

Care Alliance

Financial Report
October 31, 2012

Contents

Independent Auditor's Report on the Financial Statements	1
--	---

Financial Statements	
Balance Sheets	2
Statements of Operations and Change in Net Assets	3-4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-15

OMB Circular A-133 Requirements	
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
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 <i>Government Auditing Standards</i>	18
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	19-20
Schedule of Findings and Questioned Costs	21-22
Summary Schedule of Prior Year Findings and Questioned Costs	23



Independent Auditor's Report on the Financial Statements

To the Board of Directors
Care Alliance
Cleveland, Ohio

We have audited the accompanying balance sheets of Care Alliance (the Agency) as of October 31, 2012 and 2011, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 26, 2013 and March 20, 2012 on our consideration of the Agency'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 those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

We have audited the financial statements of the Agency as of and for the year ended October 31, 2012 and 2011, and have issued our report thereon dated March 26, 2013 and March 20, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Cleveland, Ohio
March 26, 2013

Care Alliance

Balance Sheets

October 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 871,856	\$ 779,199
Certificate of deposit - short term	163,361	586,096
Contracts receivable	28,928	15,513
DHHS grant receivable	3,775	13,508
Patient services receivable, net	186,818	155,821
Contributions receivable	126,975	190,515
Prepaid expenses and other	47,943	46,301
Total current assets	1,429,656	1,786,953
Certificate of deposit - long term	-	161,542
Investments	730,177	-
Property and Equipment, net	2,638,708	2,633,966
Total assets	\$ 4,798,541	\$ 4,582,461
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 208,272	\$ 160,755
Accrued compensation	201,824	145,797
Refundable advances	70,100	68,043
Total liabilities	480,196	374,595
Net Assets		
Unrestricted	2,126,102	1,864,672
Temporarily restricted	2,192,243	2,343,194
Total net assets	4,318,345	4,207,866
Total liabilities and net assets	\$ 4,798,541	\$ 4,582,461

See Notes to Financial Statements.

Care Alliance

Statements of Operations and Changes in Net Assets
Years Ended October 31, 2012 and 2011

	2012	2011
Unrestricted revenues		
Contributions	\$ 42,777	\$ 49,517
DHHS grants	2,953,154	3,031,836
Patient services, net	723,738	656,032
Contract services	321,915	106,335
Special events, net	78,934	69,747
Donated services	428,685	426,210
Miscellaneous income	63,068	66,851
Interest income	19,752	16,963
Unrealized gain on investments	17,800	-
Net assets released from restrictions	661,473	431,203
Total unrestricted revenues	5,311,296	4,854,694
Expenses		
Salaries and benefits	3,247,381	3,200,673
Other than personnel services	1,744,669	1,595,617
Total expenses	4,992,050	4,796,290
Operating income prior to depreciation and amortization	319,246	58,404
Depreciation and amortization	200,686	171,152
Operating income (loss) prior to nonoperating revenues and expenses	118,560	(112,748)
Nonoperating revenues and expenses		
DHHS grants - CIP funding	38,878	348,193
Net assets released from restrictions	103,992	103,992
Change in unrestricted net assets	261,430	339,437

(Continued)

Care Alliance

Statements of Operations and Changes in Net Assets (Continued)
Years Ended October 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Operating income (loss) prior to nonoperating revenues and expenses	\$ 118,560	\$ (112,748)
DHHS grants - CIP funding	38,878	348,193
Net assets released from restrictions	103,992	103,992
Change in unrestricted net assets	261,430	339,437
Temporarily Restricted Net Assets		
Contributions	614,514	611,036
Contributions - Nonoperating	-	70,000
Net assets released from restrictions	(661,473)	(431,203)
Net assets released from restrictions - Nonoperating	(103,992)	(103,992)
Change in temporarily restricted net assets	(150,951)	145,841
Change in net assets	110,479	485,278
Net assets, beginning of year	4,207,866	3,722,588
Net assets, end of year	\$ 4,318,345	\$ 4,207,866

See Notes to Financial Statements.

Care Alliance

**Statement of Functional Expenses
Year Ended October 31, 2012**

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 2,231,451	\$ 363,483	\$ 42,448	\$ 2,637,382
Fringe benefits	521,743	79,420	8,836	609,999
Consultants and professional services	379,582	38,736	3,970	422,288
Staff training	12,736	4,154	132	17,022
Consumable supplies	505,401	16,076	1,717	523,194
Insurance	16,252	1,987	242	18,481
Telephone	55,715	10,899	631	67,245
Repairs and maintenance	38,059	5,103	594	43,756
Printing, postage, publication and recruitment	12,494	5,279	2,038	19,811
Travel, conferences and meetings	48,798	3,853	610	53,261
Occupancy	106,140	15,622	1,736	123,498
Donated services	414,502	11,255	2,928	428,685
Depreciation and amortization	160,700	37,421	2,565	200,686
Other	13,300	14,061	67	27,428
Total functional expenses	\$ 4,516,873	\$ 607,349	\$ 68,514	\$ 5,192,736

See Notes to Financial Statements.

Care Alliance

Statement of Functional Expenses

Year Ended October 31, 2011

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 2,184,799	\$ 342,232	\$ 46,043	\$ 2,573,074
Fringe benefits	546,878	68,515	12,206	627,599
Consultants and professional services	327,467	16,285	2,344	346,096
Staff training	7,843	6,367	78	14,288
Consumable supplies	442,246	12,392	1,346	455,984
Insurance	16,583	1,955	262	18,800
Telephone	50,039	11,688	1,300	63,027
Repairs and maintenance	33,405	2,969	462	36,836
Printing, postage, publication and recruitment	9,894	8,616	1,299	19,809
Travel, conferences and meetings	45,842	5,367	1,237	52,446
Occupancy	108,810	16,336	2,138	127,284
Donated services	402,616	22,788	806	426,210
Loss on disposal of assets	10,802	2,433	199	13,434
Depreciation and amortization	137,619	31,001	2,532	171,152
Other	12,154	8,232	1,017	21,403
Total functional expenses	\$ 4,336,997	\$ 557,176	\$ 73,269	\$ 4,967,442

See Notes to Financial Statements.

Care Alliance

Statements of Cash Flows

Years Ended October 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 110,479	\$ 485,278
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	200,686	171,152
Unrealized (gains) on investments	(17,800)	-
Loss on disposal of assets	-	13,434
Changes in operating assets and liabilities:		
Contributions receivable	63,540	(51,906)
DHHS grants receivable	9,733	76,331
Patient services receivable, net	(30,997)	(26,623)
Contracts receivable	(13,415)	13,640
Prepaid expenses and other	(1,642)	(7,363)
Accrued interest	(4,833)	(4,883)
Accounts payable and accrued expenses	47,517	(77,214)
Accrued compensation	56,027	(8,883)
Refundable advances	2,057	9,208
Net cash provided by operating activities	421,352	592,171
Cash Flows From Investing Activities		
Net change in certificates of deposit	589,110	305,526
Purchase of investments	(1,794,356)	-
Proceeds from sale of investments	1,081,979	-
Purchase of property and equipment	(205,428)	(451,443)
Net cash (used in) investing activities	(328,695)	(145,917)
Net increase in cash and cash equivalents	92,657	446,254
Cash and cash equivalents		
Beginning	779,199	332,945
Ending	\$ 871,856	\$ 779,199

See Notes to Financial Statements.

Care Alliance

Notes to Financial Statements

Note 1. Organization

Care Alliance (the Agency) was organized in Ohio as a not-for-profit corporation to provide healthcare and related services to people who need them most, regardless of their ability to pay, in a manner that is cost effective and that empowers people to improve their quality of life. The Agency serves individuals in the Cleveland, Ohio area.

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

On April 1, 2008, the Agency started another line of business called Avenue Dental Services (ADS). The primary purpose of ADS was to generate an unrestricted revenue stream to enhance the financial sustainability of the Agency. ADS did not utilize any of the Agency's Section 330 funds. Nor did it utilize any grant-related revenue, other than that specifically designated for ADS by the funder. Due to unfavorable economic conditions, ADS was unable to generate an unrestricted revenue stream. Hence, ADS ceased operations in January 2011.

Note 2. Significant Accounting Policies

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

Investments: These amounts are reported at fair value with any realized and unrealized gains and losses reported in the statement of operations and net assets. Investment income is recognized as revenue in the period it is earned and realized and unrealized gains and losses are recognized as changes in net assets in the accounting period in which they occur. Investment income and gains and losses are reported as increases or decreases in unrestricted net assets unless a donor restricts their use.

Property and equipment: Property and equipment is recorded at cost or, if donated, at the fair value at the date of donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 25 years. Building improvements are amortized on a straight-line basis over the estimated useful life of the improvement. The Agency capitalizes all purchases of property and equipment equal to or in excess of \$500.

The Agency adopted a policy of imputing time restrictions on long-lived assets acquired with gifts of cash or other assets in connection with a capital campaign. For long-lived assets with explicit restrictions, depreciation is recorded over the assets' useful life and the net assets are released from temporarily restricted to unrestricted in the statements of operations and changes in net assets as depreciation is recognized.

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

Care Alliance

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Contributions: Contributions are recorded at fair value when received or pledged. Amounts are recorded as either 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 assets are released to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restriction.

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

Patient services receivable and allowance for doubtful accounts: Patient services receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Agency estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Agency writes off accounts receivable against the allowance when a balance is determined to be uncollectible. Recoveries of receivables previously written off are recorded when received.

Grant revenue: Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts 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. At October 31, 2012, the Agency has received grants and contracts from governmental entities in the aggregate amount of \$5,750,740 that have not been recorded in these financial statements as they have not been earned. These grants require the Agency to provide certain healthcare services and to perform certain capital development during specified periods. If such requirements are not performed during the periods, the governmental entities are not obligated to expend the funds allotted under the grants.

Patient service revenue: Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Patient services revenue is recorded at published charges with contractual allowances deducted to arrive at net patient services revenue.

Donated services: Contributions of donated services are reported as revenue and expenses at fair value if such services create or enhance nonfinancial assets, require special skills and are provided by individuals possessing such special skills, or would typically need to be purchased by the Agency if they had not been donated. The Agency received donated services from numerous professionals, from space costs and from laboratory testing during the year in connection with certain program activities.

Care Alliance

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax status: The Agency is incorporated as a not-for-profit corporation under the laws of the State of Ohio and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). The Agency adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Agency may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Agency and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At October 31, 2012 and 2011, there were no unrecognized tax benefits identified or recorded as liabilities. With few exceptions, the Agency is no longer subject to tax examinations by tax authorities for years prior to 2009.

Reclassifications: Certain reclassifications of 2011 amounts have been made to conform to the 2012 presentation.

Subsequent events: The Agency has evaluated subsequent events for potential recognition and/or disclosure through March 26, 2013, the date the financial statements were available to be issued.

Note 3. Patient Services Receivable, Net

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

	2012	2011
Medicaid	\$ 150,967	\$ 147,330
Medicare	28,972	38,435
Ohio uninsured	72,185	33,333
	252,124	219,098
Less contractual allowance and allowance for doubtful accounts	65,306	63,277
	<u>\$ 186,818</u>	<u>\$ 155,821</u>

Care Alliance

Notes to Financial Statements

Note 4. Contributions Receivable

Contributions receivable consist of the following at October 31:

	2012	2011
United Way Services	\$ 126,975	\$ 131,970
The Cleveland Foundation	-	58,545
	<u>\$ 126,975</u>	<u>\$ 190,515</u>

Note 5. Investment Fair Value Disclosures

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) applies to all financial instruments that are being measured and reported on a fair value basis. This topic establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and requires expanded disclosure summarizing fair value estimates. This standard enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The standard requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories

Level 1 — Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets or liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 — Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which assumptions utilize management's estimates of market participant assumptions.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in these instruments. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investments: The fair value of investments is the fair value based on quoted market prices, when available, or market prices provided by recognized broker dealers using nationally known pricing services.

Care Alliance

Notes to Financial Statements

Note 5. Investment Fair Value Disclosures (Continued)

The table below presents the balances of assets measured at fair value by level within the hierarchy at October 31, 2012:

	Total	Level 1	Level 2	Level 3
Investments				
PNC Bond Fund	\$ 730,177	\$ 730,177	\$ -	\$ -
Total	\$ 730,177	\$ 730,177	\$ -	\$ -

There were no assets or liabilities measured at fair value at October 31, 2011.

Note 6. Property and Equipment, Net

Property and equipment, net, consists of the following at October 31:

	2012	2011
Land	\$ 250,000	\$ 250,000
Building	1,990,146	1,975,357
Building improvements	86,997	86,997
Equipment	1,403,021	1,237,382
Vehicles	64,472	64,472
Construction in process	25,000	-
	<u>3,819,636</u>	<u>3,614,208</u>
Less accumulated depreciation	(1,180,928)	(980,242)
	<u>\$ 2,638,708</u>	<u>\$ 2,633,966</u>

Care Alliance

Notes to Financial Statements

Note 7. DHHS Grants

For the years ended October 31, 2012 and 2011, the Agency received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	2012 Revenue Recognized	2011 Revenue Recognized
Operating				
5 H76HA00607-13-00	07/01/12 - 06/30/13	243,750	\$ 81,250	\$ -
6 H76HA00607-12-01	07/01/11 - 06/30/12	243,750	162,500	81,250
5 H76HA00607-11-00	07/01/10 - 06/30/11	243,750	-	162,500
4 H97HA08543-04-02	09/01/11 - 08/31/12	353,050	245,339	43,473
6 H97HA08543-04-00	09/01/10 - 08/31/11	392,323		323,514
6 H80CS00029-11-01	11/01/11 - 10/31/12	2,517,305	2,464,065	-
6 H80CS00029-10-03	11/01/10 - 10/31/11	2,363,708	-	2,363,708
6 H8BCS11640-01-01	03/27/09 - 03/26/11	290,859	-	57,391
			<u>\$ 2,953,154</u>	<u>\$ 3,031,836</u>
Non-Operating - CIP Funding				
4 C81CS13743-01-03	06/29/09 - 06/30/12	546,765	\$ 38,878	348,193
1 C8BCS23839-01-00	05/01/12 - 04/30/14	500,000	-	-
1 C8ACS23663-01-00	05/01/12 - 04/30/15	5,000,000	-	-
			<u>\$ 2,992,032</u>	<u>\$ 3,380,029</u>

Note 8. Patient Services Revenue, Net

For the years ended October 31, 2012 and 2011, patient services revenue, net, consists of the following:

	Gross Charges	Contractual Allowances/ Sliding Fee Discounts	Net Revenue 2012	Net Revenue 2011
Medicaid	\$ 658,640	\$ 198,445	\$ 460,195	\$ 423,131
Medicare	171,120	104,524	66,596	64,593
Other third-party payors	53,760	41,492	12,268	8,424
Ohio uninsured	136,195	-	136,195	111,362
Self-pay	3,492,820	3,444,336	48,484	48,522
	<u>\$ 4,512,535</u>	<u>\$ 3,788,797</u>	<u>\$ 723,738</u>	<u>\$ 656,032</u>

The Agency is an FQHC, which is a type of provider defined by Section 330 of the Public Health Services Act. The Agency provides care to patients utilizing a sliding-fee scale with discounts based on patient family size and income in accordance with federal poverty guidelines. The Agency is open to all, regardless of their ability to pay. The amount not recovered under the sliding-fee scale is not reported as revenue as it is not expected to be paid. The Agency maintains records to identify and monitor the level of sliding fee discounts it provides. The amount of sliding fee discounts provided during the years ended October 31, 2012 and 2011 amounted to \$3,444,336 and \$3,121,849, respectively.

Care Alliance

Notes to Financial Statements

Note 8. Patient Services Revenue, Net (Continued)

Medicaid and Medicare revenue is reimbursed to the Agency at the net reimbursement rates determined by Medicaid and Medicare. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 9. Contributions

Contributions consist of the following:

	2012	2011
United Way	\$ 200,685	\$ 207,837
St. Luke's Foundation	150,000	150,000
Mt. Sinai Foundation	47,813	47,150
Woodruff Foundation	40,000	10,000
Gund Foundation	30,000	-
Abington Foundation	30,000	-
McGregor Foundation	30,000	-
Kaiser Foundation	22,138	24,317
Prentiss Foundation	20,000	-
Cleveland Foundation	15,000	117,090
O'Neill Foundation	-	35,000
Bruening Foundation	-	35,000
Other	71,655	104,159
	<u>\$ 657,291</u>	<u>\$ 730,553</u>

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2012	2011
Capital Campaign - Building	\$ 1,828,909	\$ 1,932,901
Homeless program	236,281	278,246
Homeless program - United Way	127,053	132,047
	<u>\$ 2,192,243</u>	<u>\$ 2,343,194</u>

Care Alliance

Notes to Financial Statements

Note 11. Special Events Revenue

Special events revenue consists of the following:

	2012	2011
Special events revenue	\$ 105,897	\$ 91,224
Special events expenses	26,963	21,477
	<u>\$ 78,934</u>	<u>\$ 69,747</u>

Note 12. Pension Plan

The Agency has a noncontributory defined contribution pension plan covering all full-time employees over age 21 with one or more years of service. Contributions and costs are determined at 7.5% of each eligible employee's salary. For the years ended October 31, 2012 and 2011, such costs amounted to \$110,215 and \$155,079, respectively.

Note 13. Commitments and Contingencies

The Agency 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. The Agency believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Agency maintains its medical malpractice coverage under the Federal Tort Claims Act (FTCA). FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Agency 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.

During 2012, Care Alliance received two Capital Development Grants totaling \$5,500,000. The Facility Improvement Initiative Grant of \$500,000 will partially fund the renovation of the 5,400 square feet of space on the second floor of Riverview Towers presently occupied by Care Alliance. The Capacity Building Initiative Grant of \$5,000,000 will partially fund the construction of a 30,000 square foot community health center in the Central Neighborhood. As of October 31, 2012, Care Alliance has signed construction contracts totaling approximately \$850,000. No expenses were incurred on these contracts before year end. The Riverview renovation project is anticipated to commence in the spring of 2013 and become operational late summer 2013. The Central Neighborhood Clinic project is anticipated to commence in the summer of 2013 and become operational in the fall of 2014.

Care Alliance

OMB Circular A-133 Audit Requirements

Care Alliance

Schedule of Expenditures of Federal Awards
Year Ended October 31, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Number	Total Expenditures
U.S. Department of Health and Human Services:			
Direct program:			
Consolidated Health Centers	93.224	H80CS00029	\$ 1,444,287
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	H80CS00029	<u>1,019,778</u>
			2,464,065
Special Projects of National Significance	93.928	H97HA08543	245,339
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00607	243,750
ARRA - Grants to Health Center Programs Capital Improvement Program	93.703	C81CS13743	<u>38,878</u>
			38,878
U.S. Department of Housing and Urban Development			
Passed through City of Cleveland Department of Development Emergency Solutions Grant Program	14.231	N/A	15,000
Total expenditures of federal awards			<u><u>\$ 3,007,032</u></u>

See Notes to this Schedule.

Care Alliance

Notes to Schedule of Expenditures of Federal Awards Year Ended October 31, 2012

Note 1. Basis of Presentation

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

Note 2. Subrecipients

Of the federal expenditures presented in this schedule, no federal awards were provided to subrecipients.



**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
Care Alliance
Cleveland, Ohio

We have audited the financial statements of Care Alliance as of and for the year ended October 31, 2012, and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

McGladrey LLP

Cleveland, Ohio
March 26, 2013



Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors
Care Alliance
Cleveland, Ohio

Compliance

We have audited Care Alliance's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Care Alliance's major federal programs for the year ended October 31, 2012. Care Alliance's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Care Alliance's management. Our responsibility is to express an opinion on Care Alliance's compliance based on our audit.

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

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

Internal Control Over Compliance

Management of Care Alliance is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Care Alliance's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Care Alliance's internal control over compliance.

**Independent Auditor's Report on Compliance With Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133 (Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

McGladrey LLP

Cleveland, Ohio
March 26, 2013

Care Alliance

Schedule of Findings and Questioned Costs
Year Ended October 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported	

Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
---	--------------------

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	<u> </u> yes	<u> X </u> no
---	-----------------------	---------------------

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224/93.527	Consolidated Health Centers and ACA Grants for New and Expanded Services Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
--	-------------------

Auditee qualified as a low risk auditee?	<u> X </u> yes	<u> </u> no
--	----------------------	----------------------

Care Alliance

Schedule of Findings and Questioned Costs (Continued)
Year Ended October 31, 2012

Section II – Financial Statement Findings

No matters are reported.

Section III – Findings and Questioned Costs for Federal Awards

No matters are reported.

Care Alliance

**Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended October 31, 2012**

Section II – Financial Statement Findings

No matters were reported.

Section III – Findings and Questioned Costs for Federal Awards

No matters were reported.