

CINCINNATI HEALTH NETWORK, INC.

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

*TERESA FRANKLIN HUDSON, CPA
CINCINNATI, OH*

CINCINNATI HEALTH NETWORK, INC.

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

TABLE OF CONTENTS

Independent Auditor's Report	1
Statement of Financial Position	3
Statement of Activities	4-5
Statement of Cash Flows	6
Notes to Financial Statements	7
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>	14-15
Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133	16-17
Schedule of Expenditures of Federal Awards	18
Schedule of Findings and Questioned Costs	19

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cincinnati Health Network, Inc.
Cincinnati, Ohio

Report on the Financial Statements

I have audited the accompanying financial statements of Cincinnati Health Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 my 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*, I have also issued my report dated June 20, 2013, on my consideration of Cincinnati Health Network, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cincinnati Health Network, Inc.'s internal control over financial reporting and compliance.



Teresa Franklin Hudson, CPA
Cincinnati, OH
June 20, 2013

Cincinnati Health Network, Inc.
Statement of Financial Position
As of December 31, 2012

	Unrestricted	Temporarily Restricted	Total
<u>ASSETS</u>			
Current Assets			
Cash	\$ 777,759		\$ 777,759
Investments	192,951		192,951
Accounts receivable - other	32,043		32,043
Grants receivable	588,044		588,044
Prepaid Insurance	2,550		2,550
Total Current Assets	1,593,347	-	1,593,347
Property and Equipment			
Property and equipment	394,275		394,275
Accumulated depreciation	(167,056)		(167,056)
Property and Equipment, net	227,219	-	227,219
Total Assets	\$ 1,820,566	\$ -	\$ 1,820,566
<u>LIABILITIES</u>			
Liabilities			
Accounts payable	\$ 132,863	\$ -	\$ 132,863
Compensated absence payable	19,296		19,296
Accrued payroll	22,191		22,191
Grants payable to subrecipients	402,207		402,207
Total Liabilities	\$ 576,557	\$ -	\$ 576,557
Net Assets			
Unrestricted	1,244,009	-	1,244,009
Temporarily restricted	-	-	-
Total Net Assets	1,244,009	-	1,244,009
Total Liabilities and Net Assets	\$ 1,820,566	-	\$ 1,820,566

The accompanying footnotes are an integral part of these financial statements

Cincinnati Health Network, Inc.
Statement of Activities
For the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES, PUBLIC SUPPORT AND RECLASSIFICATIONS			
Revenue and Support			
Federal grants	\$ 3,241,154		\$ 3,241,154
Foundation grants	149,153		149,153
Contributions	36,417		36,417
Investment income	2,334		2,334
Miscellaneous income	11,601		11,601
Program fees	21,480		21,480
In-kind donations	39,500		39,500
Reclassifications			
Net assets released from restrictions:			
Satisfaction of usage requirements	29,148	(29,148)	-
Total Revenues, Public Support and Reclassifications	3,530,787	(29,148)	3,501,639
 EXPENSES			
Direct Program Expenses			
Subrecipient contracts	1,967,608	-	1,967,608
Other Program Expenses			
Staff travel	18,561		18,561
HIV mental health	33,198		33,198
Program supplies	1,237		1,237
Patient transport	1,592		1,592
Patient supplies	214		214
Liability insurance	5,414		5,414
Social work supervision			-
Credentialing and licensure	2,723		2,723
Other program expenses	5,560		5,560
In-kind donations	39,500		39,500
Depreciation	37,186		37,186
Staffing Expenses			
Salaries and wages	649,548		649,548
Payroll taxes	48,662		48,662
Workers' compensation insurance	4,334		4,334
Retirement benefits	12,405		12,405
Health benefits	64,391		64,391
Other benefits	1,879		1,879
Payroll service fees	2,208		2,208
Occupancy			
Rent	36,639		36,639
Telephone	8,635		8,635
Internet	3,313		3,313

The accompanying footnotes are an integral part of these financial statements

Health Center			
Rent	25,240		25,240
Internet	2,159		2,159
Medical supplies			
Contractual staffing	7,500		7,500
Contractual physician coverage	99,176		99,176
Contractual medical assistants	8,973		8,973
Data coding	1,344		1,344
Office supplies & equipment	2,648		2,648
Other Expenses			
Accounting services	15,450		15,450
Legal fees	4,022		4,022
Computer services	39,590		39,590
Computer equipment	1,200		1,200
Office supplies	4,644		4,644
Postage and delivery	1,273		1,273
Printing and copying	165		165
Dues and memberships	12,830		12,830
Equipment & software	1,901		1,901
Meeting expense	3,870		3,870
Miscellaneous expenses	1,176		1,176
Total Expenses	<u>3,177,968</u>	<u>-</u>	<u>3,177,968</u>
Change in Net Assets before Prior Period Adjustments	352,819	(29,148)	323,671
Prior Period Adjustment	56,043		56,043
Change in Net Assets after Prior Period Adjustments	<u>408,862</u>	<u>(29,148)</u>	<u>379,714</u>
Net Assets, Beginning of Year	835,147	29,148	864,295
Net Assets, End of Year	<u>\$ 1,244,009</u>	<u>\$ -</u>	<u>\$ 1,244,009</u>

The accompanying footnotes are an integral part of these financial statements

Cincinnati Health Network, Inc.
Statement of Cash Flows
For the year ended December 31, 2012

<u>Cash Flows from Operating Activities</u>	
Change in Net Assets before Prior Period Adjustments	\$ 323,671
<u>Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities</u>	
Depreciation	37,186
Prior Period Adjustments	-
<u>(Increase) Decrease in:</u>	
Accounts receivable - other	24,000
Grants receivable	(337,342)
Prepaid insurance	(563)
<u>Increase (Decrease) in:</u>	
Accounts payable	103,733
Accounts payable to subrecipients	228,809
Accrued payroll	41,487
Payroll taxes payable	(5,708)
Net Cash Provided (Used) by Operating Activities	415,273
Cash Flows from Investing Activities	
Purchase of Fixed Assets	(134,533)
Net Cash Provided (Used) by Investing Activities	(1,616)
Cash Flows from Financing Activities	(136,149)
Increase in cash	279,124
Cash - Beginning of Year	498,635
Cash - End of Year	\$ 777,759
Supplementary Disclosure of Cash Flow Information:	
Cash Paid During the Year For:	
Interest	\$ -
Income Taxes	\$ -

The accompanying footnotes are an integral part of these financial statements

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Note 1. Summary of Significant Accounting Policies

Nature of Activities

Cincinnati Health Network, Inc. (the Organization) was incorporated in the State of Ohio in 1986. The primary objective of the Organization is to coordinate and plan for the provision of basic, quality health care services, particularly for the medically underserved and high-risk population in the Greater Cincinnati area. This objective includes acquiring funds from public or private sources which are restricted for the purpose of providing health care to the medically underserved including the homeless population and those infected and affected with HIV/AIDS. The Organization's revenue and other support are derived primarily from federal and state grants and program service fees.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net asset of the Organization and changes therein are classified and reported as follows:

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

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

Cash and Cash Equivalents

The Organization considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Investment income is classified separately from operating revenue and support in the statement of activities. Investment income consists of interest and dividend income and realized and unrealized gains and losses and is reported net of investment expenses.

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective periods. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The estimated useful lives for significant property and equipment categories are as follows:

Equipment	5 years
Vehicles	10 years
Software	3 years

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified as net assets released from restrictions.

Federal grant revenue is recorded as unrestricted at the time the Organization makes an allowable expenditure under the grant provisions.

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board (FASB) has issued guidance which clarifies generally accepted accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. This guidance clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Organization's income tax returns. The Organization's income tax filings are subject to audit by various taxing authorities. The years of filings open to these authorities and available for audit are 2009, 2010, and 2011. The Organization's policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense. In evaluating the Organization's tax provision and tax exempt status, interpretations and tax planning strategies were considered. The Organization believes their estimates are appropriate based on the current facts and circumstances.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue code. The Organization is not a private foundation as defined by Section 509(a) of the Internal Revenue code. For the year ended December 31, 2012, the Organization has determined that no income taxes are due for its activities. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the year ended December 31, 2012, \$32,500 has been recorded for the services of a medical director.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization's total expenses for 2012 are \$3,138,468 of which \$ 3,013,608 were spent on program service expenses. The remaining \$124,860 were spent for management and administration, and for fundraising.

Management Estimates

The preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Investments

Investments are carried at fair value, and unrealized gains and losses are reflected in the Statement of Activities and Changes in Net Assets. The Organization maintains a self-managed investment account at a brokerage firm. These funds are invested as follows:

	Cost	Fair Market Value	Unrealized Gain (Loss)
Money market fund	\$ 100,689	\$ 100,689	\$ -
Fixed income funds	92,000	92,262	262
Total	\$ 192,689	\$ 192,951	\$ 262

Investment earnings for the years ended December 31, 2012 are summarized as follows:

	2012
Realized gains (losses)	\$ -
Unrealized gains (losses)	425
Interest and dividend income	1,909
Investment expenses	-
Total investment income	\$ 2,334

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Note 3. Property and Equipment

Property and equipment consisted of the following at December 31, 2012:

Medical Van	\$ 259,742
Electronic Medical Records System	134,533
	<u>394,275</u>
less accumulated depreciation	(167,056)
	<u>\$ 227,219</u>

Note 4. Grants Receivable

Grants receivable consists of funds due from reimbursable grants where the Organization has not yet expended funds, but will expend them within the next twelve months, and reimbursement will be made by the grantor. As of December 31, 2012, the grants receivable are as follows:

Healthcare for the Homeless	\$ 209,038
HIV	330,032
Ohio Dept of Health Uninsured Funding	48,974
Total	<u>\$ 588,044</u>

Note 5. Grants Payable to Sub-recipients

Grants payable to sub-recipients are for amounts due to the sub-recipients for services, to be paid from the proceeds of grants receivable as of December 31, 2012.

Note 6. Net Assets

Temporarily restricted net assets of \$29,148 at December 31, 2011 were available for the purchase of Electronic Medical Records software. This purchase was completed in 2012, and the restrictions were released.

Note 7. Foundation Grants

In 2012, the Organization received the following grants from foundations:

Health Foundation of Greater Cincinnati	\$ 50,000
Ohio Assoc of Community Health Centers	99,153
	<u>\$ 149,153</u>

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Note 8. Federal Grants

The Organization recognizes revenue from federal grants when the grants are awarded. Grants that have been awarded but not yet received are recorded as grants receivable. In 2012, the Organization recorded the following federal grant revenue:

Health Center Cluster	Homeless	\$	1,762,190
Health Center Cluster	Homeless IAHCT		5,071
Ryan White Part C	HIV		1,313,600
Ryan White Part C	HIV Capacity		31,756
Health Center Cluster	Homeless IT		92,250
Health Center Cluster	PCMH		36,287
Total		\$	<u>3,241,154</u>

Note 9. Sub-recipient Contracts

Under the terms of the grants from the U.S. Department of Health and Human Services (HHS), the Organization contracts for health care services with agencies providing health care to the medically underserved including the homeless population and those infected and affected with HIV/AIDS. The amounts disbursed under these sub-recipient contracts are as follows:

University Family Physicians	\$	26,681
Center for Chemical Addictions Treatment		95,105
Cincinnati Health Department		140,716
Cincy Smiles Foundation		141,000
Drop Inn Center		62,008
Freestore Foodbank		138,413
Greater Cincinnati Behavioral Health		61,088
Health Point Family Care		45,612
Northern Kentucky Health District		16,510
University Hospital Infectious Diseases Center		677,694
University of Cincinnati Emergency Dept		7,917
UC Dept of Family and Community Medicine		111,524
Pike Street Clinic		41,133
Total funds expended 2012		<u>1,565,401</u>
Grants payable to subrecipients 12/31/12		402,207
Total Subrecipient Contracts	\$	<u>1,967,608</u>

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Note 10. Operating Leases

The Organization entered into an operating lease in May 2009 for its administrative offices. Rent expense for the office lease was \$36,639 for 2012. The lease expires in April 2014 and may be extended for two additional three-year terms.

The Organization entered into an operating lease in February 2011 for clinical space. Rent expense for the clinic lease was \$25,240 for 2012. The lease is for one year and automatically renews for one year periods. The lease is cancellable with a thirty day notice.

Future minimum lease payments are as follows:

	Total		Clinic		Office	
2013	\$	63,307	\$	25,240	\$	38,067
2014		14,951		2,103		12,848
	\$	<u>78,258</u>	\$	<u>27,343</u>	\$	<u>50,915</u>

Note 11. Retirement Plan

The Organization sponsors a defined contribution pension plan covering all employees who qualify as to age and length of service requirements. Benefits under the plan are limited to contributions made to individual participant's accounts. Participants vest 90% the first year of employment, 95% the second year of employment, and 100% the third year of employment. Total pension expense was \$12,405 for 2012.

Note 12. Business and Support Concentrations

The Organization received approximately 93% of its support under grants from the U.S. Department of Health and Human Services. No other support services provided more than 10% of revenue in 2012.

Note 13. Concentration of Credit and Market Risk

The Organization maintains funds in checking and money market accounts at various financial institutions. From time to time, the Organization's cash balances at financial institutions may exceed the federal depository insurance coverage. As of December 31, 2012, the balance in excess of FDIC coverage was \$527,759. Management considers this to be a normal business risk and the Organization has not experienced any losses in such accounts.

The Organization's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Organization's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among various asset classes should mitigate the impact of changes in any one class.

Cincinnati Health Network, Inc.
Notes to Financial Statements
For the year ended December 31, 2012

Note 14. Date of Management's Review

Management evaluated subsequent events through June 20, 2013, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure within the financial statements.

Note 15. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included with level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Fair value methods and assumptions on investments consisting of equities, securities, fixed income securities and money market funds are based on the Level 1 market approach. The following table presents the Organization's fair value on a recurring basis as of December 31, 2012.

	Fair Value		Level 1		Level 2		Level 3
Money market funds	\$ 100,690	\$	100,690	\$	-	\$	-
Fixed income funds	92,261		92,261		-		-
	<u>\$ 192,951</u>	<u>\$</u>	<u>192,951</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>-</u>

Note 16. Accounts Receivable - Other and Prior Period Adjustment

The Organization provided funding to the Cincy Smiles Foundation (CSF) in 2010 and 2011 for construction of a new clinic. The final construction costs exceeded the budget by \$130,148. The Organization agreed to absorb half the excess costs, and CSF agreed to reimburse the Organization for the other half. The amount receivable from CSF was \$56,043 as of December 31, 2011. The entire amount of the overage was included in expense in 2011. A prior period adjustment was recorded in 2012 to restate the \$56,043 receivable from CSF. In 2012, CSF repaid \$24,000 of this amount, and the balance remaining on the receivable is \$32,043 as of December 31, 2012.

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 Trustees of
Cincinnati Health Network, Inc.

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cincinnati Health Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated June 20, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Cincinnati Health Network, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cincinnati Health Network, Inc.'s internal control. Accordingly, I 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Cincinnati Health Network, Inc.'s financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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.

Teresa Franklin Hudson CPA

Teresa Franklin Hudson, CPA
Cincinnati, OH

June 20, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Cincinnati Health Network, Inc.

Report on Compliance for Each Major Federal Program

I have audited Cincinnati Health Network, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Cincinnati Health Network, Inc.'s major federal programs for the year ended December 31, 2012. Cincinnati Health Network, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Cincinnati Health Network, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 Cincinnati Health Network, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Cincinnati Health Network, Inc.'s compliance.

Opinion on Each Major Federal Program

In my opinion, Cincinnati Health Network, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Cincinnati Health Network, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Cincinnati Health Network, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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, I do not express an opinion on the effectiveness of Cincinnati Health Network, Inc.'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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Teresa Franklin Hudson, CPA

Teresa Franklin Hudson, CPA
Cincinnati, OH

June 20, 2013

Cincinnati Health Network, Inc.
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2012

Federal Grantor/Program Title	Award Number(s)	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Health Center Cluster	6 H80CS00189-11-02	93.224	\$ 5,071
Health Center Cluster	6 H80CS00189-11-01	93.224	1,466,781
Health Center Cluster	6 H80CS00189-11-00	93.224	<u>329,239</u>
			1,801,091
Ryan White Part C Outpatient EIS Program	2 H76HA00111-22-00	93.918	968,596
Home IT		93.224	99,125
PCMH		93.224	35,000
TOTAL EXPENDITURES			<u><u>\$ 2,903,812</u></u>

NOTE A – GENERAL

This schedule of expenditures of federal awards presents the federal grant activity for the Cincinnati Health Network, Inc. and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit 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.

Cincinnati Health Network, Inc.
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' reports issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weaknesses?	None noted
Non-compliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weaknesses?	None noted

Type of auditors' report issued on compliance for major programs:	Unqualified
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Any audit findings that are required to be reported in accordance with 510(a) of Circular A0133?	None noted
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Identification of major programs:	
• CFDA 93.918 - Ryan White Part C Outpatient EIS Program	
• CFDA 93.224 - Healthcare for the Homeless	

Dollar threshold to distinguish Type A and Type B programs:	\$300,000
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Auditee qualified as low risk auditee?	Yes
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Section II - Financial Statement Findings
 None noted

Section III - Federal Award Findings and Questioned Costs
 None noted

Section IV - Summary of Prior Audit Findings and Questioned Costs
 None noted