

NASHVILLE CARES
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Nashville CARES
Nashville, Tennessee

We have audited the accompanying statements of financial position of Nashville CARES (the "Agency"), a Tennessee not-for-profit corporation, as of June 30, 2010 and 2009, the related statements of activities and functional expenses for the year ended June 30, 2010, and the statements of cash flows for the years ended June 30, 2010 and 2009. 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 audits. The prior year summarized comparative information in the statements of activities and functional expenses have been derived from the Agency's June 30, 2009 financial statements and, in our report dated December 3, 2009, we expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville CARES as of June 30, 2010 and 2009, the changes in its net assets for the year ended June 30, 2010, and its cash flows for the years ended June 30, 2010 and 2009, 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 6, 2010, 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 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Nashville CARES taken as a whole. The accompanying schedule of expenditures of federal awards, on pages 17 - 18, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
December 6, 2010

NASHVILLE CARES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 445,034	\$ 67,370
Accounts receivable	33,703	24,733
Grants receivable - Note 2	1,898,847	1,519,244
Contributions receivable - Note 3:		
United Way	103,277	129,378
HCA Caring for the Community	18,024	11,570
Other workplace campaign	30,857	6,067
Major gifts receivable	3,900	2,325
Special events receivable	7,923	2,950
Other	82,478	37,355
Prepaid expenses and other	28,322	40,323
Property and equipment - net - Note 4	1,303,538	1,370,739
Cash - building fund	1,568	1,568
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 8	13,722	12,600
TOTAL ASSETS	<u>\$ 3,971,193</u>	<u>\$ 3,226,222</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Checks issued in excess of deposits	\$ 72,948	\$ 402,801
Accounts payable	52,549	22,795
Accrued payroll and compensated absences	107,849	69,196
Deferred revenue	230,135	3,253
Line of credit - Note 9	1,452,674	455,252
Note payable - Note 9	808,134	874,469
TOTAL LIABILITIES	<u>2,724,289</u>	<u>1,827,766</u>
COMMITMENTS AND CONTINGENCIES - Note 10		
NET ASSETS		
Unrestricted:		
Undesignated	491,319	700,719
Designated for property and equipment, less related debt	495,404	496,270
Designated for beneficial interest in agency endowment fund - Note 8	13,722	12,600
Total unrestricted	<u>1,000,445</u>	<u>1,209,589</u>
Temporarily restricted - Note 7	246,459	188,867
TOTAL NET ASSETS	<u>1,246,904</u>	<u>1,398,456</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,971,193</u>	<u>\$ 3,226,222</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTALS</u>	
			<u>2010</u>	<u>2009</u>
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Individual gifts	\$ 17,335	\$ -	\$ 17,335	\$ 21,641
Major gifts	82,475	6,450	88,925	125,351
United Way designations	-	24,690	24,690	25,128
HCA Caring for the Community designations	-	23,294	23,294	18,956
Other workplace campaign designations	12,093	36,079	48,172	13,334
Religious gifts	9,594	6,250	15,844	18,334
Building fund contributions	-	-	-	2,000
United Way allocations	-	-	-	83
Special events	349,536	9,458	358,994	344,383
Government grants and contracts	12,365,616	-	12,365,616	12,917,950
Foundation and corporate grants	87,904	181,622	269,526	252,521
	<u>12,924,553</u>	<u>287,843</u>	<u>13,212,396</u>	<u>13,739,681</u>
Total Public Support				
	12,924,553	287,843	13,212,396	13,739,681
Investment income	1,956	-	1,956	1,698
Other revenue	4,487	-	4,487	4,208
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 8	1,822	-	1,822	(3,516)
Loss on disposal of assets	-	-	-	(1,645)
Net assets released resulting from satisfaction of donor restrictions	230,251	(230,251)	-	-
	<u>13,163,069</u>	<u>57,592</u>	<u>13,220,661</u>	<u>13,740,426</u>
TOTAL PUBLIC SUPPORT AND REVENUE				
	13,163,069	57,592	13,220,661	13,740,426
EXPENSES				
Program Services:				
Case management services	1,258,511	-	1,258,511	1,106,529
Emotional and practical support services	803,615	-	803,615	826,626
Educational services	837,533	-	837,533	603,719
Volunteer services	18,460	-	18,460	25,304
Dental and insurance assistance	9,194,980	-	9,194,980	9,886,014
Supporting Services:				
Management and general	957,188	-	957,188	909,546
Marketing	32,732	-	32,732	40,091
Fund development	269,194	-	269,194	261,806
	<u>13,372,213</u>	<u>-</u>	<u>13,372,213</u>	<u>13,659,635</u>
TOTAL EXPENSES				
	13,372,213	-	13,372,213	13,659,635
CHANGE IN NET ASSETS	(209,144)	57,592	(151,552)	80,791
NET ASSETS - BEGINNING OF YEAR	1,209,589	188,867	1,398,456	1,317,665
NET ASSETS - END OF YEAR	<u>\$ 1,000,445</u>	<u>\$ 246,459</u>	<u>\$ 1,246,904</u>	<u>\$ 1,398,456</u>

See accompanying notes to financial statements.

NASHVILLE CARES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (151,552)	\$ 80,791
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	78,450	81,106
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 8	(1,822)	3,516
Loss on disposal of property and equipment	-	1,645
Bad debt	-	11,050
(Increase) decrease in:		
Accounts receivable	(8,970)	(10,665)
Grants receivable	(379,603)	226,248
Contributions receivable	(56,814)	25,291
Prepaid expenses and other	12,001	(16,340)
Increase (decrease) in:		
Checks issued in excess of deposits	(329,853)	(65,583)
Accounts payable	29,754	(250,061)
Accrued payroll and compensated absences	38,653	(2,211)
Deferred revenue	226,882	3,253
NET ADJUSTMENTS	<u>(391,322)</u>	<u>7,249</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(542,874)</u>	<u>88,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(11,249)	(51,516)
Distributions from agency endowment fund	700	800
NET CASH USED IN INVESTING ACTIVITIES	<u>(10,549)</u>	<u>(50,716)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(66,335)	(62,394)
Net borrowings on line of credit	997,422	66,101
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>931,087</u>	<u>3,707</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	377,664	41,031
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>68,938</u>	<u>27,907</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 446,602</u>	<u>\$ 68,938</u>
OTHER CASH FLOW DISCLOSURES		
Interest paid during the year	<u>\$ 79,335</u>	<u>\$ 90,134</u>

See accompanying notes to financial statements.

NASHVILLE CARES

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010, WITH COMPARATIVE SUMMARIZED INFORMATION FOR 2009

	PROGRAM SERVICES				SUPPORTING SERVICES			
	CASE MANAGEMENT SERVICES	EMOTIONAL AND PRACTICAL SUPPORT SERVICES	EDUCATIONAL SERVICES	VOLUNTEER SERVICES	DENTAL AND INSURANCE ASSISTANCE	MANAGEMENT AND GENERAL	MARKETING	FUND DEVELOPMENT
Salaries	\$ 634,772	\$ 355,095	\$ 570,787	\$ 12,731	\$ 317,739	\$ 432,695	\$ 20,869	\$ 2,507,234
Employee taxes and fringe benefits	156,557	77,219	132,694	3,730	80,531	87,543	4,911	584,265
TOTAL PAYROLL AND RELATED EXPENSES	791,329	432,314	703,481	16,461	398,270	520,238	25,780	3,091,499
Client assistance						155	-	-
Advertising	398,857	334,739	16,771	-	8,742,958	30	750	-
Audit	-	-	-	-	-	32,000	-	-
Bank fees and interest expense	-	-	-	-	-	41,378	-	-
Conferences and training	4,400	68	3,191	-	1,353	1,255	-	205
Contracts	-	-	-	-	-	10,500	-	-
Equipment rental and maintenance	-	-	-	-	-	9,631	-	-
Insurance	-	-	-	-	-	31,539	-	-
Licensure/permits	-	1,220	-	-	-	1,615	-	-
Memberships	-	30	30	250	-	15,864	350	345
Occupancy	12,185	10,514	9,806	1,214	5,581	78,882	285	15
Participation fees	-	-	-	-	-	-	2,035	2,653
Postage	1,334	3,532	5,506	112	18,474	1,016	-	-
Printing	1,578	970	4,276	140	898	6,365	20	1,582
Professional fees	9,454	7,097	6,507	-	15,509	58,590	2,925	912
Space rental	-	1,405	2,424	-	-	260	-	5,759
Special event production	-	-	-	-	-	310	-	2,280
Supplies	12,333	8,368	41,337	283	11,813	36,689	66	6,369
Telephone	6,586	1,740	5,140	-	-	21,098	521	48,152
Travel/mileage	20,455	1,618	23,137	-	25	5,723	-	2,303
Volunteer incentives/remuneration	-	-	15,785	-	-	-	-	520
Van upkeep/gasoline	-	-	-	-	-	5,267	-	842
Miscellaneous	-	-	142	-	99	333	-	-
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	1,258,511	803,615	837,533	18,460	9,194,980	878,738	32,732	13,293,763
Depreciation on furniture and equipment	-	-	-	-	-	78,450	-	-
TOTAL FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2010	\$ 1,258,511	\$ 803,615	\$ 837,533	\$ 18,460	\$ 9,194,980	\$ 957,188	\$ 32,732	\$ 13,372,213
TOTAL FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2009	\$ 1,106,529	\$ 826,626	\$ 603,719	\$ 25,304	\$ 9,886,014	\$ 909,546	\$ 40,091	\$ 13,659,635

See accompanying notes to financial statements.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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. 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.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

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 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.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- *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, 2010 or 2009.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with banks and money market funds. For purposes of the Statements 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 8.)

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.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

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.

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.

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.

Donated Services

The Agency's policy is not to record support and expenses for contributed services where no objective basis is available to measure the value of such services.

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.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (Continued)

Emotional and practical support services - social services to meet emotional, therapeutic, nutritional, and practical support needs of HIV-infected individuals and their families living in 17 counties of northern Middle Tennessee.

Educational services - provision of HIV/AIDS prevention education and awareness to various populations and target groups throughout 17 counties of northern Middle Tennessee.

Volunteer services - recruitment, training and placement of volunteers within the various departments of the Agency. There are currently more than 500 volunteers that work in all areas of the Agency.

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.

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, 2010

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.

Effective July 1, 2009, the Agency adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Agency's financial position and results of operations.

As of June 30, 2010, the Agency did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the year then ended.

The Agency files a U.S. Federal Form 990 for organizations exempt from income tax. The Agency's returns for years prior to fiscal year end 2007 are closed.

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.

Events Occurring After Reporting Date

The Agency has evaluated events and transactions that occurred between June 30, 2010 and December 6, 2010, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made to prior year amounts to be comparative with the current year presentation.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u>
DHS - Emergency Food and Shelter Program	\$ 52	\$ -
HUD - Housing Opportunities for Persons with AIDS (HOPWA)	102,847	185,975
CDC - HIV Prevention and Education	91,664	42,869
CDC - Counseling and Testing Services	63,865	14,274
CDC - MSM Needs Assessment	-	1,074
Ryan White CARE Act - Part B - Medical Care Management	32,690	8,212
Ryan White CARE Act - Part B Care Middle Tennessee	66,782	113,120
Ryan White CARE Act - Part B Dental Assistance Middle Tennessee	147,814	171,021
Ryan White CARE Act - Part A Care Nashville Transitional Grant Area (TGA)	127,533	116,209
Ryan White CARE Act - Part A Dental Assistance Nashville TGA	136,384	110,960
Ryan White CARE Act - Part B Insurance Assistance	1,087,747	722,034
Ryan White CARE Act - Part A Minority AIDS Initiative Nashville TGA	7,670	9,452
Ryan White CARE Act - Title IV	25,667	16,725
Community Enhancement Grant	8,132	7,319
	<u>\$1,898,847</u>	<u>\$1,519,244</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE

All contributions receivable at June 30, 2010 and 2009 are temporarily restricted and due in less than one year.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land	\$ 257,850	\$ 257,850
Building	1,092,150	1,092,150
Building improvements	124,621	120,958
Vehicles	4,125	4,125
Software	113,654	106,069
Furniture and equipment	<u>181,305</u>	<u>181,880</u>
	1,773,705	1,763,032
Less accumulated depreciation	<u>(470,167)</u>	<u>(392,293)</u>
	<u>\$ 1,303,538</u>	<u>\$ 1,370,739</u>

Fully depreciated assets at June 30, 2010 amounted to approximately \$143,000 (\$101,000 at June 30, 2009).

NOTE 5 - 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. During 2009, management 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 matching contribution was temporarily suspended during 2010 and there were no employer contributions during the year (\$19,105 in 2009). The match was resumed in July 2010.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 6 - 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, 2010, the Agency's depository accounts did not exceed FDIC insurance limits.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
United Way of Metropolitan Nashville:		
Designations	\$ 16,483	\$ 38,506
Outcome-based funding grants	86,744	90,812
Other United Ways/workplace campaigns	30,907	6,126
HCA Caring for the Community campaign	18,024	11,571
Donation for special event for the following year	7,923	2,950
Corporate and foundation grants - operational support for the following year:		
National AIDS Fund	30,878	20,000
Gilead Foundation	49,000	-
Baptist Healing Trust	-	14,577
Major gift pledge	3,900	2,325
Religious contributions	<u>2,600</u>	<u>2,000</u>
	<u>\$ 246,459</u>	<u>\$ 188,867</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 8 - 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.

A schedule of changes in the Agency's beneficial interest in this fund for the years ended June 30, 2010 and 2009, follows:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	\$ 12,600	\$ 16,916
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	300	-
Investment income (loss)	1,614	(3,426)
Administrative expenses	<u>(92)</u>	<u>(90)</u>
	1,822	(3,516)
Distributions to the Agency	<u>(700)</u>	<u>(800)</u>
Balance - end of year	<u>\$ 13,722</u>	<u>\$ 12,600</u>

The carrying amount of the beneficial interest in agency endowment fund held by the Community Foundation is based on information received from the Community Foundation indicating the financial performance of the endowment fund. The Agency reflects this asset within Level 2 of the valuation hierarchy, as defined by applicable financial accounting standards.

NOTE 9 - DEBT

On September 30, 2004, the Agency entered into a \$1,350,000 loan agreement evidenced by a note payable to Beacon Federal Bank. On July 28, 2009, the note was amended and restated (the "modified note") for the then remaining balance of \$869,571, which is payable in bi-weekly principal and interest installments of \$4,374. The modified note accrues interest at the rate of 5.55% per annum through July 27, 2014, at which time the rate will be adjusted to the then prevailing five-year Federal Home Loan Bank of New York rate plus 2% per annum and remain fixed until maturity on July 16, 2019. The note is secured by a deed of trust on the Agency's real estate.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 9 - DEBT (CONTINUED)

The agreement places certain restrictions and limitations on the Agency, including maintenance of a specified cash flow coverage ratio. As of June 30, 2010, the Agency was not in compliance with this requirement for which the bank has granted a waiver through July 1, 2011.

A schedule of future principal maturities under the modified note as of June 30, 2010, follows:

Year ending June 30,

2011	\$ 70,244
2012	74,294
2013	78,578
2014	83,109
2015	87,900
Thereafter	<u>414,009</u>
	<u>\$ 808,134</u>

The Agency also has a maximum \$3,000,000 line of credit agreement with Beacon Federal Bank. Borrowings under the line bear interest at a rate equal to The Wall Street Journal Prime Rate (3.25% at June 30, 2010). The line of credit matures May 15, 2011 and is secured by substantially all assets of the Agency. The outstanding balance at June 30, 2010 was \$1,452,674 (\$455,252 at June 30, 2009).

Total interest expense incurred by the Agency was \$79,335 in 2010 and \$90,134 in 2009 and is included in occupancy expense for the note payable, and bank fees and interest expense for the line of credit.

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 is 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 exists 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. A relocation to a new facility is not anticipated to occur for at least five years.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

NOTE 10 - RELATED PARTIES AND OTHER MATTERS (CONTINUED)

In April 2010, the Agency entered into an agreement to sell its operating facility for \$1,775,000. The transaction is scheduled to close in December 2010. The Agency expects to recognize a gain on the disposition of approximately \$535,000. Simultaneously with the sale, the Agency entered into an agreement to lease the facility back from the buyer for a term not to exceed five months from the date of closing. The buyer will deposit \$250,000 of the sales proceeds into an escrow account until the facility is vacated and surrendered, less any amounts due to the buyer. The Agency is actively looking for a facility to relocate to.

ADDITIONAL INFORMATION

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2009	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2010
<u>DEPARTMENT OF HOMELAND SECURITY:</u>								
Emergency Food and Shelter Program-Nutrition	97.024	N/A	01-01-09 - 12-31-09	\$ 18,000	\$ 1,013	\$ 9,000	\$ 10,013	\$ -
Emergency Food and Shelter Program-Nutrition	97.024	N/A	01-01-10 - 12-31-10	\$ 12,828	-	6,414	3,495	2,919
Emergency Food and Shelter Program-Lodging	97.024	N/A	01-01-09 - 12-31-09	\$ 9,437	2,240	4,719	6,959	-
Emergency Food and Shelter Program-Lodging	97.024	N/A	01-01-10 - 12-31-10	\$ 8,295	-	4,148	4,200	(32)
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>								
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:</u>								
Housing Opportunities for Persons with AIDS	14.241	GR-09-25334-00	07-01-08 - 06-30-09	\$ 36,100	(10,828)	10,828	-	-
Housing Opportunities for Persons with AIDS	14.241	GR-10-27607-00	07-01-09 - 06-30-10	\$ 36,100	-	27,974	36,100	(8,126)
<u>PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:</u>								
Housing Opportunities for Persons with AIDS	14.241	N/A	04-01-09 - 03-31-10	\$ 569,012	(175,147)	596,494	421,347	-
Housing Opportunities for Persons with AIDS	14.241	N/A	04-01-10 - 03-31-11	\$ 670,977	-	74,243	168,964	(94,721)
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>								
<u>PASSED THROUGH THE MIDDLE TENNESSEE REGIONAL COMMUNITY PLANNING GROUP IN COLLABORATION WITH THE UNITED WAY OF METROPOLITAN NASHVILLE:</u>								
HIV Prevention and Education	93.917*	N/A	01-01-09 - 12-31-09	\$ 227,000	(42,869)	154,579	111,710	-
HIV Prevention and Education	93.917*	N/A	01-01-10 - 12-31-10	\$ 227,000	-	15,272	106,936	(91,664)
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:</u>								
Centers for Disease Control - Counseling and Testing Services	93.940*	GR-09-26443-00	10-01-08 - 09-30-09	\$ 132,800	(14,274)	58,017	43,743	-
Centers for Disease Control - Counseling and Testing Services	93.940*	GR-10-29522-00	10-01-09 - 09-30-10	\$ 340,000	-	163,089	226,954	(63,865)
Centers for Disease Control - MSM Needs Assessment	93.940*	GR-09-27606-00	05-01-09 - 12-31-09	\$ 27,100	(1,074)	22,621	21,547	-
Ryan White CARE Act - Part B - Medical Care Management	93.917*	GR-09-27380-00	04-01-09 - 03-31-10	\$ 100,000	(8,212)	77,527	74,910	(5,595)
Ryan White CARE Act - Part B - Medical Care Management	93.917*	GR-10-32978-00	04-10-10 - 03-31-11	\$ 100,000	-	-	27,095	(27,095)
Ryan White CARE Act - Part B Insurance Assistance	93.917*	GR-09-25165-01	07-01-08 - 03-31-10	\$ 15,254,900	(722,034)	6,100,808	6,308,360	(929,586)
Ryan White CARE Act - Part B Insurance Assistance	93.917*	FA-10-30898-00	04-01-10 - 03-31-11	\$ 738,500	-	-	158,161	(158,161)
Ryan White CARE Act - Part B Insurance Assistance	93.917*	FA-10-30898-00	04-01-10 - 03-31-11	\$ 10,732,795	-	2,453,992	2,226,776	227,216
<u>PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE:</u>								
Ryan White CARE Act - Part B Care	93.917*	N/A	04-01-09 - 03-31-10	\$ 239,990	(113,120)	283,708	170,588	-
Ryan White CARE Act - Part B Care	93.917*	N/A	04-01-10 - 03-31-11	\$ 241,490	-	-	66,782	(66,782)
Ryan White CARE Act - Part B Dental Assistance	93.917*	N/A	04-01-09 - 03-31-10	\$ 298,600	(171,021)	373,472	202,451	-
Ryan White CARE Act - Part B Dental Assistance	93.917*	N/A	04-01-10 - 03-31-11	\$ 298,600	-	-	147,814	(147,814)

(continued on following page)

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2010

<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Period</u>	<u>Award Amount</u>	<u>(Accrued) Deferred Revenue 7/1/2009</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>(Accrued) Deferred Revenue 6/30/2010</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued):</u>								
<u>PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE (Continued):</u>								
Ryan White CARE Act - Part A Care	93.914	N/A	03-01-09 - 02-28-10	\$ 844,954	\$ (116,209)	\$ 698,964	\$ 582,755	\$ -
Ryan White CARE Act - Part A Care	93.914	N/A	03-01-10 - 02-28-11	\$ 923,428	-	159,006	286,539	(127,533)
Ryan White CARE Act - Part A Dental Assistance	93.914	N/A	03-01-09 - 02-28-10	\$ 595,991	(110,960)	532,183	421,223	-
Ryan White CARE Act - Part A Dental Assistance	93.914	N/A	03-01-10 - 02-28-10	\$ 455,244	-	144,805	281,189	(136,384)
Ryan White CARE Act - Part A Minority AIDS Initiatives Care	93.914	N/A	10-01-08 - 07-31-09	\$ 46,900	(9,452)	18,356	8,904	-
Ryan White CARE Act - Part A Minority AIDS Initiatives Care	93.914	N/A	08-01-09 - 02-28-11	\$ 101,647	-	36,693	44,363	(7,670)
Ryan White CARE Act - Part A Minority AIDS Initiatives Dental	93.914	N/A	12-01-09 - 02-28-11	\$ 113,051	-	25,800	25,800	-
<u>PASSED THROUGH THE COMPREHENSIVE CARE CENTER:</u>								
Ryan White CARE Act - Title IV	93.153	2 H12 HA 23001-05	08-01-08 - 07-31-09	\$ 84,272	(16,725)	18,764	2,039	-
Ryan White CARE Act - Title IV	93.153	2 H12 HA 23001-10	08-01-09 - 07-31-10	\$ 84,272	-	58,120	83,787	(23,667)
TOTAL OF EXPENDITURES OF FEDERAL AWARDS				\$	(1,508,672)	\$ 12,129,596	\$ 12,281,504	\$ (1,660,580)

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

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*.

Summary of Expenditures by CFDA Number:

14,241	\$	626,411
93,153		85,826
93,914		1,650,773
93,917		9,601,583
93,940		292,244
97,024		24,667
\$	\$	12,281,504

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, 2010, and have issued our report thereon dated December 6, 2010. 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

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 above.

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, 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 "Kray CPA's PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
December 6, 2010

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, 2010. 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 the Agency's major federal programs is the responsibility of its 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, 2010.

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, 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.

Handwritten signature in black ink, appearing to read "Y. Gray".

Nashville, Tennessee
December 6, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Financial Statements

Unqualified

- Material weakness(es) identified? ☐ yes ☒ no

• Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ 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:

[illegible]

93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities - Health Department Based

Dollar threshold used to distinguish between
type A and type B programs: \$368,445

Auditee qualified as low-risk auditee? x yes no