, 2012 was reclassified to current due to the Center's default of its loan covenant which requires the Center to provide the bank with certified financial statements 90 days after the fiscal year ended June 30, 2012. The bank did not issue a waiver of the covenant prior to the report date. The Center is current with all mortgage payments as of the date of report.

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

9. Patient Services Revenue, Net

For the year ended June 30, 2012, the mix of patient services revenue, net is as follows:

Medicaid	11%
Medicare	3%
Other third party	1%
Self-pay	3%
Medicaid managed care plans	36%
Uncompensated care	46%
	100%

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

10. DHHS grants:

The Center received the following DHHS grants for the year ended June 30, 2012:

Grant Number	Grant Period	Total Grant	Amount Recognized
6H80CS00645-09-03	06/01/10 - 05/31/11	\$ 2,335,416	\$ 36,390
5H80CS00645-10-00	06/01/11 - 05/31/12	2,917,365	2,674,251
6H80CS00645-10-01	06/01/11 - 05/31/12	2,952,365	35,000
6H80CS00645-11-00	06/01/12 - 05/31/13	2,917,365	243,114
1C81CS14166-01-00	06/29/09 - 06/28/11	1,114,080	61,718 *
			\$ 3,050,473

* Represents non-operating grant for capital expenditures.

11. Contract Services and Other Grants

For the year ended June 30, 2012, contract services and other grants revenue consist of the following:

State of New Jersey Department of Health and Senior Services:	
HIV Counseling, testing and referral services	\$ 272,531
Refugee Health Services	45,396
County of Union Department of Human Services:	
HIV Emergency Relief Project Grants	310,534
Plainfield Board of Education	107,393
Ryan White Part A	326,919
Other	38,430
	\$ 1,101,203

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

12. Refundable Advances

Refundable advances consist of the following:

U.S. Department of Health and Human Services:	
ARRA - Capital Improvement Program	\$ 105,792
Ryan White Title III	(6,597)
State of New Jersey Department of Health and Senior Services:	
HIV Counseling, Testing & Referral Services	78,874
Sanofi Aventis Senior Services Grant	6,063
Other	(252)
	<u>\$ 183,880</u>

Refundable advances in the amount of \$183,880 represents cash received in excess of revenue recognized for the year ended June 30, 2012.

13. Pension Plan

The Center has a separate defined contribution pension plan covering substantially all employees meeting certain eligibility requirements. The amount contributed to the plan is determined by resolution by the Board of Directors. The Center contributed \$-0- for the year ended June 30, 2012.

14. Commitments and Contingencies

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

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS supported programs which applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Center is involved in various claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters will not have a material adverse impact on the financial position of the Center or the results of its operations.

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, antikickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

Neighborhood Health Services Corporation
Notes to Financial Statements
June 30, 2012

On September 9, 2011, the IRS placed a lien on the Center's operating account as a result of not remitting certain payroll tax deposits on a timely basis. The Center was assessed by the IRS approximately \$663,000, which is included in accrued expenses, for Federal tax deposit penalties and interest relating to the fourth quarter of fiscal year June 30, 2011 and the first quarter of fiscal year June 30, 2012. During this time period, the Center did not remit certain Federal and State (New York, New Jersey, and Pennsylvania) payroll taxes and withholding taxes due to extreme cash flow issues resulting primarily from delays in receipt of Medicaid wraparound reimbursement. The IRS met with the Center to conduct an investigation and to work with the Center on a repayment plan for the taxes nonpaid. The investigation is still ongoing. Since September 2012, the Center has remitted the current Federal and State taxes due on a timely basis. As of May 30, 2013, the Center has been assessed approximately \$2,700,000 by the IRS for taxes and withholding amounts, penalties and interest and unremitted State payroll taxes approximating \$425,000 relating to the period June 30, 2012.

In October 2012, the Center settled its dispute with the union-sponsored multiemployer benefit plan as to monthly payments that are owed that relate to the 2012 fiscal year. Under agreement, the Center shall pay the United Service Workers Union Local 74 Welfare Fund a total of \$217,546 over a ten-month period starting October 2012. The settlement did not include certain disputed claims amounting to \$73,029 which were referred for arbitration. In January 2013, these disputed amounts were settled through arbitration. Under the terms of the consent arbitration award, the Center is obligated to pay the amount of \$38,778 plus interest up to the time of payment. An accrual was made as of June 30, 2012 in the amount \$293,584 for all outstanding amounts owed and is included in accrued expenses.

15. Subsequent Events

The Center has evaluated subsequent events through May 30, 2013, which is the date the financial statements were available to be issued. Based on this evaluation, the Center has determined that no subsequent events have occurred which require disclosure in or adjustment to the financial statements.

SUPPLEMENTARY INFORMATION



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**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 Directors,
Neighborhood Health Services Corporation:

We have audited the financial statements of Neighborhood Health Services Corporation, as of and for the year ended June 30, 2012, and have issued our report thereon dated May 30, 2013. We have included an explanatory paragraph regarding the Center's ability to continue as a going concern. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Neighborhood Health Services Corporation is responsible for establishing and maintaining effective control over financial reporting. In planning and performing our audit, we considered Neighborhood Health Services Corporation'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 an opinion on the effectiveness of Neighborhood Health Services Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Health Services Corporation'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood Health Services Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 12-01 through 12-09.

We noted certain matters that we reported to management of Neighborhood Health Services Corporation in a separate letter dated May 30, 2013.

Neighborhood Health Services Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Center's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and Federal and state awarding agencies and pass-through entities and it not intended to be and should not be used by anyone other than these specified parties.



May 30, 2013



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Independent Auditors' 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 and the State of New Jersey, Department of the Treasury, OMB Circular 04-04-OMB

To the Board of Directors,
Neighborhood Health Services Corporation:

Compliance

We have audited Neighborhood Health Services Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Neighborhood Health Services Corporation's major Federal and state programs for the year ended June 30, 2012. Neighborhood Health Services Corporation's major federal and state programs are identified in the summary of auditors' 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 and state programs is the responsibility of Neighborhood Health Services Corporation's management. Our responsibility is to express an opinion on Neighborhood Health Services Corporation'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* and OMB Circular 04-04-OMB. Those standards and OMB Circular A-133 and 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 and state program occurred. An audit includes examining, on a test basis, evidence about Neighborhood Health Services Corporation'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 of Neighborhood Health Services Corporation's compliance with those requirements.

As described in items 12-06 through 12-09 in the accompanying schedule of findings and questioned costs, Neighborhood Health Services Corporation did not comply with requirements that are applicable to its major program. Compliance with such requirements is necessary, in our opinion, for Neighborhood Health Services Corporation to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Neighborhood Health Services Corporation 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 program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Neighborhood Health Services Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal and state programs. In planning and performing our audit, we considered Neighborhood Health Services Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major Federal and state 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 and 04-04-OMB, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Health Services Corporation's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Health Services Corporation'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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-01 through 12-09 to be material weaknesses.

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 that might be significant deficiencies or material weaknesses. However, as discussed above, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

Neighborhood Health Services Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Neighborhood Health Services Corporation's response and, accordingly, we express no opinion on the response.

The purpose of this report is solely to report on Neighborhood Health Services Corporation's 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 and 04-04-OMB. This report is an integral part of an audit performed in accordance with OMB Circular A-133 and 04-04-OMB in considering Neighborhood Health Services Corporation's 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 and 04-04-OMB. Accordingly, this report is not suitable for any other purpose.



May 30, 2013

Neighborhood Health Services Corporation
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2012

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Federal Awards			
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Center	93.224	N/A	\$ 1,778,338
Affordable Care Act (ACA) - Grants for New and Expanded Services under the Health Center Program	93.527		1,210,417
ARRA - Grants to Health Center Programs:			
Increase Services to Health Centers	93.703	N/A	7,303
Capital Improvement Program	93.703	N/A	61,719
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>310,534</u>
Total direct programs			<u>3,368,311</u>
Passed through New Jersey Department of Health and Senior Services:			
Refugee and Entrant Assistance-Discretionary Grants	93.576	11-1099RHP-N-0	6,680
Refugee and Entrant Assistance-Discretionary Grants	93.576	09-1099-RHP-N-1	38,716
HIV Prevention Activities-Health Department Based	93.940	10-761-AIDS-N-O	49,476
Universal Newborn Hearing Screening	93.251	DFHS11NWM005	10,512
Passed through Union County Department of Human Services:			
HIV Emergency Relief Project Grants	93.914	10-RYAN-107/11- RYAN-107	<u>313,793</u>
Total Federal Awards			<u>\$ 3,787,488</u>
State Awards			
State of New Jersey Department of Human Services			
HIV Counseling, Testing and Referral Services	N/A	10-761-AID-N-0	\$ 172,006
Preventive and Primary Care program			*
Total State Awards			<u>\$ 172,006</u>

* See note 3 to the schedule of expenditures of Federal and state awards.

Neighborhood Health Services Corporation
Notes to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2012

1. General Information

The schedule of expenditures of Federal and state awards includes the Federal and state grant activity of Neighborhood Health Services Corporation (the "Center") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and State of New Jersey, Department of Treasury, OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Sub Recipients

Of the Federal and state expenditures presented in this schedule, the Center provided no Federal awards to the sub recipients for the year ended June 30, 2012

3. Preventive and Primary Care Program

The Center contracted with the State of New Jersey Department of Health to provide health and medical services to the uninsured population under the Preventive and Primary Care program ("Letter of Agreement"). This Letter of Agreement pays the Center a fixed amount per visit regardless of the actual costs incurred. During the year ended June 30, 2012, the amount earned and recognized as revenue under this Letter of Agreement was \$4,427,468.

**Neighborhood Health Services Corporation
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2012**

Section 1 – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes

Significant deficiencies identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? Yes

Federal and State Awards

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Type of auditors’ report issued on compliance for major programs: Qualified

Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133 Yes

Identification of major federal programs:

CFDA Numbers	Name of Federal and State Program
93.224	U.S. Department of Health and Human Services, Consolidated Health Center Program
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.914	HIV Emergency Relief Project Grants
N/A	New Jersey Department of Human Services, HIV Counseling, Testing and Referral Services

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

Auditee qualified as low-risk auditee? No

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 2 – Financial Statement Findings

12-01 Patient Service Receivable and Revenue

Criteria:

The accounts receivable subsidiary ledger should be reconciled to the general ledger control accounts on a regular basis, and should ensure that cash flow from patient services is maximized.

Statement of Condition:

Currently, the Center utilizes a computerized billing system to process billing and collection for patient services. The accounts receivable subsidiary ledger is not being reconciled to the general ledger control accounts on a regular basis. In addition, the Center has no formalized control procedures for (1) reviewing and evaluating specific past due accounts, (2) billing denied claims in a timely manner and (3) determining bad debts by periodic review of the accounts receivable aging reports per the billing system.

Questioned Costs: None

Effect

Patient services receivable may not be reported at its net realizable value.

Cause:

The Center did not have appropriate resources to apply the procedures necessary to review and follow up on past-due receivables and ensure that patient services revenue was being maximized.

Recommendation:

We recommend that the accounts receivable subsidiary ledger, per the billing and collection system, be reconciled to the general ledger control accounts on a regular basis. All discrepancies should be investigated and resolved on a timely basis. Further, we recommend that the Center review all old outstanding receivables for collectability and, for those no longer collectible, remove them from the billing system. The Center should ensure that all receivables recorded in the billing system are valid and that appropriate reserves are made for uncollectible accounts.

Management's Response:

Management concurs with this finding and has implemented measures to review patient service billing past due receivables and follow-up, as well as bad debt identification and write-offs on a regular basis. Management is implementing procedures that will allow the accounts receivable subsidiary ledgers to be reconciled to the general ledger control accounts on a regular basis.

12-02 Books and Records

Criteria:

All accounts must be reconciled on a timely basis.

Statement of Condition:

There were many accounts that were not reconciled until after year end, and then adjustments were made to the general ledger.

These accounts included

- Cash
- Grants and contracts receivable and related revenue
- Patient service receivable and related revenue
- Depreciation of fixed assets
- Accounts payable
- Accrued expenses including compensation, vacation and taxes
- Refundable advances
- Donated vaccines

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 2 – Financial Statement Findings (Continued)

12-02 Books and Records (Continued)

Questioned Costs: None

Effect

This condition may lead to inaccurate financial reporting and potential misstatement of the financial statements such that they are not in accordance with accounting principles generally accepted in the United States of America.

Cause:

During the course of the year, the Center had staff turnover in the financial leadership positions as well as support staff. As a result, the Center's finance department was not able to perform detailed reviews of accounts and adjust the books accordingly prior to the commencement of the audit.

Recommendation:

We recommend that the Center implement policies and procedures that allow for the timely reconciliation of accounts on a monthly basis.

Management's Response:

Management concurs with this finding and has started with the implementation of reconciling the accounts on a more timely basis. Departmental books and records policy and procedure protocols were added to the team manual in March of 2013.

12-03 Issuance of Manual Checks

Criteria:

All checks written should be recorded to the general ledger on a timely basis.

Statement of Condition:

Manual checks were utilized during the audit period but were not recorded on a timely basis.

Questioned Costs: None

Effect

This results in a risk of unauthorized disbursements. This condition may lead to inaccurate financial reporting and potential misstatement of the financial statements such that they are not in accordance with accounting principles generally accepted in the United States of America.

Cause:

During the course of the year, the Center had staff turnover in the financial leadership positions as well as support staff. As a result, the Center's finance department was not able to prepare reconciliations of bank accounts on a timely basis

Recommendation:

We recommend that management evaluate the use of a Positive Pay process where an encrypted check run detail is provided to the bank and only checks presented that match the payee, amount, and check number to the detail provided will be honored by the bank. We also recommend that the Center implement policies and procedures that allow for the timely reconciliation of bank accounts on a monthly basis.

Management's Response:

Management concurs with this finding and agrees that the use of manual checks should not occur. Policies and procedures were implemented and added to employee manuals in March of 2013.

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 2 – Financial Statement Findings (Continued)

12-04 Unrecorded Liabilities

Criteria:

All incurred liabilities should be recorded to the general ledger on a timely basis.

Statement of Condition:

In situations where the Center has received supplies or capital equipment before month end, but has not received invoices for the purchase, no liability is recorded.

Questioned Costs: None

Effect

This condition may lead to inaccurate financial reporting and potential misstatement of the financial statements such that they are not in accordance with accounting principles generally accepted in the United States of America.

Cause:

During the course of the year, the Center had staff turnover in the financial leadership positions as well as support staff. As a result, the Center's finance department was not able to prepare account reconciliations on a timely basis,

Recommendation:

We recommend that the Controller should send out an email to Department Directors prior to AP close and obtain information on goods received but invoices not received prior to month end and accrue these amounts within the proper period.

Management's Response:

Management concurs with this finding and is developing policies and procedures to ensure the timely recording of accounts payable.

12-05 Controls Over Payroll

Criteria:

Controls over the payroll process should be performed regularly.

Statement of Condition:

During the audit period, the following payroll controls were not performed.

- There was no review evidence by the Finance Management for payroll processed
- Payroll journal entries, including accrual entries, were not recorded on a timely basis
- Payroll bank reconciliations were not performed on timely basis
- Payroll returns were not filed on a timely basis

Furthermore Federal and state taxes withheld were not remitted on a timely basis.

Questioned Costs: None

Effect

This condition may lead to inaccurate financial reporting and potential misstatement of the financial statements such that they are not in accordance with accounting principles generally accepted in the United States of America.

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 2 – Financial Statement Findings (Continued)

12-05 Controls Over Payroll (Continued)

Cause:

Due to the staff turnover in the financial leadership positions as well as support staff, controls over payroll were not performed. Liquidity issues also delayed the remittance of Federal and state tax withholdings.

Recommendation:

We recommend that management review payroll reports to verify the accuracy of payroll processing and record the payroll journal entries, including accruals, on a timely basis. Reconciliations for the payroll bank account should be prepared, reviewed, and approved on a timely basis, with all reconciling items investigated. In addition, Federal and state tax withholdings should be remitted on a timely basis.

Management's Response:

Management concurs with this finding. New staff has been hired and policies and procedures have been implemented to review, record and reconcile payroll entries and accounts. The Center intends to use an outside payroll service to process payroll starting in June 2013.

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 3 – Award Findings and Questioned Costs

12-06 Time and Effort Reporting

Criteria:

As prescribed by OMB Circular A-122, written after-the-fact time and effort reporting should be maintained that accounts for the total activity of employees and the programs/funding sources charged. These reports should be as stipulated in DHHS regulations: The reports must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, indicating that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

Statement of Condition:

The Center allocates personnel costs to each program/funding source. Certain of these allocations are supported by after-the-fact time and effort reports. However, after-the-fact time and effort reports were not used to support the allocations of time worked for all employees allocated to multiple programs/funding sources.

Questioned Costs: None

Effect

Certain personnel costs allocated to funding sources are not supported by after-the-fact time and effort reports.

Cause:

Program personnel were unable to update policies to include the time and effort reporting.

Recommendation:

We recommend that the Center update and maintain its policies and procedures manual to include time and effort reporting. In addition, we recommend that the Center perform some quality control on this attribute periodically throughout the year.

Management's Response:

Management is in the process of implementing a human resource information system, which will incorporate time and effort reporting. This is scheduled for June 2013.

12-07 Property Management Standards

Criteria:

Detailed property records must be maintained and reconciled to the fixed asset control account in the general ledger on a regular basis to comply with OMB Circular A-110 and to properly safeguard assets. Additionally, the detailed records should contain the appropriate property identification information as required by PHS regulations. Once these detailed property records are updated, a physical inventory of fixed assets should be performed at least every two years.

Statement of Condition:

It was noted that the Center did not perform a physical inventory of fixed assets every two years and an updated detail of fixed assets was not properly maintained.

Questioned Costs: None.

Effect

The detailed property records may not be accurate and therefore cannot be properly reconciled to the general ledger.

Cause:

Management did not have the adequate resources necessary to adhere to these requirements.

See Independent Auditors' Report

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 3 – Award Findings and Questioned Costs (Continued)

12-07 Property Management Standards (Continued)

Recommendation:

The Center should maintain detailed property records that reconcile to the general ledger and update those records based on a physical inventory that should be performed at least every two years.

Management's Response:

Management concurs with this finding and has implemented procedures to ensure that fixed asset records will be properly maintained. The fixed asset policy was approved in March 2013.

12-08 Report Filing

Criteria:

The Center in accordance with the 330 grant is required to submit quarterly Federal Financial Reports no later than 30 days of the end of each quarter.

Statement of Condition:

The system of internal control over financial reporting includes controls over timely submission of financial reports. Currently, there are deficiencies in the operations of the accounting systems that did not allow certain quarterly Federal Financial Reports to be submitted on a timely basis. As a result, the Center did not comply with the appropriate rules and regulations as per the 330 grant.

Questioned Costs:

None

Effect:

The Center did not comply with the appropriate rules and regulations as per the 330 grant.

Cause:

Due to the large turnover in management and staff, the Center's finance department was not able to perform detailed reviews of accounts and adjust the books accordingly which delayed the filing of certain quarterly Federal Financial Reports.

Recommendation:

The Center should implement a series of controls to ensure that all quarterly Federal Financial Reports are submitted timely.

Management's Response:

Management concurs with this finding and have implemented procedures to ensure that all filing deadlines are met.

12-09 Supporting Documentation for Grant Expenditures

Criteria:

In accordance with OMB Circular A-122, expenses claimed must be supported by documentation and adequately documented.

Statement of Condition:

Program expenses are not being supported by documentation.

**Neighborhood Health Services Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 3 – Award Findings and Questioned Costs (Continued)

12-09 Supporting Documentation for Grant Expenditures (Continued)

Questioned Costs:

Program expenses were reported to the funding agency via quarterly expenditure reports; however certain expenses could not be supported by documentation. As a result \$31,316 of program expenses were overcharged to the contract.

Effect:

The detailed quarterly expenditure reports may not be accurate.

Cause:

Management did not maintain supporting documentation for certain program expenses.

Recommendation:

All quarterly expenditure reports and supporting documentation should be reviewed and approved by an appropriate employee with the requisite knowledge and understanding of the compliance rules and regulations as well as access to the underlying expenses to ensure that program expenses submitted for reimbursement are complete and accurate.

Management's Response:

Management concurs with this finding and is implementing procedures to ensure that proper documentation is reviewed and maintained for expenses pertaining to grants prior to submission.

**Neighborhood Health Services Corporation
Schedule of Prior Year's Findings
Year Ended June 30, 2012**

11-01 Patient Service Receivable and Revenue

Criteria:

The accounts receivable subsidiary ledger should be reconciled to the general ledger control accounts on a regular basis, and should ensure that cash flow from patient services is maximized.

Statement of Condition:

Currently, the Center utilizes a computerized billing system to process billing and collection for patient services. The accounts receivable subsidiary ledger is not being reconciled to the general ledger control accounts on a regular basis. In addition, the Center has no formalized control procedures for (1) reviewing and evaluating specific past due accounts, (2) billing denied claims in a timely manner and (3) determining bad debts by periodic review of the accounts receivable aging reports per the billing system.

Status of Condition:

The condition still exists. Management has implemented correction procedures post balance sheet date, see finding 12-01.

11-02 Books and Records

Criteria:

All accounts must be reconciled on a timely basis.

Statement of Condition:

There were many accounts that were not reconciled until after year end, and then adjustments were made to the general ledger.

These accounts included

- Cash
- Grants and contracts receivable and related revenue
- Patient service receivable and related revenue
- Depreciation of fixed assets
- Accounts payable
- Accrued expenses including compensation, vacation and taxes
- Refundable advances
- Donated vaccines

Status of Condition:

The condition still exists. Management has implemented correction procedures post balance sheet date, see finding 12-02.

11-03 Time and Effort Reporting

Criteria:

As prescribed by OMB Circular A-122, written after-the-fact time and effort reporting should be maintained that accounts for the total activity of employees and the programs/funding sources charged. These reports should be as stipulated in DHHS regulations: The reports must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, indicating that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

Statement of Condition:

The Center allocates personnel costs to each program/funding source. Certain of these allocations are supported by after-the-fact time and effort reports. However, after-the-fact time and effort reports were not used to support the allocations of time worked for all employees allocated to multiple programs/funding sources.

Status of Condition:

The condition still exists. Management has implemented correction procedures post balance sheet date, see finding 12-03.

See Independent Auditors' Report

Neighborhood Health Services Corporation
Schedule of Prior Year's Findings
Year Ended June 30, 2012

11-04 Property Management Standards

Criteria:

Detailed property records must be maintained and reconciled to the fixed asset control account in the general ledger on a regular basis to comply with OMB Circular A-110 and to properly safeguard assets. Additionally, the detailed records should contain the appropriate property identification information as required by PHS regulations. Once these detailed property records are updated, a physical inventory of fixed assets should be performed at least every two years.

Statement of Condition:

It was noted that the Center did not perform a physical inventory of fixed assets every two years and an updated detail of fixed assets was not properly maintained.

Status of Condition:

The condition still exists. Management has implemented correction procedures post balance sheet date, see finding 12-04.

11-05 Report Filing

Criteria:

The audit in accordance with OMB Circular A-133 is required to be submitted no later than 30 days after the issuance of the audit report or March 31 of the following year. The audit report is also required to be submitted to the Center's bank no later than 90 days after the fiscal year ended June 30, 2011. In addition, the Medicare cost report and the New Jersey Medicaid cost report are required to be submitted no later than five months after the fiscal year end. Furthermore, Federal Form 941 is due with the Internal Revenue Service ("IRS") on the last day of the month that follows the end of the quarter.

Statement of Condition:

The system of internal control over financial reporting includes controls over timely submission of financial reports. Currently, there are deficiencies in the operations of the accounting systems that did not allow the financial statement audit to be completed and submitted on a timely basis. As a result, the Center did not comply with the appropriate rules and regulations as per OMB Circular A-133 and was not able to meet their loan covenant with their bank. In addition, the 2011 Medicare and New Jersey Medicaid cost reports as well as all Form 941s for the fiscal year 2011 have not been filed timely.

Status of Condition:

The condition has been partially corrected. The Center has negotiated terms with the agencies requiring filing to extend the deadline to May 31, 2013.

Neighborhood Health Services Corporation
Schedule of Disbursements by Grant
Year Ended June 30, 2012

Award: Refugee and Entrant Assistance-Discretionary Grants
Grant Year: October 1, 2010 - September 30, 2011
Grant Number: 11-1099RHP-N-0

Category	(Unaudited) Final Budget	Prior-Year Expenditures	Current-Year Expenditures	Final Program Expenditures	Questioned Costs
Personnel					
Salaries	\$ 37,830	\$ 32,283	\$ 5,547	\$ 37,830	\$ --
Fringe benefits	7,566	6,433	1,133	7,566	--
Total personnel	<u>45,396</u>	<u>38,716</u>	<u>6,680</u>	<u>45,396</u>	<u>--</u>
Other Cost Categories	--	--	--	--	--
Total Direct Costs	<u>45,396</u>	<u>38,716</u>	<u>6,680</u>	<u>45,396</u>	<u>--</u>
Indirect Costs	--		--	--	--
Total Costs	<u>45,396</u>	<u>38,716</u>	<u>6,680</u>	<u>45,396</u>	<u>--</u>
Less: Program income	--	--	--	--	--
Net Total Costs	<u>\$ 45,396</u>	<u>\$ 38,716</u>	<u>\$ 6,680</u>	<u>\$ 45,396</u>	<u>\$ --</u>

Neighborhood Health Services Corporation
Schedule of Disbursements by Grant
Year Ended June 30, 2012

Award: Refugee and Entrant Assistance-Discretionary Grants
Grant Year: October 1, 2011 - September 30, 2012
Grant Number: 10-1099-RHP-N-1

Category	(Unaudited) Final Budget	Current-Year Expenditures	Final Program Expenditures	Questioned Costs
Personnel				
Salaries	\$ 37,830	\$ 32,283	\$ 32,283	\$ --
Fringe benefits	7,566	6,433	6,433	--
Total personnel	45,396	38,716	38,716	--
Other Cost Categories	--	--	--	--
Total Direct Costs	45,396	38,716	38,716	--
Indirect Costs	--	--	--	--
Total Costs	45,396	38,716	38,716	--
Less: Program income	--	--	--	--
Net Total Costs	\$ 45,396	\$ 38,716	\$ 38,716	\$ --

Neighborhood Health Services Corporation
Schedule of Disbursements by Grant
Year Ended June 30, 2012

Award: HIV Prevention Activities-Health Department Based
Grant Year: July 1, 2011 - June 30, 2012
Grant Number: 10-761-AIDS-N-O

Category	(Unaudited) Final Budget	Current-Year Expenditures	Final Program Expenditures	Questioned Costs
Personnel				
Salaries	\$ 142,786	\$ 142,786	\$ 142,786	\$ --
Fringe benefits	28,557	28,557	28,557	--
Total personnel	171,343	171,343	171,343	--
Other Cost Categories				
Office expense and related costs	1,800	1,800	1,800	--
Program expense and related costs	40,130	40,130	40,130	31,316
Staff training and education	500	500	500	--
Travel, conference and meetings	2,500	2,500	2,500	--
Facility costs	5,209	5,209	5,209	--
Total Other Cost Categories	50,139	50,139	50,139	31,316
Total Direct Costs	221,482	221,482	221,482	31,316
Indirect Costs	--	--	--	--
Total Costs	221,482	221,482	221,482	31,316
Less: Program income	--	--	--	--
Net Total Costs	\$ 221,482	\$ 221,482	\$ 221,482	\$ 31,316

Neighborhood Health Services Corporation
Schedule of Disbursements by Grant
Year Ended June 30, 2012

Award: Universal Newborn Hearing Screening
Grant Year: January 1, 2011 - March 31, 2012
Grant Number: DFHS11NWM005

Category	(Unaudited) Final Budget	Prior-Year	Current-Year Expenditures	Final Program Expenditures	Questioned Costs
Other Cost Categories					
Staff training and education	\$ 5,000	\$ -	\$ 5,000	\$ 5,000	\$ --
Equipment and other capital expenditures	20,000	14,488	5,512	20,000	--
Net Total Costs	<u>\$ 25,000</u>	<u>\$ 14,488</u>	<u>\$ 10,512</u>	<u>\$ 25,000</u>	<u>\$ --</u>