

**Jefferson Comprehensive Care System, Inc.**

Independent Auditor's Reports and Financial Statements

May 31, 2019

**Jefferson Comprehensive Care System, Inc.**  
**May 31, 2019**

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## Independent Auditor's Report

Board of Directors  
Jefferson Comprehensive Care System, Inc.  
Pine Bluff, Arkansas

### Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson Comprehensive Care System, Inc. (the Organization), which comprise the balance sheet as of May 31, 2019, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Jefferson Comprehensive Care System, Inc. as of May 31, 2019, and the results of its operations, 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.

### **Emphasis of Matter**

As described in *Note 13* to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*; the schedule of assets, liabilities and net assets by program; schedule of operations by program; and the schedule of expenditures of state awards as listed in the table of contents 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 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 October 7, 2019, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.

**BKD, LLP**

# Jefferson Comprehensive Care System, Inc.

## Balance Sheet

May 31, 2019

### Assets

#### Current Assets

Cash	\$	4,391,910
Patient accounts receivable, net of allowance of \$474,491		369,814
Cost report receivable		3,361,000
Grants and other receivables		185,181
Prepaid expenses		92,256

Total current assets 8,400,161

#### Other Assets

8,341

#### Property and Equipment, at Cost

Buildings		660,276
Building improvements		1,671,549
Furniture and equipment		1,358,640
Vehicles		291,104

3,981,569

Less accumulated depreciation 1,972,798

2,008,771

Total assets \$ 10,417,273

### Liabilities and Net Assets

#### Current Liabilities

Accounts payable	\$	191,712
Accrued liabilities		627,636

Total current liabilities 819,348

#### Net Assets Without Donor Restrictions

9,597,925

Total liabilities and net assets \$ 10,417,273

**Jefferson Comprehensive Care System, Inc.**  
**Statement of Operations and Changes in Net Assets**  
**Year Ended May 31, 2019**

**Revenues, Gains and Other Support Without Donor Restrictions**

Patient service revenue (net of contractual discounts and allowances)	\$	6,057,355
Provision for uncollectible accounts		(181,145)
Net patient service revenue less provision for uncollectible accounts		5,876,210
Federal grant revenues		6,157,727
In-kind revenues		144,756
340B pharmacy revenue		1,257,088
Other income		164,138
		13,599,919

**Total Revenues, Gains and Other Support Without Donor Restrictions**

13,599,919

**Expenses**

Personnel		5,816,928
Fringe benefits		589,480
Travel		140,149
Supplies		653,794
Contractual services		1,641,411
340B pharmacy expenses		669,613
Other		1,027,888
In-kind expenses		144,756
Depreciation		121,096
		10,805,115

10,805,115

**Excess of Revenues over Expenses and Change in Net Assets Without Donor Restrictions**

2,794,804

**Net Assets, Beginning of Year**

6,803,121

**Net Assets, End of Year**

\$ 9,597,925

**Jefferson Comprehensive Care System, Inc.**  
**Statement of Cash Flows**  
**Year Ended May 31, 2019**

<b>Operating Activities</b>	
Change in net assets	\$ 2,794,804
Items not requiring cash	
Depreciation	121,096
Loss on disposal of property and equipment	29,264
Changes in	
Patient accounts receivable, net	(170,683)
Cost report receivable	(2,810,500)
Grants and other receivables	23,137
Prepaid expenses	11,216
Accrued liabilities	91,654
Accounts payable	78,518
	168,506
Net cash provided by operating activities	168,506
<b>Investing Activities</b>	
Purchase of property and equipment	(1,448,226)
Net cash used in investing activities	(1,448,226)
<b>Decrease in Cash</b>	(1,279,720)
<b>Cash, Beginning of Year</b>	5,671,630
<b>Cash, End of Year</b>	\$ 4,391,910

# Jefferson Comprehensive Care System, Inc.

## Notes to Financial Statements

May 31, 2019

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### ***Nature of Operations***

Jefferson Comprehensive Care System, Inc. (the Organization) was created for nonprofit purposes to promote the general health in Pine Bluff, Arkansas, and surrounding communities (Alzheimer, Redfield, College Station, Little Rock and North Little Rock). Its principal objectives are to establish and maintain clinic facilities for the care of persons suffering from illness or disabilities; provide comprehensive services, including preventive care; and to carry on public educational activities related to rendering care to the sick and the promotion of health. The Organization was formed February 28, 1972, and commenced operations in September 1972.

The primary sources of funds for operations are grants from the U.S. Department of Health and Human Services, the acceptance of which requires compliance with prescribed grant conditions and other special requirements, including the receipt of certain amounts of revenues from nongrant sources. Additional operating funds are realized from charges to patients, the 340B pharmacy program and other sources. Under the terms of federal grant agreements, the Organization is subject to the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Accordingly, management policies and procedures are designed to be in compliance with the provisions of the Uniform Guidance.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash***

At May 31, 2019, the Organization's cash accounts exceeded federally insured limits by approximately \$3,610,000.

#### ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.



# Jefferson Comprehensive Care System, Inc.

## Notes to Financial Statements

May 31, 2019

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid or for payers 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 co-payment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts 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 if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients decreased to 84% (down from 96%) of self-pay accounts receivable at May 31, 2019. In addition, the Organization's write-offs decreased by approximately \$129,000 for the year ended May 31, 2019, to approximately \$7,000.

### ***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. All assets with a useful life over one year and cost above \$5,000 are capitalized. Property acquired with federal and state grants is considered owned by the Organization while used in the programs for which it was purchased or in future authorized programs. In addition, the federal and/or state government has a reversionary interest in the property. The disposition of property purchased with federal and state grant funds, as well as any proceeds from its sale, is subject to federal and state regulations.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10–40 years
Furniture and equipment	5–10 years
Vehicles	5–7 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

***Long-Lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

An impairment loss of \$29,264 was recognized for storm damage to the Pine Bluff clinic during the year ended May 31, 2019. The loss was offset by insurance proceeds in the amount of \$191,448. The net proceeds are reported as other income in the accompanying statement of operations and changes in net assets.

***Net Patient Service Revenue***

The Organization has agreements with third-party payers (including Medicare and Medicaid) that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Per the terms of the Consolidated Health Centers Grant Program, the Organization provides care without charge or at amounts less than its established rates using sliding fee scale adjustments to patients who meet certain criteria. These adjustments are recorded as a reduction to net patient service revenue.

***340B Revenue***

The Organization participates in the 340B Drug Discount Pricing Program, which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions for qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangements with the Organization. Reported 340B revenue consists of reimbursements from the network of participating pharmacies.

The 340B revenue is included in patient service revenue on the statement of operations and changes in net assets and totaled \$1,257,088 for the year ended May 31, 2019. The drug replenishment costs and administrative and filing fees are included in 340B prescription drugs on the statement of operations and changes in net assets and totaled \$669,613 for the year ended May 31, 2019. The 340B revenue from this program is used in furtherance of the Organization's mission.

# Jefferson Comprehensive Care System, Inc.

## Notes to Financial Statements

May 31, 2019

### ***Estimated Malpractice Costs***

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs, if any, for both reported claims and claims incurred but not reported. No accrual was considered necessary at year-end.

### ***Government Grants***

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

### ***Compensated Absences***

Employees receive 1 to 1 $\frac{3}{4}$  days of accrued leave per month, which is available to be taken the next month. Any accrued leave not taken by the end of the year is carried forward to the next year. The number of days employees may carry over is limited based on the number of their years of service.

The amount of accrued leave at May 31, 2019, was \$333,497 and is included in accrued liabilities on the balance sheet.

### ***Excess of Revenues over Expenses***

The statement of operations and changes in net assets includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include grants of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

### ***Income Taxes***

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

**Note 2: Grant Revenue**

The Organization is the recipient of a Health Center Program grant cluster from the U.S. Department of Health and Human Services (HHS). The general purpose of these grants is to provide expanded health care service delivery. Terms of the grants generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the year ended May 31, 2019, the Organization earned \$5,953,320 in Health Center Program grant funds. Future funding will be determined by the granting agency based on applications submitted by the Organization.

In addition to the aforementioned grants, the Organization receives financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

**Note 3: Net Patient Service Revenue**

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

*Medicare* – Covered FQHC services rendered to Medicare program beneficiaries are paid under a prospective payment system (PPS). Medicare payment, including patient coinsurance, is paid based on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid* – Covered FQHC services rendered to Medicaid program beneficiaries are paid initially based on a prospective reimbursement methodology. Throughout the year, the Organization is reimbursed a set encounter rate for all services provided under the plan. After submission of an annual cost report and review by Arkansas Medicaid, a final settlement is received if the actual costs per encounter exceed the set rate.

# Jefferson Comprehensive Care System, Inc.

## Notes to Financial Statements

May 31, 2019

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Net patient service revenue consists of charges to patients and third-party payers adjusted for contractual adjustments and fee reductions due to the inability of the patient to pay. Patient revenues are recognized at the time services are provided.

Patient service revenue, net of contractual allowances and discounts (but before provision for uncollectible accounts), recognized in the year ended May 31, 2019, was approximately:

Medicare	\$	410,978
Medicaid		5,088,674
Private insurance		187,662
Patient fees		<u>370,041</u>
Patient service revenue	\$	<u><u>6,057,355</u></u>

The 2019 net patient service revenue increased approximately \$2,500,000 due to an increase in the previously estimated final settlements for the FQHC cost report receivable.

#### Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers as of May 31, 2019, was as follows:

Medicare	18%
Medicaid	47%
Other third-party payers	18%
Patients	<u>17%</u>
	<u><u>100%</u></u>

**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

**Note 5: Functional Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the schedule below. The schedule presents the natural classification detail of expenses by function. Certain costs have been allocated among the program and administration categories based on the allocation of personnel expenses and other methods.

	<u>Medical</u>	<u>Dental</u>	<u>Administration</u>	<u>Total</u>
Personnel	\$ 3,612,753	\$ 342,780	\$ 1,861,395	\$ 5,816,928
Fringe benefits	366,112	34,737	188,631	589,480
Travel	81,814	3,686	54,649	140,149
Supplies	459,830	25,072	168,892	653,794
Contractual services	1,364,053	63,710	213,648	1,641,411
Other	480,825	10,281	536,782	1,027,888
340B expenses	669,613	-	-	669,613
In-kind expenses	144,756	-	-	144,756
Depreciation	75,210	7,136	38,750	121,096
Total expenses	<u>\$ 7,254,966</u>	<u>\$ 487,402</u>	<u>\$ 3,062,747</u>	<u>\$ 10,805,115</u>

**Note 6: In-kind Contributions**

The Organization receives in-kind contributions consisting primarily of donated space for its clinics and donated immunizations. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as expense in its financial statements and similarly increase contribution revenue by a like amount. For the year ended May 31, 2019, \$144,756 was received in in-kind contributions.

**Note 7: Professional Liability Claims**

The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the *Federal Tort Claims Act* (FTCA) for damage and personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

The Organization is self-insured for medical malpractice risks related to services performed off-site. Losses from asserted and unasserted claims are accrued based on estimates that incorporate the Organization's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. An accrual for such losses was not considered necessary at May 31, 2019. It is reasonably possible that the Organization's estimate could change materially in the near term.

**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

**Note 8: Pension Plan**

The Organization has a defined contribution pension plan covering substantially all employees. The board of directors annually determines the amount, if any, of the Organization's contributions to the plan. Pension expense was approximately \$101,000 for the year ended May 31, 2019, and is included in fringe benefits on the statement of operations and changes in net assets.

**Note 9: Operating Leases**

Noncancellable operating leases for office space and health clinics expire in various years. These leases generally contain annual or monthly renewal options. Rental expense for all operating leases was approximately \$217,000 for the year ended May 31, 2019, and is included in contractual services on the statement of operations and changes in net assets. Future minimum lease payments at May 31, 2019, were:

2020	\$ 95,982
2021	53,005
2022	<u>27,005</u>
Future minimum lease payments	<u><u>\$ 175,992</u></u>

**Note 10: Liquidity and Availability**

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for the fiscal year ended May 31, 2019. The Organization's financial assets available within one year of the balance sheet date for general expenditure are:

Financial assets at year-end	
Cash	\$ 4,391,910
Patient accounts receivable, net	369,814
Cost report receivable	3,361,000
Grants and other receivables	<u>185,181</u>
Total financial assets	<u><u>\$ 8,307,905</u></u>

**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

**Note 11: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowance for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

***Medical Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *7*.

***FQHC Cost Report Receivable***

Certain patient services are paid based on a cost reimbursement methodology. The Organization is reimbursed by Medicare and Medicaid for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Arkansas Medicaid and the Medicare administrative contractor. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

***Economic Dependency***

The Organization is economically dependent upon revenue provided by the HHS. During the fiscal year ended May 31, 2019, 44% of the Organization's revenues, gains and other support was provided by the HHS.

***Grant Revenues***

Concentration of revenues related to grant awards and other support is described in *Note 2*.

***340B Drug Pricing Program***

The Organization participates in the 340B Drug Discount Pricing Program (340B Program) enabling the Organization to receive discounted prices from the drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the HRSA Office of Pharmacy Affairs. The HRSA Office of Pharmacy Affairs is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to the financial statement amounts related to the 340B Program could occur in the near term.



**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

**Note 12: Future Change in Accounting Principle**

***Revenue Recognition***

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

***Accounting for Leases***

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement.

The new standard is currently effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. A tentative board decision was reached by FASB at its July 17, 2019, meeting to delay the effective date of Topic 842 by one year for certain entities. Issuance of a final standard related to this decision is expected later in 2019. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to recognition of additional assets and liabilities for operating leases.

**Jefferson Comprehensive Care System, Inc.**  
**Notes to Financial Statements**  
**May 31, 2019**

**Note 13: Change in Accounting Principle**

In 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This change had no impact on previously reported total changes in net assets. A summary of the change is as follows:

***Balance Sheet***

The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

***Statement of Operations and Changes in Net Assets***

Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

***Functional Expenses***

Expenses are reported by both nature and function in one location.

***Notes to the Financial Statements***

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

**Note 14: Subsequent Events**

Subsequent events have been evaluated through October 7, 2019, which is the date the financial statements were available to be issued.

## **Supplementary Information**

**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Assets, Liabilities and Net Assets by Program**  
**May 31, 2019**

**Assets**

	Community Health Centers	ADH/HIV Program	AIDS in Community Health Facilities Program	Title IV	SUD	Subtotal	Eliminations	Total
<b>Current Assets</b>								
Cash	\$ 3,191,289	\$ -	\$ 1,196,374	\$ 4,003	\$ 244	\$ 4,391,910	\$ -	\$ 4,391,910
Patient accounts receivable, net	340,711	-	22,725	6,378	-	369,814	-	369,814
Cost report receivable	3,361,000	-	-	-	-	3,361,000	-	3,361,000
Grants and other receivables	139,031	1,435	18,558	26,157	-	185,181	-	185,181
Due from other programs	33,485	-	-	-	-	33,485	(33,485)	-
Prepaid expenses	92,256	-	-	-	-	92,256	-	92,256
<b>Total current assets</b>	<b>7,157,772</b>	<b>1,435</b>	<b>1,237,657</b>	<b>36,538</b>	<b>244</b>	<b>8,433,646</b>	<b>(33,485)</b>	<b>8,400,161</b>
<b>Other Assets</b>								
Utility deposits	8,341	-	-	-	-	8,341	-	8,341
<b>Property and Equipment, at Cost</b>								
Buildings	660,276	-	-	-	-	660,276	-	660,276
Building improvements	1,671,549	-	-	-	-	1,671,549	-	1,671,549
Furniture and equipment	1,358,640	-	-	-	-	1,358,640	-	1,358,640
Vehicles	291,104	-	-	-	-	291,104	-	291,104
	3,981,569	-	-	-	-	3,981,569	-	3,981,569
Less accumulated depreciation	1,972,798	-	-	-	-	1,972,798	-	1,972,798
	2,008,771	-	-	-	-	2,008,771	-	2,008,771
<b>Total assets</b>	<b>\$ 9,174,884</b>	<b>\$ 1,435</b>	<b>\$ 1,237,657</b>	<b>\$ 36,538</b>	<b>\$ 244</b>	<b>\$ 10,450,758</b>	<b>\$ (33,485)</b>	<b>\$ 10,417,273</b>

**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Assets, Liabilities and Net Assets by Program (Continued)**  
**May 31, 2019**

**Liabilities and Net Assets**

	Community Health Centers	ADH/HIV Program	AIDS in Community Health Facilities Program	Title IV	SUD	Subtotal	Eliminations	Total
<b>Current Liabilities</b>								
Accounts payable	\$ 186,756	\$ -	\$ 4,956	\$ -	\$ -	\$ 191,712	\$ -	\$ 191,712
Due to other programs	-	1,527	-	31,958	-	33,485	(33,485)	-
Accrued liabilities	592,022	-	25,953	8,628	1,033	627,636	-	627,636
	<u>778,778</u>	<u>1,527</u>	<u>30,909</u>	<u>40,586</u>	<u>1,033</u>	<u>852,833</u>	<u>(33,485)</u>	<u>819,348</u>
Total current liabilities								
<b>Net Assets (Deficit) Without Donor Restrictions</b>								
	<u>8,396,106</u>	<u>(92)</u>	<u>1,206,748</u>	<u>(4,048)</u>	<u>(789)</u>	<u>9,597,925</u>	<u>-</u>	<u>9,597,925</u>
Total liabilities and net assets (deficit)	<u>\$ 9,174,884</u>	<u>\$ 1,435</u>	<u>\$ 1,237,657</u>	<u>\$ 36,538</u>	<u>\$ 244</u>	<u>\$ 10,450,758</u>	<u>\$ (33,485)</u>	<u>\$ 10,417,273</u>

**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Operations by Program**  
**Year Ended May 31, 2019**

	Community Health Centers	ADH/HIV Program	AIDS in Community Health Facilities Program	Title IV	SUD	Total
<b>Revenues, Gains and Other Support</b>						
<b>Without Donor Restrictions</b>						
Patient service revenue (net of contractual discounts and allowances)	\$ 5,948,138	\$ -	\$ 72,047	\$ 37,170	\$ -	\$ 6,057,355
Provision for uncollectible accounts	(181,145)	-	-	-	-	(181,145)
Net patient service revenue less provision for uncollectible accounts	5,766,993	-	72,047	37,170	-	5,876,210
Federal grant revenues	5,953,320	22,019	-	177,905	4,483	6,157,727
In-kind revenues	144,756	-	-	-	-	144,756
340B pharmacy revenue	544,878	-	712,210	-	-	1,257,088
Other income	164,138	-	-	-	-	164,138
<b>Total Revenues, Gains and Other Support Without Donor Restrictions</b>	<b>12,574,085</b>	<b>22,019</b>	<b>784,257</b>	<b>215,075</b>	<b>4,483</b>	<b>13,599,919</b>
<b>Expenses</b>						
Personnel	5,414,261	-	278,120	123,514	1,033	5,816,928
Fringe benefits	528,907	-	33,807	26,766	-	589,480
Travel	95,168	2,249	31,713	8,595	2,424	140,149
Supplies	521,898	18,613	100,455	12,828	-	653,794
Contractual services	1,538,078	-	78,113	25,220	-	1,641,411
340B pharmacy expenses	224,750	-	444,863	-	-	669,613
Other	960,348	247	52,794	12,684	1,815	1,027,888
In-kind expenses	144,756	-	-	-	-	144,756
Depreciation	121,096	-	-	-	-	121,096
	9,549,262	21,109	1,019,865	209,607	5,272	10,805,115
<b>Excess (Deficiency) of Revenues over Expenses and Change in Net Assets (Deficit) Without Donor Restrictions</b>	<b>3,024,823</b>	<b>910</b>	<b>(235,608)</b>	<b>5,468</b>	<b>(789)</b>	<b>2,794,804</b>
<b>Net Assets (Deficit), Beginning of Year</b>	<b>5,371,283</b>	<b>(1,002)</b>	<b>1,442,356</b>	<b>(9,516)</b>	<b>-</b>	<b>6,803,121</b>
<b>Net Assets (Deficit), End of Year</b>	<b>\$ 8,396,106</b>	<b>\$ (92)</b>	<b>\$ 1,206,748</b>	<b>\$ (4,048)</b>	<b>\$ (789)</b>	<b>\$ 9,597,925</b>

**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2019**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>Health Center Program Cluster</b>				
U.S. Department of Health and Human Services/ Consolidated Health Centers	93.224		\$ -	\$ 5,428,370
U.S. Department of Health and Human Services/ Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527		-	<u>524,950</u>
Total Health Center Program Cluster			-	5,953,320
U.S. Department of Health and Human Services/ Coordinated Services and Acces to Research for Women, Infrants. Children. and Youth	93.153		-	177,905
U.S. Department of Health and Human Services/ Arkansas Department of Health/HIV Prevention Activities Health Department Based	93.940	4600029368	-	22,019
U.S. Department of Health and Human Services/ Block Grants for Prevention and Treatment of Substance Abuse	93.959		-	<u>4,483</u>
			<u>\$ -</u>	<u>\$ 6,157,727</u>

**Jefferson Comprehensive Care System, Inc.**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2019**

***Notes to Schedule***

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Jefferson Comprehensive Care System, Inc. under programs of the federal government for the year ended May 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Jefferson Comprehensive Care System, Inc., it is not intended to and does not present the financial position, results in operations, changes in net assets or cash flows of Jefferson Comprehensive Care System, Inc.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Jefferson Comprehensive Care System, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Expenditures of State Awards**  
**Year Ended May 31, 2019**

Grantor	Program Revenues/ Expenditures
<i>Arkansas Department of Human Services</i>	
Medicaid <sup>(1)</sup>	\$ <u>1,373,942</u>

<sup>(1)</sup> Revenue recognized from the various Medicaid programs is included in the total of net patient service revenue in the accompanying statement of operations and changes in net assets. Medicaid revenue noted above represents 27% (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during the year ended May 31, 2019.

**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***

**Independent Auditor's Report**

Board of Directors  
Jefferson Comprehensive Care System, Inc.  
Pine Bluff, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Jefferson Comprehensive Care System, Inc. (the Organization), which comprise the balance sheet as of May 31, 2019, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2019. Our report contained an “Emphasis of Matter” paragraph regarding a change in accounting principles.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

**BKD, LLP**

Little Rock, Arkansas  
October 7, 2019

## Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance

### Independent Auditor's Report

Board of Directors  
Jefferson Comprehensive Care System, Inc.  
Pine Bluff, Arkansas

#### Report on Compliance for the Major Federal Program

We have audited Jefferson Comprehensive Care System, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the major federal program for the year ended May 31, 2019. The Organization's major federal program is 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

## **Opinion on the Major Federal Program**

In our opinion, Jefferson Comprehensive Care System, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2019.

## **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**BKD, LLP**

Little Rock, Arkansas  
October 7, 2019

**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2019**

**Summary of Auditor's Results**

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified       Qualified       Adverse       Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?       Yes       None reported

Material weakness(es)?       Yes       No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes       No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:

Significant deficiency(ies)?       Yes       None reported

Material weakness(es)?       Yes       No

5. The opinion expressed in the independent auditor's report on compliance for the major federal award program was:

Unmodified       Qualified       Adverse       Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes       No

**Jefferson Comprehensive Care System, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended May 31, 2019**

7. The Organization's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	
Consolidated Health Centers	93.224
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee?

Yes       No

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
	No matters are reportable.

**Findings Required to be Reported by the Uniform Guidance**

Reference Number	Finding
	No matters are reportable.

**Jefferson Comprehensive Care System, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended May 31, 2019**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.