

NASHVILLE CARES

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013 AND 2012

NASHVILLE CARES
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CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows.....	5
Statements of Functional Expenses.....	6 - 7
Notes to Financial Statements	8 - 19
 <u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Expenditures of Federal and State Awards	20 - 22
 <u>OTHER REPORTS</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	23 - 24
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance	25 - 26
Schedule of Findings and Questioned Costs.....	27



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nashville CARES
Nashville, Tennessee

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Nashville CARES (the "Agency"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2013 and 2012, 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 Agency'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 Agency'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 Nashville CARES as of June 30, 2013 and 2012, 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 MATTERS

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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. The schedule of expenditures of state awards 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013 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 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 Nashville CARES' internal control over financial reporting and compliance.

 Y. Gray CPAs PLLC

Nashville, Tennessee
November 21, 2013

NASHVILLE CARES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,122,453	\$ 1,096,588
Accounts and contracts receivable	23,782	14,854
Federal, state and local government grants receivable	905,968	937,748
Contributions receivable:		
United Way	33,110	33,929
Foundation and outcome-based grants receivable	114,905	74,267
HCA Caring for the Community	16,044	15,537
Other workplace campaign	23,193	15,801
Major gifts receivable	30,153	30,603
Special events receivable	45,766	48,072
Other	-	51
Prepaid expenses and other	100,383	50,355
Property and equipment	2,760,928	2,830,701
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>21,176</u>	<u>19,758</u>
TOTAL ASSETS	<u>\$ 5,197,861</u>	<u>\$ 5,168,264</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Checks issued in excess of deposits	\$ 49,670	\$ 49,365
Accounts payable	64,109	56,795
Grant funds reimbursable to the State	92,761	-
Accrued payroll and compensated absences	249,594	200,909
Deferred revenue	859,647	1,059,723
Line of credit	136,356	170,859
Note payable	<u>2,014,480</u>	<u>2,041,749</u>
TOTAL LIABILITIES	<u>3,466,617</u>	<u>3,579,400</u>
<u>COMMITMENTS AND CONTINGENCIES</u>		
<u>NET ASSETS</u>		
Unrestricted:		
Undesignated	700,449	558,376
Designated for property and equipment, less related debt	746,448	788,952
Designated for beneficial interest in agency endowment fund	<u>21,176</u>	<u>19,758</u>
Total unrestricted	1,468,073	1,367,086
Temporarily restricted	<u>263,171</u>	<u>221,778</u>
TOTAL NET ASSETS	<u>1,731,244</u>	<u>1,588,864</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,197,861</u>	<u>\$ 5,168,264</u>

See accompanying notes to financial statements.

NASHVILLE CARES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013		
	UNRESTRICTED	TEMPORARILY RESTRICTED	Total
PUBLIC SUPPORT AND REVENUE			
Public Support:			
Annual Campaign	\$ 105,583	\$ 24,940	\$ 130,523
Sanford Bloch Memorial Fund	16,893	-	16,893
United Way designations	-	32,742	32,742
HCA Caring for the Community designations	-	21,027	21,027
Other workplace campaign designations	2,241	24,278	26,519
Special events	348,545	102,286	450,831
Federal, state and local grants and contracts	11,161,635	-	11,161,635
Foundation and corporate grants	73,117	367,374	440,491
Total Public Support	11,708,014	572,647	12,280,661
Interest income	366	-	366
Other revenue	19,125	-	19,125
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	2,447	-	2,447
Net assets released resulting from satisfaction of donor restrictions	531,254	(531,254)	-
TOTAL PUBLIC SUPPORT AND REVENUE	12,261,206	41,393	12,302,599
EXPENSES			
Program Services:			
Case management services	1,494,012	-	1,494,012
Emotional health and wellness	452,484	-	452,484
Onsite services	482,278	-	482,278
Educational services	905,931	-	905,931
Public policy and advocacy	85,627	-	85,627
Dental services	654,898	-	654,898
Insurance services	6,789,905	-	6,789,905
Supporting Services:			
Management and general	767,756	-	767,756
Marketing	44,687	-	44,687
Fund development	422,693	-	422,693
Volunteer services	59,948	-	59,948
TOTAL EXPENSES	12,160,219	-	12,160,219
CHANGE IN NET ASSETS	100,987	41,393	142,380
NET ASSETS - BEGINNING OF YEAR	1,367,086	221,778	1,588,864
NET ASSETS - END OF YEAR	\$ 1,468,073	\$ 263,171	\$ 1,731,244

See accompanying notes to financial statements.

2012

UNRESTRICTED	TEMPORARILY RESTRICTED	Total
\$ 156,662	\$ 29,340	\$ 186,002
-	-	-
-	40,127	40,127
-	21,333	21,333
-	21,362	21,362
320,020	123,707	443,727
12,078,839	-	12,078,839
<u>153,081</u>	<u>208,242</u>	<u>361,323</u>
12,708,602	444,111	13,152,713
897	-	897
2,705	-	2,705
207	-	207
<u>401,270</u>	<u>(401,270)</u>	<u>-</u>
<u>13,113,681</u>	<u>42,841</u>	<u>13,156,522</u>
1,388,804	-	1,388,804
283,420	-	283,420
579,365	-	579,365
1,081,796	-	1,081,796
81,499	-	81,499
1,094,374	-	1,094,374
7,311,724	-	7,311,724
	-	-
812,295	-	812,295
57,017	-	57,017
460,968	-	460,968
<u>57,105</u>	<u>-</u>	<u>57,105</u>
<u>13,208,367</u>	<u>-</u>	<u>13,208,367</u>
(94,686)	42,841	(51,845)
<u>1,461,772</u>	<u>178,937</u>	<u>1,640,709</u>
<u>\$ 1,367,086</u>	<u>\$ 221,778</u>	<u>\$ 1,588,864</u>

NASHVILLE CARES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 142,380	\$ (51,845)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	94,467	98,030
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(2,447)	(207)
(Increase) decrease in:		
Accounts receivable	(8,928)	14,464
Federal, state and local government grants receivable	31,780	5,783
Contributions receivable	(44,911)	(35,663)
Prepaid expenses and other	(50,028)	11,119
Increase (decrease) in:		
Checks issued in excess of deposits	305	(34,455)
Accounts payable	7,314	7,167
Grant funds reimbursable to the State	92,761	-
Accrued payroll and compensated absences	48,685	(21,504)
Deferred revenue	(200,076)	925,126
NET ADJUSTMENTS	(31,078)	969,860
NET CASH PROVIDED BY OPERATING ACTIVITIES	111,302	918,015
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(24,694)	(55,230)
Contributions to agency endowment fund	-	(5,200)
Distributions from agency endowment fund	1,029	1,500
NET CASH USED IN INVESTING ACTIVITIES	(23,665)	(58,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(49,594)	(58,251)
Proceeds from note payable	22,325	-
Net borrowings (repayments) on line of credit	(34,503)	116,938
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(61,772)	58,687
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,865	917,772
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,096,588	178,816
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,122,453</u>	<u>\$ 1,096,588</u>
NON-CASH FINANCING ACTIVITIES		
Loan balance paid through refinancing	<u>\$ 1,992,675</u>	<u>\$ -</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid during the year	<u>\$ 107,238</u>	<u>\$ 130,854</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES							SUPPORTING SERVICES				TOTALS
	CASE MANAGEMENT SERVICES	EMOTIONAL HEALTH & WELLNESS	ONSITE SERVICES	EDUCATIONAL SERVICES	PUBLIC POLICY & ADVOCACY	DENTAL SERVICES	INSURANCE SERVICES	MANAGEMENT AND GENERAL	MARKETING	FUND DEVELOPMENT	VOLUNTEER SERVICES	
Salaries	\$ 746,544	\$ 299,972	\$ 124,092	\$ 578,371	\$ 58,949	\$ 106,617	\$ 196,301	\$ 440,122	\$ 25,481	\$ 215,966	\$ 38,802	\$ 2,831,217
Employee taxes and fringe benefits	190,864	75,333	29,199	145,807	11,646	31,318	53,012	93,026	5,772	43,169	10,174	689,320
TOTAL PAYROLL AND RELATED EXPENSES	937,408	375,305	153,291	724,178	70,595	137,935	249,313	533,148	31,253	259,135	48,976	3,520,537
Client assistance	433,737	640	296,388	14,956	49	495,711	6,500,077	-	-	-	-	7,741,558
Advertising	-	-	-	-	-	-	-	534	-	-	-	534
Audit	-	-	-	-	-	-	-	34,500	-	-	-	34,500
Bank fees and interest expense	-	-	-	-	-	-	70	21,223	-	3,480	-	24,773
Conferences and training	-	4,898	-	3,151	2,447	-	-	1,783	-	2,397	-	14,676
Depreciation on furniture and equipment	22,442	12,477	7,154	19,972	1,297	3,508	5,510	12,938	752	5,801	2,616	94,467
Equipment rental and maintenance	-	-	-	-	-	-	-	9,738	-	-	-	9,738
Insurance	-	-	-	-	-	-	-	38,950	-	-	-	38,950
Licensure/permits	-	1,010	-	-	340	-	-	465	-	935	-	2,750
Memberships	-	-	-	-	6,000	-	-	835	1,090	-	250	8,175
Occupancy	32,136	17,880	10,413	29,051	1,861	5,320	7,690	33,777	1,140	8,391	3,765	151,424
Participation fees	-	-	-	340	-	-	-	-	2,440	-	-	2,780
Postage	1,966	432	4,378	765	2	1,736	13,934	1,012	-	3,425	394	28,044
Printing	1,991	1,930	868	4,789	103	128	762	4,518	3,044	6,468	795	25,396
Professional fees	15,902	5,256	5,025	3,680	1,291	5,800	4,900	28,830	3,621	6,955	254	81,514
Space rental	-	-	-	342	-	-	-	-	-	1,940	-	2,282
Special event production	-	-	-	-	-	-	-	-	-	117,210	-	117,210
Supplies	9,274	10,193	2,118	40,446	139	3,801	6,188	21,735	1,201	4,266	2,358	101,719
Telephone	13,808	3,719	1,387	9,420	939	885	1,453	3,997	146	1,683	270	37,707
Travel/mileage	25,348	15,559	122	18,384	564	74	8	853	-	607	270	61,789
Van upkeep/gasoline	-	-	-	-	-	-	-	5,136	-	-	-	5,136
Volunteer incentives/remuneration	-	3,185	1,134	36,457	-	-	-	-	-	-	-	40,776
Miscellaneous	-	-	-	-	-	-	-	13,784	-	-	-	13,784
TOTAL FUNCTIONAL EXPENSES	\$ 1,494,012	\$ 452,484	\$ 482,278	\$ 905,931	\$ 85,627	\$ 654,898	\$6,789,905	\$ 767,756	\$ 44,687	\$ 422,693	\$ 59,948	\$12,160,219

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAM SERVICES							SUPPORTING SERVICES				TOTALS
	CASE MANAGEMENT SERVICES	EMOTIONAL HEALTH & WELLNESS	ONSITE SERVICES	EDUCATIONAL SERVICES	PUBLIC POLICY & ADVOCACY	DENTAL SERVICES	INSURANCE SERVICES	MANAGEMENT AND GENERAL	MARKETING	FUND DEVELOPMENT	VOLUNTEER SERVICES	
Salaries	\$ 705,068	\$ 189,102	\$ 148,412	\$ 709,326	\$ 51,796	\$ 107,728	\$ 177,906	\$ 417,408	\$ 35,749	\$ 261,635	\$ 38,069	\$ 2,842,199
Employee taxes and fringe benefits	175,769	49,270	30,692	180,932	10,681	28,550	43,185	99,073	7,953	47,484	9,757	683,346
TOTAL PAYROLL AND RELATED EXPENSES	880,837	238,372	179,104	890,258	62,477	136,278	221,091	516,481	43,702	309,119	47,826	3,525,545
Client assistance	374,600	-	370,271	15,848	-	938,548	7,060,875	-	-	-	-	8,760,142
Advertising	-	-	-	-	-	-	-	275	1,119	-	-	1,394
Audit	-	-	-	-	-	-	-	27,250	-	-	-	27,250
Bank fees and interest expense	-	-	-	-	-	-	-	12,044	-	-	-	12,044
Conferences and training	1,727	259	-	3,024	3,489	-	95	484	50	1,485	-	10,613
Depreciation on furniture and equipment	10,831	4,714	3,952	11,898	609	1,669	2,802	56,759	495	2,984	1,317	98,030
Equipment rental and maintenance	-	-	-	-	-	-	-	11,332	-	-	-	11,332
Insurance	-	-	-	-	-	-	-	36,746	-	-	-	36,746
Licensure/permits	-	1,010	210	-	340	-	-	1,084	-	300	-	2,944
Memberships	-	-	-	-	10,000	-	-	805	250	83	50	11,188
Occupancy	31,660	13,506	11,491	34,205	1,763	4,604	8,400	60,028	1,542	8,273	3,801	179,273
Participation fees	-	-	-	1,599	27	-	-	139	1,950	60	70	3,845
Postage	1,201	322	4,909	1,117	11	2,592	12,695	1,225	-	2,200	79	26,351
Printing	1,408	423	902	8,312	142	511	684	7,936	1,930	5,511	884	28,643
Professional fees	41,505	4,753	6,074	16,972	1,058	3,300	625	26,539	4,850	6,418	1,050	113,144
Space rental	-	-	-	630	-	-	-	-	-	1,939	173	2,742
Special event production	-	-	-	-	-	-	-	-	-	117,682	-	117,682
Supplies	9,960	10,519	1,646	34,974	90	6,490	3,887	23,710	808	2,737	1,635	96,456
Telephone	11,276	1,759	806	8,742	1,000	382	570	23,777	294	1,719	125	50,450
Travel/mileage	23,799	7,783	-	28,217	493	-	-	325	27	458	95	61,197
Van upkeep/gasoline	-	-	-	-	-	-	-	4,604	-	-	-	4,604
Volunteer incentives/remuneration	-	-	-	26,000	-	-	-	-	-	-	-	26,000
Miscellaneous	-	-	-	-	-	-	-	752	-	-	-	752
TOTAL FUNCTIONAL EXPENSES	\$ 1,388,804	\$ 283,420	\$ 579,365	\$ 1,081,796	\$ 81,499	\$ 1,094,374	\$ 7,311,724	\$ 812,295	\$ 57,017	\$ 460,968	\$ 57,105	\$ 13,208,367

See accompanying notes to financial statements.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 2 - 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, 2013 or 2012.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with banks and money market funds.

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.

All contributions receivable at June 30, 2013 and 2012 are temporarily restricted and due in less than one year.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 4.)

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 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2013 and 2012.

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.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 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, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Program Services (Continued)

Dental services - financial assistance for the payment of dental care for persons with HIV/AIDS throughout a 39-county area in Middle Tennessee and Upper Cumberland.

Insurance services - 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, 2013 AND 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 2010 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 not" 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 not" 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 2012 financial statements to conform to the 2013 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, 2013 and November 21, 2013, 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, 2013 AND 2012

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
HUD - Housing Opportunities for Persons with AIDS (HOPWA)	\$ 166,557	\$ 60,424
HUD - Emergency Solutions Grant	3,846	-
CDC - HIV Prevention and Education	76,660	89,954
CDC - Counseling and Testing Services	75,555	71,806
Ryan White CARE Act - Part B - Medical Case Management	43,837	13,742
Ryan White CARE Act - Part B Care Middle Tennessee	23,590	48,853
Ryan White CARE Act - Part B Dental Assistance Middle Tennessee	75,096	145,463
Ryan White CARE Act - Part A Care Nashville Transitional Grant Area (TGA)	190,445	203,471
Ryan White CARE Act - Part A Dental Assistance Nashville TGA	14,849	93,762
Ryan White CARE Act - Part A Minority AIDS Initiative Nashville TGA	6,189	10,286
Ryan White CARE Act - Part A Minority AIDS Initiatives Dental Nashville TGA	8,143	18,852
Ryan White CARE Act - Part B Insurance Assistance	139,264	149,451
Ryan White CARE Act - Part D	-	9,466
State Department of Mental Health - Early Intervention Services	18,763	-
National Institutes of Health	32,224	6,981
Metro Nashville Community Enhancement Grant	18,429	7,217
National Institutes of Allergies and Infectious Diseases	12,521	8,020
	<u>\$ 905,968</u>	<u>\$ 937,748</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land	\$ 400,000	\$ 400,000
Building	1,615,000	1,615,000
Building improvements	803,930	797,190
Vehicles	8,181	4,125
Software	115,033	113,654
Furniture and equipment	<u>269,382</u>	<u>256,862</u>
	3,211,526	3,186,831
Less accumulated depreciation	<u>(450,598)</u>	<u>(356,130)</u>
	<u>\$ 2,760,928</u>	<u>\$ 2,830,701</u>

NOTE 4 - 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, 2013 AND 2012

NOTE 4 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Agency's beneficial interest in this fund for the years ended June 30, 2013 and 2012, follows:

	<u>2013</u>	<u>2012</u>
Balance - beginning of year	\$ 19,758	\$ 15,851
Contributions to the fund	-	5,200
Change in value of beneficial interest in agency endowment fund:		
Investment income	2,606	399
Administrative expenses	<u>(159)</u>	<u>(192)</u>
	2,447	207
Distributions to the Agency	<u>(1,029)</u>	<u>(1,500)</u>
Balance - end of year	<u>\$ 21,176</u>	<u>\$ 19,758</u>

NOTE 5 - 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>2013</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>\$ 21,176</u>	<u>\$ -</u>	<u>\$ 21,176</u>

		<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>\$ 19,758</u>	<u>\$ -</u>	<u>\$ 19,758</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 6 - DEBT

The Agency had a loan with Beacon Federal Bank to finance the purchase of its operating facility and the initial build-out. The loan required monthly principal and interest installments of \$14,139 until maturity on July 15, 2031, with interest accrued at 5.24% per annum. In May 2013, the Agency entered into a new loan agreement with BancorpSouth Bank. The new note had an initial balance of \$2,015,000 that was used to pay off the existing loan with Beacon Federal Bank. The loan requires principal and interest installments, with interest accrued at 4.49% per annum, through June 3, 2028. On that date, the interest rate will be modified to be prime plus 0.25% (with a floor of 4.5%) until the note's maturity on June 3, 2033. 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 May 3, 2018.

A schedule of future principal maturities under the note as of June 30, 2013, follows:

Year ending June 30,

2014	\$	63,607
2015		66,564
2016		69,426
2017		72,885
2018		76,273
Thereafter		<u>1,665,725</u>
	\$	<u>2,014,480</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. On August 16, 2012, the Agency renewed the agreement reducing the maximum amount to \$500,000, which matured November 15, 2012. On December 4, 2012, the Agency entered into a new line of credit agreement with BancorpSouth Bank. 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 effective interest rate at June 30, 2013 was 4% and the outstanding balance was \$136,356 (\$170,859 at June 30, 2012). The line of credit is secured by substantially all assets of the Agency, except for real property.

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, 2013, the Agency was in compliance with this requirement.

Total interest expense incurred by the Agency was \$107,238 in 2013 and \$130,854 in 2012 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, 2013 AND 2012

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
United Way of Metropolitan Nashville:		
Designations	\$ 33,110	\$ 33,929
Outcome-based funding grants	74,266	74,267
HCA Caring for the Community campaign	16,044	15,537
Other United Way and workplace campaigns	23,193	15,801
Donation for special events	45,766	48,072
Corporate and foundation grants - operational support for the following year:		
Enterprise Rent-a-Car	-	3,540
AIDS United	17,803	-
Bristol-Meyers Squibb	15,000	-
Meharry Medical	5,336	-
Annual Campaign	30,153	30,603
Religious contributions	2,500	-
Other	<u>-</u>	<u>29</u>
	<u>\$ 263,171</u>	<u>\$ 221,778</u>

NOTE 8 - 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. The matching contribution was suspended during the year ended 2013 and will resume during the year ended 2014.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 9 - 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.

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, 2013, the Agency's depository accounts exceeded FDIC insurance limits by approximately \$1,004,000.

NOTE 10 - 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.

SUPPLEMENTARY INFORMATION

NASHVILLE CARES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2012	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2013	Reimbursable to State
<u>FEDERAL AWARDS:</u>									
<u>U. S. DEPARTMENT OF HOMELAND SECURITY:</u>									
Emergency Food and Shelter National Board Program	97.024	N/A	04-01-12 - 03-31-13	\$ 9,203	\$ -	\$ 9,203	\$ 9,203	\$ -	\$ -
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:									
Housing Opportunities for Persons with AIDS	14.241	GR-12-35783	07-01-11 - 06-30-12	\$ 47,700	(12,352)	12,352	-	-	-
Housing Opportunities for Persons with AIDS	14.241	GR-12-35783	07-01-12 - 06-30-13	\$ 45,400	-	35,087	45,400	(10,313)	-
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:									
Housing Opportunities for Persons with AIDS	14.241	N/A	04-01-12 - 03-31-13	\$ 570,000	(48,072)	48,072	-	-	-
Housing Opportunities for Persons with AIDS	14.241	N/A	04-01-13 - 03-31-14	\$ 549,255	-	446,747	602,991	(156,244)	-
Emergency Solutions Grant Program	14.231	N/A	07-01-12 - 06-30-13	\$ 24,926	-	7,200	11,046	(3,846)	-
<u>U. S. 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	01-01-12 - 12-31-12	\$ 237,000	(89,954)	208,742	118,788	-	-
HIV Prevention Activities_Health Department Based	93.940*	N/A	01-01-13 - 12-31-13	\$ 246,000	-	52,031	118,691	(66,660)	-
HIV Prevention Activities_Health Department Based	93.940*	N/A	01-01-13 - 12-31-13	\$ 10,000	-	-	10,000	(10,000)	-
PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:									
HIV Prevention Activities_Health Department Based	93.940*	GR-12-37416	10-01-11 - 12-31-12	\$ 309,100	(40,946)	155,421	114,475	-	-
HIV Prevention Activities_Health Department Based	93.940*	GR-13-35519	01-01-13 - 12-31-13	\$ 343,100	-	100,436	164,998	(64,562)	-
HIV Care Formula Grants	93.917*	GR-12-38010	04-01-12 - 03-31-13	\$ 109,100	(13,742)	88,325	74,583	-	-
HIV Care Formula Grants	93.917*	GR-13-35613	04-01-13 - 03-31-14	\$ 258,600	-	10,297	54,134	(43,837)	-
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-12 - 03-31-13	\$ 9,505,620	1,059,723	3,614,504	4,674,227	-	-
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-13 - 03-31-14	\$ 7,302,422	-	2,685,497	1,825,850	859,647	-
PASSED THROUGH TENNESSEE DEPARTMENT OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES									
Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-13-38685	07-01-12 - 06-30-13	\$ 130,000	-	111,237	130,000	(18,763)	-
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE:									
HIV Care Formula Grants	93.917*	N/A	04-01-11 - 03-31-12	\$ 137,315	(12,705)	12,705	-	-	-
HIV Care Formula Grants	93.917*	N/A	04-01-12 - 03-31-13	\$ 137,315	(36,148)	137,315	101,167	-	-
HIV Care Formula Grants	93.917*	N/A	04-01-13 - 03-31-14	\$ 137,315	-	11,628	35,218	(23,590)	-

(continued on following page)

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2012	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2013	Reimbursable to State
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued):</u>									
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE (Continued):									
HIV Care Formula Grants	93.917*	N/A	04-01-11 - 03-31-12	\$ 321,950	\$ (35,479)	\$ 35,479	\$ -	\$ -	\$ -
HIV Care Formula Grants	93.917*	N/A	04-01-12 - 03-31-13	\$ 330,550	(109,984)	330,500	220,516	-	-
HIV Care Formula Grants	93.917*	N/A	04-01-13 - 03-31-14	\$ 330,550	-	36,880	111,976	(75,096)	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-12 - 02-28-13	\$ 1,086,382	(203,471)	891,829	688,358	-	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 1,041,935	-	195,219	385,664	(190,445)	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-12 - 02-28-13	\$ 431,114	(93,762)	351,247	257,485	-	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 73,455	-	31,926	46,775	(14,849)	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-12 - 02-28-13	\$ 65,572	(10,286)	54,746	44,460	-	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 41,341	-	2,592	8,781	(6,189)	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-12 - 02-28-13	\$ 72,793	(18,852)	72,793	53,941	-	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 97,272	-	2,390	10,533	(8,143)	-
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	08-01-11 - 07-31-12	\$ 84,272	(9,466)	10,811	1,345	-	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	H12HA24820	08-01-12 - 05-03-13	\$ 69,295	-	69,295	69,295	-	-
PASSED THROUGH MEDICAL COLLEGE OF WISCONSIN:									
Mental Health Research Grants	93.242	3R01MH091875-03S1	02-01-12 - 01-31-13	\$ 59,231	(6,361)	46,389	40,028	-	-
Mental Health Research Grants	93.242	5R01MH091875-03	02-01-13 - 01-31-14	\$ 42,560	-	-	24,379	(24,379)	-
Mental Health Research Grants	93.242	1347259	06-01-12 - 05-31-13	\$ 27,000	(620)	13,530	15,365	(2,455)	-
Mental Health Research Grants	93.242	1426858	06-01-13 - 05-31-14	\$ 27,000	-	-	5,390	(5,390)	-
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)	22,401	26,902	(12,521)	-
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 309,503	\$ 9,914,826	\$ 10,101,964	\$ 122,365	\$ -
<u>STATE AWARDS:</u>									
<u>TENNESSEE DEPARTMENT OF HEALTH:</u>									
HIV Prevention Activities_Health Department Based		GR-12-37416	10-01-11 - 12-31-12	\$ 181,900	\$ (30,860)	\$ 78,619	\$ 47,759	\$ -	\$ -
HIV Prevention Activities_Health Department Based		GR-13-35519	01-01-13 - 12-31-13	\$ 62,100	-	20,918	31,911	(10,993)	-
HIV Care Formula Grants		FA-10-30898-01	04-01-12 - 03-31-13	\$ 888,733	(149,451)	884,156	641,944	-	92,761
HIV Care Formula Grants		FA-10-30898-01	04-01-13 - 03-31-14	\$ 630,000	-	68,648	207,912	(139,264)	-
TOTAL OF EXPENDITURES OF STATE AWARDS					\$ (180,311)	\$ 1,052,341	\$ 929,526	\$ (150,257)	\$ 92,761

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

(continued on following page)

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

BASIS OF PRESENTATION

The Schedule of Expenditures of Federal and State Awards includes the federal and state 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*.

Summary of Federal Expenditures by CFDA Number:

14.241	\$	648,391
14.231		11,046
93.153		70,640
93.242		85,162
93.914		1,495,997
93.917		7,097,671
93.936		26,902
93.940		526,952
93.959		130,000
97.024		9,203
	\$	<u>10,101,964</u>

OTHER REPORTS

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

Board of Directors
Nashville CARES
Nashville, 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 Nashville CARES (the "Agency"), which comprise the statement of financial position as of June 30, 2013, 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 21, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Nashville CARES' 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.

Kraft CPAs PLLC

Nashville, Tennessee
November 21, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Nashville CARES
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Nashville CARES (the "Agency") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2013. The Agency'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 the Agency'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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Nashville CARES 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, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Agency 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 the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, 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. 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.

Ygrat CPAs PLLC

Nashville, Tennessee
November 21, 2013

FOR THE YEAR ENDED JUNE 30, 2013