

CHATTANOOGA C.A.R.E.S., INC.

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

CHATTANOOGA C.A.R.E.S., INC.

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JUNE 30, 2012 AND 2011

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HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Chattanooga C.A.R.E.S., Inc.
Chattanooga, Tennessee

We have audited the accompanying statement of financial position of Chattanooga C.A.R.E.S., Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 misstatements. 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 Chattanooga C.A.R.E.S., Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012, on our consideration of Chattanooga C.A.R.E.S., Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Chattanooga C.A.R.E.S., Inc. as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Chattanooga, Tennessee
October 24, 2012

Henderson Hutcherson
& McCullough, PLLC

CHATTANOOGA C.A.R.E.S., INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

ASSETS		
	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 369,924	\$ 165,714
Grants receivable	205,977	134,393
Insurance receivable, less allowance for doubtful accounts of \$24,400 and \$27,806	16,956	19,324
Pharmaceutical receivable	80,124	-
Prepaid expenses	<u>26,514</u>	<u>12,376</u>
 Total current assets	 699,495	 331,807
 PROPERTY AND EQUIPMENT, NET	 34,427	 52,408
 OTHER ASSETS	 <u>-</u>	 <u>10,000</u>
 TOTAL ASSETS	 <u>\$ 733,922</u>	 <u>\$ 394,215</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 15,658	\$ 1,150
Accrued expenses	<u>43,576</u>	<u>36,517</u>
 Total current liabilities	 <u>59,234</u>	 <u>37,667</u>
 NET ASSETS		
Unrestricted	652,282	345,845
Temporarily restricted	<u>22,406</u>	<u>10,703</u>
 Total net assets	 <u>674,688</u>	 <u>356,548</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 733,922</u>	 <u>\$ 394,215</u>

CHATTANOOGA C.A.R.E.S., INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Special events	\$ 90,736	\$ 35,943	\$ 126,679
Grants	1,310,338	-	1,310,338
Contributions	25,417	-	25,417
Net patient service revenues	452,874	-	452,874
Net assets released from restriction	<u>24,240</u>	<u>(24,240)</u>	<u>-</u>
Total revenue	<u>1,903,605</u>	<u>11,703</u>	<u>1,915,308</u>
EXPENSES			
Program services:			
Education services	403,351	-	403,351
Client services	290,226	-	290,226
Clinic services	<u>703,269</u>	<u>-</u>	<u>703,269</u>
Total program expenses	<u>1,396,846</u>	<u>-</u>	<u>1,396,846</u>
Support services:			
Management and general	171,322	-	171,322
Fundraising	<u>29,000</u>	<u>-</u>	<u>29,000</u>
Total support expenses	<u>200,322</u>	<u>-</u>	<u>200,322</u>
Total functional expenses	<u>1,597,168</u>	<u>-</u>	<u>1,597,168</u>
CHANGE IN NET ASSETS	306,437	11,703	318,140
Net assets - beginning of year	<u>345,845</u>	<u>10,703</u>	<u>356,548</u>
Net assets - end of year	<u>\$ 652,282</u>	<u>\$ 22,406</u>	<u>\$ 674,688</u>

CHATTANOOGA C.A.R.E.S., INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Special events	\$ 75,871	\$ 7,687	\$ 83,558
Grants	1,216,037	-	1,216,037
Contributions	42,736	-	42,736
Net patient service revenues	165,915	-	165,915
Net assets released from restriction	<u>14,379</u>	<u>(14,379)</u>	<u>-</u>
Total revenue	<u>1,514,938</u>	<u>(6,692)</u>	<u>1,508,246</u>
EXPENSES			
Program services:			
Education services	311,554	-	311,554
Client services	313,063	-	313,063
Clinic services	<u>634,980</u>	<u>-</u>	<u>634,980</u>
Total program expenses	<u>1,259,597</u>	<u>-</u>	<u>1,259,597</u>
Support services:			
Management and general	143,263	-	143,263
Fundraising	<u>28,146</u>	<u>-</u>	<u>28,146</u>
Total support expenses	<u>171,409</u>	<u>-</u>	<u>171,409</u>
Total functional expenses	<u>1,431,006</u>	<u>-</u>	<u>1,431,006</u>
CHANGE IN NET ASSETS	83,932	(6,692)	77,240
Net assets - beginning of year	<u>261,913</u>	<u>17,395</u>	<u>279,308</u>
Net assets - end of year	<u>\$ 345,845</u>	<u>\$ 10,703</u>	<u>\$ 356,548</u>

CHATTANOOGA C.A.R.E.S., INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012

	Program Services			Total Program Services	Support Services		Total Support Services	Total Functional Expenses
	Education Services	Client Services	Clinic Services		Management and General	Fund Raising		
Salaries	\$ 231,933	\$ 111,318	\$ 228,456	\$ 571,707	\$ 69,415	\$ -	\$ 69,415	\$ 641,122
Payroll taxes and benefits	73,362	30,851	73,089	177,302	25,353	-	25,353	202,655
Total salaries and benefits	305,295	142,169	301,545	749,009	94,768	-	94,768	843,777
Client support services	6	105,028	35,902	140,936	13,319	15,612	28,931	169,867
Rent	40,033	29,098	79,062	148,193	13,180	-	13,180	161,373
Insurance	4,141	2,160	17,679	23,980	2,999	2,435	5,434	29,414
Telephone	6,248	4,496	4,710	15,454	1,052	-	1,052	16,506
Supplies and equipment	20,818	3,388	32,218	56,424	10,957	9,979	20,936	77,360
Postage	1,160	1,185	296	2,641	696	216	912	3,553
Printing and publications	1,963	490	-	2,453	959	424	1,383	3,836
Travel and training	14,728	2,004	2,387	19,119	1,728	6	1,734	20,853
Professional fees	7,392	208	216,226	223,826	14,618	-	14,618	238,444
Miscellaneous	-	-	3,510	3,510	8,894	328	9,222	12,732
Total functional expenses before depreciation	401,784	290,226	693,535	1,385,545	163,170	29,000	192,170	1,577,715
Depreciation	1,567	-	9,734	11,301	8,152	-	8,152	19,453
Total functional expenses	<u>\$ 403,351</u>	<u>\$ 290,226</u>	<u>\$ 703,269</u>	<u>\$ 1,396,846</u>	<u>\$ 171,322</u>	<u>\$ 29,000</u>	<u>\$ 200,322</u>	<u>\$ 1,597,168</u>

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

CHATTANOOGA C.A.R.E.S., INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011

	Program Services			Total Program Services	Support Services		Total Support Services	Total Functional Expenses
	Education Services	Client Services	Clinic Services		Management and General	Fund Raising		
Salaries	\$ 174,171	\$ 118,389	\$ 182,314	\$ 474,874	\$ 61,805	\$ -	\$ 61,805	\$ 536,679
Payroll taxes and benefits	42,812	35,023	46,766	124,601	20,884	-	20,884	145,485
Total salaries and benefits	216,983	153,412	229,080	599,475	82,689	-	82,689	682,164
Client support services	670	112,550	36,395	149,615	18,366	3,563	21,929	171,544
Rent	35,810	24,846	68,812	129,468	13,103	-	13,103	142,571
Insurance	2,454	1,798	20,958	25,210	2,533	-	2,533	27,743
Telephone	6,320	4,537	5,547	16,404	-	-	-	16,404
Supplies and equipment	21,138	3,930	24,359	49,427	3,784	19,474	23,258	72,685
Postage	1,391	1,924	507	3,822	379	610	989	4,811
Printing and publications	719	600	482	1,801	586	299	885	2,686
Travel and training	15,492	2,110	4,054	21,656	2,288	2,143	4,431	26,087
Professional fees	9,106	5,949	227,688	242,743	8,666	-	8,666	251,409
Bad debt	-	-	4,857	4,857	-	-	-	4,857
Miscellaneous	10	1,407	2,507	3,924	4,062	2,057	6,119	10,043
Total functional expenses before depreciation	310,093	313,063	625,246	1,248,402	136,456	28,146	164,602	1,413,004
Depreciation	1,461	-	9,734	11,195	6,807	-	6,807	18,002
Total functional expenses	<u>\$ 311,554</u>	<u>\$ 313,063</u>	<u>\$ 634,980</u>	<u>\$ 1,259,597</u>	<u>\$ 143,263</u>	<u>\$ 28,146</u>	<u>\$ 171,409</u>	<u>\$ 1,431,006</u>

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

CHATTANOOGA C.A.R.E.S., INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 318,140	\$ 77,240
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,453	18,002
Decrease (increase) in:		
Grants receivable	(71,584)	19,083
Insurance receivable	2,368	-
Pharmaceutical receivable	(80,124)	-
Prepaid expenses	(14,138)	(495)
Accounts payable	14,508	1,116
Other assets	10,000	-
Deferred revenue	-	(7,073)
Accrued expenses	<u>7,059</u>	<u>16,555</u>
Net cash from operating activities	<u>205,682</u>	<u>124,428</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(1,472)</u>	<u>(29,070)</u>
Net cash from investing activities	<u>(1,472)</u>	<u>(29,070)</u>
NET CHANGE IN CASH	204,210	95,358
Cash and cash equivalents - beginning of year	<u>165,714</u>	<u>70,356</u>
Cash and cash equivalents - end of year	<u>\$ 369,924</u>	<u>\$ 165,714</u>

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 1 – NATURE OF OPERATIONS

Chattanooga C.A.R.E.S., Inc. (the Organization) is a not-for-profit voluntary health and welfare organization organized in March 1987 under the laws of the State of Tennessee for the purpose of providing education and support services to individuals with AIDS and those infected with Human Immunodeficiency Virus (HIV) in Southeast Tennessee and the surrounding areas. The Organization operates a comprehensive health care clinic designed to provide care for individuals infected with HIV and AIDS. In addition, the Organization provides educational service and material to the general public and direct financial assistance to persons with HIV and AIDS. The Organization also supplies voluntary caregiving support to infected persons. To accomplish its mission, the Organization receives government grants, donor contributions and conducts fundraising events.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic 958-205. Under FASB ASC Topic 958-205, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If net assets were released from restrictions by incurring expenses satisfying the purpose of the grant or contribution within the same reporting period, those net assets have been classified as unrestricted.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. At June 30, 2012 and 2011, there were no permanently restricted net assets.

(Continued)

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Donated Services

Donated services are recognized in accordance with FASB ASC Topic 958-605, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased.

A substantial number of volunteers have donated significant amounts of their time. These donated services do not meet the criteria to be recorded by the Organization; therefore, no amounts have been reflected in the financial statements. The Organization received estimated volunteer hours of 1,647 and 1,600 for the years ended June 30, 2012 and 2011, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal income taxes has been made. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

(Continued)

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Organization capitalizes all expenditures for property and equipment. Property and equipment are recorded at cost or, if donated, at estimated fair value at the date of donation. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective fixed assets, ranging from five to seven years for equipment, furniture and fixtures and thirty-nine years for leasehold improvements.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Where costs were not directly charged, they have been allocated among the functional areas benefited based on an analysis of personnel time. The direct benefits to donor costs associated with a special event are deducted from special events gross revenue in the accompanying financial statement.

Compensated Absences

The Organization provides annual leave benefits for its employees. The employees earn annual leave at the rate of ten days a year upon employment and 15 days after three years of employment. Annual leave must be used, and can only be carried over to the following fiscal year by request of the Executive Director or Assistant Executive Director of the organization. Chattanooga C.A.R.E.S., Inc. accrues a liability for these benefits based on the amounts approved for rollover.

Receivables

Receivables are recorded at the amount management expects to collect on balances outstanding at year end. An allowance for doubtful accounts has been established for those accounts when collection is unlikely.

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 3 – PROPERTY AND EQUIPMENT

The Organization records property and equipment at cost. At June 30, 2012 and 2011, property and equipment consist of the following:

	2012	2011
Furniture and equipment	\$ 153,868	\$ 152,394
Leasehold improvements	38,417	38,417
Vehicles	<u>26,858</u>	<u>26,858</u>
	219,143	217,669
Accumulated depreciation	<u>(184,716)</u>	<u>(165,261)</u>
	<u>\$ 34,427</u>	<u>\$ 52,408</u>

Depreciation expense was \$19,453 and \$18,002 for the year ended June 30, 2012 and 2011.

NOTE 4 – LINE OF CREDIT

The Organization has a \$175,000 unsecured line of credit at First Tennessee Bank. The line of credit, which must be renewed each May, bears variable interest at one percent above the bank's base commercial rate. At June 30, 2012 and 2011, there was no balance outstanding on the line of credit.

NOTE 5 – CONCENTRATION OF CREDIT RISKS

The Organization has funds on deposit in a bank, which may from time to time be in excess of federal deposit insurance; however, the balance on deposit is subject to significant fluctuations throughout the year.

NOTE 6 – OPERATING LEASES

The Organization leases office space under a non-cancelable operating lease. The facility where the Organization currently conducts its operations is leased under a 10-year operating lease expiring in October 2012. The lease requires monthly payments of \$11,881. In April 2012, the Organization signed a non-cancelable 5-year operating lease on a new office location to commence in November 2012. The lease requires equal monthly installments of \$6,500 and contains one 5-year renewal option with monthly rent increasing to \$7,000.

(Continued)

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 6 – OPERATING LEASES (Continued)

Minimum future rental payments required under all operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

2013	\$99,524
2014	\$78,000
2015	\$78,000
2016	\$78,000
2017	\$26,000

Rental expense incurred under all operating leases totaled \$161,373 and \$142,571 for the years ended June 30, 2012 and 2011, respectively.

NOTE 7 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets represent donor imposed time restrictions as to when the funds can be used.

Temporarily restricted net assets as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Net assets restricted for moving offices	\$ 18,000	\$ -
Net assets restricted for hepatitis C/HIV testing	<u>4,406</u>	<u>10,703</u>
	<u>\$ 22,406</u>	<u>\$ 10,703</u>

Net assets released from restrictions consist of the following:

	2012	2011
Purchases made for client assistance	\$ 19,337	\$ 3,389
Purchases made for Strides of March fundraiser	4,903	668
Performance of hepatitis C/HIV testing	<u>-</u>	<u>10,322</u>
	<u>\$ 24,240</u>	<u>\$ 14,379</u>

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 8 – RISK MANAGEMENT AND CONTINGENCIES

The Organization receives a substantial amount of its support from federal and local governments and donors. The Organization's support requires the fulfillment of certain conditions as set forth in the grant documents or by the contribution. Failure to fulfill the conditions or to continue to fulfill them could result in the Organization being required to return funds. Management deems the contingency remote since, by accepting the funds and their terms, it has incorporated the objectives of the governments and donors in the provisions of the award or contribution.

The Organization is exposed to various risks of loss to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Board carries commercial insurance. For insured programs, there have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage in the current year.

NOTE 9 – UNCERTAIN TAX POSITIONS

The Organization follows the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC Topic 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

The Organization has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Organization's evaluation was performed for tax years ended June 30, 2009 through June 30, 2012, the years that remain subject to examination by major tax jurisdictions as of June 30, 2012.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

SUPPLEMENTAL INFORMATION



HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC

Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Chattanooga C.A.R.E.S., Inc.
Chattanooga, Tennessee

We have audited the financial statements of Chattanooga C.A.R.E.S., Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chattanooga C.A.R.E.S., Inc.'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 Chattanooga C.A.R.E.S., Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chattanooga C.A.R.E.S., Inc.'s internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chattanooga C.A.R.E.S., Inc.'s financial statements are free of material misstatements, 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 intended solely for the information and use of management, the Board of Directors, others within the Organization, the State of Tennessee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Chattanooga, Tennessee
October 24, 2012

Henderson Hutcherson
& McCullough, PLLC



**HENDERSON HUTCHERSON
& MCCULLOUGH, PLLC**

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

To the Board of Directors
Chattanooga C.A.R.E.S., Inc.
Chattanooga, Tennessee

COMPLIANCE

We have audited the compliance of Chattanooga C.A.R.E.S., Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of the University's major federal programs for the year ended June 30, 2012. Chattanooga C.A.R.E.S., Inc.'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 program is the responsibility of Chattanooga C.A.R.E.S., Inc.'s management. Our responsibility is to express an opinion on Chattanooga C.A.R.E.S., Inc.'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 Chattanooga C.A.R.E.S., Inc.'s compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Chattanooga C.A.R.E.S., Inc.'s compliance with those requirements.

In our opinion, Chattanooga C.A.R.E.S, Inc. complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

The management of Chattanooga C.A.R.E.S., Inc. 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 Chattanooga C.A.R.E.S., Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Chattanooga C.A.R.E.S., Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Chattanooga, Tennessee
October 24, 2012

*Henderson Hutcherson
& McCullough, PLLC*

CHATTANOOGA C.A.R.E.S., INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Accrued (Deferred) Grant Revenues June 30, 2011	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2012
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	\$ -	\$ 223,435	\$ 223,435	\$ -
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	70,972	70,972	-
			-	294,407	294,407	-
Passed through Tennessee Department of Health:						
Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-11-32822-00	14,005	14,005	-	-
Treatment of Substance Abuse	93.959	GR-12-35639-00	-	180,263	205,211	24,948
HIV Prevention Activities - Health Department Based	93.940	GR-11-33825-00	18,474	18,474	-	-
HIV Care Formula Grants	93.940	GR-12-37393-00	-	37,837	37,837	-
HIV Care Formula Grants	93.940	GR-12-37393-00	-	99,369	112,373	13,004
HIV Care Formula Grants	93.917	GR-11-34881-00	-	-	4,260	4,260
HIV Care Formula Grants	93.917	GR-11-34881-00	37,625	37,624	-	-
HIV Care Formula Grants	93.917	GR-11-34881-00	-	138,624	196,173	57,549
HIV Care Formula Grants	93.917	GR-11-34881-00	-	57,549	66,297	8,748
			70,104	583,745	622,151	108,509

(Continued)

CHATTANOOGA C.A.R.E.S., INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Accrued (Deferred) Grant Revenues June 30, 2011	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2012
(Continued)						
Passed through Southeast Tennessee Development District:						
HIV Prevention Activities - Health Department Based	93.940	GG-10-30397-00	14,482	14,482	-	-
HIV Prevention Activities - Health Department Based	93.940	GG-11-35152-00	(4,744)	-	4,744	-
HIV Prevention Activities - Health Department Based	93.940	GG-11-35152-00	-	33,304	40,726	7,422
HIV Prevention Activities - Health Department Based	93.940	GG-12-37620-00	-	40,170	41,406	1,236
HIV Care Formula Grants	93.917	GG-10-30465-00	6,781	6,781	-	-
HIV Care Formula Grants	93.917	GG-11-35152-00	2,664	2,664	-	-
HIV Care Formula Grants	93.917	GG-11-35152-00	-	52,737	57,544	4,807
HIV Care Formula Grants	93.917	GG-1238254-00	-	16,580	20,288	3,708
			<u>19,183</u>	<u>166,718</u>	<u>164,708</u>	<u>17,173</u>
Total U.S. Department of Health and Human Services			<u>89,287</u>	<u>1,044,870</u>	<u>1,081,266</u>	<u>125,682</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed through Tennessee Department of Health:						
Housing Opportunities for Persons with AIDS	14.241	GR-10-27605-00	45,106	45,106	-	-
Housing Opportunities for Persons with AIDS	14.241	GR-10-27605-00	-	126,683	206,978	80,295
Total U.S. Department of Housing and Urban Development			<u>45,106</u>	<u>171,789</u>	<u>206,978</u>	<u>80,295</u>
Total expenditures of federal awards			<u>\$ 134,393</u>	<u>\$1,216,659</u>	<u>\$ 1,288,243</u>	<u>\$ 205,977</u>

CHATTANOOGA C.A.R.E.S., INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2012 AND 2011

NOTE 1: BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Chattanooga C.A.R.E.S., Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

CHATTANOOGA C.A.R.E.S., INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes none reported
- Reportable conditions identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes none reported
- Reportable conditions identified that are not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes none reported

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.917	HIV Care Formula Grants
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

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

Auditee qualified as low-risk auditee? yes no

CHATTANOOGA C.A.R.E.S., INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

CHATTANOOGA C.A.R.E.S., INC.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported