

Single Audit Report
AltaMed Health Services Corporation
Year ended April 30, 2012
with Report of Independent Auditors

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**Report of Independent Auditors 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**

**Board of Directors
AltaMed Health Services Corporation**

We have audited the financial statements of AltaMed Health Services Corporation, a not-for-profit organization, as of and for the year ended April 30, 2012 and have issued our report thereon dated August 23, 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

Management of AltaMed is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered AltaMed'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 AltaMed's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AltaMed's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Vargus + Company LLP

Los Angeles, California
August 23, 2012

Report of Independent Auditors 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 of
AltaMed Health Services Corporation**

Compliance

We have audited the compliance of AltaMed Health Services Corporation (AltaMed) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of AltaMed's major federal programs for the year ended April 30, 2012. AltaMed'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 AltaMed's management. Our responsibility is to express an opinion on AltaMed'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 AltaMed's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on AltaMed's compliance with those requirements.

In our opinion, AltaMed complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with requirements that are required to be reported in accordance with *OMB Circular A-133* and which are described as Findings 2012-01 through 2012-05 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of AltaMed 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 AltaMed'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, 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 AltaMed'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 would not necessarily identify all deficiencies in internal control 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of AltaMed as of and for the year ended April 30, 2012, and have issued our report thereon dated August 23, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards 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 as a whole.

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

We noted certain other matters that we reported to management of AltaMed in a separate letter dated January 7, 2013.

This report is intended solely for the information of the Board of Directors and management of AltaMed, as well as its 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.

Vargus + Company LLP

Los Angeles, California

January 7, 2013, except for the Schedule of Expenditures of Federal Awards, as to which the date is August 23, 2012

AltaMed Health Services Corporation
Schedule of Expenditures of Federal Awards
Year ended April 30, 2012

| Federal Grantor/Pass Through Grantor Program Title | Pass Through/ Grantor's Number | Grant Period | CFDA Number | Grant Award Amount | Current Year Expenditures |
|--|-----------------------------------|---------------------|----------------|-----------------------------|------------------------------|
| MAJOR PROGRAMS | | | | | |
| <u>U.S. Department of Health and Human Services</u> | | | | | |
| <u>Direct Programs:</u> | | | | | |
| Ryan White Part C Outpatient EIS Program | 5H76HA00169-17-00 | 01/01/11-12/31/11 | 93.918 | \$ 1,302,943 | \$ 880,246 |
| Ryan White Part C Outpatient EIS Program | 5H76HA00169-18-00 | 01/01/11-12/31/11 | 93.918 | 1,040,906 | 576,469 |
| RW Title III HIV Capacity Development and Planning | 1POHA21228-01-00 | 09/01/10-06/30/12 | 93.918 | 60,976 | 60,976 |
| | | | | Total 93.918 | 1,517,691 |
| Community-Based HIV Prevention Projects (CDC) Youth | 5U65PS923865-05 | 07/01/10-06/30/11 | 93.943 | 337,248 | 24,485 |
| Community-Based HIV Prevention Projects (CDC) Youth | 5U65PS923865-05 | 07/01/11-06/30/12 | 93.943 | 337,248 | 288,512 |
| <u>Passed through California Department of Public Health</u> | | | | | |
| HIV Expanded Testing | 11-10727 | 10/01/11-12/31/2011 | 93.943 | 285,103 | 276,802 |
| HIV Expanded Testing | 11-10727 | 01/01/12-12/31/2012 | 93.943 | 269,271 | 85,224 |
| | | | | Total 93.943 | 675,023 |
| <u>Passed through the County of Los Angeles Department of Public Health:</u> | | | | | |
| Ambulatory/Outpatient Medical Services (All Schedules) | H209203 | 03/01/11-02/28/12 | 93.914 | 1,606,767 | 1,247,837 |
| Ambulatory/Outpatient Medical Services (All Schedules) | H209203 | 03/01/12-02/28/13 | 93.914 | 1,606,767 | 322,371 |
| HIV/AIDS Mental Health Services | H210790 | 03/01/11-02/29/12 | 93.914 | 149,300 | 118,175 |
| HIV/AIDS Mental Health Services | H210790 | 03/01/12-02/28/13 | 93.914 | 149,300 | 21,124 |
| HIV/AIDS Oral Health Care | PH-001113 | 03/01/11-02/29/12 | 93.914 | 100,000 | 94,777 |
| HIV/AIDS Oral Health Care | PH-001113 | 03/01/12-02/28/13 | 93.914 | 485,000 | 16,253 |
| HIV Case Management Non-Medical | H-206921 | 04/01/11-03/31/12 | 93.914 | 81,613 | 73,120 |
| HIV Case Management Non-Medical | H-206921 | 04/01/12-03/31/13 | 93.914 | 81,613 | 5,648 |
| CM & Home/Community Based Care Services | H205189 | 07/01/10-06/30/11 | 93.914 | 287,457 | 39,751 |
| CM & Home/Community Based Care Services | H205189 | 07/01/11-06/30/12 | 93.914 | 287,457 | 225,552 |
| HIV Benefits Specialty | H206921 | 04/01/11-03/31/12 | 93.914 | 62,500 | 50,000 |
| HIV Benefits Specialty | H206921 | 04/01/12-03/31/13 | 93.914 | 62,500 | 3,275 |
| | | | | Total 93.914 | 2,217,883 |
| <u>Passed through COPE Health Solutions</u> | | | | | |
| BEARI - Trans_NIH Recovery Act Research Support (ARRA) | 1RC4AG039115-01 | 09/01/11-08/31/12 | 93.701 | 500,000 | 303,282 |
| | | | | Total 93.701 | 303,282 |
| | | | | Total major programs | 4,713,879 |
| NON-MAJOR PROGRAMS | | | | | |
| <u>U.S. Department of Agriculture</u> | | | | | |
| <u>Passed through the California Department of Aging:</u> | | | | | |
| Adult Day Care Food Program | 19-5018-IN | 10/01/10-9/30/11 | 10.558 | open | 399,897 |
| Adult Day Care Food Program | 19-5018-IN | 10/01/11-9/30/12 | 10.558 | open | 455,233 |
| | | | | | 855,130 |
| <u>U.S. Department of Health and Human Services</u> | | | | | |
| <u>Direct Programs:</u> | | | | | |
| Health Center Cluster | 6 H80CS00142-10-03 | 03/01/11-11/30/11 | 93.224 | 4,723,694 | 3,700,030 |
| Health Center Cluster | 6 H80CS00253-11-02 | 12/01/11-11/30/12 | 93.224 | 6,342,907 | 2,677,876 |
| | | | | Total 93.224 | 6,377,906 |
| <u>Passed through California Department of Public Health</u> | | | | | |
| HIV Prevention Projects for Young Latino Men Who Have Sex with Men | 1U65PS003444-01 | 09/30/11-09/29/12 | 93.939 | 287,388 | 83,556 |
| | | | | Total 93.939 | 83,556 |
| <u>Passed through the County of Los Angeles Department of Public Health:</u> | | | | | |
| HIV Mobile Unit/HIV Counseling and Testing | PH-000823 | 01/01/11-12/31/11 | 93.940 | 200,000 | 93,180 |
| HIV Mobile Unit/HIV Counseling and Testing | PH-000823 | 01/01/12-12/31/12 | 93.940 | 200,000 | 47,416 |
| | | | | Total 93.940 | 140,596 |
| Cal-Learn Case Management | CLC009001 | 07/01/10-06/30/11 | 93.558 | 2,205,032 | 337,091 |
| First Five LA - Welfare-toWork High Risk Teens | 4993 | 07/01/1-06/30/12 | 93.558 | 829,937 | 706,610 |
| Community Challenge Grant Program -LA & OC | 05-45226&05-45248A | 07/01/10-06/30/11 | 93.558 | 275,000 | 94,422 |
| | | | | Total 93.558 | 1,138,123 |
| Special Projects of National Significance | H97HA22717 | 09/01/11-08/31/12 | 93.928 | 90,000 | 61,505 |
| | | | | Total 93.928 | 61,505 |

AltaMed Health Services Corporation
Schedule of Expenditures of Federal Awards
Year ended April 30, 2012

| Federal Grantor/Pass Through Grantor Program Title | Pass Through/ Grantor's Number | Grant Period | CFDA Number | Grant Award Amount | Current Year Expenditures |
|--|-----------------------------------|-------------------|----------------|----------------------------------|------------------------------|
| <u>U.S. Department of Health and Human Services</u> | | | | | |
| <u>Passed through the California Department of Aging:</u> | | | | | |
| Multipurpose Senior Service Program | MS-0910-03 | 07/01/10-06/30/11 | 93.778 | 2,326,755 | 319,055 |
| Multipurpose Senior Service Program | MS-1011-03 | 07/01/11-06/30/12 | 93.778 | 2,326,755 | 1,831,300 |
| <u>Passed through the County of Los Angeles Department of Public Health:</u> | | | | | |
| Medi-Cal Drug Abuse Outpatient Methadone | PH001877 | 07/01/10-06/30/11 | 93.778 | 688,730 | 114,205 |
| Medi-Cal Drug Abuse Outpatient Methadone | PH001877 | 07/01/11-06/30/12 | 93.778 | 688,730 | 554,554 |
| <u>Passed through the California Department of Health Services:</u> | | | | | |
| Adolescent Family Life Program | 00-90041 | 07/01/10-6/30/11 | 93.778 | 377,430 | 75,001 |
| Adolescent Family Life Program | 00-90041 | 07/01/11-6/30/12 | 93.778 | 377,430 | 240,848 |
| | | | | Total 93.778 | 3,134,963 |
| <u>Passed through California Family Health Council, Inc.:</u> | | | | | |
| CFHC- BCS | BCS 301-210-1336 | 01/01/11-12/31/11 | 93.217 | 434,258 | 304,308 |
| CFHC- BCS | BCS 301-210-1336 | 01/01/12-12/31/12 | 93.217 | 390,832 | 112,482 |
| | | | | Total 93.217 | 416,790 |
| <u>U.S. Department of Health and Human Services</u> | | | | | |
| <u>Passed through the Los Angeles Family AIDS Network:</u> | | | | | |
| LA Family AIDS Network (Title I and Title IV) | N.A. | 08/01/10-07/31/11 | 93.153 | 53,820 | 26,333 |
| LA Family AIDS Network (Title I and Title IV) | N.A. | 08/01/11-07/31/12 | 93.153 | 83,306 | 65,937 |
| | | | | Total 93.153 | 92,270 |
| <u>Passed through the County of Los Angeles Community & Senior Services</u> | | | | | |
| Integrated Care Management Program | CG41298 | 07/01/11-6/30/12 | 93.044 | 241,306 | 132,140 |
| | | | | Total 93.044 | 132,140 |
| HIV/AIDS Transitional Case Management, Youth Services | H701226-2 | 04/01/11-02/29/12 | 93.917 | 70,000 | 61,626 |
| HIV/AIDS Transitional Case Management | H206921 | 04/01/12-02/28/13 | 93.917 | 70,000 | 5,842 |
| | | | | Total 93.917 | 67,468 |
| Reducing Risks for Alcohol-Exposed Pregnancy (CDC-AEP) | 1U84DD000726-01 | 09/01/10-08/31/11 | 93.283 | 275,000 | 77,579 |
| Reducing Risks for Alcohol-Exposed Pregnancy (CDC-AEP) | 1U84DD000726-02 | 09/01/11-08/31/12 | 93.283 | 275,000 | 203,628 |
| | | | | Total 93.283 | 281,207 |
| <u>Passed through RAND Corporation</u> | | | | | |
| RAND - Parks & Physical Activity in Diverse Communities | 9920080039 | 01/01/08-05/31/12 | 93.837 | 769,112 | 222,325 |
| | | | | Total 93.837 | 222,325 |
| <u>Passed through The Regents of the University of California, San Francisco</u> | | | | | |
| East Los Angeles AHEC Program | U77HP03015 | 09/01/10-08/31/11 | 93.107 | 72,000 | 21,237 |
| East Los Angeles AHEC Program | U77HP03015 | 09/01/11-08/31/12 | 93.107 | 67,960 | 39,898 |
| | | | | Total 93.107 | 61,135 |
| <u>U.S. Department of Housing and Urban Development</u> | | | | | |
| <u>Passed through City of Huntington Beach Community Development</u> | | | | | |
| Huntington Beach Community Development (CDBG) | 50983 | 10/01/10-09/30/11 | 14.218 | 50,000 | 20,833 |
| Huntington Beach Community Development (CDBG) | 50983 | 10/01/11-09/30/12 | 14.218 | 50,000 | 23,333 |
| | | | | Total 14.218 | 44,166 |
| <u>Passed through Los Angeles Housing Department</u> | | | | | |
| Housing for People Living with AIDS (HOPWA) | 112181-3 | 04/01/11-09/30/11 | 14.241 | 49,500 | 26,304 |
| | | | | Total 14.241 | 26,304 |
| <u>Americorps</u> | | | | | |
| <u>Passed through National Association of Community Health Centers, Inc.</u> | | | | | |
| HealthCorp | 06ACHCA0010018 | 09/01/10-10/31/11 | 94.006 | 171,703 | 118,600 |
| HealthCorp | 06ACHCA0010018 | 09/01/11-10/31/12 | 94.006 | 171,703 | 110,000 |
| | | | | Total 94.006 | 228,600 |
| <u>U.S. Department of Labor</u> | | | | | |
| <u>Direct Programs</u> | | | | | |
| Young Parents Demonstration Project | MI219251160A6 | 07/01/11-06/30/12 | 17.261 | 375,000 | 275,743 |
| | | | | Total 17.261 | 275,743 |
| | | | | Total non-major programs | 13,639,927 |
| | | | | Total federal programs \$ | 18,353,806 |

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Scope of Presentation

The accompanying schedule presents only the expenditures incurred by AltaMed that are reimbursable under programs of federal agencies providing financial awards. For the purposes of this schedule, financial awards include federal awards received directly from a federal agency, federal funds received indirectly by AltaMed from a nonfederal agency or other organization.

Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting, which is described in Note 2 to AltaMed Health Services Corporation's financial statements

Certain awards consist of combination of federal and state awards. The amounts listed under "Expenditures" only represent the federal portion.

NOTE 2 MAJOR PROGRAMS

The following Catalog of Federal Domestic Assistance (CFDA) programs were tested as major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 93.918 | Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Ryan White HIV/AIDS Program Part C) |
| 93.914 | HIV Emergency Relief Project Grants |
| 93.943 | Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups |
| 93.701 | ARRA-Increase Services to Health Centers Trans-NIH Recovery Act Research Support |

**AltaMed Health Services Corporation
Schedule of Findings and Questioned Costs
Year ended April 30, 2012**

Section I – Summary of Auditors’ Results

Financial Statements

| | |
|---|---------------|
| Type of auditors’ report issued on the financial statements: | Unqualified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified: | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to the financial statements noted: | No |

Federal Awards

| | |
|--|---------------|
| Internal control over its major programs: | |
| • Material weakness(es) identified: | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Type of auditors’ report issued on compliance for its major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |

Identification of Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 93.918 | Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Ryan White HIV/AIDS Program Part C) |
| 93.914 | HIV Emergency Relief Project Grants |
| 93.943 | Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups |
| 93.701 | ARRA-Increase Services to Health Centers Trans-NIH Recovery Act Research Support |

| | |
|--|------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 550,614 |
| Auditee qualified as a low-risk auditee: | Yes |

Section II – Financial Statement Findings

There were no financial statement findings noted during the fiscal year ended April 30, 2012.

Section III – Federal Award Findings

Finding # 2012-01: Level of Effort

Federal Catalog Number: 93.914

Federal Program Name: HIV Emergency Relief Project Grants –
Ambulatory/Outpatient Medical Services
Case Management – Community/Home-Based
Services

Federal Agency: Department of Health and Human Services – Passed
through County of Los Angeles Department of Health

Criteria

Per Ambulatory/Outpatient Medical Services agreement Exhibit AAA, the contract goals and objectives for the period May 1, 2011 to February 29, 2012 are as follows:

- Number of medical visits – 7360
- Number of unduplicated - 920

Per Case Management – Community/Home-Bases Services agreement Exhibit R, the contract goals and objectives for the period July 1, 2010 to June 30, 2011 are as follows:

- Total clients - 35
- Total hours performed - 7,371 hours

Condition

During our audit, we noted that the programs did not meet goals set in the contracts. For the Ambulatory/Outpatient Medical Services program, we noted the following:

- The number of medical visits for the period March 1, 2011 to February 29, 2012 was 5,170, 2,190 medical visits short of its goal
- The number of unduplicated clients for the March 1, 2011 to February 29, 2012 was 808, 112 clients short of its goal

For the Case Management Community/Home-Based Services, we noted the following:

- The number of clients was 20, 15 clients short of its goal
- The number of hours performed was 5,632.83, 1,738.17 hours short of its goal

Questioned Costs

Not Applicable

Effect

This may constitute noncompliance with the grant terms and conditions which may be grounds for unnecessary sanctions.

Recommendation

We recommend that AltaMed should evaluate the performance of each of its programs and develop and implement strategies that will enable them to meet the goals of the program.

Views of Responsible Officials and Planned Corrective Actions

Although for this period, we did not achieve the goals outlined in the contract, the program staff has been working closely with DHSP Program Manager to develop strategies to grow patient panel size and clinic services. During this period, 3 providers underwent various training and certification beyond CME on specialty procedure such as the High Resolution Anoscopy screening and treatment. Upon implementation of the procedure, it is anticipated that the goals of the contract will be met at a minimum.

The program staff has been working with community partners and with other clinic departments to identify clients that meet the program criteria to be referred to Home Base Case Management Program. Supervisor and Manager are closely monitoring activities and referrals and implement improvements to the screening and referral process.

Finding # 2012-02: Allowable Costs/Cost Principles

| | |
|-------------------------|---|
| Federal Catalog Number: | 93.943 |
| Federal Program Name: | Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups – Community Based HIV Prevention Project |
| Federal Agency: | Department of Health and Human Services Center for Disease Control and Prevention |

Criteria

Title 2 CFR Part 230 – Grants and Agreements – Cost Principles for Non-Profit Organization (OMB Circular A-122) –

Appendix A to Part 230 – General Principles A. Basic considerations; Section 2 Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- g. Be adequately documented.

Condition

During our audit, we noted that 1 out of 19 non-payroll expenditures selected for testing lacks adequate supporting documentation. The expenditure was for target gift cards provided to participants as incentives. The documentation provided was a Special Event Request Form with no attached invoice to support the expenditure. Moreover, there was no documentation of how the gift cards distribution was monitored (e.g. distribution/participants list).

Questioned Costs

\$2,500

Possible Asserted Cause and Effect

Adequate monitoring controls do not appear to be in place to ensure that all program expenditures are adequately documented. The related supporting invoice for the special event expenditure was not provided.

Recommendation

We recommend that AltaMed strengthen its policies and procedures to ensure that program expenditures are adequately documented.

Views of Responsible Officials and Planned Corrective Actions

Current policies and procedures for incentives now include employees signing out on the number of incentives provided to them for eligible participants along with appropriate logs. All logs are submitted to the Supervisor before any additional incentives are ordered or given to the employee. Additionally, a copy of the original receipt for purchase of gift cards is required to be filed with the Special Event form.

Finding # 2012-03: Allowable Costs/Cost Principles

| | |
|-------------------------|---|
| Federal Catalog Number: | 93.943 |
| Federal Program Name: | Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups – HIV Expanded Testing |
| Federal Agency: | Department of Health and Human Services – Passed through California Department of Public Health |

Criteria

Title 2 CFR Part 230 – Grants and Agreements – Cost Principles for Non-Profit Organization (OMB Circular A-122) –

Appendix B to Part 230 – Selected Items of Cost; Section 8 Compensation for personal services; (m) (2) Support of salaries and wages. Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

- a. The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
- b. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- c. The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
- d. The reports must be prepared at least monthly and must coincide with one or more pay periods.

Condition

During our audit, we noted that salaries and wages are not adequately supported as follows:

- 2 out of 6 payroll expenditures sampled were based on budget and there were no documentations that reflect the actual activity and time charges of the employee.

Questioned Costs

\$2,575.94 of the \$8,951.14 sampled

Possible Asserted Cause and Effect

Adequate monitoring controls do not appear to be in place to ensure that all salaries charged to the program are adequately supported reflecting the actual activity of the employee. This may constitute noncompliance with the grant terms and conditions which may be grounds for unnecessary sanctions.

Recommendation

We recommend that AltaMed strengthen its policies and procedures to ensure that all personnel costs distributed to the Federal award programs are adequately supported by personnel activity reports or timesheets to ensure compliance with federal requirements.

Views of Responsible Officials and Planned Corrective Actions

In January 2012 AltaMed converted its payroll process to an electronic time and labor management system where staff charges time directly to grants and contracts. The hours charged are approved by the employee and reviewed by the respective supervisor on a biweekly basis prior to payroll processing. This process will further enhance the support of time charged to grants or contracts.

Finding #2012-04: Equipment Management

Federal Catalog Number: 93.943
Federal Program Name: Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups – HIV Expanded Testing

Federal Agency: Department of Health and Human Services – Passed through California Department of Public Health

Criteria

Title 2 CFR Part 215 – Grants and Agreements – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (OMB Circular A-110) Subpart C – Post Award Requirement Property Standards; Section 215.34 Equipment (c)

The recipient shall use the equipment in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds and shall not encumber the property without approval of the Federal awarding agency. When no longer needed for the original project or program, the recipient shall use the equipment in connection with its other federally-sponsored activities, in the following order of priority:

- (1) Activities sponsored by the Federal awarding agency which funded the original project, then
- (2) Activities sponsored by other Federal awarding agencies.

Condition

During the course of the audit, it was noted that equipment purchased for the HIV Expanded Testing program was used by another program.

Questioned Cost

\$11,666

Effect:

This may constitute noncompliance with the grant terms and conditions which may be grounds for unnecessary sanctions.

Recommendation

AltaMed should strengthen policies and procedures to ensure that federal equipment management regulations are followed. In addition, individuals involved in the program should monitor that program equipment shall only be used by the program or project for which it was acquired.

Views of Responsible Officials and Planned Corrective Action

The equipment purchased with grant funds was inadvertently sent to the incorrect location at the time of acquisition. However, this was subsequently relocated and installed for use by the HIV Expanded Testing program. AltaMed has established procedures to assure equipment purchased with federal funds is appropriately delivered to the correct location.

Finding #2012-05: Reporting

| | |
|-------------------------|--|
| Federal Catalog Number: | 93.918 |
| Federal Program Name: | Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Ryan White HIV/AIDS Program Part C) – Ryan White Part C Outpatient EIS Program |
| Federal Agency: | Department of Health and Human Services |

Criteria

The agreement with HRSA requires that the Expenditure Report to be submitted within 90 days of budget end date

Condition

During our testing for compliance with the reporting requirements, we noted that the Expenditure Report was submitted 18 days after the deadline

Questioned Cost

N/A

Effect:

This may constitute noncompliance with the grant terms and conditions which may be grounds for unnecessary sanctions.

Recommendation

AltaMed should strengthen its policies and procedures to ensure that appropriate individuals involved in the program are properly monitoring timely submission of periodic reports.

Views of Responsible Officials and Planned Corrective Action

AltaMed will implement procedures to ensure the continuous monitoring of fiscal reporting requirements that will minimize late report filing.

**AltaMed Health Services Corporation
Status of Prior Year's Audit Report Findings
Year ended April 30, 2012**

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|-------------------|--|--|----------------|--------------------------------------|
| Finding # 2011-01 | CFDA 93.778 – Medical Assistance Program – Multipurpose Senior Service Program - Reporting | We recommend that AltaMed strengthen its policies and procedures to ensure that appropriate individuals involved in the program are properly monitoring timely submission of periodic reports. | Implemented | Not applicable |
| Finding # 2011-02 | CFDA 93.778 – Medical Assistance Program – Multipurpose Senior Service Program – Allowable Costs/Cost Principles | AltaMed should evaluate the performance of its programs and come up with ways to improve the services and performance that will enable them to meet the requirements per grant agreement. | Implemented | Not applicable |
| Finding # 2011-03 | CFDA 93.778 – Medical Assistance Program – Multipurpose Senior Service Program – Special Tests and Provisions | We recommend that AltaMed strengthen its policies and procedures to ensure that appropriate individuals involved in the program are properly monitoring compliance with the contract requirements. | Implemented | Not applicable |
| Finding # 2011-04 | CFDA 93.558 – Temporary Assistance for Needy Families – Cal-Learn Case Management – Special Tests & Provisions | We recommend that AltaMed strengthen its policies and procedures to ensure that appropriate individuals involved in the program are properly monitoring timely submission of periodic reports. | Implemented | Not applicable |
| Finding # 2011-05 | CFDA 10.558 – Child and Adult Care Food Program – Adult Day Care Food Program | We recommend that AltaMed strengthen its policies and procedures to ensure compliance with program requirements. | Implemented | Not applicable |

**Audited Financial Statements
and Supplementary Information
AltaMed Health Services Corporation
*Years ended April 30, 2012 and 2011
with Report of Independent Auditors***

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Report of Independent Auditors

Board of Directors AltaMed Health Services Corporation

We have audited the accompanying statements of financial position of AltaMed Health Services Corporation (AltaMed), a not-for-profit organization, as of April 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of AltaMed'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 audits 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 AltaMed'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, 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 AltaMed Health Services Corporation as of April 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles used in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses 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 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2012 on our consideration of AltaMed Health Services Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the 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 read in conjunction with this report in assessing the results of our audit.

Vargus + Company LLP

Los Angeles, California
August 23, 2012

AltaMed Health Services Corporation
Statements of Financial Position

| | April 30 | |
|---|-----------------------|-----------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 28,217,155 | \$ 29,178,508 |
| Marketable securities | 23,230,208 | 26,417,778 |
| Grants and contracts receivable | 3,746,462 | 3,945,499 |
| Patient accounts receivable - net of allowance for bad debts of \$2,750,833 and \$3,111,991 in 2012 and 2011, respectively | 14,677,751 | 10,541,903 |
| Contribution and other receivables | 2,202,401 | 805,332 |
| Notes receivable - net of allowance for bad debts of \$104,186 in 2012 and \$114,186 in 2011, respectively | 8,121,260 | 8,102,856 |
| Inventories | 378,103 | 214,650 |
| Prepaid expenses | 1,239,273 | 1,656,225 |
| Total current assets | 81,812,613 | 80,862,751 |
| Noncurrent assets | | |
| Property and equipment - net | 51,939,484 | 38,186,768 |
| Loans and accrued interest receivable | 3,279,510 | - |
| Investments | 2,803,761 | 2,690,544 |
| Assets limited as to use | 1,269,006 | 1,268,337 |
| Deposits | 584,885 | 543,515 |
| Deferred financing cost | 58,450 | - |
| Total assets | \$ 141,747,709 | \$ 123,551,915 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Bank revolving line of credit | \$ 5,000,000 | \$ - |
| Accounts payable and accrued expenses | 15,642,075 | 10,753,153 |
| Accrued salaries and employee benefits | 3,894,299 | 3,225,977 |
| Accrued vacation | 4,744,677 | 4,187,228 |
| Claims payable | 9,912,754 | 8,442,068 |
| Grant and contract advances | 1,282,337 | 2,556,174 |
| Current portion of facility lease payable | 441,926 | - |
| Current portion of long-term debt | 769,527 | 907,112 |
| Current portion of capital lease obligations | 29,995 | 93,988 |
| Total current liabilities | 41,717,590 | 30,165,700 |
| Noncurrent liabilities | | |
| Facility lease payable - net of current portion | 635,687 | - |
| Interest rate swap | 1,534,267 | 982,411 |
| Long-term debt - net of current portion | 9,025,351 | 9,795,085 |
| Capital lease obligations - net of current portion | - | 30,009 |
| Other long-term liabilities | 493,894 | 489,509 |
| Total noncurrent liabilities | 11,689,199 | 11,297,014 |
| Total liabilities | 53,406,789 | 41,462,714 |
| Net assets | | |
| Unrestricted | 84,881,736 | 80,003,730 |
| Temporarily restricted | 3,459,184 | 2,085,471 |
| Total net assets | 88,340,920 | 82,089,201 |
| Total liabilities and net assets | \$ 141,747,709 | \$ 123,551,915 |

See notes to financial statements

AltaMed Health Services Corporation
Statements of Activities

| | Year ended April 30 | |
|---|----------------------------|---------------|
| | 2012 | 2011 |
| Changes in unrestricted net assets | | |
| Unrestricted revenues, gains and other support | | |
| Government grants and contracts | \$ 20,662,129 | \$ 21,610,534 |
| Net patient service revenue | 97,382,910 | 84,391,500 |
| Managed care contracts | 101,681,269 | 84,342,537 |
| Pharmacy revenue | 7,971,341 | 5,793,808 |
| Contributions and other support | 2,150,555 | 1,552,978 |
| Other income | 2,318,396 | 825,987 |
| Total unrestricted revenues, gains and other support before net assets released from restriction | 232,166,600 | 198,517,344 |
| Net assets released from restrictions | | |
| Restrictions satisfied | 27,030 | 265,626 |
| Total unrestricted revenues, gains, and other support | 232,193,630 | 198,782,970 |
| Expenses | | |
| Program expenses | | |
| Medical services | 118,860,397 | 91,916,900 |
| Dental services | 7,358,769 | 5,663,224 |
| Senior services | 83,680,306 | 76,259,070 |
| Drug Abuse programs | 1,081,282 | 960,426 |
| HIV/AIDS programs | 11,979,914 | 9,343,884 |
| Teen programs | 3,382,195 | 3,698,117 |
| Total program expenses | 226,342,863 | 187,841,621 |
| Fundraising | 1,095,949 | 671,252 |
| Total expenses | 227,438,812 | 188,512,873 |
| Change in unrestricted net assets before other gains and losses | 4,754,818 | 10,270,097 |
| Other gains and losses - net | | |
| Change in fair value of marketable securities and investments | (302,503) | 2,738,347 |
| Change in fair value of interest rate swap | (551,856) | (91,424) |
| Interest and dividends | 1,149,143 | 99,754 |
| Loss from disposal of property and equipment | (171,596) | - |
| Other gains and losses - net | 123,188 | 2,746,677 |
| Change in unrestricted net assets | 4,878,006 | 13,016,774 |
| Changes in temporarily restricted net assets | | |
| Contributions and other support | 1,400,743 | - |
| Net assets released from restrictions | (27,030) | (265,626) |
| Change in temporarily restricted net assets | 1,373,713 | (265,626) |
| Change in net assets | 6,251,719 | 12,751,148 |
| Net assets | | |
| Beginning of year | 82,089,201 | 69,338,053 |
| End of year | \$ 88,340,920 | \$ 82,089,201 |

See notes to financial statements.

AltaMed Health Services Corporation
Statements of Cash Flows

| | Year ended April 30 | |
|--|----------------------------|----------------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 6,251,719 | \$ 12,751,148 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 4,946,306 | 3,752,491 |
| Loss from disposal of property and equipment | 171,596 | - |
| Impairment/amortization of intangible assets | 762,300 | 402,744 |
| Equity income in Arlington Insurance Company, Ltd. | (110,498) | (170,317) |
| Change in fair value of marketable equity securities and investments - net | 413,001 | (2,568,030) |
| Change in fair value of interest rate swap | 551,856 | 91,424 |
| Provision for bad debts | 2,089,737 | 2,467,770 |
| Loan forgiveness | 59,163 | 7,144 |
| Changes in operating assets and liabilities: | | |
| Grants and contracts receivable | 199,037 | (383,439) |
| Patient accounts receivable | (6,225,585) | 2,645,301 |
| Contribution and other receivables | (1,397,069) | (52,701) |
| Inventories | (163,453) | (97,941) |
| Prepaid expenses | 416,952 | (416,361) |
| Deposits | (41,370) | (86,453) |
| Interest on loans receivable | (33,058) | - |
| Accounts payable and accrued expenses | 4,888,922 | 2,666,266 |
| Accrued salaries and employee benefits | 668,322 | 522,968 |
| Accrued vacation | 557,449 | 530,022 |
| Claims payable | 1,470,686 | 789,722 |
| Grant and contract advances | (1,273,837) | 245,140 |
| Facility lease payable | 1,077,613 | - |
| Other liabilities | 4,385 | 118,468 |
| Net cash provided by operating activities | 15,284,174 | 23,215,366 |
| Cash flows from investing activities: | | |
| Increase in assets limited as to use | (669) | (1,085) |
| Net proceeds from sale (purchase) of marketable securities and other investments | 2,771,850 | (17,842,178) |
| Issuance of notes receivable | (77,567) | (1,703,500) |
| Loans receivable | (3,246,452) | - |
| Purchase of property and equipment | (18,880,368) | (6,111,549) |
| Proceeds from disposal of property and equipment | 9,750 | - |
| Purchase of medical practice | (762,300) | (80,000) |
| Net cash used in investing activities | (20,185,756) | (25,738,312) |
| Cash flows from financing activities: | | |
| Proceeds from (payment of) bank revolving line of credit | 5,000,000 | (5,000,000) |
| Payment of long-term debt | (907,319) | (1,060,301) |
| Payment of capitalized lease obligations | (94,002) | (103,848) |
| Financing cost | (58,450) | - |
| Net cash provided by (used in) financing activities | 3,940,229 | (6,164,149) |
| Net change in cash and cash equivalents | (961,353) | (8,687,095) |
| Cash and cash equivalents at beginning of year | 29,178,508 | 37,865,603 |
| Cash and cash equivalents at end of year | \$ 28,217,155 | \$ 29,178,508 |
| Supplemental disclosure | | |
| Interest paid during the year | \$ 619,454 | \$ 830,442 |

See notes to financial statements.

NOTE 1 ORGANIZATION PROFILE

AltaMed Health Services Corporation (AltaMed) is a 501(c)(3) non-profit community health center founded in 1969 as a volunteer-staffed, storefront clinic in East Los Angeles. Today, AltaMed has matured to become the largest Federally Qualified Health Center (FQHC) in California with 22 primary care clinics, 5 oral health service sites, and 6 Program of All-Inclusive Care for the Elderly (PACE) sites. Fully accredited by The Joint Commission, AltaMed provides a medical and dental home to over 125,000 predominantly low-income Latino families from underserved communities across Los Angeles and Orange Counties.

AltaMed's mission is *"To eliminate disparities in health care access and outcomes by providing superior quality health and human services through an integrated world-class delivery system for Latino, multi-ethnic and underserved communities in Southern California."* Enhancing its provision of primary health care and dental care, AltaMed also develops, supports and administers social and human service programs. Services include chronic disease management; frail and disabled adult and senior care; HIV treatment and adherence; drug abuse treatment and prevention; after-school tutorial and mentoring services for at-risk youth; employment and internship opportunities; and multi-sectoral collaborations and linkages with other community service organizations. AltaMed's social service programs include HIV/AIDS prevention services; health education and wellness promotion; substance abuse treatment and prevention; parenting and pregnant teen programs; and youth outreach services.

During the years ended April 30, 2012 and 2011, AltaMed received the following mix of revenues from grantors, patients and third-party payors:

| | 2012 | 2011 |
|--|-------------|-------------|
| Federal and state grants and contracts | 9% | 11% |
| Patient fees (primarily Medi-Cal and Medicare) | 42% | 43% |
| Managed care contracts | 44% | 42% |
| Other | 5% | 4% |
| | 100% | 100% |

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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. Significant items subject to such estimation include: valuation allowances on receivables, useful lives for property and equipment, estimates for claims incurred but not reported, estimated amount of settlements related to reconciliation and cost report audits to be performed for the fiscal years 2005 through 2012, and valuation of investments and interest rate swap. Actual results could differ from these estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Records

The accounts of AltaMed are maintained on the accrual basis of accounting for financial reporting purposes.

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. Cash equivalents exclude amounts whose use is limited by arrangements under trust agreements.

Marketable Securities and Investments

Investments in marketable securities with readily determinable fair values and investments in debt securities are measured at fair value, based upon publicly quoted market prices or quotations of similar securities.

Investment in workers' compensation captive insurance company is accounted for using equity method of accounting.

Inventories

Inventories which consist of pharmacy supplies are stated at the lower of cost or market on a first-in, first-out basis.

Assets Limited as to Use

Assets limited as to use primarily include assets held in a trust account as additional security for the certificates of participation and lines of credit, which amounted to \$575,089 and \$574,420 as of April 30, 2012 and 2011, respectively. In addition, cash held in trust related to the California Statewide Communities Development Authority (CSCDA) Series 2007 Revenue Bonds amounted to \$693,917 as of April 30, 2012 and 2011.

Property and Equipment

Purchased property and equipment are recorded at cost or, if donated, at fair value at date of donation. Provision for depreciation and amortization is computed on the straight-line method over the estimated useful lives of the properties or life of the lease, whichever is shorter, as follows:

| | |
|----------------------------|------------|
| Buildings and improvements | 30 years |
| Furniture and equipment | 3-5 years |
| Leasehold improvements | 3-10 years |
| Transportation equipment | 5 years |

Maintenance, repairs, and investments in minor equipment are charged to operations. Expenditures that will materially increase the value of properties or extend useful lives are capitalized.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property acquired with federal funds is considered to be owned by AltaMed while used in the program(s) for which it was purchased or in other future authorized programs. Its disposition as well as the ownership of any proceeds therefrom is subject to federal regulations. As of April 30, 2012 and 2011, the property and equipment include reversionary assets with a net book value of approximately \$-0- and \$25,236, respectively.

Unrestricted Net Assets

Contributions and allocations, the uses of which are not restricted by donors or grantors, are recorded in unrestricted net assets.

Temporarily Restricted Net Assets

Contributions and allocations, the uses of which are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of AltaMed pursuant to those stipulations, are recorded as temporarily restricted net assets. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Permanently Restricted Net Assets

Permanently restricted net assets are restricted by donors to be maintained by AltaMed in perpetuity. There were no permanently restricted net assets at April 30, 2012 and 2011.

Revenue Recognition

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. These retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and are adjusted in future periods as final settlements are determined.

Revenue from cost reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the grant or contract. Any difference between expenses incurred and the total funds received (not to exceed the grant or contract maximum) is recorded as a receivable or an advance whichever is applicable. Revenue from other grants is recognized on an accrual basis as earned according to the provisions of the grant.

AltaMed is a participant in Section 340B Drug Pricing program. Payment arrangements include contracted calculations based upon discounted prices. Pharmacy revenue is reported at estimated net realizable amounts from sales to patients, third-party payors, and others.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions primarily include unconditional promises to give cash or other assets. Contributions, whether temporarily restricted or unrestricted, are recognized as revenue when they are received. Unconditional promises to give are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the conditions expire, whichever occurs first.

Income Taxes

AltaMed is a nonprofit corporation exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

AltaMed has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of any audit by taxing authorities at the federal and state levels. The primary tax positions evaluated relate to AltaMed's continued qualification as a tax-exempt organization and whether there are unrelated business income activities that would be taxable. Management has determined that all income tax positions will more likely than not be sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

Interest Rate Swap

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 815 (ASC 815), Accounting for Derivative Instruments and Hedging Activities, interest rate swap is measured at fair value and recognized as either asset or liability in the statements of financial position. Change in fair value of the swap is recognized as gains or losses in the period of change.

Fair Value Measurements

AltaMed adopted ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities are measured at fair value using a three-level fair value hierarchy that ranks the quality and reliability of the information used to measure fair value. The three levels of inputs used to measure fair value are as follows:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

AltaMed's financial assets and liabilities include primarily cash and cash equivalents, investments, receivables, accounts payable and accrued liabilities. Because of the short-term nature of the cash, investments, receivables, accounts payable and accrued liabilities, the carrying amounts of these assets and liabilities approximate their fair value.

NOTE 3 MARKETABLE SECURITIES AND INVESTMENTS

At April 30, 2012 and 2011, AltaMed's investments consisted of the following:

| | <u>Type</u> | <u>2012</u> | <u>%</u> | <u>2011</u> | <u>%</u> |
|---|---|----------------------|-------------|----------------------|-------------|
| Equity Securities | | | | | |
| Domestic Equity | U.S. Large Cap Equity | \$ 8,911,511 | 34% | \$ 8,105,794 | 28% |
| Domestic Equity | U.S. Small/Mid Cap Equity | 4,046,770 | 16% | 4,335,256 | 15% |
| International Equity | Developed Non-U.S. Equity | 1,159,019 | 4% | 1,285,145 | 4% |
| | | <u>14,117,300</u> | <u>54%</u> | <u>13,726,195</u> | <u>47%</u> |
| Absolute Return/ Fixed Income | | | | | |
| Fixed Income | Taxable Government and Government Sponsored Enterprise/Corporate Bonds | 9,112,908 | 35% | 12,691,583 | 44% |
| | Total Marketable Securities | 23,230,208 | 89% | 26,417,778 | 91% |
| Other Investments | | | | | |
| Equity investment - investment in Arlington Insurance Company, Ltd. (Note 7) | | 2,301,538 | 9% | 2,191,040 | 7% |
| Investment in SERP (Note 19) | | 472,746 | 2% | 489,510 | 2% |
| Investment in 457(b) plan (Note 19) | | 21,148 | 0% | - | 0% |
| Investment in Partnership | | 8,329 | 0% | 9,994 | 0% |
| | Total Investments | 2,803,761 | 11% | 2,690,544 | 9% |
| | | <u>\$ 26,033,969</u> | <u>100%</u> | <u>\$ 29,108,322</u> | <u>100%</u> |

NOTE 3 MARKETABLE SECURITIES AND INVESTMENTS (CONTINUED)

The following table presents investments that were accounted for at fair value on a recurring basis as of April 30 by level within the fair value hierarchy:

| | 2012 | 2011 |
|---|----------------------|---------------|
| Quoted Prices in Active Markets (Level 1) | \$ 23,230,208 | \$ 26,417,778 |
| Significant Unobservable Inputs (Level 3) | 2,803,761 | 2,690,544 |
| | \$ 26,033,969 | \$ 29,108,322 |

The level 3 investments consist primarily of AltaMed's investments in workers' compensation captive insurance company, 457(b) plan and SERP in 2012 and 2011.

A reconciliation of investments in which significant unobservable inputs (level 3) were used in determining fair value is as follows:

| | 2012 | 2011 |
|--------------------------------|---------------------|--------------|
| Balance, May 1 | \$ 2,690,544 | \$ 2,399,755 |
| Change in value of investments | 92,069 | 237,059 |
| Purchase of investments | 21,148 | 53,730 |
| Balance, April 30 | \$ 2,803,761 | \$ 2,690,544 |

NOTE 4 NOTES RECEIVABLE

In September 2009, AltaMed entered into a Note Receivable (the "Note"), collateralized by a Deed of Trust, with a certain property developer (the "Developer") for an amount up to \$8,000,000. Subsequent to the issuance of the Note, AltaMed agreed to subordinate the Deed of Trust to deeds of trust executed by the Developer to secure the construction loan described in Note 13. AltaMed and the Developer have entered into a separate Build to Suit Lease Agreement (the "Lease") dated August 6, 2009, as further discussed in Note 15. The Note bears interest at 8.43% annually, which will commence to accrue on the Term Commencement Date as defined in the Lease. Advances under the Note were used for land acquisition, entitlement, design, permitting and construction of the building to serve as AltaMed's corporate office as defined under the Lease.

As of April 30, 2012 and 2011, the note outstanding was \$8,000,000.

NOTE 5 PROPERTY AND EQUIPMENT

At April 30, 2012 and 2011, property and equipment are composed of the following:

| | 2012 | 2011 |
|--|----------------------|---------------|
| Land | \$ 8,631,587 | \$ 8,631,587 |
| Buildings and improvements | 27,284,731 | 23,005,433 |
| Construction in progress | 9,212,996 | 4,430,183 |
| Furniture and equipment | 23,332,074 | 15,179,935 |
| Transportation equipment | 2,535,284 | 2,497,284 |
| Leasehold improvements | 7,250,680 | 6,057,531 |
| | 78,247,352 | 59,801,953 |
| Less accumulated depreciation and amortization | 26,307,868 | 21,615,185 |
| | \$ 51,939,484 | \$ 38,186,768 |

Provision for depreciation and amortization for the years ended April 30, 2012 and 2011, amounted to \$4,946,306 and \$3,750,332, respectively. In March 2012, AltaMed closed seven of its Adult Day Health Centers (ADHC) resulting to loss on disposal of property and equipment amounting to \$171,596 (see Note 13). Three of the closed ADHCs were converted to PACE sites.

NOTE 6 INSURANCE PLAN

On October 27, 2011, the Board of Directors of AltaMed approved a split-dollar retention and loan plan effective on November 1, 2011. The purpose of the plan is to attract and retain qualified key employees by lending them funds to pay annual premiums for life insurance policies to be used to provide death benefits and retirement income. The funds provided by AltaMed to the key employees are treated as a series of non-recourse loans the repayment of which is secured by collateral assignment of the cash surrender values and death benefits of the life insurance policies. The loans are payable with accrued interest based on the long-term annual applicable federal rate. AltaMed has no obligation to lend funds or to make any premium payments with respect to any policy that becomes due after the end of the premium payment period for that policy which ends on the earlier of (a) the death of the employee or (b) the date the employee's employment is terminated.

In the event the employee voluntarily terminates their participation in the plan, the employee is required to repay AltaMed the cumulative premiums plus accrued interest through date of termination. The repayment will be made in full either by the insurer directly out of the cash surrender value of the policy and/or by other cash payment by the employee, unless agreed to otherwise by AltaMed and the employee in writing.

As of April 30, 2012, the loans under the collateral assignment split-dollar arrangement totaled \$3,279,510, including interest receivable of \$33,058.

NOTE 7 INVESTMENT IN CAPTIVE INSURANCE

AltaMed maintains a self-insurance program for workers' compensation, under a segregated accounts captive insurance company, Arlington Insurance Company, Ltd. ("Arlington"). Arlington enters into agreements with the owners of the segregated accounts to insure and reinsure for workers compensation risk. AltaMed has its own respective segregated account, to which it invested \$550,000 in redeemable non-voting preferred shares. AltaMed has adopted the equity method in accounting for its investment in the segregated account.

Funding of the self-insurance program is obtained through monthly premiums paid by AltaMed, which are held in the segregated account to pay claims. Monthly premiums which are retrospectively rated are based upon loss experience plus the cost of operating Arlington. Total premiums paid to Arlington for the years ended April 30, 2012 and 2011 were \$2,379,319 and \$2,448,686, respectively, and are included in the accompanying Statement of Activities.

Assets, liabilities, revenues, expenses and losses relating to the account owners' participation in the insurance and reinsurance programs are accumulated in the segregated accounts. AltaMed, as an account owner, is not entitled to share in any profits other than those that accrue in its individual account.

Details of AltaMed's investment in its segregated account as of April 30 are as follows:

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Total assets | \$ <u>8,231,417</u> | \$ <u>5,793,963</u> |
| Total reserves and other liabilities | 5,929,879 | 3,602,923 |
| Segregated accounts surplus | <u>2,301,538</u> | <u>2,191,040</u> |
| Total liabilities and segregated accounts surplus | \$ <u>8,231,417</u> | \$ <u>5,793,963</u> |

NOTE 8 CAPITAL LEASE OBLIGATIONS

AltaMed has acquired equipment under long-term leases. Future minimum lease payments under the capital leases are as follows:

| | Amount |
|---|---------------|
| Year ending April 30, 2013 | \$ 30,488 |
| Less amount representing interest | <u>493</u> |
| Present value of net minimum capital lease payments | 29,995 |
| Less current portion | <u>29,995</u> |
| Long-term capital lease obligations | \$ <u>-</u> |

NOTE 9 LONG-TERM DEBT

A summary of long-term debt at April 30, 2012 and 2011 is as follows:

| | 2012 | 2011 |
|---|---------------------|---------------------|
| <ul style="list-style-type: none"> • California Statewide Communities Development Authority (CSCDA) Series 2007 Revenue Bonds, \$2,000,000 at 3% and \$7,012,000 at 80% of 1-month LIBOR, plus 120 basis points, due December 1, 2012 and 2022, respectively. Interest and principal payments are due monthly. Of the aggregate principal amount of \$9,012,500, \$7,012,500 is collateralized by a real property owned by AltaMed in the City of El Monte and \$2,000,000 is collateralized by equipment and other goods financed with the equipment bond. The debt is subject to certain covenants and restrictions with which Altamed must comply | \$ 6,686,966 | \$ 7,270,782 |
| <ul style="list-style-type: none"> • California Statewide Communities Development Authority 2000 Refunding Pool Insured Certificates of Participation at 5.9% due August 1, 2021. Total monthly installment of interest and principal payments approximate \$36,000. The debt is collateralized by land and building costing \$5,661,784 and subject to certain covenants and restrictions with which AltaMed must comply. | | |
| <p>As of April 30, 2012 and 2011, the trustee held \$433,003 as additional security for payment of the Certificates of Participation.</p> | 3,021,250 | 3,263,750 |
| <ul style="list-style-type: none"> • Note payable for automobiles purchased under an equipment financing agreement entered into on March 9, 2009 with a bank. Terms of the agreement require monthly payments of \$3,402 through February 2014, at an implicit rate of 5.37% per annum. | 71,134 | 107,388 |
| <ul style="list-style-type: none"> • Note payable for equipment purchased under an equipment financing agreement entered into on August 10, 2009 with a bank. Terms of the agreement require monthly payments of \$3,923 through August 2012, at an implicit rate of 5.05% per annum. | 15,528 | 60,277 |
| Total long-term debt | 9,794,878 | 10,702,197 |
| Less current portion | 769,527 | 907,112 |
| Noncurrent portion \$ | 9,025,351 | 9,795,085 |

NOTE 9 LONG-TERM DEBT (CONTINUED)

On December 1, 2007, California Statewide Communities Development Authority (CSCDA) issued CSCDA Revenue Bonds (AltaMed Services Corporation) Series 2007, proceeds of which were used to finance the cost of acquisition, construction, improvement and equipping of certain facilities. In connection with the issuance of the CSCDA Series 2007 Revenue Bonds and in an effort to reduce its interest costs, AltaMed entered into an interest rate swap agreement (see Note 11).

Scheduled principal repayments on long-term debt are as follows:

| Year ending April 30 | Amount |
|----------------------|--------------|
| 2013 | \$ 769,527 |
| 2014 | 480,550 |
| 2015 | 472,724 |
| 2016 | 502,151 |
| 2017 | 529,708 |
| Thereafter | 7,040,218 |
| Total | \$ 9,794,878 |

Interest on long-term debt charged as expense amounted to \$619,454 and \$830,442, respectively, for the years ended April 30, 2012 and 2011.

NOTE 10 LINE OF CREDIT

On April 16, 2012, AltaMed entered into a line of credit agreement expiring on April 30, 2013 with a financial institution that provides for secured borrowings up to \$3,000,000, at a rate equal to 0.250 percentage points over the prime rate. As of April 30, 2012, there was no amount outstanding on the line of credit.

On February 14, 2011, AltaMed entered into a revolving line of credit agreement with another financial institution that provides an unsecured borrowing up to \$5,000,000. The revolving line of credit expires on January 30, 2013. Interest is computed using the LIBOR rate or the BBA LIBOR daily floating rate upon election of AltaMed. As of April 30, 2012, the amount outstanding on the line of credit was \$5,000,000.

NOTE 11 INTEREST RATE SWAP AGREEMENT

In December 2007, AltaMed executed an interest rate swap agreement with Bank of the West to minimize debt service cost on the CSCDA Series 2007 Revenue Bonds by achieving a synthetic fixed rate payment to the swap counterparty, and then receive a variable rate payment from the swap counterparty that would effectively offset the payment on the underlying variable rate bonds.

NOTE 11 INTEREST RATE SWAP AGREEMENT (CONTINUED)

Under the swap agreement, AltaMed pays Bank of the West a fixed rate of 5.59% and receives from Bank of the West a variable payment equal to 80% of one-month LIBOR plus 120 basis points on the outstanding principal. The details of the swap are as follows:

| | | |
|---|---|-------------------|
| Notional amount | - | \$6,392,790 |
| Fixed interest rate | - | 5.59% |
| Floating rate based on % of (USD-Libor-BBA) | - | 80% |
| Effective date | - | December 14, 2007 |
| Termination date | - | December 1, 2022 |

As of April 30, 2012 and 2011, a swap liability of \$1,534,267 and \$982,411, respectively, is recorded as part of AltaMed's noncurrent liabilities. The fair values were the quoted market prices from Bank of the West at April 30, 2012 and 2011.

The swap counterparty was rated A/Stable by Standard & Poor's as of April 30, 2012.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

At April 30, 2012 and 2011, temporarily restricted net assets are available for future periods as follows:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Donated Property | \$ 2,058,441 | \$ 2,085,471 |
| Contributions received for various programs | 1,400,743 | - |
| | <u>\$ 3,459,184</u> | <u>\$ 2,085,471</u> |

NOTE 13 COMMITMENTS

AltaMed occupies certain facilities and leases certain equipment under both month-to-month and long-term lease agreements expiring through May 2018. Future minimum rental payments under these non-cancelable lease terms in excess of one year at April 30, 2012 are as follows:

| <u>Year ending April 30</u> | |
|-----------------------------|----------------------|
| 2013 | \$ 4,640,671 |
| 2014 | 3,703,901 |
| 2015 | 2,627,657 |
| 2016 | 894,873 |
| 2017 | 457,518 |
| 2018 and thereafter | 106,232 |
| Total | <u>\$ 12,430,852</u> |

NOTE 13 COMMITMENTS (CONTINUED)

The above lease commitments do not include the lease agreement for the new corporate office building discussed in Note 15. For the year ended April 30, 2012, total rent expense amounted to \$7,918,036 and \$801,635 for facilities and equipment, respectively. For the year ended April 30, 2011, total rent expense amounted to \$4,961,335 and \$717,150 for facilities and equipment, respectively.

In March 2012, AltaMed closed seven of its existing ADHCs of which three locations were converted to PACE sites. As a result of the facilities closure, AltaMed ceased utilization of two leased facilities and recognized a liability of \$1,077,613 for the remaining lease obligations through March 2015 as required by ASC 420-10.

In connection with the Lease agreement between AltaMed and the Developer discussed in Note 15, the Developer entered into a Construction Loan Agreement (the "Loan") with a financial institution (the "Lender") for an amount not to exceed \$14,910,000. The Loan is collateralized by a deed of trust which covers the subject real property in the Lease agreement. On January 27, 2011, AltaMed entered into a Guaranty Agreement (the "Guaranty") with the Lender which unconditionally guarantees the complete performance of all obligations of the Developer under the Loan agreement. The Guaranty covers all the indebtedness outstanding, including all amounts advanced by the Lender in stages or installments. As of April 30, 2012 and 2011, the Loan outstanding amounted to \$13,238,264 and \$6,180,100, respectively.

NOTE 14 CONTINGENCIES

AltaMed has received local, state and federal funds for specific purposes that are subject to review and audit by the contracting agencies. Although such audits could generate expense disallowances under terms of the grants or contracts, it is believed that any required reimbursements will not be material.

AltaMed, as a non-profit organization, has elected the reimbursable method of financing unemployment insurance. Under this method, AltaMed is not required to make contributions to the State Unemployment Insurance Fund. AltaMed currently uses Unemployment Services Trust ("UST") agency to handle its reimbursement payment to the state for unemployment benefits paid to eligible AltaMed ex-employees. Under this election, AltaMed's maximum potential liability per employee separated from employment is \$14,400 per year. For the years ended April 30, 2012 and 2011, AltaMed incurred \$732,540 and \$794,772, respectively, of expenses payable to UST.

NOTE 15 BUILD TO SUIT LEASE AGREEMENT

AltaMed entered into a Lease agreement with a Developer dated August 6, 2009 to construct a new corporate office building. The term of the Lease is ten years (“Original Term”) with option to extend for two separate consecutive periods of five years each. AltaMed shall pay monthly rent of \$158,274 subject to 3% annual increases. Under the Lease terms, AltaMed has the option to purchase the property and the Landlord’s interest in the Lease during the Original Term of the Lease, upon terms and conditions set forth in the Lease agreement.

Construction of the building was completed in August 2011, at which time the Lease has commenced. AltaMed expects to exercise its purchase option under the Lease subsequent to the anticipated tax-exempt bond financing as described in Note 21. The purchase price of the property is currently under negotiation.

NOTE 16 PATIENT FEES AND MANAGED CARE CONTRACTS

For the years ended April 30, 2012 and 2011, revenue from Medicaid (Medi-Cal in California) and Medicare programs accounted for approximately the following percentages of AltaMed’s net patient service revenue and managed care contracts revenue.

| | 2012 | 2011 |
|-------------------------|------------|------|
| Patient service revenue | | |
| Medi-Cal | 72% | 84% |
| Medicare | 2% | 2% |
| Managed care contracts | | |
| Medi-Cal | 65% | 63% |
| Medicare | 21% | 22% |

Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. Because of the inherent variability of many of the factors impacting these programs, actual receivables/revenue could differ significantly from the estimated amounts recorded.

AltaMed, as a community health center and as a Federally Qualified Health Center (FQHC), has elected to participate in the FQHC Medi-Cal reimbursement program. Effective in 2001, AltaMed converted to the federally mandated Prospective Payment System (PPS) reimbursement method for Medi-Cal services whereby reimbursement was established using PPS rates per Medi-Cal visit. Under the Medi-Cal program, AltaMed is required to file payment reconciliation reports at the end of each fiscal year. The reports reconcile payments received for Medi-Cal visits against compensation due using PPS rates. The reports are subject to adjustment based on review and audit by the Department of Health Services. For the years ended April 30, 2012 and 2011, AltaMed recorded net revenue of \$4,574,845 and \$2,381,595, respectively, of actual and estimated cost reports and reconciliation settlements. Of these amounts, \$1,465,025 and (\$125,707) relate to settlements for periods prior to the years ended April 30, 2012 and 2011, respectively. As of April 30, 2012 and 2011, patient accounts receivable include \$3,109,820 and \$238,841, respectively, related to expected cost report settlements.

NOTE 16 PATIENT FEES AND MANAGED CARE CONTRACTS (CONTINUED)

Payment agreements have been established with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Premiums are due monthly (calculated on a prospectively determined capitated rate) and are recognized as revenue during the period in which AltaMed is obligated to provide services to its members.

Operating expenses incurred in the provision of health services are accrued in the period in which services are provided to patients based in part on estimates, including accrual for medical services provided but not yet reported to AltaMed. Incurred but not reported (IBNR) costs are costs associated with health care services incurred during a financial reporting period but not reported to the health care organization until after the financial reporting date. AltaMed's estimated IBNR claims are determined based on claim lag studies that track and measure date of service against date of payment. The claim lag reports are also adjusted to reflect the current month because these reports are mathematically sensitive to prior history. Estimated IBNR of \$9.9 million and \$8.4 million are presented as part of claims payable as of April 30, 2012 and 2011, respectively.

NOTE 17 DONATED PROPERTY

On May 31, 2007, the County of Los Angeles conveyed to AltaMed on a gratis basis land and building located at 6336 Passons Boulevard, Pico Rivera, California. The conveyance of the property is subject to the following terms and conditions:

- a. For a period of 30 years commencing upon the date the deed is recorded with the Registrar of the County of Los Angeles, at all times and under all conditions, AltaMed agrees to provide the funds, staff, management, and all related services including medical, therapeutic, social, dental and pharmaceutical, to operate a day-care center targeting elders at the property, subject to the condition that the property will be used continuously and exclusively for the adult day-care purposes and that the property is not to become blighted.
- b. During the 30-year-period, the property and all services provided thereon shall be equally open and available to the County of Los Angeles residents.
- c. During the 30-year-period, the property shall be continuously and exclusively operated by AltaMed providing a variety of health, therapeutic and social services, including medical, dental and pharmacological services, targeting elderly citizens at the property. In the event AltaMed does not comply with operating an adult day-care center and/or fails to continuously maintain a license customarily issued for such facilities by the State of California or other jurisdiction having responsibility for such licensing during the 30-year period, then all rights, title, and interest in the property shall automatically revert back to the County.
- d. In the event that the property is sold after 30 years, AltaMed and the County of Los Angeles shall split the sales price 50% to AltaMed and 50% to the County.

NOTE 17 DONATED PROPERTY (CONTINUED)

The property was recorded as a temporarily restricted contribution at its fair value of \$2,166,567 as of the date of donation. Of this amount, \$810,917 represent the fair value of the building which is being amortized and released from restriction over 30 years. For the years ended April 30, 2012 and 2011, balances released from restriction amounted to \$27,030.

As a result of the elimination of ADHCs, AltaMed has requested authorization from the County of Los Angeles to use the ADHC property for the provision of other medical care services to the community.

NOTE 18 ACQUISITION OF MEDICAL CLINIC SITES

On January 22, 2009, AltaMed entered into a medical clinic asset purchase agreement with Universal Care, Inc., a California professional corporation, to acquire most of the assets of four medical clinic sites located in Orange County, California. The excess of purchase price of the clinics over the sum of the amounts assigned to the assets and liabilities acquired amounting to \$503,431 was recorded as goodwill on May 1, 2009. During fiscal year 2011, as a result of management's continued goodwill impairment assessment, the carrying value of goodwill of \$302,058 as of April 30, 2011 was determined not recoverable and written off.

On April 5, 2011, AltaMed entered into a Medical Clinic Asset Acquisition Agreement to purchase a primary care medical clinic located in West Covina, California. The acquisition was completed on July 5, 2011. The acquisition added approximately 3,000 lives to AltaMed's existing membership. The acquisition price amounted to \$762,300 for the purchase of clinic assets, the total of which was initially recognized as identifiable intangible assets. Subsequent to the initial recognition period, management determined that the carrying value of intangible assets of \$762,300 was not recoverable and written off as of April 30, 2012. In addition, for \$25,000 deposit, the seller grants AltaMed a purchase option for the medical office building to be exercised on or before March 31, 2013. AltaMed anticipates exercising the purchase option pursuant to the anticipated tax-exempt bond financing described above. The purchase price of the building is currently under negotiation.

NOTE 19 RETIREMENT PLANS

AltaMed maintains a Tax Sheltered Annuity Plan under section 403(b) of the Internal Revenue Code (IRC) for the benefit of its employees. AltaMed matches 100% of an employee's salary contribution up to 4% of the participant's compensation, subject to the maximum amount allowed by the Internal Revenue Service. This matching contribution requires 0-4 years of service for vesting purposes with an employee being 100% vested after 4 years of service. An eligible employee must be full time and routinely work 30 hours or more per week completing one continuous year of full time employment with AltaMed. AltaMed's matching contribution expense for the years ended April 30, 2012 and 2011 was \$1,604,442 and \$1,350,670, respectively. AltaMed funds its contribution on a current basis.

NOTE 19 RETIREMENT PLANS (CONTINUED)

Effective December 1, 2008, AltaMed adopted a non-qualified defined contribution Supplemental Executive Retirement Plan ("SERP Plan") for the benefit of executives who meet certain employment criteria. Funding under the SERP Plan is discretionary. The executives are entitled to receive SERP Plan benefits in a lump sum upon the earliest of certain provisions described in the SERP Plan. The executives' SERP Plan assets and benefit obligation of \$472,746 and \$489,510 as of April 30, 2012 and 2011, respectively, has been recorded and reflected in the accompanying statements of financial position in investments and other long-term liabilities, respectively.

Effective February 1, 2012, AltaMed adopted a voluntary salary deferral plan for highly compensated employees under IRC Section 457(b). Eligibility to the plan is determined by AltaMed. Under the plan, AltaMed has no authority to make discretionary credits to the deferred compensation account of each participant. As of April 30, 2012, \$21,148 has been deferred based on elections made by Plan participants and is included in investments and other long-term liabilities in the accompanying statements of financial position.

NOTE 20 CONCENTRATION OF CREDIT RISK

AltaMed maintains cash accounts primarily with financial institutions located in California. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Effective December 31, 2010 until January 1, 2013, all noninterest-bearing transaction accounts are fully insured without limit by FDIC. AltaMed has both unrestricted and restricted cash balances on deposit with the financial institutions at April 30, 2012 and 2011 that exceeded the balance insured by the FDIC by approximately \$893,711 and \$5,547,788, respectively.

AltaMed also maintains investment accounts with brokerage firms. The accounts contain amounts which are held as cash or invested in money market, mutual funds and equities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash claims) by the Security Investor Protection Corporation. The investments amounted to \$20,008,324 in cash and \$23,230,208 in securities as of April 30, 2012 and \$24,629,987 in cash and \$26,417,778 in securities as of April 30, 2011.

At April 30, 2012, \$10,336,543 or 50% of the total gross patient accounts receivable of \$20,523,441 were Medi-Cal fees receivable. At April 30, 2011, \$13,170,494 or 75% of the total gross patient accounts receivable of \$17,462,492 were Medi-Cal fees receivable. Contracts receivable are due from federal and state agencies.

NOTE 21 PLANNED TAX-EXEMPT BOND FINANCING

On May 31, 2011, the Board of Directors approved a resolution authorizing AltaMed to obtain tax-exempt financing up to an amount not to exceed \$70 million. In accordance with the board resolution, AltaMed anticipates issuing tax-exempt bonds in an amount not greater than \$70 million in early 2013. The proceeds from the bonds will be used to acquire, renovate and equip various new and existing clinic facilities including AltaMed's new corporate office constructed under the Lease agreement described in Note 15 and pay certain costs incurred in connection with the bond issuance.

NOTE 22 SUBSEQUENT EVENTS

AltaMed has evaluated events or transactions that occurred subsequent to the balance sheet date through August 23, 2012, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements. AltaMed determined that no subsequent matters required disclosure or adjustment to the accompanying financial statements.

AltaMed Health Services Corporation
Schedule of Functional Expenses
Year ended April 30, 2012

| | Program Services | | | | | | | Supporting Services | | | Total Expenses |
|--|-----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|------------------------|---------------------|------------------------|---------------------------|-----------------------|
| | Medical Services | Dental Services | Senior Services | Drug Abuse Programs | HIV/AIDS Programs | Teen Programs | Total Program Services | Fund-raising | General Administration | Total Supporting Services | |
| Salaries and benefits | \$ 39,129,809 | \$ 4,011,137 | \$ 29,925,244 | \$ 680,293 | \$ 3,202,321 | \$ 2,225,759 | \$ 79,174,563 | \$ 378 | \$ 31,307,627 | \$ 31,308,005 | \$ 110,482,568 |
| Specialty services | 23,646,555 | - | 14,443,916 | - | 230,502 | - | 38,320,973 | - | 600 | 600 | 38,321,573 |
| Therapeutic services | 1,089 | - | 513,556 | - | - | - | 514,645 | - | - | - | 514,645 |
| Administrative services | 1,864,795 | 55,284 | 1,382,479 | 50,959 | 234,652 | 52,771 | 3,640,940 | 122,800 | 7,536,164 | 7,658,964 | 11,299,904 |
| Medical services | 8,709,283 | 261,446 | 2,396,510 | 22,894 | 653,596 | 1,922 | 12,045,651 | - | 5,175 | 5,175 | 12,050,826 |
| Purchased services | 189,207 | - | 497,395 | - | - | - | 686,602 | - | - | - | 686,602 |
| Equip. rental, repairs and maintenance | 585,256 | 88,529 | 724,039 | 22,228 | 93,870 | 45,017 | 1,558,939 | 98,264 | 1,015,818 | 1,114,082 | 2,673,021 |
| Insurance | 887,448 | 26,233 | 582,815 | 3,047 | 19,517 | 11,295 | 1,530,355 | - | 150,313 | 150,313 | 1,680,668 |
| Patient transportation | 21,303 | 664 | 3,848,065 | - | 470 | 2,585 | 3,873,087 | - | 1,132 | 1,132 | 3,874,219 |
| Postage/printing | 216,241 | 22,166 | 35,047 | 265 | 27,635 | 11,289 | 312,643 | 155,565 | 416,154 | 571,719 | 884,362 |
| Rent | 2,242,582 | 140,397 | 3,231,817 | - | 137,154 | 116,912 | 5,868,862 | - | 2,049,173 | 2,049,173 | 7,918,035 |
| Staff development | 50,212 | 4,433 | 32,818 | 1,005 | 6,199 | 1,648 | 96,315 | - | 1,412,915 | 1,412,915 | 1,509,230 |
| Health promotion/education | 119,899 | 4,626 | 15,031 | - | 37,124 | 35,213 | 211,893 | 687,558 | 595,644 | 1,283,202 | 1,495,095 |
| Pharmacy/medical supplies | 5,877,604 | 260,149 | 3,712,832 | 46,219 | 5,637,483 | 22,369 | 15,556,656 | - | 60,314 | 60,314 | 15,616,970 |
| Office/facility and other supplies | 577,840 | 48,815 | 900,083 | 7,418 | 56,677 | 37,268 | 1,628,101 | 10,905 | 658,575 | 669,480 | 2,297,581 |
| Telephone | 561,730 | 43,708 | 420,282 | 14,681 | 65,527 | 37,047 | 1,142,975 | - | 742,395 | 742,395 | 1,885,370 |
| Travel | 64,869 | 18,505 | 78,148 | 46 | 25,220 | 83,086 | 269,874 | 13,398 | 577,952 | 591,350 | 861,224 |
| Utilities and facilities | 1,144,619 | 81,778 | 653,231 | 27,186 | 91,140 | 84,837 | 2,082,791 | - | 322,322 | 322,322 | 2,405,113 |
| Minor equipment | 809,969 | 74,640 | 311,982 | 18,084 | 36,970 | 79,683 | 1,331,328 | - | 833,358 | 833,358 | 2,164,686 |
| Bad debt expenses | 2,056,504 | 44,110 | (33,503) | - | 32,626 | - | 2,099,737 | - | (10,000) | (10,000) | 2,089,737 |
| Depreciation and amortization | 2,067,605 | 345,802 | 1,412,388 | 2,511 | 90,884 | 11,186 | 3,930,376 | - | 1,015,930 | 1,015,930 | 4,946,306 |
| Impairment/amortization of intangible assets | 762,300 | - | - | - | - | - | 762,300 | - | - | - | 762,300 |
| Interest | 161,892 | 21,031 | 402,234 | - | 15,045 | - | 600,202 | 7,081 | 12,171 | 19,252 | 619,454 |
| Other expenses/interdepartment transfer | 12,109,700 | 627,126 | 7,629,314 | 19,219 | 145,264 | 409 | 20,531,032 | - | (20,131,709) | (20,131,709) | 399,323 |
| Indirect/offset | 15,002,086 | 1,178,190 | 10,564,583 | 165,227 | 1,140,038 | 521,899 | 28,572,023 | - | (28,572,023) | (28,572,023) | - |
| Total expenses | \$ 118,860,397 | \$ 7,358,769 | \$ 83,680,306 | \$ 1,081,282 | \$ 11,979,914 | \$ 3,382,195 | \$ 226,342,863 | \$ 1,095,949 | \$ - | \$ 1,095,949 | \$ 227,438,812 |

AltaMed Health Services Corporation
Schedule of Functional Expenses
Year ended April 30, 2011

| | Program Services | | | | | | Supporting Services | | | Total Expenses | |
|---|----------------------|---------------------|----------------------|---------------------|---------------------|---------------------|------------------------|-------------------|------------------------|-------------------|---------------------------|
| | Medical Services | Dental Services | Senior Services | Drug Abuse Programs | HIV/AIDS Programs | Teen Programs | Total Program Services | Fund-raising | General Administration | | Total Supporting Services |
| Salaries and benefits | \$ 31,607,644 | \$ 3,052,574 | \$ 27,528,236 | \$ 646,176 | \$ 2,575,549 | \$ 2,547,981 | \$ 67,958,160 | \$ 1,305 | \$ 26,327,178 | \$ 26,328,483 | \$ 94,286,643 |
| Specialty services | 18,215,503 | - | 11,970,201 | - | 150,100 | - | 30,335,804 | - | - | - | 30,335,804 |
| Therapeutic services | - | - | 562,627 | - | - | - | 562,627 | - | - | - | 562,627 |
| Administrative services | 1,060,183 | 79,721 | 919,509 | 25,493 | 76,290 | 26,906 | 2,188,102 | 73,735 | 5,869,272 | 5,943,007 | 8,131,109 |
| Medical services | 7,356,728 | 154,177 | 1,983,314 | 22,331 | 585,633 | 450 | 10,102,633 | - | 4,218 | 4,218 | 10,106,851 |
| Purchased services | 158,083 | - | 644,041 | - | - | - | 802,124 | - | - | - | 802,124 |
| Equip. rental, repairs and maintenance | 529,423 | 85,716 | 655,648 | 25,315 | 73,612 | 43,805 | 1,413,519 | 67,128 | 842,021 | 909,149 | 2,322,668 |
| Insurance | 786,968 | 32,611 | 512,943 | 4,534 | 25,908 | 14,818 | 1,377,782 | 400 | 150,472 | 150,872 | 1,528,654 |
| Patient transportation | 16,605 | 61 | 4,346,229 | - | - | 1,103 | 4,363,998 | - | - | - | 4,363,998 |
| Postage/printing | 110,839 | 6,570 | 30,490 | 893 | 16,215 | 9,881 | 174,888 | 76,635 | 313,552 | 390,187 | 565,075 |
| Rent | 1,637,720 | 180,798 | 2,037,617 | - | 143,968 | 110,320 | 4,110,423 | - | 850,912 | 850,912 | 4,961,335 |
| Staff development | 86,494 | 6,388 | 96,738 | 1,764 | 12,100 | 2,278 | 205,762 | - | 887,740 | 887,740 | 1,093,502 |
| Health promotion/education | 57,770 | 9,857 | 23,737 | - | 15,851 | 47,161 | 154,376 | 341,502 | 2,587,086 | 2,928,588 | 3,082,964 |
| Pharmacy/medical supplies | 3,452,032 | 158,768 | 3,407,577 | 25,711 | 4,303,762 | 115,053 | 11,462,903 | - | 23,175 | 23,175 | 11,486,078 |
| Office/facility and other supplies | 478,609 | 45,555 | 737,651 | 11,451 | 57,821 | 40,949 | 1,372,036 | 7,364 | 513,528 | 520,892 | 1,892,928 |
| Telephone | 502,392 | 37,672 | 381,026 | 14,096 | 54,108 | 36,594 | 1,025,888 | - | 544,895 | 544,895 | 1,570,783 |
| Travel | 47,460 | 7,887 | 71,320 | 580 | 26,191 | 76,784 | 230,222 | 2,838 | 403,984 | 406,822 | 637,044 |
| Utilities and facilities | 900,581 | 83,695 | 631,888 | 14,539 | 87,248 | 40,665 | 1,758,616 | - | 85,634 | 85,634 | 1,844,250 |
| Minor equipment | 459,978 | 76,216 | 275,678 | 3,138 | 29,562 | 6,006 | 850,578 | - | 614,121 | 614,121 | 1,464,699 |
| Bad debt expenses | 2,644,586 | 188,854 | (405,499) | - | 39,828 | - | 2,467,769 | - | - | - | 2,467,769 |
| Depreciation and amortization | 1,589,281 | 246,870 | 1,522,881 | 1,362 | 78,821 | 14,431 | 3,453,646 | - | 298,845 | 298,845 | 3,752,491 |
| Amortization of goodwill | 402,744 | - | - | - | - | - | 402,744 | - | - | - | 402,744 |
| Interest | 170,756 | 24,644 | 436,060 | - | 16,153 | - | 647,613 | - | 182,829 | 182,829 | 830,442 |
| Other expenses/interdepartment transfer | 8,609,218 | 318,524 | 8,106,800 | 15,411 | 180,561 | 7,413 | 17,237,927 | 100,345 | (17,317,981) | (17,217,636) | 20,291 |
| Indirect/offset | 11,035,303 | 866,066 | 9,782,358 | 147,632 | 794,603 | 555,519 | 23,181,481 | - | (23,181,481) | (23,181,481) | - |
| Total expenses | \$ 91,916,900 | \$ 5,663,224 | \$ 76,259,070 | \$ 960,426 | \$ 9,343,884 | \$ 3,698,117 | \$ 187,841,621 | \$ 671,252 | \$ - | \$ 671,252 | \$ 188,512,873 |

**Report of Independent Auditors 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**

**Board of Directors
AltaMed Health Services Corporation**

We have audited the financial statements of AltaMed Health Services Corporation, a not-for-profit organization, as of and for the year ended April 30, 2012 and have issued our report thereon dated August 23, 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

Management of AltaMed Health Services Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered AltaMed'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 AltaMed's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AltaMed's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Vargus + Company LLP

Los Angeles, California
August 23, 2012

Letter of Comments to Management
AltaMed Health Services Corporation
Year ended April 30, 2012

Board of Directors
AltaMed Health Services Corporation
Los Angeles, California

In planning and performing our audit of the financial statements of AltaMed Health Services Corporation (AltaMed) as of and for the year ended April 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the AltaMed's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

During our audit, we became aware of certain matters that we believe represent opportunity for AltaMed to further strengthen its internal controls and accounting practices. These matters do not represent significant deficiencies, material weakness in internal control, or material instances of noncompliance.

The following summarizes our comments and suggestions regarding those matters.

1. Document Selection of Vendors

Comments:

In accordance with Title 2 CFR Part 215 – Grants and Agreements – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (OMB Circular A-110) Subpart C – Post Award Requirement Procurement Standards, Section 215, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability. In addition, procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:

- (a) Basis for contractor selection;
- (b) Justification for lack of competition when competitive bids or offers are not obtained;
- (c) Basis for award cost or price.

During the course of the audit, we noted that 3 of 34 samples tested did not document the reasons and justifications for the selection of vendors as required for purchases using federal funds. We understand that these 3 transactions were for purchase of services and the vendors were pre-approved by the granting agency.

Recommendation:

To ensure that federal procurement requirements are complied with and procurement procedures are performed, AltaMed should establish a process that the selection of vendor is properly documented prior to communicating the award to the vendor.

2. Equipment Management – Physical Inventory

Comments:

According to Title 2 CFR Part 215 – Grants and Agreements – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (OMB Circular A-110) Subpart C – Post Award Requirement Property Standards; Section 215.34 Equipment (f)(3), a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

During our inquiry with the Director of Purchasing, it was noted that physical inventory of equipment acquired with federal funds is conducted every three years, the latest of which was done in July 2012. Although a detailed listing of physical inventory is maintained, there was limited evidence to demonstrate it was reconciled to inventory listings in accounting records.

Recommendation:

We recommend that AltaMed strengthen its policies and procedures to ensure that federal equipment management regulations are followed. These policies should include conducting physical inventory of equipment acquired with federal funds and reconciliation at least once every two years to comply with the federal requirement stated above and to promote accurate reporting and reduce the risk of misappropriation of program assets. In addition, a formal report signed by the project team leaders should be prepared and submitted to management showing the results of the physical inventory such as conditions of the assets, discrepancies noted and recommendations to management, including proposed adjustments of the accounting records when applicable.

* * * * *

This communication is intended solely for the information and use of the management and members of the Board of Directors of AltaMed, and is not intended to be and should not be used by anyone other than these specified parties.

Vargus + Company LLP

**Los Angeles, California
January 7, 2013**

