

NASHVILLE CARES

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Nashville CARES
Nashville, Tennessee

We have audited the accompanying statement of financial position of Nashville CARES (the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's June 30, 2011 financial statements and, in our report dated November 18, 2011, we expressed an unqualified opinion on those financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Nashville CARES as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012, on our consideration of Nashville CARES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Nashville CARES taken as a whole. The accompanying schedule of expenditures of federal awards, on pages 19 - 20, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Y. Kraft CPAs PLLC". The signature is stylized, with the "Y" and "K" being particularly prominent.

Nashville, Tennessee
December 5, 2012

NASHVILLE CARES

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,096,588	\$ 177,248
Accounts receivable	14,854	29,318
Federal, state and local government grants receivable	937,748	943,531
Contributions receivable:		
United Way	33,929	39,380
Foundation and outcome-based grants receivable	74,267	84,097
HCA Caring for the Community	15,537	15,881
Other workplace campaign	15,801	6,012
Major gifts receivable	30,603	20,000
Special events receivable	48,072	3,500
Other	51	13,727
Prepaid expenses and other	50,355	61,474
Property and equipment	2,830,701	2,873,501
Cash - building fund	-	1,568
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>19,758</u>	<u>15,851</u>
TOTAL ASSETS	<u>\$ 5,168,264</u>	<u>\$ 4,285,088</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Checks issued in excess of deposits	\$ 49,365	\$ 83,820
Accounts payable	56,795	49,628
Accrued payroll and compensated absences	200,909	222,413
Deferred revenue	1,059,723	134,597
Line of credit	170,859	53,921
Note payable	<u>2,041,749</u>	<u>2,100,000</u>
TOTAL LIABILITIES	<u>3,579,400</u>	<u>2,644,379</u>
<u>COMMITMENTS AND CONTINGENCIES</u>		
<u>NET ASSETS</u>		
Unrestricted:		
Undesignated	558,376	672,420
Designated for property and equipment, less related debt	788,952	773,501
Designated for beneficial interest in agency endowment fund	<u>19,758</u>	<u>15,851</u>
Total unrestricted	1,367,086	1,461,772
Temporarily restricted	<u>221,778</u>	<u>178,937</u>
TOTAL NET ASSETS	<u>1,588,864</u>	<u>1,640,709</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,168,264</u>	<u>\$ 4,285,088</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012, WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	<u>2012</u>	<u>2011</u>
PUBLIC SUPPORT AND REVENUE					
Public Support:					
Annual Campaign	\$ 156,662	\$ 29,340	\$ 186,002	\$ 368,450	
United Way designations	-	40,127	40,127	43,954	
HCA Caring for the Community designations	-	21,333	21,333	20,082	
Other workplace campaign designations	-	21,362	21,362	9,764	
Religious gifts	-	-	-	17,886	
Special events	320,020	123,707	443,727	349,405	
Federal, state and local grants and contracts	12,078,839	-	12,078,839	11,990,371	
Foundation and corporate grants	<u>153,081</u>	<u>208,242</u>	<u>361,323</u>	<u>458,356</u>	
Total Public Support	12,708,602	444,111	13,152,713	13,258,268	
Interest income	897	-	897	4,423	
Other revenue	2,705	-	2,705	864	
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	207	-	207	2,829	
Gain on sale of building	-	-	-	447,749	
Net assets released resulting from satisfaction of donor restrictions	<u>401,270</u>	<u>(401,270)</u>	<u>-</u>	<u>-</u>	
TOTAL PUBLIC SUPPORT AND REVENUE	<u>13,113,681</u>	<u>42,841</u>	<u>13,156,522</u>	<u>13,714,133</u>	
EXPENSES					
Program Services:					
Case management services	1,388,804	-	1,388,804	1,508,623	
Emotional health and wellness	283,420	-	283,420	249,524	
Onsite services	579,365	-	579,365	500,901	
Educational services	1,081,796	-	1,081,796	1,025,069	
Public policy and advocacy	81,499	-	81,499	81,824	
Dental and insurance assistance	8,406,098	-	8,406,098	8,429,021	
Supporting Services:					
Management and general	812,295	-	812,295	1,029,739	
Marketing	57,017	-	57,017	48,104	
Fund development	460,968	-	460,968	408,708	
Volunteer services	<u>57,105</u>	<u>-</u>	<u>57,105</u>	<u>38,815</u>	
TOTAL EXPENSES	<u>13,208,367</u>	<u>-</u>	<u>13,208,367</u>	<u>13,320,328</u>	
CHANGE IN NET ASSETS	(94,686)	42,841	(51,845)	393,805	
NET ASSETS - BEGINNING OF YEAR	<u>1,461,772</u>	<u>178,937</u>	<u>1,640,709</u>	<u>1,246,904</u>	
NET ASSETS - END OF YEAR	<u>\$ 1,367,086</u>	<u>\$ 221,778</u>	<u>\$ 1,588,864</u>	<u>\$ 1,640,709</u>	

See accompanying notes to financial statements.

NASHVILLE CARES
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (51,845)	\$ 393,805
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	98,030	59,597
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(207)	(2,829)
Gain on disposal of property	-	(447,749)
(Increase) decrease in:		
Accounts receivable	14,464	4,385
Federal, state and local government grants receivable	5,783	955,316
Contributions receivable	(35,663)	63,862
Prepaid expenses and other	11,119	(33,152)
Increase (decrease) in:		
Checks issued in excess of deposits	(34,455)	10,872
Accounts payable	7,167	(2,921)
Accrued payroll and compensated absences	(21,504)	114,564
Deferred revenue	925,126	(95,538)
NET ADJUSTMENTS	<u>969,860</u>	<u>626,407</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>918,015</u>	<u>1,020,212</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(55,230)	(1,065,311)
Proceeds from sale of property	-	884,870
Contributions to agency endowment fund	(5,200)	-
Distributions from agency endowment fund	1,500	700
NET CASH USED IN INVESTING ACTIVITIES	<u>(58,930)</u>	<u>(179,741)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(58,251)	(24,504)
Proceeds from note payable	-	315,000
Net borrowings (repayments) on line of credit	116,938	(1,398,753)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>58,687</u>	<u>(1,108,257)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	917,772	(267,786)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>178,816</u>	<u>446,602</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,096,588</u>	<u>\$ 178,816</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchase price of new facility	\$ -	\$ 2,015,000
Less proceeds of mortgage loan from bank	-	1,785,000
Net cash paid at closing	<u>\$ -</u>	<u>\$ 230,000</u>
Debt satisfied by sale of property	<u>\$ -</u>	<u>\$ 783,630</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid during the year	<u>\$ 130,854</u>	<u>\$ 58,371</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012, WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

	PROGRAM SERVICES						SUPPORTING SERVICES				TOTALS	
	CASE MANAGEMENT SERVICES	EMOTIONAL HEALTH & WELLNESS	ONSITE SERVICES	EDUCATIONAL SERVICES	PUBLIC POLICY & ADVOCACY	DENTAL AND INSURANCE ASSISTANCE	MANAGEMENT AND GENERAL	MARKETING	FUND DEVELOPMENT	VOLUNTEER SERVICES	2012	2011
Salaries	\$ 705,068	\$ 189,102	\$ 148,412	\$ 709,326	\$ 51,796	\$ 285,634	\$ 417,408	\$ 35,749	\$ 261,635	\$ 38,069	\$ 2,842,199	\$ 2,794,730
Employee taxes and fringe benefits	175,769	49,270	30,692	180,932	10,681	71,735	99,073	7,953	47,484	9,757	683,346	660,591
TOTAL PAYROLL AND RELATED EXPENSES	880,837	238,372	179,104	890,258	62,477	357,369	516,481	43,702	309,119	47,826	3,525,545	3,455,321
Client assistance	374,600	-	370,271	15,848	-	7,999,423	-	-	-	-	8,760,142	8,926,931
Advertising	-	-	-	-	-	-	275	1,119	-	-	1,394	1,055
Audit	-	-	-	-	-	-	27,250	-	-	-	27,250	29,950
Bank fees and interest expense	-	-	-	-	-	-	12,044	-	-	-	12,044	26,928
Conferences and training	1,727	259	-	3,024	3,489	95	484	50	1,485	-	10,613	11,364
Depreciation on furniture and equipment	10,831	4,714	3,952	11,898	609	4,471	56,759	495	2,984	1,317	98,030	59,597
Equipment rental and maintenance	-	-	-	-	-	-	11,332	-	-	-	11,332	11,261
Insurance	-	-	-	-	-	-	36,746	-	-	-	36,746	31,765
Licensure/permits	-	1,010	210	-	340	-	1,084	-	300	-	2,944	6,345
Memberships	-	-	-	-	10,000	-	805	250	83	50	11,188	17,875
Occupancy	31,660	13,506	11,491	34,205	1,763	13,004	60,028	1,542	8,273	3,801	179,273	172,460
Participation fees	-	-	-	1,599	27	-	139	1,950	60	70	3,845	2,250
Postage	1,201	322	4,909	1,117	11	15,287	1,225	-	2,200	79	26,351	30,982
Printing	1,408	423	902	8,312	142	1,195	7,936	1,930	5,511	884	28,643	41,708
Professional fees	41,505	4,753	6,074	16,972	1,058	3,925	26,539	4,850	6,418	1,050	113,144	206,112
Space rental	-	-	-	630	-	-	-	-	1,939	173	2,742	4,258
Special event production	-	-	-	-	-	-	-	-	117,682	-	117,682	35,499
Supplies	9,960	10,519	1,646	34,974	90	10,377	23,710	808	2,737	1,635	96,456	121,225
Telephone	11,276	1,759	806	8,742	1,000	952	23,777	294	1,719	125	50,450	41,885
Travel/mileage	23,799	7,783	-	28,217	493	-	325	27	458	95	61,197	51,900
Volunteer incentives/remuneration	-	-	-	26,000	-	-	-	-	-	-	26,000	25,692
Van upkeep/gasoline	-	-	-	-	-	-	4,604	-	-	-	4,604	7,783
Miscellaneous	-	-	-	-	-	-	752	-	-	-	752	182
TOTAL FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2012	\$ 1,388,804	\$ 283,420	\$ 579,365	\$ 1,081,796	\$ 81,499	\$8,406,098	\$ 812,295	\$ 57,017	\$ 460,968	\$ 57,105	\$ 13,208,367	
TOTAL FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2011	\$ 1,508,623	\$ 249,524	\$ 500,901	\$ 1,025,069	\$ 81,824	\$8,429,021	\$ 1,029,739	\$ 48,104	\$ 408,708	\$ 38,815		\$ 13,320,328

See accompanying notes to financial statements.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Nashville CARES (the "Agency") was founded in 1985 as a Tennessee not-for-profit corporation. The Agency serves northern Middle Tennessee and other Tennessee areas by providing practical, financial, material and emotional support services to persons living with AIDS or HIV infection and to those persons' families and loved ones. The Agency educates and informs the general public by providing the most current medical and scientific information about AIDS/HIV infection and risk reduction practices. The Agency also provides HIV testing and screening to identify individuals infected with HIV and link them to medical care and support. Funding for the Agency's services is provided principally by grants from the U.S. Department of Housing and Urban Development ("HUD"), the U.S. Department of Health and Human Services and from individual, foundation and corporate donors.

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Agency on the accrual basis of accounting in conformity with generally accepted accounting principles ("GAAP").

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Agency had no permanently restricted net assets as of June 30, 2012 or 2011.

Comparative Amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with banks and money market funds. For purposes of the Statement of Cash Flows, balances in the building fund are combined with operating accounts.

Property and Equipment

Property and equipment are recorded at cost at the date of purchase or at estimated fair value at the date of gift to the Agency. The Agency's policy is to capitalize purchases with a cost of \$1,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of five years for vehicles, software, furniture and equipment, most building improvements, and forty years for building and significant building improvements.

Agency Endowment Fund

The Agency's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the Statement of Activities, and distributions received from the fund are recorded as increases (decreases) in the beneficial interest. (See Note 5.)

Contributions and Support

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

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

The Agency reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets, and/or support that is restricted to the acquisition of long-lived assets, are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Fair Value Measurements

The Agency classifies its assets measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee represents the Agency's interest in pooled investments with other participants in the funds. The Community Foundation prepares a valuation of the fund based on the fair value of the underlying investments using quoted market prices and allocates income or loss to each participant based on market results. The Agency reflects this asset within Level 3 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2012 and 2011.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation method is appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Compensated Absences

Compensated absences are accrued for vacation days earned by employees that will be paid in the future. Current policy is to allow full-time employees to carry over a maximum of ten days or 80 hours and part-time staff to carry over a prorated portion.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Agency.

A substantial number of unpaid volunteers have contributed their time to the Agency's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

Program and Supporting Services

The following functional expense allocations are included in the accompanying financial statements:

Program Services

Case management services - social services to meet financial and material needs of HIV-infected individuals and their families living in 17 counties of northern Middle Tennessee.

Emotional health and wellness - social services to meet emotional and/or therapeutic needs of HIV-infected individuals and their families.

Onsite services - manages access by clients to Agency's full range of social services and phone access to services via an 800-number. Also provides practical and material assistance such as nutrition assistance and transportation assistance to HIV-infected individuals and their families.

Educational services - provision of HIV/AIDS prevention education and awareness to various populations and target groups throughout 17 counties of northern Middle Tennessee, as well as HIV testing/screening to help individuals learn their HIV status and take appropriate action.

Public policy and advocacy - works to inform the community about the importance of the challenges of HIV/AIDS in Tennessee and the benefits of federal, state and community partnerships to address the needs of prevention, treatment and care in the state.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Program Services (Continued)

Dental and insurance assistance - financial assistance for the payment of dental care for persons with HIV/AIDS throughout a 39-county area in Middle Tennessee and Upper Cumberland. Financial assistance is provided for medical insurance premiums and/or medical and prescription deductibles and co-payments for persons with HIV/AIDS throughout the State of Tennessee.

Supporting Services

Management and general - includes the functions necessary to ensure an adequate working environment, board operations, and community planning and networking activities.

Marketing - includes activities to inform the public and agency constituencies about the organization and its work, as well as education to raise and sustain community awareness of domestic HIV/AIDS issues. Includes the cost of the Agency newsletter and any public relations campaigns.

Fund development - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Volunteer services - recruitment, training and placement of volunteers within the various departments of the Agency. There are currently more than 350 volunteers that work in all areas of the Agency.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Agency qualifies as a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

The Agency files a U.S. Federal Form 990 for organizations exempt from federal income tax. The Agency's returns for years prior to fiscal year end 2009 are no longer open to examination.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Agency's income tax returns to determine whether the income tax positions meet a "more likely than note" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than note" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made in the 2011 financial statements to conform to the 2012 presentation. These reclassifications had no effect on the change in net assets previously reported.

Events Occurring After Reporting Date

The Agency has evaluated events and transactions that occurred between June 30, 2012 and December 5, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
HUD - Housing Opportunities for Persons with AIDS (HOPWA)	\$ 60,424	\$ 180,994
CDC - HIV Prevention and Education	89,954	119,226
CDC - Counseling and Testing Services	71,806	83,013
Ryan White CARE Act - Part B - Medical Case Management	13,742	19,159
Ryan White CARE Act - Part B Care Middle Tennessee	48,853	20,790
Ryan White CARE Act - Part B Dental Assistance Middle Tennessee	145,463	53,716
Ryan White CARE Act - Part A Care Nashville Transitional Grant Area (TGA)	203,471	183,521
Ryan White CARE Act - Part A Dental Assistance Nashville TGA	93,762	115,997
Ryan White CARE Act - Part A Minority AIDS Initiatives Dental	18,852	-
Ryan White CARE Act - Part B Insurance Assistance	149,451	121,007
Ryan White CARE Act - Part A Minority AIDS Initiative Nashville TGA	10,286	12,242
Ryan White CARE Act - Part D	9,466	16,028
National Institutes of Health	6,981	7,008
Metro Nashville Community Enhancement Grant	7,217	10,830
National Institutes of Allergies and Infectious Diseases	8,020	-
	<u>\$ 937,748</u>	<u>\$ 943,531</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE

All contributions receivable at June 30, 2012 and 2011 are temporarily restricted and due in less than one year.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 400,000	\$ 400,000
Building	1,615,000	1,615,000
Building improvements	797,190	757,347
Vehicles	4,125	4,125
Software	113,654	113,654
Furniture and equipment	<u>256,862</u>	<u>241,475</u>
	3,186,831	3,131,601
Less accumulated depreciation	<u>(356,130)</u>	<u>(258,100)</u>
	<u><u>\$ 2,830,701</u></u>	<u><u>\$ 2,873,501</u></u>

During 2011, the Agency sold its operating facility, purchased a new facility at a cost of \$2,015,000 and made improvements to the new facility of approximately \$757,000. The Agency financed the purchase with a \$2,100,000 note payable (see Note 7).

NOTE 5 - AGENCY ENDOWMENT FUND

The Agency has a beneficial interest in the Nashville CARES Endowment Fund (the "Fund"), an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Community Foundation"). The Agency has granted variance power to the Community Foundation, and the Community Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The Fund is charged a .4% administrative fee annually. Upon request by the Agency, income from the Fund representing a 5% annual return may be distributed to the Agency or to another suggested beneficiary.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 5 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Agency's beneficial interest in this fund for the years ended June 30, 2012 and 2011, follows:

	<u>2012</u>	<u>2011</u>
Balance - beginning of year	\$ 15,851	\$ 13,722
Contributions to the fund	5,200	-
Change in value of beneficial interest in agency endowment fund:		
Investment income	399	2,937
Administrative expenses	<u>(192)</u>	<u>(108)</u>
	207	2,829
Distributions to the Agency	<u>(1,500)</u>	<u>(700)</u>
Balance - end of year	<u>\$ 19,758</u>	<u>\$ 15,851</u>

NOTE 6 - FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Agency's assets at fair value as of June 30:

	<u>2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,758</u>	<u>\$ 19,758</u>

	<u>2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,851</u>	<u>\$ 15,851</u>

A reconciliation of changes in the amounts reported for the asset valued using Level 3 inputs is included in Note 5.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 7 - DEBT

During 2011, in conjunction with the sale of its operating facility (see Note 4), the Agency paid its previous loan in full, and entered into a construction line of credit with Beacon Federal Bank to finance the purchase of the new operating facility and the initial build-out. The loan provided for a three month construction period and on July 15, 2011, the note was amended and restated with a balance of \$2,100,000, which requires monthly principal and interest installments of \$14,139 until maturity on July 15, 2031. The note accrues interest at 5.24% per annum through July 15, 2021. Beginning July 15, 2021 and on every fifth year thereafter, the rate will be adjusted to the then prevailing Five-Year Federal Home Loan Bank of New York Rate plus 3%. The note is secured by a deed of trust on the Agency's real estate. This note may be prepaid in whole or in part at any time and requires a prepayment premium for prepayments under certain circumstances prior to April 15, 2016.

A schedule of future principal maturities under the note as of June 30, 2012, follows:

<u>Year ending June 30,</u>	
2013	\$ 63,809
2014	67,277
2015	70,937
2016	74,790
2017	78,855
Thereafter	<u>1,686,081</u>
	<u>\$ 2,041,749</u>

The Agency also had a maximum \$3,000,000 line of credit agreement with Beacon Federal Bank. Borrowings under the line bore interest at a rate equal to The Wall Street Journal Prime Rate (3.25% at June 30, 2012). The outstanding balance at June 30, 2012 was \$170,859 (\$53,921 at June 30, 2011). On August 16, 2012, the Agency renewed the agreement reducing the maximum amount to \$500,000, which matured November 15, 2012. The line of credit was secured by substantially all assets of the Agency.

Both the facility note and the line of credit place certain restrictions and limitations on the Agency, including maintenance of a specified debt service coverage ratio. As of June 30, 2012, the Agency was not in compliance with this requirement. However, on December 4, 2012, the Agency entered into a new line of credit agreement with Bancorpsouth. The new line of credit allows for maximum borrowings up to \$1,000,000, bears interest at the prime rate (with a floor of 4%) and matures on March 14, 2014. The line of credit is secured by substantially all assets of the Agency, except for real property. The Agency is currently having discussions with various banks to refinance the facility note.

Total interest expense incurred by the Agency was \$130,854 in 2012 and \$58,371 in 2011 and is included in occupancy expense for the note payable and in bank fees and interest expense for the line of credit.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
United Way of Metropolitan Nashville:		
Designations	\$ 33,929	\$ 31,539
Outcome-based funding grants	74,267	84,097
HCA Caring for the Community campaign	15,537	15,881
Other United Way and workplace campaigns	15,801	6,012
Donation for special events	48,072	3,500
Corporate and foundation grants - operational support for the following year:		
Enterprise Rent-a-Car	3,540	3,540
Starbucks Campaign	-	1,139
Annual Campaign	30,603	20,000
Religious contributions	-	5,388
Other	<u>29</u>	<u>7,841</u>
	<u>\$ 221,778</u>	<u>\$ 178,937</u>

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Agency sponsors a Section 403(b) retirement plan. Employees may participate in the plan upon hiring. Under the plan, the Agency has the discretion to vary the rate of the Employer match on an annual basis up to a maximum of 6% of each eligible employee's compensation. Management has established a matching contribution only for employees with at least two years of service, and at a rate up to a maximum of 5% of each eligible employee's compensation, based on seniority. The Agency contributed \$14,486 during 2012 (\$18,720 during 2011).

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Agency to concentrations of credit risk consist of cash and cash equivalents, various federal grants, accounts and United Way receivables. Contributions receivable consist of individual and corporate contribution pledges which are widely dispersed to mitigate credit risk. Grant and United Way receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Contributions from two sources during year ended June 30, 2011 represented 33% of total contribution revenue (no concentrations in 2012).

The Agency maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of June 30, 2012, the Agency's depository accounts exceeded FDIC insurance limits by approximately \$881,000.

NOTE 11 - RELATED PARTIES AND OTHER MATTERS

During the year ended June 30, 2009, the Agency and Comprehensive Care Center, a not-for-profit organization which provides comprehensive, cost-effective, state-of-the-art medical procedures, treatments and services to individuals with HIV and AIDS, formed a new foundation called Comprehensive-CARES Foundation (the "Foundation"), a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was comprised of one-third representation of the Agency, one-third representation of Comprehensive Care Center, and one-third representation of other community members. The Foundation existed primarily to research land acquisition options, and raise capital for the purchase of land and construction of a common facility to be shared by the two agencies. During 2011, the Foundation donated \$190,000 to the Agency to assist with costs of moving to a new facility. During 2012, the Foundation was formally dissolved.

ADDITIONAL INFORMATION

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2011	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2012
<u>DEPARTMENT OF HOMELAND SECURITY:</u>								
Emergency Food and Shelter National Board Program	97.024	N/A	01-01-11 - 12-31-11	\$ 2,412	\$ -	\$ 2,412	\$ 2,412	\$ -
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>								
PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:								
Housing Opportunities for Persons with AIDS	14.241*	GR-10-27607-01	07-01-10 - 06-30-11	\$ 45,100	(5,147)	5,147	-	-
Housing Opportunities for Persons with AIDS	14.241*	GR-12-35783	07-01-11 - 06-30-12	\$ 47,700	-	35,348	47,700	(12,352)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
Housing Opportunities for Persons with AIDS	14.241*	N/A	04-01-11 - 03-31-12	\$ 605,127	(175,847)	605,127	429,280	-
Housing Opportunities for Persons with AIDS	14.241*	N/A	04-01-12 - 03-31-13	\$ 570,000	-	75,181	123,253	(48,072)
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>								
PASSED THROUGH THE MIDDLE TENNESSEE REGIONAL ADVISORY COMMITTEE IN COLLABORATION WITH THE UNITED WAY OF METROPOLITAN NASHVILLE:								
HIV Prevention Activities_Health Department Based	93.940	N/A	01-01-11 - 12-31-11	\$ 227,000	(119,226)	227,000	107,774	-
HIV Prevention Activities_Health Department Based	93.940	N/A	01-01-12 - 12-31-12	\$ 237,000	-	40,858	130,812	(89,954)
PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:								
HIV Prevention Activities_Health Department Based	93.940	GR-11-34122-00	10-01-10 - 09-30-11	\$ 395,100	(83,013)	170,069	87,056	-
HIV Prevention Activities_Health Department Based	93.940	GR-12-37416	10-01-11 - 12-31-12	\$ 491,000	-	255,297	327,103	(71,806)
HIV Care Formula Grants	93.917*	GR-11-34880-00	04-01-11 - 03-31-12	\$ 100,000	(19,159)	89,222	70,063	-
HIV Care Formula Grants	93.917*	GR-12-38010	04-01-12 - 03-31-13	\$ 83,000	-	6,290	20,032	(13,742)
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-11 - 03-31-12	\$ 836,849	(121,007)	764,471	643,464	-
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-11 - 03-31-12	\$ 9,537,275	134,597	5,535,000	5,221,459	448,138
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-12 - 03-31-13	\$ 888,733	-	79,376	228,827	(149,451)
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-12 - 03-31-13	\$ 9,505,620	-	2,450,000	1,838,415	611,585
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE:								
HIV Care Formula Grants	93.917*	N/A	04-01-11 - 03-31-12	\$ 137,315	(20,790)	111,417	103,332	(12,705)
HIV Care Formula Grants	93.917*	N/A	04-01-12 - 03-31-13	\$ 137,315	-	-	36,148	(36,148)
HIV Care Formula Grants	93.917*	N/A	04-01-11 - 03-31-12	\$ 321,950	(53,716)	276,289	258,052	(35,479)
HIV Care Formula Grants	93.917*	N/A	04-01-12 - 03-31-13	\$ 330,550	-	-	109,984	(109,984)

(continued on following page)

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2011	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2012
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued):</u>								
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE (Continued):								
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-11 - 02-28-12	\$ 1,084,582	\$ (183,521)	\$ 892,658	\$ 709,137	\$ -
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-12 - 02-28-13	\$ 1,079,582	-	194,553	398,024	(203,471)
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-11 - 02-28-12	\$ 639,855	(115,997)	587,920	471,923	-
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-12 - 02-28-13	\$ 346,270	-	75,867	169,629	(93,762)
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-11 - 02-28-12	\$ 89,987	(12,242)	77,521	65,279	-
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-12 - 02-28-13	\$ 65,572	-	10,826	21,112	(10,286)
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-11 - 02-28-12	\$ 164,219	-	164,219	164,219	-
HIV Emergency Relief Projects Grants	93.914*	N/A	03-01-12 - 02-28-13	\$ 33,098	-	-	18,852	(18,852)
PASSED THROUGH THE COMPREHENSIVE CARE CENTER:								
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	5 H12 HA 23001-12-00	08-01-10 - 07-31-11	\$ 84,272	(16,028)	16,028	-	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	5 H12 HA 23001-12-00	08-01-11 - 07-31-12	\$ 84,272	-	73,461	82,927	(9,466)
PASSED THROUGH MEDICAL COLLEGE OF WISCONSIN:								
Mental Health Research Grants	93.242	5R01MH091875-02	02-01-11 - 01-31-12	\$ 59,231	(7,008)	47,775	40,767	-
Mental Health Research Grants	93.242	5R01MH091875-03	02-01-12 - 01-31-13	\$ 48,146	-	14,571	20,932	(6,361)
Mental Health Research Grants	93.242	5R01MH089828-01A1	10-01-11 - 05-31-12	\$ 27,000	-	8,900	8,900	-
Mental Health Research Grants	93.242	5R01MH089828-01A1	06-01-12 - 05-31-13	\$ 27,000	-	-	620	(620)
PASSED THROUGH THE CENTER ON AIDS & COMMUNITY HEALTH:								
National Institutes of Health Acquired Immunodeficiency Syndrome Research								
Loan Repayment Program	93.936	UM1 AI 068619	01-01-12 - 05-31-13	\$ 34,922	-	-	8,020	(8,020)
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ (798,104)	\$ 12,892,803	\$ 11,965,507	\$ 129,192

*Considered a major program under OMB Circular A-133.

Summary of Expenditures by CFDA Number:

BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Nashville CARES and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. The schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

14.241	\$ 600,233
93.153	82,927
93.242	71,219
93.914	2,018,175
93.917	8,529,776
93.936	8,020
93.940	652,745
97.024	2,412
	<u>\$ 11,965,507</u>

OTHER REPORTS

INDEPENDENT AUDITORS' 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 of Nashville CARES
Nashville, Tennessee

We have audited the financial statements of Nashville CARES (the "Agency"), a Tennessee not-for-profit corporation, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 5, 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 the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 or other matters 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, others within the Agency, federal awarding agencies, the State of Tennessee and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Y. H. CPAs PLLC". The signature is stylized, with the "Y" and "H" being particularly prominent and connected.

Nashville, Tennessee
December 5, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

To the Board of Directors of Nashville CARES
Nashville, Tennessee

Compliance

We have audited Nashville CARES' (the "Agency") compliance 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 the Agency's major federal programs for the year ended June 30, 2012. The Agency's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.


Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

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

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

A handwritten signature in black ink that reads "Y. Graff CPAs PLLC". The signature is stylized, with the first name being "Y. Graff" and the firm name "CPAs PLLC" following it.

Nashville, Tennessee
December 5, 2012

NASHVILLE CARES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified? _____ yes x none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

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

_____ yes x no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
14.241	Housing Opportunities for Persons with AIDS
93.914	HIV Emergency Relief Projects Grants
93.917	HIV Care Formula Grants

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

\$358,965

Auditee qualified as low-risk auditee?

 x yes _____ no