

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

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Chattanooga C.A.R.E.S., Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chattanooga C.A.R.E.S., Inc., as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements of Chattanooga C.A.R.E.S., Inc. as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of Chattanooga C.A.R.E.S., Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chattanooga C.A.R.E.S., Inc.'s internal control over financial reporting and compliance

Chattanooga, Tennessee
November 24, 2014

Henderson Hutcherson
& McCullough, PLLC

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,479,241	\$ 865,507
Grants receivable	186,916	179,845
Insurance receivable, less allowance for doubtful accounts of \$46,918 and \$21,379	32,604	14,113
Pharmaceutical receivable	276,597	92,250
Prepaid expenses	<u>2,152</u>	<u>16,257</u>
 Total current assets	 <u>1,977,510</u>	 <u>1,167,972</u>
PROPERTY AND EQUIPMENT, NET	<u>103,041</u>	<u>74,520</u>
TOTAL ASSETS	<u><u>\$ 2,080,551</u></u>	<u><u>\$ 1,242,492</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 9,088	\$ 3,152
Accrued expenses	<u>70,711</u>	<u>44,013</u>
 Total current liabilities	 <u>79,799</u>	 <u>47,165</u>
NET ASSETS		
Unrestricted	1,991,296	1,175,964
Temporarily restricted	<u>9,456</u>	<u>19,363</u>
 Total net assets	 <u>2,000,752</u>	 <u>1,195,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,080,551</u></u>	<u><u>\$ 1,242,492</u></u>

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

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Special events	\$ 74,784	\$ 10,175	\$ 84,959
Grants	1,246,904	-	1,246,904
Contributions	19,910	-	19,910
Net assets released from restriction	<u>20,082</u>	<u>(20,082)</u>	<u>-</u>
	1,361,680	(9,907)	1,351,773
Patient service revenues	503,076	-	503,076
Less: Contractual insurance write-offs	<u>298,252</u>	<u>-</u>	<u>298,252</u>
Net patient service revenues	204,824	-	204,824
340B insurance revenue	2,859,989	-	2,859,989
Less: Pharmaceutical costs	<u>1,556,891</u>	<u>-</u>	<u>1,556,891</u>
Net 340B insurance revenue	1,303,098	-	1,303,098
Total revenue	<u>2,869,602</u>	<u>(9,907)</u>	<u>2,859,695</u>
EXPENSES			
Program services:			
Education services	364,094	-	364,094
Client services	319,975	-	319,975
Clinic services	<u>832,029</u>	<u>-</u>	<u>832,029</u>
Total program expenses	<u>1,516,098</u>	<u>-</u>	<u>1,516,098</u>
Support services:			
Management and general	375,801	-	375,801
Fundraising	<u>162,371</u>	<u>-</u>	<u>162,371</u>
Total support expenses	<u>538,172</u>	<u>-</u>	<u>538,172</u>
Total functional expenses	<u>2,054,270</u>	<u>-</u>	<u>2,054,270</u>
CHANGE IN NET ASSETS	815,332	(9,907)	805,425
Net assets - beginning of year	<u>1,175,964</u>	<u>19,363</u>	<u>1,195,327</u>
Net assets - end of year	<u>\$ 1,991,296</u>	<u>\$ 9,456</u>	<u>\$ 2,000,752</u>

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

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Special events	\$ 59,055	\$ 29,955	\$ 89,010
Grants	1,193,833	-	1,193,833
Contributions	14,538	-	14,538
Net realized losses on fixed assets	(7,617)	-	(7,617)
Net assets released from restriction	32,998	(32,998)	-
	<u>1,292,807</u>	<u>(3,043)</u>	<u>1,289,764</u>
Patient service revenues	360,404	-	360,404
Less: Contractual insurance write-offs	207,033	-	207,033
Net patient service revenues	<u>153,371</u>	<u>-</u>	<u>153,371</u>
340B insurance revenue	1,674,408	-	1,674,408
Less: Pharmaceutical costs	950,716	-	950,716
Net 340B insurance revenue	<u>723,692</u>	<u>-</u>	<u>723,692</u>
Total revenue	<u>2,169,870</u>	<u>(3,043)</u>	<u>2,166,827</u>
EXPENSES			
Program services:			
Education services	382,747	-	382,747
Client services	308,636	-	308,636
Clinic services	634,325	-	634,325
	<u>1,325,708</u>	<u>-</u>	<u>1,325,708</u>
Support services:			
Management and general	272,098	-	272,098
Fundraising	48,382	-	48,382
	<u>320,480</u>	<u>-</u>	<u>320,480</u>
Total functional expenses	<u>1,646,188</u>	<u>-</u>	<u>1,646,188</u>
CHANGE IN NET ASSETS	523,682	(3,043)	520,639
Net assets - beginning of year	<u>652,282</u>	<u>22,406</u>	<u>674,688</u>
Net assets - end of year	<u>\$ 1,175,964</u>	<u>\$ 19,363</u>	<u>\$ 1,195,327</u>

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

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	Program Services			Total Program Services	Support Services		Total Support Services	Total Functional Expenses
	Education Services	Client Services	Clinic Services		Management and General	Fund Raising		
Salaries	\$ 221,843	\$ 117,817	\$ 375,121	\$ 714,781	\$ 201,591	\$ 89,892	\$ 291,483	\$ 1,006,264
Payroll taxes and benefits	47,609	23,381	76,109	147,099	28,613	15,820	44,433	191,532
Total salaries and benefits	269,452	141,198	451,230	861,880	230,204	105,712	335,916	1,197,796
Client support services	3,440	128,678	76,531	208,649	23,870	-	23,870	232,519
Rent	19,812	25,534	51,714	97,060	12,154	3,511	15,665	112,725
Insurance	3,900	500	7,544	11,944	6,035	-	6,035	17,979
Telephone	3,677	3,458	7,239	14,374	2,435	-	2,435	16,809
Supplies and equipment	29,748	8,893	6,587	45,228	31,500	34,043	65,543	110,771
Postage	71	496	410	977	31	17	48	1,025
Printing and publications	-	514	178	692	3,688	3,683	7,371	8,063
Travel and training	18,795	6,942	14,119	39,856	11,039	743	11,782	51,638
Professional fees	13,553	3,667	209,840	227,060	33,983	12,098	46,081	273,141
Bad debt	-	-	3,680	3,680	-	-	-	3,680
Miscellaneous	101	95	2,041	2,237	9,788	2,564	12,352	14,589
Total functional expenses before depreciation	362,549	319,975	831,113	1,513,637	364,727	162,371	527,098	2,040,735
Depreciation	1,545	-	916	2,461	11,074	-	11,074	13,535
Total functional expenses	<u>\$ 364,094</u>	<u>\$ 319,975</u>	<u>\$ 832,029</u>	<u>\$ 1,516,098</u>	<u>\$ 375,801</u>	<u>\$ 162,371</u>	<u>\$ 538,172</u>	<u>\$ 2,054,270</u>

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

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	Program Services			Total Program Services	Support Services		Total Support Services	Total Functional Expenses
	Education Services	Client Services	Clinic Services		Management and General	Fund Raising		
Salaries	\$ 217,430	\$ 119,558	\$ 234,769	\$ 571,757	\$ 148,871	\$ -	\$ 148,871	\$ 720,628
Payroll taxes and benefits	79,052	31,211	67,603	177,866	24,622	-	24,622	202,488
Total salaries and benefits	296,482	150,769	302,372	749,623	173,493	-	173,493	923,116
Client support services	16,068	121,679	36,215	173,962	2,577	11,076	13,653	187,615
Rent	21,539	25,772	51,196	98,507	11,370	6	11,376	109,883
Insurance	-	-	11,112	11,112	5,780	-	5,780	16,892
Telephone	4,160	3,254	5,756	13,170	1,747	-	1,747	14,917
Supplies and equipment	17,842	2,385	6,192	26,419	19,249	33,091	52,340	78,759
Postage	1,020	876	225	2,121	995	968	1,963	4,084
Printing and publications	500	14	27	541	2,918	180	3,098	3,639
Travel and training	15,343	3,561	10,522	29,426	2,941	386	3,327	32,753
Professional fees	8,225	326	190,556	199,107	35,766	-	35,766	234,873
Bad debt	-	-	15,329	15,329	-	-	-	15,329
Miscellaneous	-	-	1,953	1,953	5,543	2,675	8,218	10,171
Total functional expenses before depreciation	381,179	308,636	631,455	1,321,270	262,379	48,382	310,761	1,632,031
Depreciation	1,568	-	2,870	4,438	9,719	-	9,719	14,157
Total functional expenses	<u>\$ 382,747</u>	<u>\$ 308,636</u>	<u>\$ 634,325</u>	<u>\$ 1,325,708</u>	<u>\$ 272,098</u>	<u>\$ 48,382</u>	<u>\$ 320,480</u>	<u>\$ 1,646,188</u>

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

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 805,425	\$ 520,639
Non-cash items included in net assets:		
Depreciation	13,535	14,157
Bad debt expense	3,680	15,329
Loss on disposal of assets	-	7,618
Changes in current and non-current items:		
Grants receivable	(7,071)	26,132
Insurance receivable	(22,171)	(12,486)
Pharmaceutical receivable	(184,347)	(12,126)
Prepaid expenses	14,105	10,257
Accounts payable	5,936	(12,506)
Accrued expenses	<u>26,698</u>	<u>437</u>
Net cash from operating activities	<u>655,790</u>	<u>557,451</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(42,056)</u>	<u>(61,868)</u>
Net cash from investing activities	<u>(42,056)</u>	<u>(61,868)</u>
NET CHANGE IN CASH	613,734	495,583
Cash and cash equivalents - beginning of year	<u>865,507</u>	<u>369,924</u>
Cash and cash equivalents - end of year	<u>\$ 1,479,241</u>	<u>\$ 865,507</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 1 – NATURE OF OPERATIONS

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

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

Financial Statement Presentation

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

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

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. At June 30, 2014 and 2013, there were no permanently restricted net assets.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

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

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

Donated Services

Donated services are recognized in accordance with FASB ASC Topic 958-605, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. A substantial number of volunteers have donated significant amounts of their time. These donated services do not meet the criteria to be recorded by the Organization; therefore, no amounts have been reflected in the financial statements. The Organization received estimated volunteer hours of 1,333 and 1,307 for the years ended June 30, 2014 and 2013, respectively.

Revenues and Expenses

Revenues and expenses are recognized in accordance with FASB ASC Topic 958-225, and accordingly are reported at gross amounts in the Statement of Activities.

Use of Estimates

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

Cash Equivalents

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

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

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

Property and Equipment

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

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

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

Functional Allocation of Expenses

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

Compensated Absences

The Organization provides annual leave benefits for its employees. The employees earn annual leave at the rate of ten days a year upon employment, 15 days after three years of employment, and 20 days after seven years of employment. Ten days of annual leave may be carried over to the following fiscal year. Employees may not take or use a total of ten consecutive business days off without obtaining approval from the Executive Director of the Organization. Chattanooga C.A.R.E.S., Inc. accrues a liability for these benefits based on the amounts qualifying for rollover.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

The Organization provides annual sick leave benefits for its employees. The employees earn annual sick leave at the rate of five days a year upon employment. Ten days of annual sick leave may be carried over to the following fiscal year. Chattanooga C.A.R.E.S., Inc. has not accrued a liability for these benefits.

NOTE 3 – PROPERTY AND EQUIPMENT

At June 30, 2014 and 2013, property and equipment consist of the following:

	2014	2013
Furniture and equipment	\$ 101,184	\$ 95,610
Leasehold improvements	<u>96,152</u>	<u>59,670</u>
	197,336	155,280
Accumulated depreciation	<u>(94,295)</u>	<u>(80,760)</u>
Cost, less accumulated depreciation	<u>\$ 103,041</u>	<u>\$ 74,520</u>

Depreciation expense was \$13,535 and \$14,157 for the years ended June 30, 2014 and 2013.

NOTE 4 – LINE OF CREDIT

The Organization has a \$175,000 unsecured line of credit at First Tennessee Bank. The line of credit, which must be renewed each May, bears variable interest at one percent above the bank's base commercial rate. At June 30, 2014 and 2013, there was no balance outstanding on the line of credit.

NOTE 5 – OPERATING LEASES

In October 2013, the Organization signed a non-cancelable 5-year operating lease on the existing office location and additional space which commenced on November 1, 2013. The lease requires equal monthly installments of \$9,728 and contains one 5-year renewal option with monthly rent increasing to \$10,478.

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

2015	\$ 131,899
2016	118,862
2017	116,735
2018	116,735
2019	38,912

(Continued)

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 5 – OPERATING LEASES (Continued)

Rental expense incurred under all operating leases totaled \$125,920 and \$119,091 for the years ended June 30, 2014 and 2013, respectively. Of these amounts, \$13,195 and \$9,208 were included under telephone expense for the years ended June 30, 2014 and 2013, respectively.

NOTE 6 – RESTRICTIONS ON NET ASSETS

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

Temporarily restricted net assets as of June 30, 2014 and 2013, consist of the following:

	2014	2013
Net assets restricted for moving offices	\$ -	\$ 1,908
Net assets restricted for hepatitis C testing	-	7,500
Net assets restricted for purchase of pantry items	4,211	5,477
Net assets restricted for emergency housing assistance	-	3,435
Net assets restricted for Strides of March fundraiser	4,195	20
Net assets restricted for client housing and assistance	50	1,023
Net assets restricted for Cut-up for Life fundraiser	<u>1,000</u>	<u>-</u>
	<u>\$ 9,456</u>	<u>\$ 19,363</u>

Net assets released from restrictions consist of the following:

	2014	2013
Purchases made for moving expenses	\$ 1,908	\$ 16,092
Performance of hepatitis C testing	7,500	4,000
Purchases made for client assistance	6,266	8,864
Purchases made for Strides of March fundraiser	3,435	2,565
Purchases made for client housing and assistance	<u>973</u>	<u>1,477</u>
	<u>\$ 20,082</u>	<u>\$ 32,998</u>

NOTE 7 – CONCENTRATION OF CREDIT RISKS

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits; however, the balance on deposit is subject to significant fluctuations throughout the year.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 8 – CONCENTRATION OF REVENUE

The Organization receives a substantial amount of its revenue from the 340B Program of the Public Health Services Act (the “340B Program”) created by the Veteran's Health Care Act of 1992. The 340B Program allows certain covered entities to purchase outpatient prescription drugs for eligible patients at favorable discounts from drug manufacturers who enter into drug purchasing agreements with the United States Department of Health and Human Resources. The Organization is eligible to participate in the 340B Program because it is a Ryan White HIV/AIDS program grantee.

In 2011 the Organization entered into agreements with HealthStat Rx and Nashville Pharmacy Services, LLC, and in 2013 the Organization entered into agreements with PharmBlue LLC and Walgreens (the “Pharmacies”) under which the Pharmacies would order covered 340B drugs, receive shipments, maintain any inventory and controls, dispense such drugs to eligible patients, and charge and collect for such drugs. The agreements specify that the Organization shall be the purchaser of the drugs and have legal title to them. The Pharmacies collect gross proceeds from third party payors and distribute funds to the Organization after deducting all applicable fees associated with paid claims. Co-pays collected by the Pharmacies are to be applied toward the pharmacy fees. The agreements continue for a period of five years.

Net revenues from the 340B Program for the years ended June 30, 2014 and 2013, were as follows:

	2014	2013
340B insurance revenue	\$ 2,859,989	\$ 1,674,408
Less: Pharmaceutical costs	<u>1,556,891</u>	<u>950,716</u>
Net 340B insurance revenue	<u>\$ 1,303,098</u>	<u>\$ 723,692</u>

NOTE 9 – RISK MANAGEMENT AND CONTINGENCIES

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

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

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 10 – RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts in order to improve comparability. These reclassifications have no effect on previously reported net assets.

NOTE 11 – UNCERTAIN TAX POSITIONS

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

The Organization has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Organization's evaluation was performed for tax years ended June 30, 2011 through June 30, 2014, the years that remain subject to examination by major tax jurisdictions as of June 30, 2014.

NOTE 12 – SUBSEQUENT EVENTS

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

SUPPLEMENTAL INFORMATION

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

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

We have audited, 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, the financial statements of Chattanooga C.A.R.E.S., Inc. (a nonprofit organization), which comprise the statements of financial position as of and for the year ended June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chattanooga C.A.R.E.S., Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chattanooga C.A.R.E.S., Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Chattanooga C.A.R.E.S., Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Chattanooga, Tennessee
November 24, 2014

Henderson Hutcherson
& McCullough, PLLC

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
OF FEDERAL AWARDS REQUIRED BY *OMB CIRCULAR A-133***

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

Report on Compliance for each Major Federal Program

We have audited Chattanooga C.A.R.E.S, Inc.'s (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Chattanooga C.A.R.E.S., Inc.'s major federal programs for the year ended June 30, 2014. Chattanooga C.A.R.E.S., Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chattanooga C.A.R.E.S., Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chattanooga C.A.R.E.S., Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Chattanooga C.A.R.E.S., Inc.'s compliance.

Opinion on each Major Federal Program

In our opinion, Chattanooga C.A.R.E.S., Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Chattanooga C.A.R.E.S., Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chattanooga C.A.R.E.S., Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chattanooga C.A.R.E.S., Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing, based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Chattanooga, Tennessee
November 24, 2014

*Henderson Hutcherson
& McCullough, PLLC*

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency Pass-Through Number	Accrued (Deferred) Grant Revenues June 30, 2013	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2014
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	\$ 17,652	\$ 17,652	\$ -	\$ -
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	-	-	-
			<u>-</u>	<u>274,186</u>	<u>309,336</u>	<u>35,150</u>
			<u>17,652</u>	<u>291,838</u>	<u>309,336</u>	<u>35,150</u>
Passed through Tennessee Department of Mental Health and Substance Abuse Services:						
Block Grants for Prevention and						
Treatment of Substance Abuse	93.959	GR-13-38862-00	51,101	51,101	-	-
Treatment of Substance Abuse	93.959	GR-12-35639-00	-	143,047	176,040	32,993
			<u>51,101</u>	<u>194,148</u>	<u>176,040</u>	<u>32,993</u>
Passed through Tennessee Department of Health:						
HIV Prevention Activities - Health Department Based	93.940	GR-13-3422200	-	54,707	54,707	-
HIV Prevention Activities - Health Department Based	93.940	GR-13-3422200	20,629	20,629	-	-
HIV Prevention Activities - Health Department Based	93.940	GR-12-37393-00	-	35,646	59,536	23,890
HIV Care Formula Grants	93.917	GR-11-34881-00	1,766	1,766	-	-
HIV Care Formula Grants	93.917	GR-12-38383-00	1,693	1,693	-	-
HIV Care Formula Grants	93.917	GR-13-35320-00	44,159	44,159	-	-
HIV Care Formula Grants	93.917	GR-11-35320-00	-	213,259	264,145	50,886
			<u>68,247</u>	<u>371,859</u>	<u>378,388</u>	<u>74,776</u>

(Continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency Pass-Through Number	Accrued (Deferred) Grant Revenues June 30, 2013	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2014
(Continued)						
Passed through Southeast Tennessee Development District:						
HIV Prevention Activities - Health Department Based	93.940	GG-13-34163-00	-	44,999	44,999	-
HIV Prevention Activities - Health Department Based	93.940	GG-13-34163-00	5,646	5,646	-	-
HIV Prevention Activities - Health Department Based	93.940	GG-13-34163-00	-	30,462	39,457	8,995
HIV Care Formula Grants	93.917	GG-12-38254-00	7,564	7,564	-	-
HIV Care Formula Grants	93.917	GG-12-38254-00	-	60,213	60,213	-
HIV Care Formula Grants	93.917	GG-12-38254-00	-	10,298	17,700	7,402
			<u>13,210</u>	<u>159,182</u>	<u>162,369</u>	<u>16,397</u>
Total U.S. Department of Health and Human Services			<u>150,210</u>	<u>1,017,027</u>	<u>1,026,133</u>	<u>159,316</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Passed through Tennessee Department of Health:						
Housing Opportunities for Persons with AIDS	14.241	GR-12-35937-02	29,424	29,424	-	-
Housing Opportunities for Persons with AIDS	14.241	GR-12-35937-00	-	165,945	193,545	27,600
			<u>29,424</u>	<u>195,369</u>	<u>193,545</u>	<u>27,600</u>
Total U.S. Department of Housing and Urban Development			<u>29,424</u>	<u>195,369</u>	<u>193,545</u>	<u>27,600</u>
Total expenditures of federal awards			<u>\$ 179,634</u>	<u>\$1,212,396</u>	<u>\$ 1,219,678</u>	<u>\$ 186,916</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2014 AND 2013

NOTE 1 – BASIS OF PRESENTATION

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes none reported

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.918	Grants to provide outpatient early intervention services with respect to HIV disease
93.959	Block grants for prevention and treatment of substance abuse

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes no

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

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

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported