Total Health Care, Inc.

Financial Report
(In Accordance With OMB Circular A-133)
June 30, 2012

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Total Health Care, Inc.
Baltimore, Maryland

We have audited the accompanying balance sheets of Total Health Care, Inc. (the Center), a not-for-profit organization, as of June 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Center. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. 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 the 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 Total Health Care, 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 reports dated February 26, 2013 and November 22, 2011, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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.

Our 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 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 audits 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole

McGladrey LLP

Baltimore, Maryland
February 26, 2013

Total Health Care, Inc.

Balance Sheets
June 30, 2012 And 2011

Assets	**2012**	2011
Current Assets		
Cash and cash equivalents	**$ 5,004,707**	$ 7,122,259
Accounts receivable, net	**1,311,177**	2,491,615
Grants receivable	**764,384**	558,638
Investments	**14,014,358**	9,331,610
Inventory	**451,766**	340,806
Prepaid expenses	**326,123**	263,597
Total current assets	**21,872,515**	20,108,525
Property And Equipment		
Land	**782,000**	782,000
Building and improvements	**12,078,230**	11,497,890
Furniture and equipment	**3,533,849**	3,272,671
Computer software	**374,085**	252,790
Leasehold improvements	**1,249,364**	1,251,797
Construction in progress	**91,270**	555,194
	18,108,798	17,612,342
Less accumulated depreciation	**(11,872,958)**	(10,636,582)
Property and equipment, net	**6,235,840**	6,975,760
Other Assets		
Restricted cash	**171,486**	149,161
Deposits and other assets	**45,514**	48,353
Total other assets	**217,000**	197,514
Total assets	**$ 28,325,355**	$ 27,281,799

See Notes To Financial Statements.

Liabilities And Net Assets	**2012**	2011
Liabilities		
Accounts payable and accrued expenses	**$ 1,641,124**	$ 1,354,572
Accrued payroll and related liabilities	**1,273,143**	1,007,881
Deferred revenue	**201,647**	24,970
Deferred lease incentive income	**24,160**	28,186
Deferred rent	**172,139**	154,475
Total liabilities	**3,312,213**	2,570,084
Commitments And Contingencies		
Net Assets		
Unrestricted		
Undesignated	**22,737,199**	22,435,772
Board designated	**2,275,943**	2,275,943
Total net assets	**25,013,142**	24,711,715
Total liabilities and net assets	**$ 28,325,355**	$ 27,281,799

Total Health Care, Inc.

Statements Of Operations And Changes In Net Assets
Years Ended June 30, 2012 And 2011

	2012	2011
Revenue and support:		
Grants/contracts from governmental agencies and contributions	**$ 5,329,503**	$ 5,179,910
Fees for service	**22,906,361**	20,130,022
Pharmacy	**8,172,095**	6,227,265
Total revenue and support	**36,407,959**	31,537,197
Expenses:		
Salaries and wages	**18,392,598**	16,738,142
Pharmaceuticals	**5,381,666**	3,598,628
Fringe benefits	**3,373,239**	3,037,925
Occupancy and utilities	**1,491,768**	1,516,328
Consultants and contractual fees	**1,663,474**	1,495,383
Depreciation and amortization	**1,440,923**	1,406,809
Provision for bad debts	**1,105,875**	901,688
Licenses and fees	**662,719**	595,143
Consumable supplies	**541,876**	488,431
Repairs and maintenance	**408,331**	369,518
Advertising and public relations	**337,212**	359,812
Miscellaneous	**445,437**	340,209
Insurance	**226,147**	221,701
Travel, conferences and meetings	**226,061**	176,645
Information technology	**101,191**	145,486
Printing, postage and publications	**229,664**	135,924
Telephone	**162,293**	125,833
Professional fees	**151,605**	116,198
Total expenses	**36,342,079**	31,769,803
Excess (deficiency) of revenue and support over expenses	**65,880**	(232,606)
Nonoperating income:		
Grants for capital expenditures	**-**	207,313
Rental income	**103,952**	103,952
Investment income	**69,461**	654,166
Other income	**62,134**	97,537
Total nonoperating income	**235,547**	1,062,968
Change in net assets	**301,427**	830,362
Net assets:		
Beginning of year	**24,711,715**	23,881,353
End of year	**$ 25,013,142**	$ 24,711,715

See Notes To Financial Statements.

Total Health Care, Inc.

Statements Of Cash Flows
Years Ended June 30, 2012 And 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	$ 301,427	$ 830,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,440,923	1,406,809
Amortization of deferred lease incentive	(4,026)	(4,027)
Provision for bad debts	1,105,875	901,688
Net realized and unrealized losses (gains) on investments	134,217	(487,390)
Loss on disposal of fixed assets	8,424	-
Grants for capital expenditures	-	(207,313)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	74,563	(1,727,509)
Grants receivable	(205,746)	1,319,403
Inventory	(110,960)	(147,672)
Prepaid expenses	(62,526)	(9,550)
Increase (decrease) in:		
Accounts payable and accrued expenses	286,552	53,684
Accrued payroll and related liabilities	265,262	215,067
Deferred revenue	176,677	(115,481)
Deferred rent	17,664	32,593
Net cash provided by operating activities	3,428,326	2,060,664
Cash Flows From Investing Activities		
Purchases of investments	(7,594,310)	(11,420,159)
Proceeds from sale of investments	2,777,345	11,270,037
Change in restricted cash	(22,325)	(56,546)
Change in deposits and other assets	2,839	(1,865)
Acquisition of property and equipment	(709,427)	(1,364,585)
Net cash used in investing activities	(5,545,878)	(1,573,118)
Cash Flows From Financing Activities		
Grants for capital expenditures	-	207,313
Net (decrease) increase in cash and cash equivalents	(2,117,552)	694,859
Cash And Cash Equivalents:		
Beginning of year	7,122,259	6,427,400
End of year	$ 5,004,707	$ 7,122,259

See Notes To Financial Statements.

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Total Health Care, Inc. (the Center) has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization, as defined by §501(c)(3) of the Internal Revenue Code (IRC), that is publicly supported and, therefore, is not a private foundation. The Center was incorporated under the laws of Maryland on May 16, 1971.

The Center provides high-quality primary care and related services for medically underserved persons, and promotes access to health services in the greater Baltimore area. The Center operates seven health centers located in Baltimore.

A summary of the Center's significant accounting policies follows:

Basis of presentation: The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are composed of the following:

- Operating – Represents resources available for support of operations.
- Board Designated – Represents all other unrestricted net assets, designated for purposes defined by the Board of Directors.

Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Center pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. At June 30, 2012 and 2011, the Center did not have any temporarily restricted net assets.

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Center's actions. At June 30, 2012 and 2011, the Center did not have any permanently restricted net assets.

Revenue recognition and deferred revenue: Approximately 15% and 17% of the Center's total revenue and support for the years ended June 30, 2012 and 2011, respectively, was derived from conditional grants and contracts from governmental agencies, which are recognized as revenue in proportion to the related expenses incurred. All other revenue, including patient fees, managed care capitation payments, and investment income, is recognized as revenue when earned.

Any conditional grants or contract proceeds in excess of the related expenses incurred are classified as deferred revenue in the balance sheets.

Cash and cash equivalents: The Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Periodically, during the year, the cash balances may have exceeded the federally insured limits. The Center has not experienced any losses in such accounts and management believes it is not exposed to significant risk on cash and cash equivalents.

Inventory: Inventory, consisting primarily of prescription drugs, is stated at the lower of cost or market using the first in, first-out (FIFO) method.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are carried at cost if purchased, or at the approximate fair value at the date of donation, if donated. The Center capitalizes all items over $1,000 that have a useful life of at least one year. Depreciation is computed on a straight-line basis over the useful lives of the related assets as follows:

Building and improvements	5 – 30 years
Furniture and equipment	3 – 15 years
Computer software	3 years
Leasehold improvements	5 – 15 years

Depreciation expense for the years ended June 30, 2012 and 2011 was $1,440,923 and $1,406,809, respectively.

Valuation of long-lived assets: The Center accounts for the valuation of long-lived assets under Accounting Standards Codification (ASC) 360-10, *Impairment or Disposal of Long-Lived Assets (ASC 360-10).* ASC 360-10 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Receivables and allowance for doubtful accounts: Accounts receivable arise from services rendered to patients, which are billed either to the patients, insurance companies or to governmental agencies. These receivables are stated at the amount management expects to collect from the outstanding balances. The Center utilizes the reserve method of accounting for uncollectible accounts receivable. Management determines the allowance for doubtful accounts by evaluating the different types of receivables and identifying specific amounts that management believes to be uncollectible. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Based on its analysis of the collectibility of accounts receivable, management has established an allowance for doubtful accounts of $1,043,665 and $568,726 as of June 30, 2012 and 2011, respectively. The Center's management has determined that the grants receivable are fully collectible, and therefore, no allowance has been established related to this receivable.

Investments in marketable securities: Investments with a readily determinable fair market value are reported at fair market value in the balance sheets. Investments, whose fair market values are not readily determinable, are recorded at cost. Gains and losses on investments are reported in the statements of operations and changes in net assets as part of investment income (see Note 2).

The Center invests in a professionally managed portfolio that contains mutual funds, money market funds, debt securities, certificates of deposit, and government and government agency obligations. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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

Recognition of 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. Upon the expiration of a restriction, temporarily restricted net assets are reclassified to unrestricted net assets on the statements of operations and changes in net assets.

Deferred rent: Rents on operating leases are charged to operations on a straight-line basis over the term of the related leases.

Advertising: Advertising costs are charged to operations when incurred. The Center had no significant direct-response advertising. Advertising expense for the years ended June 30, 2012 and 2011, was $336,641 and $351,539, respectively.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes: The Center is exempt from federal income taxes under IRC §501(c)(3). Accordingly, no provision for income taxes is reflected in these financial statements. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Center had no unrelated business income for the years ended June 30, 2012 and 2011.

The Center has been recognized by the IRS as exempt from federal income taxes under IRC §501(c)(3), except for taxes on income generated from unrelated business activities. The Center has adopted accounting guidance regarding the 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 policy, the Center may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated the Center’s tax positions and has concluded that the Center has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

As of June 30, 2012 and 2011, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, the Center is no longer subject to U.S. federal, state or local tax examinations by tax authorities for years ending before June 30, 2009.

Charity care: The Center is a Federally Qualified Health Center (FQHC), which is a type of provider defined by Section 330 of the Public Health Services Act. The Center 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 Center 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 Center maintains records to identify and monitor the level of charity care it provides.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure*, which prescribes that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing charity care. The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2010. The Center adopted this guidance during the year ended June 30, 2012. The amount of charity care provided during the years ended June 30, 2012 and 2011, was $2,842,479 and $2,619,159, respectively, and was estimated by allocating total expenses incurred by the Center to the gross revenue earned serving patients under the sliding-fee scale.

Results of operations: The statements of operations and changes in net assets include the excess of revenue over expenses that represent the results of operations. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, includes contributions of long-lived assets (including contributed assets which by donor restriction are to be used for the purpose of acquiring such assets).

Recent accounting pronouncements: In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires that bad debts associated with patient service revenue must be reclassified from an expense to a deduction from patient services revenue. The ASU requires enhanced disclosures about an entity’s policies for recognizing revenue and assessing bad debts. The ASU also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance in this ASU is effective for fiscal years beginning after December 15, 2011. The adoption of this standard is expected to result in changes in the presentation of the Center’s bad debt expense and enhanced disclosures regarding bad debt and patient service revenue, but is not required to be adopted by the Center until fiscal year 2013, with earlier adoption permitted.

Subsequent events: The Center evaluated subsequent events through February 26, 2013, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments at June 30, 2012 and 2011, consisted of the following:

	2012		2011	
	Market	**Cost**	Market	Cost
Mutual funds	**$ 6,336,149**	**$ 5,989,840**	$ 4,272,764	$ 3,837,958
Corporate debt securities	**3,844,226**	**3,874,264**	2,922,587	2,923,730
U.S. Government and agency obligations	**2,125,039**	**2,131,053**	1,816,135	1,815,029
Foreign bonds	**1,285,285**	**1,294,745**	-	-
Cash and money market funds	**297,764**	**297,764**	105,793	105,793
Other fixed income securities	**125,895**	**124,826**	-	-
Certificates of deposit	**-**	**-**	201,575	200,266
Commercial asset backed notes	**-**	**-**	12,756	12,751
	$14,014,358	**$13,712,492**	$ 9,331,610	$ 8,895,527

Note 2. Investments (Continued)

Investment income was composed of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Dividends and interest	**$ 268,092**	$ 224,937
Net realized and unrealized gains	**(134,217)**	487,390
Investment expenses	**(64,414)**	(58,161)
	$ 69,461	$ 654,166

Note 3. Commitments And Contingencies

Operating leases, office and clinic space: The Center leases seven clinics at various locations. The lease agreements expire between August 2017 and March 2018.

The aggregate basic annual lease payments over the next five years and thereafter of the current long-term leases are as follows:

Years Ending June 30,	
2013	$ 508,496
2014	526,319
2015	544,772
2016	563,908
2017	480,541
Thereafter	350,703
	$ 2,974,739

Rent expense under these operating leases was $671,362 and $637,867 for the years ended June 30, 2012 and 2011, respectively.

Rental income: The Center subleases a portion of one of its leased clinic locations to a hospital for its specialist physicians. For each of the years ended June 30, 2012 and 2011, the Center generated rental income from this sublease in the amount of $103,952, which has been included in rental income in the statements of operations and changes in net assets.

Unemployment compensation plan: The Center has elected to maintain a self-funded unemployment compensation plan, whereby it will pay qualified claims directly in lieu of submitting quarterly unemployment taxes to the state of Maryland (the State). In order to be eligible for self-funding, the State requires collateral to be held in the event that the Center would fail to pay claims. As of June 30, 2012 and 2011, the State required collateral of $171,486 and $148,418, respectively, which was in the form of a letter of credit. Unemployment claims paid were $90,979 and $74,123 for the years ended June 30, 2012 and 2011, respectively.

Note 3. Commitments And Contingencies (Continued)

Letter of credit: The Center has a letter of credit with Wells Fargo (formerly Wachovia Bank) in the amount of $171,486 and $148,418 at June 30, 2012 and 2011, respectively, for the purpose of collateralizing the Center for any unpaid unemployment claims under the Center's self-funded unemployment compensation plan. This letter of credit was unused as of June 30, 2012 and 2011, and is secured by a restricted cash account.

Line of credit: The Center has an unsecured line of credit with Wells Fargo (formerly Wachovia Bank) in the amount of $1,000,000, which bears interest at the bank's prime rate plus .3%. As of June 30, 2012 and 2011, there were no outstanding borrowings against the line of credit. The line of credit has various covenants that the Center is required to maintain.

Pension plan: The Center sponsors an annuity plan under IRC §403(b) for all of its eligible employees who are at least 21 years of age and have completed at least 1,000 hours of service as defined in the agreement. Under the terms of the plan, any eligible participant may contribute pre-tax dollars toward the purchase of the annuity. In turn, the employees are eligible to receive matching contributions of 25% of their contributions up to a maximum of 6% of compensation from the Center. In addition, the Center may make discretionary contributions to the Plan.

The Center's contribution to the plan was $65,350 and $63,567 for the years ended June 30, 2012 and 2011, respectively.

Note 4. Board Designated Net Assets

The Center's board of directors has designated $2,275,943 of the Center's unrestricted net assets as of June 30, 2012 and 2011, to be set aside for future capital projects.

Note 5. Certain Significant Risks And Uncertainties

The Center receives revenue from Medicaid, private insurance, private patients, and other third-party payors. The health care industry is experiencing the effects of the federal and state governments' trend toward cost containment, as government and other third-party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers.

It is not possible to fully quantify the effect of recent legislation, the interpretation or administration of such legislation, or any other government initiatives on the Center's business. Accordingly, there can be no assurance that any future health care legislation will not adversely affect the Center's business. There can be no assurance that payments under government and private third-party payor programs will be timely, will remain at levels comparable to present levels, or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Center's financial position and change in net assets may be effected by the reimbursement process, which in the Center's industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled.

Note 6. Deferred Lease Incentive Income

During July 2008, the Center entered into an operating lease for its office space. As part of the incentive for the amendment, the landlord agreed to pay the costs for leasehold improvements. The total cost paid by the landlord was $40,265. These costs were capitalized by the Center, are included in total property and equipment, and are being depreciated over the lease term (ten years). The Center also recorded these capitalized costs as deferred income and is amortizing this amount as an offset to rent expense over the lease-term (ten years). Total accumulated depreciation on the leasehold improvements as of June 30, 2012 and 2011, was $16,105 and $12,078, respectively.

Note 7. Concentrations Of Credit Risk

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	2012	2011
Medicaid	**75%**	71%
Other third-party payors	**12%**	8%
Medicare	**9%**	16%
Self-pay	**4%**	5%
	100%	100%

Note 8. Fair Value Measurements

Valuation of investments: The fair value of each investment is determined at the balance sheet date. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. Fair value is based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the Trust utilizes a fair value hierarchy that prioritizes the information used to develop those assumptions. Fair value measurements are separately disclosed by level within the fair value hierarchy.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include listed equities and listed derivatives. The Center does not adjust the quoted price for these investments, even in situations where the Center may hold a large position and a sale could reasonably impact the quoted price.

Securities that are listed on the United States securities exchange are valued at their last sales price on the largest United States securities exchange on which such securities have traded.

Securities that are listed on an international exchange are valued at the last sales price from the largest exchange within the individual security’s country of jurisdiction.

Level 2 – Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies. The Center has no Level 3 financial instruments as of June 30, 2012 and 2011.

Note 8. Fair Value Measurements (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Center's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

		June 30, 2012		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Mutual funds				
Bond	**$ 1,720,122**	**$ 1,720,122**	**$ -**	**$ -**
Appreciation and income	**1,394,953**	**1,394,953**	**-**	**-**
Growth	**753,963**	**753,963**	**-**	**-**
Floating rate	**727,936**	**727,936**	**-**	**-**
Global	**715,157**	**715,157**	**-**	**-**
Alternatives	**293,417**	**293,417**	**-**	**-**
Commodities	**289,861**	**289,861**	**-**	**-**
Focus	**222,110**	**222,110**	**-**	**-**
Value	**218,630**	**218,630**	**-**	**-**
Corporate debt securities	**3,844,226**	**-**	**3,844,226**	**-**
U.S. Government and agency obligations	**1,455,618**	**-**	**1,455,618**	**-**
Foreign bonds	**1,285,285**	**-**	**1,285,285**	**-**
Agency debt securities	**669,421**	**-**	**669,421**	**-**
Other fixed income securities	**125,895**	**-**	**125,895**	**-**
	$ 13,716,594	**$ 6,336,149**	**$ 7,380,445**	**$ -**

		June 30, 2011		
Description	Total	Level 1	Level 2	Level 3
Mutual funds				
Bond	$ 1,015,558	$ 1,015,558	$ -	$ -
Appreciation and income	1,942,047	1,942,047	-	-
Floating rate	411,913	411,913	-	-
Global	436,135	436,135	-	-
Focus	237,407	237,407	-	-
Value	229,704	229,704	-	-
Corporate debt securities	2,922,587	-	2,922,587	-
U.S. Government and agency obligations	1,010,847	-	1,010,847	-
Agency debt securities	805,288	-	805,288	-
Commercial asset backed notes	12,756	-	12,756	-
	$ 9,024,242	$ 4,272,764	$ 4,751,478	$ -

Note 8. Fair Value Measurements (Continued)

Cash, money market funds and certificates of deposit are excluded from the fair value hierarchy as those items are generally measured at cost. As such, $297,763 and $307,368 of cash, money market funds and certificates of deposit held in the Center's investment portfolio at June 30, 2012 and 2011, respectively, have been excluded from these tables.

Realized gains and losses on the sale of investments are recognized in the statements of operations and changes in net assets as the difference between gross proceeds and the cost basis of securities sold. The cost basis of mutual funds is calculated on an average cost method. The cost basis of other equity instruments sold is calculated based on the specific identification method.

Note 9. Functional Expenses

Expenses were incurred and allocated as follows for the years ended June 30:

	2012	2011
Program services	**$ 28,366,614**	$ 24,212,164
Supporting services – management and general	**7,975,465**	7,557,639
	$ 36,342,079	$ 31,769,803

Total Health Care, Inc.

Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2012

EIN: 23-7267007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Disbursements/ Expenditures Allowable
U.S. Department Of Health And Human Services		
Consolidated Health Centers	93.224	$ 1,079,523
Consolidated Health Centers	93.527	860,501
Ryan White C – Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918	691,247
U.S. Department Of Health And Human Services		
Passed-through Maryland Department of Health and Mental Hygiene		
Increasing Cancer Screening Among Maryland CHC Patients	93.283	92,128
Passed-through Baltimore City Health Department		
Ryan White Title B – HIV Care Formula Grants	93.917	229,283
Passed-through Baltimore City Health Department		
Passed-through Associated Black Charities, Inc.		
Ryan White Title A – HIV Emergency Relief Project Grants	93.914	1,047,629
Passed-through Baltimore Substance Abuse Systems, Inc.		
Drug Court Expansion Grant	93.243	2,914
Total Federal Awards		$ 4,003,225

See Note To Schedule Of Expenditures Of Federal Awards.

Total Health Care, Inc.

Note To Schedule Of Expenditures Of Federal Awards

Note A. Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Total Health Care, Inc. and is presented on the accrual basis of accounting. The information on 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 the amounts presented in, or used in the preparation of, the basic financial statements.

McGladrey

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
Total Health Care, Inc.
Baltimore, Maryland

We have audited the financial statements of Total Health Care, Inc. (the Center), a not-for-profit organization, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 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.

<u>Internal Control Over Financial Reporting</u>
Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center'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 the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center'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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. See Finding IC2012-1. 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.

<u>Compliance And Other Matters</u>
As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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*.

The Center's responses to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. We did not audit the Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, 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.

McGladrey LLP

Baltimore, Maryland
February 26, 2013

McGladrey

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
Total Health Care, Inc.
Baltimore, Maryland

Compliance
We have audited Total Health Care, Inc.'s (the Center) 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 the Center's major federal programs for the year ended June 30, 2012. The Center'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 the Center's management. Our responsibility is to express an opinion on the Center'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 the Center'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 of the Center's compliance with those requirements.

In our opinion, the Center 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 June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item CF2012-1.

Internal Control over Compliance
Management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with 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 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 the Center'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.

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, 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.

The Center's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the Center's response, and accordingly, we express no opinion on it.

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

McGladrey LLP

Baltimore, Maryland
February 26, 2013

Total Health Care, 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 _X_ No
▪ Significant deficiency(ies) identified that are not considered to be material weaknesses?	_X_ Yes ___ None Reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards:

Internal control over major programs:	
▪ Material weaknesses identified?	___ Yes _X_ No
▪ Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes _X_ 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?	_X_ Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Consolidated Health Centers
93.527	Consolidated Health Centers and Affordable Care Grants for New and Expanded Services under the Health Center Program
93.918	Ryan White C – 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 _X_ No

(Continued)

Section II – Financial Statement Findings

A: Significant Deficiencies Or Material Weaknesses In Internal Control

IC2012-1 **Expense cutoff and accruals**

Criteria: The internal controls around year-end accruals and expense cutoff should provide procedures to adequately capture accruals and amounts payable in the Center's general ledger as of June 30, 2012.

Condition: From the sample of subsequent disbursement selected for testing, we noted that numerous invoices totaling approximately $273,000 were not properly accrued as of June 30, 2012.

Effect: An audit adjustment was required in order to properly record the noted entries resulted in additional expenses of approximately $19,000 and additional inventory of approximately $254,000.

Cause: The Center does not have a proper expense cut-off system in place to ensure all invoices are properly recorded or accrued at year-end.

Recommendation: We recommend that management review the current expense cut-off system and add procedures to ensure that all relevant invoices are properly recorded at year end and to create a system to record estimated accruals for invoices not yet received.

Corrective action planned or taken: The Chief Financial Officer will review the current accrual policy and expense cut-off system and adjust the policy and procedures, if necessary, based on any deficiencies noted in his findings.

B: Compliance Findings

None Noted

Section III – Findings And Questioned Costs For Federal Awards

A: Significant Deficiencies Or Material Weaknesses In Internal Control

None noted.

B: Compliance Findings

CF2012-1 Special Tests and Provisions Requirements – U.S. Department Of Health And Human Services, CFDA #93.224/93.527 – Consolidated Health Centers

Criteria: OMB Circular A-133 compliance requires the health centers receiving grants under the consolidated health center program to have a governing board that is composed of individuals, a majority of whom are being served by the Center.

Condition: For the year ended June 30, 2012, only 7 of the 14 board members received services from the Center. The number of members receiving services from the Center does not constitute a majority of the governing board.

Effect: The condition results in regulatory non-compliance for the Consolidated Health Center grant under CFDA #93.224 for OMB A-133 Circular.

Cause: The Center's policy and tracking mechanism in was not operating effectively and did not identify that a majority of board members were not recipients of services from the Center.

Recommendation: We recommend that the Center implement tracking policy regarding the governing Board's utilization of the Center's services. Additionally, we recommend that this be reviewed and discussed throughout the year to ensure compliance with applicable requirements.

Corrective action planned or taken: A formal policy has been established regarding the governing Board's utilization of the Center's services. Management will develop a procedure to ensure that the governing board adheres to HRSA requirements.

Summary Schedule Of Prior Audit Findings
Year Ended June 30, 2012

CF 2011-1 Special Tests and Provisions Requirements – U.S. Department Of Health And Human Services, CFDA #93.224 – Consolidated Health Centers

Condition: For the year ended June 30, 2011, only 7 of the 14 board members received services from the Center. The number of members receiving services from the Center does not constitute a majority of the governing board.

Current Status: See Finding CF 2012-1