

Newark Community Health Centers, Inc.

**Financial Statements,
Schedule of Expenditures of Federal and
State Awards, Internal Control and Compliance
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2012 and 2011

Newark Community Health Centers, Inc.

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Independent Auditor's Report

To the Board of Directors
Newark Community Health Centers, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Newark Community Health Centers, Inc. (the "Center"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal and state awards, as required by 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, Office of Management and Budget Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedules of disbursements by grant included in the accompanying financial statements on pages 23 through 30 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of Federal and state awards and schedules of disbursements by grant are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The aforementioned information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

New York, New York
June 26, 2013

Newark Community Health Centers, Inc.

**Statements of Financial Position
December 31, 2012 and 2011**

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 761,040	\$ 253,202
Assets limited to use	1,059,490	431,429
Patient services receivable, net	1,683,304	1,025,127
Contracts and other grants receivable	268,837	271,484
Prepaid expenses and other	472,597	191,887
Total current assets	<u>4,245,268</u>	<u>2,173,129</u>
Property and equipment, net	5,722,952	4,570,475
Security deposits	22,092	22,092
Total noncurrent assets	<u>5,745,044</u>	<u>4,592,567</u>
Total assets	<u><u>\$ 9,990,312</u></u>	<u><u>\$ 6,765,696</u></u>
 <u>Liabilities and Unrestricted Net Assets</u>		
Current liabilities:		
Line of credit	\$ 285,008	\$ 300,000
Accounts payable and accrued expenses	1,868,687	1,325,697
Accrued payroll and employee benefits	903,840	848,112
Current portion of due to State of New Jersey	31,429	60,000
Refundable advances	88,065	213,988
Total current liabilities	<u>3,177,029</u>	<u>2,747,797</u>
Noncurrent liabilities:		
Deferred rent	89,075	82,848
Due to State of New Jersey, net of current portion		31,429
Construction loan	594,416	
Total liabilities	<u>3,860,520</u>	<u>2,862,074</u>
Commitments and contingencies		
Unrestricted net assets:		
Undesignated	5,070,302	3,472,193
Board-designated	1,059,490	431,429
Total unrestricted net assets	<u>6,129,792</u>	<u>3,903,622</u>
Total liabilities and unrestricted net assets	<u><u>\$ 9,990,312</u></u>	<u><u>\$ 6,765,696</u></u>

See Notes to Financial Statements.

Newark Community Health Centers, Inc.

**Statements of Activities and Changes in Net Assets
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Unrestricted revenue:		
Patient services (net of contractual allowances)	\$ 13,397,530	\$ 10,055,695
Provision for bad debts	(1,082,724)	(578,663)
Net patient services revenue less provision for bad debts	12,314,806	9,477,032
DHHS grants	4,307,114	4,354,837
Contracts and other grants	1,672,403	1,410,183
In-kind contributions	1,419,042	1,180,864
Other	1,079,375	665,380
Total unrestricted revenue	<u>20,792,740</u>	<u>17,088,296</u>
Expenses:		
Salaries and related benefits	13,258,924	12,918,458
Other than personnel services	5,401,362	5,501,857
Payments to grant subrecipients		102,383
Depreciation and amortization	620,717	455,957
Interest	21,684	27,715
Total expenses	<u>19,302,687</u>	<u>19,006,370</u>
Income (loss) from operations	<u>1,490,053</u>	<u>(1,918,074)</u>
Nonoperating revenue:		
DHHS capital grants	-	1,157,833
Other capital grants	35,817	350,000
In-kind contribution - property	700,300	
	<u>736,117</u>	<u>1,507,833</u>
Changes in net assets	2,226,170	(410,241)
Unrestricted net assets, beginning of year	<u>3,903,622</u>	<u>4,313,863</u>
Unrestricted net assets, end of year	<u>\$ 6,129,792</u>	<u>\$ 3,903,622</u>

See Notes to Financial Statements.

Newark Community Health Centers, Inc.

**Statements of Functional Expenses
Year Ended December 31, 2012
(With Comparative Totals for 2011)**

	2012			2011 Total
	Program Services	General and Administrative	Total	
Salaries and wages	\$ 9,055,943	\$ 1,781,186	\$ 10,837,129	\$ 10,771,279
Fringe benefits	2,023,749	398,046	2,421,795	2,147,179
Insurance	122,499	24,093	146,592	111,760
Professional fees	1,179,537	231,999	1,411,536	1,411,049
Medical supplies and lab costs	1,000,583		1,000,583	1,319,351
Donated vaccines and supplies	1,201,706		1,201,706	919,864
Equipment rental and maintenance	147,875	29,086	176,961	168,949
Occupancy	571,914	125,542	697,456	708,564
Postage	18,038	3,548	21,586	16,215
Printing and publications	457	90	547	1,398
Public information	1,715	337	2,052	59,393
Dues and subscriptions	51,731	10,175	61,906	50,057
Travel, conferences and meetings	51,305	10,091	61,396	91,333
Staff education	32,902	6,471	39,373	86,565
Telephone	396,240	77,935	474,175	443,058
Interest	17,781	3,903	21,684	27,715
Other	88,154	17,339	105,493	114,301
Payments to grant subrecipients				102,383
Depreciation and amortization	508,988	111,729	620,717	455,957
Total functional expenses	\$ 16,471,117	\$ 2,831,570	\$ 19,302,687	\$ 19,006,370

Newark Community Health Centers, Inc.

**Statements of Cash Flows
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating activities:		
Cash received from patient services	\$ 11,656,629	\$ 9,732,015
Cash received from contracts and other grants	5,856,241	5,879,368
Cash received from other	675,625	665,380
Cash paid to employees	(13,203,196)	(12,900,904)
Cash paid to vendors	(3,310,063)	(3,906,057)
Interest paid	(21,684)	(27,715)
Net cash provided by (used in) operating activities	<u>1,653,552</u>	<u>(557,913)</u>
Investing activity - purchase of property and equipment	<u>(1,072,894)</u>	<u>(1,881,552)</u>
Financing activities:		
Receipt of nonoperating capital grants	35,817	1,507,833
Proceeds from line of credit	101,500	300,000
Payment of line of credit	(116,492)	
Proceeds from construction loan	594,416	
Payment of due to State of New Jersey	(60,000)	(60,000)
Net cash provided by financing activities	<u>555,241</u>	<u>1,747,833</u>
Net increase (decrease) in cash and cash equivalents (including board designated assets limited to use)	1,135,899	(691,632)
Cash and cash equivalents, beginning of year (including board designated assets limited to use)	684,631	1,376,263
Cash and cash equivalents, end of year (including board designated assets limited to use)	<u>\$ 1,820,530</u>	<u>\$ 684,631</u>
Reconciliation of changes in net assets to net cash provided by (used in) operating activities:		
Changes in net assets	\$ 2,226,170	\$ (410,241)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	1,082,724	578,663
Nonoperating capital grants	(35,817)	(1,507,833)
In-kind contribution - property	(700,300)	
Depreciation and amortization	620,717	455,957
Deferred rent	6,227	15,864
Changes in operating assets and liabilities:		
Patient services receivable	(1,740,901)	(323,680)
Contracts and other grants receivable	2,647	212,286
Prepaid expenses and other	(280,710)	(168,342)
Accounts payable and accrued expenses	542,990	669,797
Accrued payroll and employee benefits	55,728	17,554
Refundable advances	(125,923)	(97,938)
Net cash provided by (used in) operating activities	<u>\$ 1,653,552</u>	<u>\$ (557,913)</u>

See Notes to Financial Statements.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Note 1 - Organization and summary of significant accounting policies:

Organization:

Newark Community Health Centers, Inc. ("NCHC" or the "Center") operates healthcare centers in Essex County, New Jersey. NCHC 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 NCHC. NCHC 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.

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.

Classification of net assets:

The Organization reports information regarding its 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 NCHC and an outside party other than a donor or grantor.

Temporarily restricted net assets are those whose use by NCHC 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. There are no temporarily restricted net assets at December 31, 2012 and 2011.

Permanently restricted net assets are assets which are not expendable. Income and/or appreciation on the investments of these net assets are either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law. There are no permanently restricted net assets at December 31, 2012 and 2011.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Cash and cash equivalents:

NCHC maintains its cash in bank deposit accounts which, at times, may exceed Federally-insured limits. NCHC has not experienced any losses in such accounts. At December 31, 2012, NCHC's cash balance exceeds Federally-insured limits by approximately \$1,290,000. 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 NCHC'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.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under NCHC'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. NCHC considers accounts past due when they are outstanding beyond 90 days with no payment. NCHC generally does not charge interest on past due accounts. Patient receivables are written-off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written-off are recorded as a reduction of bad debt expense when received.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5-40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Expenditures over \$1,000 are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in changes in net assets.

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

Newark Community Health Centers, Inc.

Notes to Financial Statements

According to Federal regulations, any property and equipment obtained through Federal funds are subject to a lien by the Federal government. Provided that NCHC maintains its tax-exempt status and the property and equipment are used for their intended purpose, NCHC is not required to reimburse the Federal government. If the stated requirements are not met, NCHC would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

Impairment of long-lived assets:

NCHC 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, NCHC 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 carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. NCHC does not believe that any material impairment currently exists related to its long-lived assets.

Deferred rent:

NCHC occupies two buildings under leases containing escalation clauses that require normalization of the rental expense over the life of the lease. The resulting deferred rent is reflected in the accompanying statements of financial position.

Grants:

Revenue from government grants designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating 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 on the statements of financial position. At December 31, 2012, NCHC has received conditional grants and contracts from governmental entities in the aggregate amount of \$9,497,065 that have not been recorded in the accompanying financial statements as they have not yet been earned. These grants require NCHC to provide certain services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Patient services revenue:

NCHC 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. NCHC 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 care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before a provision for bad debts.

Concentrations of credit risk:

Financial instruments that potentially subject NCHC to concentrations of credit risk consist principally of cash, cash equivalents, patient services receivable and assets limited to use. NCHC places its cash, cash equivalents and assets limited to use with high-quality financial institutions. NCHC monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. An allowance for doubtful accounts for patient services receivable is provided based upon management's assessment of individual accounts, past history of write-offs and collections, and current credit conditions.

Contributions:

Contributions are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements 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 grantor's restrictions.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Meaningful use incentive:

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next six years and be paid out based on a transitional schedule. NCHC's providers have met the criteria for Year 1 participation and have earned \$807,500 and \$148,750 from the Medicaid incentive program as of December 31, 2012 and 2011 respectively, which is included in other revenue.

In-kind contributions:

In-kind contributions are recognized in the accompanying financial statements based on their fair value (See Note 15 for details).

Functional expenses:

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

Performance indicator:

The statements of activities and changes in net assets include operating income (loss) prior to non-operating activity as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include capital grants and in-kind contributions of property.

Reclassifications:

Certain reclassifications have been made to the 2011 balances to conform to the 2012 presentation.

Interest earned on Federal funds:

Interest earned on Federal funds is recorded as a payable to the Public Health Service (the "PHS") in compliance with OMB Circular A-110.

Tax status:

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

NCHC has no unrecognized tax benefits at December 31, 2012 and 2011. NCHC's Federal and state income tax returns prior to fiscal years 2009 and 2008, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Subsequent events:

NCHC has evaluated subsequent events through June 26, 2013, which is the date the financial statements were available to be issued.

Note 2 - Patients services receivable:

Patient services receivable, net, consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Medicaid and Medicaid managed care	\$ 1,537,206	\$ 2,094,917
Medicare	70,793	521,314
Self pay	20,729	166,873
Private insurance	163,117	403,864
New Jersey uncompensated care	<u>520,800</u>	<u>201,091</u>
Totals	2,312,645	3,388,059
Less allowance for doubtful accounts	<u>629,341</u>	<u>2,362,932</u>
Totals	<u>\$ 1,683,304</u>	<u>\$ 1,025,127</u>

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, NCHC analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, NCHC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), NCHC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by NCHC's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

NCHC's allowance for doubtful accounts was 27 percent of patient services receivable at December 31, 2012. NCHC had \$281,485 of direct write-offs for the year ended December 31, 2012. NCHC has not changed its charity care or uninsured discount policies during fiscal year 2012.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Note 3 - Contracts and other grants receivable:

Contracts and other grants receivable consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
NJ Department of Health and Senior Services	\$ 27,607	\$ 39,135
Health Information Technology Implementation grant	35,817	
City of Irvington	102,500	80,000
City of Newark	57,926	122,349
Other	<u>44,987</u>	<u>30,000</u>
Totals	<u>\$268,837</u>	<u>\$271,484</u>

Note 4 - Assets limited to use:

The Board of Directors passed a resolution to designate unrestricted cash for the purpose of satisfying a judgment related to the debt rendered in favor of the State of New Jersey Department of Labor (see Note 6) as well as for the establishment of a reserve for operating contingencies. The balance at December 31, 2012 and 2011 was \$1,059,490 and \$431,429, respectively, as assets whose use is limited. These assets are invested in an interest-bearing cash equivalent money market fund.

Note 5 - Property and equipment:

Property and equipment consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Buildings	\$4,833,277	\$3,981,813
Building and leasehold improvements	1,280,355	1,280,355
Vehicles	197,730	197,730
Furniture and fixtures	188,049	188,049
Equipment	<u>1,704,326</u>	<u>1,654,557</u>
Totals	8,203,737	7,302,504
Less accumulated depreciation and amortization	(4,116,590)	(3,506,436)
Add construction in progress	<u>1,635,805</u>	<u>774,407</u>
Totals	<u>\$5,722,952</u>	<u>\$4,570,475</u>

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

Note 6 - Due to State of New Jersey:

On August 6, 1997, a judgment was rendered in favor of the State of New Jersey in a court hearing between New Jersey Department of Labor ("DOL") and NCHC. An agreement was reached requiring NCHC to pay current and former employees on a payment schedule for unpaid payrolls in 1996. The final settlement which occurred on July 9, 1999 required NCHC to pay DOL \$5,000 monthly until the payroll liability balance is paid in full. The balance at December 31, 2012 and 2011 was \$31,429 and \$91,429, respectively.

Newark Community Health Centers, Inc.

Notes to Financial Statements

Note 7 - Line of credit:

NCHC has an annual revolving line of credit with a bank in the amount of \$300,000. The line of credit is secured by all assets of NCHC. Interest is payable monthly and is computed at the prime rate plus 1.25% per annum (4.5% at December 31, 2012). The line of credit has a balance of \$285,008 and \$300,000 at December 31, 2012 and 2011, respectively. The line is due on October 19, 2013.

Note 8 - Refundable advances:

Refundable advances consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
New Jersey Department of Health and Senior Services:		
Outreach and Education	\$ 65,066	\$155,218
HIV Prevention Services for Women		38,501
The Horizon Foundation	12,500	
Other	<u>10,499</u>	<u>20,269</u>
Totals	<u>\$ 88,065</u>	<u>\$213,988</u>

Note 9 - Construction loan:

In September 2012, NCHC entered into an agreement with The Reinvestment Fund, Inc. (the "Lender"). Under the agreement, the Lender shall provide financing up to a maximum amount of \$5,227,000 to fund renovations at NCHC's Broadway and William Street facilities. Funds shall be advanced to NCHC during the construction period of eighteen (18) months based on project cash requirements. During the construction period, NCHC shall make monthly interest-only payments on amounts advanced at 6% per annum. After the construction period, the construction loan shall be converted into a term loan payable in sixty (60) months with interest at 6% per annum. The construction loan is secured by a mortgage on the facilities being renovated. Advances made on the construction loan amounted to \$594,416 as of December 31, 2012.

NCHC is required to comply with certain covenants under the construction loan.

Note 10 - Patient services revenue (net of contractual allowances):

The Center recognizes patient service revenue associated with services provided to patients who have Medicaid, Medicare, third party payor and managed care plans coverage on the basis of contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but

Newark Community Health Centers, Inc.

Notes to Financial Statements

before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<u>2012</u>	<u>2011</u>
Medicaid	\$ 1,874,569	\$ 1,822,475
Medicare	380,925	362,179
Medicaid managed care	5,590,190	3,472,228
Self-pay	1,827,320	1,203,776
Private insurance	551,611	352,998
New Jersey uncompensated care	<u>3,172,915</u>	<u>2,842,039</u>
Totals	<u>\$13,397,530</u>	<u>\$ 10,055,695</u>

Based on the cost of patient services, charity care amounted to approximately \$2,600,000 and \$1,135,050 in 2012 and 2011, respectively, while community benefits amounted to approximately \$200,000 and \$620,000 in 2012 and 2011, respectively.

Medicaid and Medicare revenue is reimbursed to NCHC 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.

Note 11 - DHHS grants:

For the year ended December 31, 2012, NCHC recognized grant revenue from the DHHS as follows:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Revenue Recognized</u>
6H80CS00062-11-05	12/01/11 – 11/30/12	\$3,379,411	\$3,060,532
6H80CS00062-12-01	12/01/12 – 11/30/13	3,286,411	273,868
6H76HA00054-20-01	01/01/12 – 12/31/12	585,000	585,000
5U65PS002607-02	07/01/11 – 06/30/12	388,080	194,040
5U65PS002607-03	07/01/12 – 06/30/13	387,347	<u>193,674</u>
Total DHHS revenue - 2012			<u>\$4,307,114</u>

For the year ended December 31, 2011, NCHC recognized grant revenue from the DHHS as follows:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Revenue Recognized</u>
5H80CS00062-10-08	12/01/10 – 11/30/11	\$3,221,542	\$2,963,892
2H80CS00062-11-02	12/01/11 – 11/30/12	3,286,411	268,463
5H76HA00054-19-00	01/01/11 – 12/31/11	585,000	585,000
1U65PS002607	07/01/10 – 06/30/11	389,580	194,790
1U65PS002607-01	07/01/11 – 06/30/12	389,580	194,040
6H8BCS11516-01-01	03/27/09 – 03/26/11	389,216	48,652

Newark Community Health Centers, Inc.

Notes to Financial Statements

1P06HA21105-01-00	09/01/10 – 08/31/11	100,000	<u>100,000</u>
Total operating grants			<u>4,354,837</u>
1C81CS17067-01-02	12/09/09 – 12/31/12	6,453,000	466,020
1C81CS13640-01-00	06/29/09 – 07/28/11	891,760	543,242
4H2KIT10791-01-03 **	09/01/08 – 08/31/11	1,375,542	<u>148,571</u>
Total nonoperating grants			<u>1,157,833</u>
Total DHHS revenue - 2011			<u>\$5,512,670</u>

** Revenue for this grant includes amounts awarded to NCHC which it passed through to other entities. Monies that were passed through to other organizations amounted to \$102,383 in 2011.

Note 12 - Contracts and other grants:

For the years ended December 31, 2012 and 2011, contracts and other grants revenue consist of the following:

	<u>2012</u>	<u>2011</u>
City of Newark:		
Ryan White Part A	\$ 572,314	\$311,639
New Jersey Department of Health and Senior Services:		
HIV Counseling and Testing	88,231	155,827
Outreach and Education	638,831	658,534
Health Education Risk Reduction/Prevention Services	220,700	101,879
Refugee Health Services	45,400	36,000
PHILEP Grant	15,662	33,722
The Horizon Foundation of New Jersey	12,500	
Other	<u>78,765</u>	<u>112,582</u>
Totals - operating	<u>1,672,403</u>	<u>1,410,183</u>
Nonoperating grants:		
Southern Jersey Family Medical Centers, Inc.		
Health Information Technology Implementation Grant	35,817	
The Horizon Foundation of New Jersey		300,000
The Hyde and Watson Foundation		<u>50,000</u>
Totals - nonoperating	<u>35,817</u>	<u>350,000</u>
Totals	<u>\$1,708,220</u>	<u>\$1,760,183</u>

Note 13 - Retirement plan:

The Newark Community Health Centers, Inc. Employees' Retirement Plan (the "Plan") is a defined contribution plan established on January 1, 2001. It is available to substantially all employees of the Center who have attained 21 years of age and who have completed one year of eligible service with a minimum of 1,000 hours of service. Contributions may be invested in available investment funds elected by the employee. The Plan has met the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and is therefore subject to the provisions of ERISA. The Plan provides for benefit distributions to Plan participants or their beneficiaries upon the participant's retirement, termination of employment or death. Any

Newark Community Health Centers, Inc.

Notes to Financial Statements

Any participant may apply to borrow all or part of his or her vested account balance subject to criteria in the Plan set by IRS regulations and limits and the approval of the Plan administrator. Participants are fully vested after five years of service in the employer match but forfeit all of the employer contributions and earnings thereon if the participant leaves with less than two years of service. Pension expense for 2012 and 2011 amounted to \$194,463 and \$196,917, respectively.

Note 14 - Commitments and contingencies:

NCHC has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from the state and Federal governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the Federal and state governments and other agencies. Upon audit, if discrepancies are discovered, NCHC may be required to refund the amounts in question.

NCHC maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to NCHC 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.

In September 2012, NCHC entered into a settlement and release agreement with two former officers who filed claims against NCHC for money damages and other judicial relief for alleged conduct and acts committed by NCHC against the former officers during their employment with NCHC. The total settlement amounted to \$932,405 which consisted of unpaid wages, moral and emotional damages and legal fees. Of this amount, \$924,638 was covered by insurance. The net expense of \$7,767 is included in other expenses in the accompanying schedule of functional expenses.

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, anti-kickback and anti-referral statutes and regulation by healthcare providers. NCHC 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, NCHC could be held responsible for refunding the amount in question.

Newark Community Health Centers, Inc.

Notes to Financial Statements

NCHC is involved in claims and legal actions 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, results of operations or cash flows of NCHC.

NCHC entered into various lease agreements for the use of space and office equipment which have been classified as operating leases and expire through August 1, 2018. As of December 31, 2012, NCHC is obligated to make future minimum payments in each of the subsequent five years and thereafter as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 262,774
2014	266,178
2015	272,309
2016	223,234
2017	168,454
Thereafter	<u>107,245</u>
Total	<u>\$1,300,194</u>

Rental expense for 2012 and 2011 under these operating leases was \$387,109 and \$430,136, respectively.

Note 15 - In-kind contributions:

NCHC occupies certain buildings rent free. These buildings are owned by the City of Newark. Management uses an estimated market rate per square foot to determine the fair rental value of the spaces. NCHC also receives donated vaccines from the New Jersey Department of Health and Senior Services ("NJDHSS") which are recorded at fair value as determined by NJDHSS. In September 2012, the City of Newark donated the property located at 741 Broadway Street to NCHC. The property was recorded by NCHC at fair value at the date of donation. Following is a detailed breakdown of in-kind contributions:

	<u>2012</u>	<u>2011</u>
Donated rent	\$ 217,336	\$ 261,000
Donated property	700,300**	
Donated medical supplies	43,480	
Donated vaccines	<u>1,158,226</u>	<u>919,864</u>
Total in-kind contribution	<u>\$2,119,342</u>	<u>\$1,180,864</u>

** Included in nonoperating revenue in the statements of activities and changes in net assets.

Newark Community Health Centers, Inc.

**Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2012**

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Total Expenditures
Federal awards:			
U.S. Department of Health and Human Services:			
Direct programs:			
Health Center Cluster:			
Consolidated Health Centers Program	93.224	N/A	\$ 1,968,574
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>1,365,826</u>
Total - Health Center Cluster			<u>3,334,400</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>585,000</u>
HIV Prevention Activities-Non-Governmental Organization Based	93.939	N/A	<u>387,714</u>
Passed through New Jersey Department of Health and and Senior Services:			
National Bioterrorism Hospital Preparedness Program	93.889	PHLP12MNI041	<u>15,662</u>
Healthy Start Initiative	93.926	DFHS12OTR003	374,315
Healthy Start Initiative	93.926	DFHS13OTR003	<u>264,516</u>
Total - CFDA 93.926			<u>638,831</u>
Passed through Southern Jersey Family Medical Centers, Inc.:			
ARRA - Health Information Technology Implementation	93.703	N/A	<u>35,817</u>
Passed through City of Newark, Department of Child and and Family Well-Being:			
HIV Emergency Relief Project Grants	93.914	N/A	<u>572,314</u>
Total Federal awards			<u><u>\$ 5,569,738</u></u>

See Notes to Schedule of Expenditures of Federal and State Awards.

Newark Community Health Centers, Inc.

**Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2012**

Federal Grantor/ Pass-through Grantor/Program Title	Pass-through Grantor's Number	Total Expenditures
State awards:		
State of New Jersey Department of Health and Senior Services:		
Health Education Risk Reduction/Prevention Services 2012	AIDS12HER013	\$ 107,251
Health Education Risk Reduction/Prevention Services 2013	AIDS13HER023	113,449
HIV/AIDS Care and Treatment 2012	AIDS12CTR029	43,801
HIV/AIDS Care and Treatment 2013	AIDS13CTR028	44,430
Refugee Grant 2012	EP1D12REF001	45,400
Preventive and Primary Care Program	03-2090-CHS-N-0	*
Total state awards		\$ 354,331

* See Note 4 of Notes to Schedule of Expenditures of Federal and State Awards.

See Notes to Schedule of Expenditures of Federal and State Awards.

Newark Community Health Centers, Inc.

Notes to Schedule of Expenditures of Federal and State Awards

Note 1 - General information:

The accompanying schedule of expenditures of Federal and state awards (the "Schedule") presents the activities in all Federal and state awards of Newark Community Health Centers, Inc. ("NCHC") and is presented using the accrual basis of accounting. The Federal awards were provided primarily by the U.S. Department of Health and Human Services, while the state awards were provided by the New Jersey Department of Health and Senior Services.

Note 2 - Basis of presentation:

The accompanying Schedule has been prepared in the format required under OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and State of New Jersey Department of Treasury Circular OMB 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid. The purpose of this Schedule is to present a summary of those grant activities of NCHC for the year ended December 31, 2012, which have been financed, in part, by the Federal and state governments. For the purpose of this Schedule, Federal and state awards include any assistance provided by Federal and state governments directly or indirectly in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, direct appropriations and other noncash assistance.

Note 3 - Relationship to the financial statements:

Federal expenditures are reported on the statements of functional expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency matching or in-kind contributions which are not included in Federal awards.

Note 4 - Preventive and Primary Care Program:

NCHC 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. This letter of agreement pays NCHC a fixed amount per visit regardless of the actual costs incurred. During the year ended December 31, 2012, the amount earned and recognized as net revenue under this letter of agreement for the contract period July 1, 2011 to June 30, 2012 was \$1,545,805 and for the contract period July 1, 2012 to June 30, 2013 was \$1,627,110.

Revenue for this program is included in patient services revenue in the basic financial statements. Allowances are calculated based on expected cash collections.

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: Outreach and Education 2012
Grant Year: July 1, 2011 - June 30, 2012
Grant Number: DFHS12OTR003

Category	(Unaudited) Final Budget	Prior Year Expenditures	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:					
Salaries	\$ 461,361	\$ 192,253	\$ 269,108	\$ 461,361	\$ -
Fringe benefits	115,340	48,063	67,277	115,340	
TOTAL PERSONNEL	576,701	240,316	336,385	576,701	
OTHER COST CATEGORIES:					
Facility costs	15,176	7,500	7,676	15,176	
Office expense and related costs	2,160	1,694	466	2,160	
Program expense and related costs	26,118	319	25,799	26,118	
Travel, conference and meetings	4,845	856	3,989	4,845	
TOTAL DIRECT COSTS	625,000	250,685	374,315	625,000	
INDIRECT COSTS					
TOTAL COSTS	625,000	250,685	374,315	625,000	
Less program income					
NET TOTAL COSTS	\$ 625,000	\$ 250,685	\$ 374,315	\$ 625,000	\$ -

See Independent Auditor's Report.

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: Outreach and Education 2013
Grant Year: July 1, 2012 - June 30, 2013
Grant Number: DFHS13OTR003

Category	(Unaudited) Final Budget	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 418,848	\$ 209,073	\$ 209,073	\$ -
Fringe benefits	104,713	52,268	52,268	
TOTAL PERSONNEL	523,561	261,341	261,341	
OTHER COST CATEGORIES:				
Facility costs	2,086	1,044	1,044	
Office expense and related costs	12,082			
Program expense and related costs	23,402	1,881	1,881	
Travel, conference and meetings	3,869	250	250	
TOTAL DIRECT COSTS	565,000	264,516	264,516	
INDIRECT COSTS				
TOTAL COSTS	565,000	264,516	264,516	
Less program Income				
NET TOTAL COSTS	\$ 565,000	\$ 264,516	\$ 264,516	\$ -

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: HIV/AIDS Health Education Risk Reduction/Prevention Services 2012
Grant Year: July 1, 2011 - June 30, 2012
Grant Number: AIDS12HER013

Category	(Unaudited) Final Budget	Prior Year Expenditures	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:					
Salaries	\$ 125,098	\$ 53,950	\$ 71,148	\$ 125,098	\$ -
Fringe benefits	30,023	12,584	17,439	30,023	
TOTAL PERSONNEL	155,121	66,534	88,587	155,121	
OTHER COST CATEGORIES:					
Program expense and related costs	16,545	668	15,876	16,544	
Travel, conference and meetings	3,334	547	2,788	3,335	
TOTAL DIRECT COSTS	175,000	67,749	107,251	175,000	
INDIRECT COSTS					
TOTAL COSTS	175,000	67,749	107,251	175,000	
Less program Income					
NET TOTAL COSTS	\$ 175,000	\$ 67,749	\$ 107,251	\$ 175,000	\$ -

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: HIV/AIDS Health Education Risk Reduction/Prevention Services 20
Grant Year: July 1, 2012 - June 30, 2013
Grant Number: AIDS13HER023

Category	(Unaudited) Final Budget	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 176,715	\$ 90,645	\$ 90,645	\$ -
Fringe benefits	42,411	22,001	22,001	
TOTAL PERSONNEL	219,126	112,646	112,646	
OTHER COST CATEGORIES:				
Office expense and related costs	2,640	296	296	
Program expense and related costs	26,446			
Reserve	8,156			
Travel, conference and meetings	7,035	507	507	
TOTAL DIRECT COSTS	263,403	113,449	113,449	
INDIRECT COSTS				
TOTAL COSTS	263,403	113,449	113,449	
Less program income				
NET TOTAL COSTS	\$ 263,403	\$ 113,449	\$ 113,449	\$ -

See Independent Auditor's Report.

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: HIV/AIDS Care and Treatment 2012
Grant Year: July 1, 2011 - June 30, 2012
Grant Number: AIDS12CTR029

Category	(Unaudited) Final Budget	Prior Year Expenditures	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:					
Salaries	\$ 63,292	\$ 30,618	\$ 32,674	\$ 63,292	\$ -
Fringe benefits	13,924	6,933	6,991	13,924	
TOTAL PERSONNEL	77,216	37,551	39,665	77,216	
OTHER COST CATEGORIES:					
Office expense and related costs	1,458		1,458	1,458	
Program expense and related costs	1,231		1,231	1,231	
Reserve	17,768				
Travel, conference and meetings	1,447		1,447	1,447	
TOTAL DIRECT COSTS	99,120	37,551	43,801	81,352	
INDIRECT COSTS					
TOTAL COSTS	99,120	37,551	43,801	81,352	
Less program income					
NET TOTAL COSTS	\$ 99,120	\$ 37,551	\$ 43,801	\$ 81,352	\$ -

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: HIV/AIDS Care and Treatment 2013
Grant Year: July 1, 2012 - June 30, 2013
Grant Number: AIDS13CTR028

Category	(Unaudited) Final Budget	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 53,750	\$ 26,556	\$ 26,556	\$ -
Fringe benefits	12,900	6,495	6,495	
TOTAL PERSONNEL	66,650	33,051	33,051	
OTHER COST CATEGORIES:				
Office expense and related costs	270			
Program expense and related costs	32,200	11,379	11,379	
TOTAL DIRECT COSTS	99,120	44,430	44,430	
INDIRECT COSTS				
TOTAL COSTS	99,120	44,430	44,430	
Less program income				
NET TOTAL COSTS	\$ 99,120	\$ 44,430	\$ 44,430	\$ -

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: Refugee Grant 2012
Grant Year: January 1, 2012 - September 30, 2012
Grant Number: EP1D12REF001

Category	(Unaudited) Final Budget	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ 32,760	\$ 32,760	\$ 32,760	\$ -
Fringe benefits	7,862	7,862	7,862	
TOTAL PERSONNEL	40,622	40,622	40,622	
OTHER COST CATEGORIES:				
Office expense and related costs	173	173	173	
Program expense and related costs	330	330	330	
Facility cost	4,275	4,275	4,275	
TOTAL DIRECT COSTS	45,400	45,400	45,400	
INDIRECT COSTS				
TOTAL COSTS	45,400	45,400	45,400	
Less program Income				
NET TOTAL COSTS	\$ 45,400	\$ 45,400	\$ 45,400	\$ -

Newark Community Health Centers, Inc.

Schedule of Disbursements by Grant
Year Ended December 31, 2012

Award: PHILEP 2012
Grant Year: July 1, 2011 - June 30, 2012
Grant Number: PHLP12MNI041

Category	(Unaudited) Final Budget	Current Year Expenditures	Final Program Expenditures	Questioned Costs
PERSONNEL:				
Salaries	\$ -	\$ -	\$ -	\$ -
Fringe benefits				
TOTAL PERSONNEL				
OTHER COST CATEGORIES:				
Office expense and related costs				
Program expense and related costs	15,662	15,662	15,662	
Staff training and education cost				
TOTAL DIRECT COSTS	15,662	15,662	15,662	
INDIRECT COSTS				
TOTAL COSTS	15,662	15,662	15,662	
Less program income				
NET TOTAL COSTS	\$ 15,662	\$ 15,662	\$ 15,662	\$ -

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Newark Community Health Centers, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Newark Community Health Centers, Inc. ("NCHC"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York
June 26, 2013

Independent Auditor's Report on Compliance for Each Major Federal and State Program and Report on Internal Control over Compliance Required by OMB Circular A-133 and New Jersey OMB Circular 04-04

To the Board of Directors
Newark Community Health Centers, Inc.

Report on Compliance for Each Major Federal and State Program

We have audited Newark Community Health Centers, Inc.'s ("NCHC") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement and New Jersey OMB Circular 04-04 that could have a direct and material effect on each of its major Federal and state programs for the year ended December 31, 2012. NCHC's major Federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NCHC's major Federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and State of New Jersey, Department of Treasury, Office of Management and Budget Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and OMB Circular A-133 and New Jersey OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal or state program occurred. An audit includes examining, on a test basis, evidence about NCHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal and State Program

In our opinion, NCHC 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 and state programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of NCHC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NCHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04, 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 NCHC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal or state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and New Jersey OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.



New York, New York
June 26, 2013

Newark Community Health Centers, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2012**

Section I - Summary of Auditor's Results:

Financial Statements:

Type of auditor's reports issued:

Unmodified

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal and State Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in
• accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA and State Number(s)

Name of Federal and State Program

93.224
93.527

U.S. Department of Health and Human Services:
Health Center Cluster:
Consolidated Health Centers Program
Affordable Care Act (ACA) Grants for New and
Expanded Services under the Health
Center Program

03-2090-CHS-N-0

State of New Jersey Department of Health and
Senior Services:
Preventive and Primary Care Program

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

Auditee qualified as low-risk auditee? yes no

Newark Community Health Centers, Inc.

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2012**

Section II - Financial Statement Findings:

None

Section III - Federal and State Award Findings and Questioned Costs:

None

Newark Community Health Centers, Inc.

**Schedule of Prior Year's Findings
Year Ended December 31, 2012**

Item #	Description of Condition	Status of Corrective Action
11-1	Donated Vaccines	This condition was corrected in the current year.