

NASHVILLE CARES
NASHVILLE, TENNESSEE
FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2014 AND 2013

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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, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER 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 December 2, 2014 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.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
December 2, 2014

NASHVILLE CARES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,110,005	\$ 1,122,453
Accounts and contracts receivable	9,464	23,782
Federal, state and local government grants and contracts receivable	1,086,402	905,968
Contributions receivable:		
United Way	23,025	33,110
Foundation and outcome-based grants receivable	55,530	114,905
HCA Caring for the Community	18,512	16,044
Other workplace campaign	25,962	23,193
Major gifts receivable	31,706	30,153
Special events receivable	42,085	45,766
Prepaid expenses and other	111,228	100,383
Property and equipment	2,734,746	2,760,928
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	28,826	21,176
TOTAL ASSETS	<u>\$ 5,277,491</u>	<u>\$ 5,197,861</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Checks issued in excess of deposits	\$ 19,839	\$ 49,670
Accounts payable	35,802	64,109
Grant funds reimbursable to the State	-	92,761
Accrued payroll and compensated absences	242,885	249,594
Deferred revenue	802,185	859,647
Line of credit	455,271	136,356
Note payable	1,950,863	2,014,480
TOTAL LIABILITIES	<u>3,506,845</u>	<u>3,466,617</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted:		
Undesignated	761,117	700,449
Designated for property and equipment, less related debt	783,883	746,448
Designated for beneficial interest in agency endowment fund	28,826	21,176
Total unrestricted	1,573,826	1,468,073
Temporarily restricted	196,820	263,171
TOTAL NET ASSETS	<u>1,770,646</u>	<u>1,731,244</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,277,491</u>	<u>\$ 5,197,861</u>

See accompanying notes to financial statements.

NASHVILLE CARES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014		
	UNRESTRICTED	TEMPORARILY RESTRICTED	Total
PUBLIC SUPPORT AND REVENUE			
Public Support:			
Annual Campaign	\$ 160,823	\$ 54,153	\$ 214,976
Sanford Bloch Memorial Fund	14,880	-	14,880
United Way designations	2,749	18,056	20,805
HCA Caring for the Community designations	1,185	24,067	25,252
Other workplace campaign designations	4,531	22,298	26,829
Religious gifts	17,027	-	17,027
Special events	345,778	151,326	497,104
Federal, state and local grants and contracts	12,285,147	-	12,285,147
Foundation and corporate grants	108,017	227,353	335,370
Total Public Support	12,940,137	497,253	13,437,390
Interest income	1,061	-	1,061
Other revenue	10,326	-	10,326
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	3,376	-	3,376
Net assets released resulting from satisfaction of donor restrictions	563,604	(563,604)	-
TOTAL PUBLIC SUPPORT AND REVENUE	13,518,504	(66,351)	13,452,153
EXPENSES			
Program Services:			
Case management services	1,581,928	-	1,581,928
Emotional health and wellness	530,014	-	530,014
Onsite services	483,491	-	483,491
Educational services	857,743	-	857,743
Public policy and advocacy	92,241	-	92,241
Dental services	944,220	-	944,220
Insurance services	7,592,807	-	7,592,807
Supporting Services:			
Management and general	883,074	-	883,074
Marketing	48,576	-	48,576
Fund development	351,502	-	351,502
Volunteer services	47,155	-	47,155
TOTAL EXPENSES	13,412,751	-	13,412,751
CHANGE IN NET ASSETS	105,753	(66,351)	39,402
NET ASSETS - BEGINNING OF YEAR	1,468,073	263,171	1,731,244
NET ASSETS - END OF YEAR	\$ 1,573,826	\$ 196,820	\$ 1,770,646

See accompanying notes to financial statements.

2013

UNRESTRICTED	TEMPORARILY RESTRICTED	Total
\$ 105,583	\$ 24,940	\$ 130,523
16,893	-	16,893
-	32,742	32,742
-	21,027	21,027
2,241	24,278	26,519
-	-	-
348,545	102,286	450,831
11,161,635	-	11,161,635
73,117	367,374	440,491
11,708,014	572,647	12,280,661
366	-	366
19,125	-	19,125
2,447	-	2,447
531,254	(531,254)	-
12,261,206	41,393	12,302,599
1,494,012	-	1,494,012
452,484	-	452,484
482,278	-	482,278
905,931	-	905,931
85,627	-	85,627
654,898	-	654,898
6,789,905	-	6,789,905
767,756	-	767,756
44,687	-	44,687
422,693	-	422,693
59,948	-	59,948
12,160,219	-	12,160,219
100,987	41,393	142,380
1,367,086	221,778	1,588,864
\$ 1,468,073	\$ 263,171	\$ 1,731,244

NASHVILLE CARES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 39,402	\$ 142,380
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	92,763	94,467
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(3,376)	(2,447)
(Increase) decrease in:		
Accounts receivable	14,318	(8,928)
Federal, state and local government grants receivable	(180,434)	31,780
Contributions receivable	66,351	(44,911)
Prepaid expenses and other	(10,845)	(50,028)
Increase (decrease) in:		
Checks issued in excess of deposits	(29,831)	305
Accounts payable	(28,307)	7,314
Grant funds reimbursable to the State	(92,761)	92,761
Accrued payroll and compensated absences	(6,709)	48,685
Deferred revenue	(57,462)	(200,076)
NET ADJUSTMENTS	<u>(236,293)</u>	<u>(31,078)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(196,891)</u>	<u>111,302</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(66,581)	(24,694)
Contributions to agency endowment fund	(5,474)	-
Distributions from agency endowment fund	1,200	1,029
NET CASH USED IN INVESTING ACTIVITIES	<u>(70,855)</u>	<u>(23,665)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(63,617)	(49,594)
Proceeds from note payable	-	22,325
Net borrowings (repayments) on line of credit	318,915	(34,503)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>255,298</u>	<u>(61,772)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,448)	25,865
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,122,453</u>	<u>1,096,588</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,110,005</u>	<u>\$ 1,122,453</u>
NON-CASH FINANCING ACTIVITIES		
Loan balance paid through refinancing	<u>\$ -</u>	<u>\$ 1,992,675</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid during the year	<u>\$ 104,924</u>	<u>\$ 107,238</u>

See accompanying notes to financial statements.

NASHVILLE CARES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	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	\$ 835,031	\$ 350,525	\$ 153,761	\$ 559,876	\$ 61,306	\$ 59,264	\$ 278,477	\$ 549,517	\$ 28,553	\$ 165,447	\$ 30,867	\$ 3,072,624
Employee taxes and fringe benefits	219,493	88,301	35,521	138,030	13,922	15,468	72,385	108,084	6,346	32,588	7,615	737,753
TOTAL PAYROLL AND RELATED EXPENSES	1,054,524	438,826	189,282	697,906	75,228	74,732	350,862	657,601	34,899	198,035	38,482	3,810,377
Client assistance	396,257	-	257,723	23,345	-	856,930	7,183,648	-	-	-	-	8,717,903
Advertising	-	-	-	-	-	-	-	725	-	-	-	725
Audit	-	-	-	-	-	-	-	31,250	-	-	-	31,250
Bank fees and interest expense	-	-	-	-	-	-	-	27,204	-	3,541	-	30,745
Conferences and training	337	1,147	-	4,576	3,415	-	1,470	279	-	771	-	11,995
Depreciation on furniture and equipment	24,046	11,976	7,324	18,769	1,251	1,856	7,168	13,747	1,113	3,587	1,926	92,763
Equipment rental and maintenance	-	-	-	-	-	-	-	13,510	-	-	-	13,510
Insurance	-	-	-	-	-	-	-	27,776	-	-	-	27,776
Licensure/permits	-	1,010	-	-	680	-	-	487	-	1,007	-	3,184
Memberships	-	200	-	20	5,500	-	-	1,160	240	-	575	7,695
Occupancy	35,771	17,896	11,418	27,700	1,836	2,778	10,685	28,602	1,646	5,383	2,854	146,569
Participation fees	-	-	-	325	-	-	-	-	600	1,680	35	2,640
Postage	2,222	350	4,899	271	1	2,112	16,320	-	412	4,540	192	31,319
Printing	1,117	1,342	747	3,040	326	30	751	4,939	3,223	2,412	668	18,595
Professional fees	17,191	13,110	3,767	8,882	1,633	4,400	5,500	30,762	5,100	10,557	300	101,202
Space rental	-	-	-	343	-	-	-	-	-	1,477	-	1,820
Special event production	-	-	-	-	-	-	-	-	-	108,053	-	108,053
Supplies	17,063	21,407	6,837	29,092	860	884	14,473	35,877	1,179	8,365	1,620	137,657
Telephone	14,154	3,703	1,494	11,415	954	441	1,848	5,219	164	1,208	244	40,844
Travel/mileage	19,246	15,822	-	19,188	557	57	82	389	-	886	259	56,486
Van upkeep/gasoline	-	-	-	-	-	-	-	2,942	-	-	-	2,942
Volunteer incentives/remuneration	-	3,225	-	12,871	-	-	-	-	-	-	-	16,096
Miscellaneous	-	-	-	-	-	-	-	605	-	-	-	605
TOTAL FUNCTIONAL EXPENSES	\$ 1,581,928	\$ 530,014	\$ 483,491	\$ 857,743	\$ 92,241	\$ 944,220	\$ 7,592,807	\$ 883,074	\$ 48,576	\$ 351,502	\$ 47,155	\$ 13,412,751

See accompanying notes to financial statements.

NASHVILLE CARES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES							SUPPORTING SERVICES				
	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	TOTALS
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	-	-	855	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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Basis of Presentation

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

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Agency had no permanently restricted net assets as of June 30, 2014 or 2013.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

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, 2014 and 2013 are temporarily restricted and due in less than one year.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

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 (the "Community Foundation") 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, 2014 and 2013.

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, 2014 AND 2013

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, 2014 AND 2013

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 550 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, 2014 AND 2013

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 2011 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.

Events Occurring After Reporting Date

The Agency has evaluated events and transactions that occurred between June 30, 2014 and December 2, 2014, 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, 2014 AND 2013

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
HUD - Housing Opportunities for Persons with AIDS (HOPWA)	\$ 136,551	\$ 166,557
HUD - Emergency Solutions Grant	680	3,846
CDC - HIV Prevention and Education	52,410	76,660
CDC - Counseling and Testing Services	81,760	75,555
Ryan White CARE Act - Part B - Medical Case Management	70,952	43,837
Ryan White CARE Act - Part B Care Middle Tennessee	25,726	23,590
Ryan White CARE Act - Part B Dental Assistance Middle Tennessee	62,531	75,096
Ryan White CARE Act - Part A Care Nashville Transitional Grant Area (TGA)	297,503	190,445
Ryan White CARE Act - Part A Dental Assistance Nashville TGA	56,769	14,849
Ryan White CARE Act - Part A Minority AIDS Initiative Nashville TGA	12,529	6,189
Ryan White CARE Act - Part A Minority AIDS Initiatives Dental Nashville TGA	22,752	8,143
Ryan White CARE Act - Part B Insurance Assistance	209,782	139,264
State Department of Mental Health - Early Intervention Services	17,652	18,763
National Institutes of Health	25,874	32,224
Metro Nashville Community Enhancement Grant	12,931	18,429
National Institutes of Allergies and Infectious Diseases	-	12,521
	<u>\$ 1,086,402</u>	<u>\$ 905,968</u>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land	\$ 400,000	\$ 400,000
Building	1,615,000	1,615,000
Building improvements	822,791	803,930
Vehicles	32,957	8,181
Software	115,033	115,033
Furniture and equipment	282,375	269,382
	<u>3,268,156</u>	<u>3,211,526</u>
Less accumulated depreciation	<u>(533,410)</u>	<u>(450,598)</u>
	<u>\$ 2,734,746</u>	<u>\$ 2,760,928</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. 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, 2014 AND 2013

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, 2014 and 2013, follows:

	<u>2014</u>	<u>2013</u>
Balance - beginning of year	\$ 21,176	\$ 19,758
Contributions to the fund	5,474	-
Change in value of beneficial interest in agency endowment fund:		
Investment income	3,580	2,606
Administrative expenses	<u>(204)</u>	<u>(159)</u>
	3,376	2,447
Distributions to the Agency	<u>(1,200)</u>	<u>(1,029)</u>
Balance - end of year	<u>\$ 28,826</u>	<u>\$ 21,176</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>2014</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>\$ 28,826</u>	<u>\$ -</u>	<u>\$ 28,826</u>

		<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>

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 6 - DEBT

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 an 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, 2014, follows:

<u>Year ending June 30,</u>	
2015	\$ 66,564
2016	69,426
2017	72,886
2018	76,273
2019	79,819
Thereafter	<u>1,585,895</u>
	<u>\$ 1,950,863</u>

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 matured on March 14, 2014, and has been extended through February 14, 2016. The effective interest rate at June 30, 2014 was 4% and the outstanding balance was \$455,271 (\$136,356 at June 30, 2013). 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, 2014, the Agency was in compliance with this requirement.

Total interest expense incurred by the Agency was \$104,924 in 2014 and \$107,238 in 2013 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, 2014 AND 2013

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
United Way of Metropolitan Nashville:		
Designations	\$ 23,025	\$ 33,110
Outcome-based funding grants	19,650	74,266
HCA Caring for the Community campaign	18,512	16,044
Other United Way and workplace campaigns	25,962	23,193
Donation for special events	42,085	45,766
Corporate and foundation grants - operational support		
for the following year:		
AIDS United	20,000	17,803
Bristol-Meyers Squibb	-	15,000
Merck	10,000	-
Meharry Medical	3,380	5,336
Annual Campaign	31,706	30,153
Religious contributions	2,500	2,500
	<u>\$ 196,820</u>	<u>\$ 263,171</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 five years of service, and at a rate up to a maximum of 2.5% of each eligible employee's compensation, based on seniority. The matching contribution was suspended during the year ended 2013. The Agency contributed \$8,233 during 2014.

NASHVILLE CARES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

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, 2014, the Agency's depository accounts exceeded FDIC insurance limits by approximately \$1,786,000.

SUPPLEMENTARY INFORMATION

NASHVILLE CARES
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2013	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2014
FEDERAL AWARDS:								
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:								
PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:								
Housing Opportunities for Persons with AIDS	14.241	GR-12-35783	07-01-12 - 06-30-13	\$ 45,400	\$ (10,313)	\$ 10,313	\$ -	\$ -
Housing Opportunities for Persons with AIDS	14.241	GR-12-35783	07-01-13 - 06-30-14	\$ 43,800	-	40,198	43,800	(3,602)
PASSED THROUGH METROPOLITAN DEVELOPMENT AND HOUSING AGENCY:								
Housing Opportunities for Persons with AIDS	14.241	N/A	04-01-13 - 03-31-14	\$ 570,000	(156,244)	549,273	393,029	-
Housing Opportunities for Persons with AIDS	14.241	N/A	04-01-14 - 03-31-15	\$ 549,255	-	-	132,949	(132,949)
Emergency Solutions Grant Program	14.231	N/A	07-01-12 - 06-30-13	\$ 24,926	(3,846)	17,726	13,880	-
Emergency Solutions Grant Program	14.231	N/A	07-01-13 - 06-30-14	\$ 25,000	-	4,664	5,344	(680)
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:								
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	01-01-13 - 12-31-13	\$ 246,000	(66,660)	193,757	127,097	-
HIV Prevention Activities_Health Department Based	93.940	N/A	01-01-13 - 12-31-13	\$ 10,000	(10,000)	10,000	-	-
HIV Prevention Activities_Health Department Based	93.940	N/A	01-01-14 - 12-31-14	\$ 229,421	-	72,809	125,219	(52,410)
PASSED THROUGH TENNESSEE DEPARTMENT OF HEALTH:								
HIV Prevention Activities_Health Department Based	93.940	GR-13-35519	01-01-13 - 12-31-13	\$ 405,200	(64,562)	228,263	163,701	-
HIV Prevention Activities_Health Department Based	93.940	GR-14-40631	01-01-14 - 12-31-14	\$ 419,400	-	112,329	183,485	(71,156)
HIV Care Formula Grants	93.917*	FA-10-30898-01	04-01-13 - 03-31-14	\$ 7,302,422	859,647	3,845,688	4,705,335	-
HIV Care Formula Grants	93.917*	FA-14-40563-00	04-01-14 - 03-31-15	\$ 27,685,800	-	3,280,497	2,478,312	802,185
HIV Care Formula Grants	93.917*	GR-13-35613	04-01-13 - 03-31-14	\$ 33,800	-	33,800	33,800	-
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	(18,763)	18,763	-	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-13-38685	07-01-13 - 06-30-14	\$ 160,000	-	142,348	160,000	(17,652)
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE:								
HIV Care Formula Grants	93.917*	N/A	04-01-13 - 03-31-14	\$ 137,315	(23,590)	125,687	102,097	-
HIV Care Formula Grants	93.917*	N/A	04-01-14 - 03-31-15	\$ 137,315	-	8,682	34,408	(25,726)
HIV Care Formula Grants	93.917*	N/A	04-01-13 - 03-31-14	\$ 330,550	(75,096)	293,620	218,524	-
HIV Care Formula Grants	93.917*	N/A	04-01-14 - 03-31-15	\$ 330,550	-	18,267	80,798	(62,531)
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 1,066,575	(190,445)	870,926	680,481	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-14 - 02-28-15	\$ 1,277,891	-	79,710	377,213	(297,503)
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 371,547	(14,849)	339,621	324,772	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-14 - 02-28-15	\$ 329,484	-	22,124	78,893	(56,769)

(continued on following page)

NASHVILLE CARES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2014

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	(Accrued) Deferred Revenue 7/1/2013	Receipts	Expenditures	(Accrued) Deferred Revenue 6/30/2014
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued):</u>								
PASSED THROUGH THE UNITED WAY OF METROPOLITAN NASHVILLE (Continued):								
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 41,341	\$ (6,189)	\$ 38,749	\$ 32,560	\$ -
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-14 - 02-28-15	\$ 49,656	-	3,252	15,781	(12,529)
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-13 - 02-28-14	\$ 233,014	(8,143)	230,625	222,482	-
HIV Emergency Relief Projects Grants	93.914	N/A	03-01-14 - 02-28-15	\$ 116,922	-	11,538	34,290	(22,752)
PASSED THROUGH MEDICAL COLLEGE OF WISCONSIN:								
Mental Health Research Grants	93.242	SR01MH091875-03	02-01-13 - 01-31-14	\$ 42,560	(24,379)	41,557	17,178	-
Mental Health Research Grants	93.242	1511259	02-01-14 - 01-31-15	\$ 45,402	-	-	25,004	(25,004)
Mental Health Research Grants	93.242	1347259	06-01-12 - 05-31-13	\$ 27,000	(2,455)	2,455	-	-
Mental Health Research Grants	93.242	1426858	06-01-13 - 05-31-14	\$ 27,000	(5,390)	22,890	17,500	-
Mental Health Research Grants	93.242	1494294	06-01-14 - 05-31-15	\$ 27,000	-	-	870	(870)
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	(12,521)	12,521	-	-
National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	UM1 AI 068619	08-01-13 - 12-31-13	\$ 14,000	-	14,000	14,000	-
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 166,202	\$ 10,696,652	\$ 10,842,802	\$ 20,052
<u>STATE AWARDS:</u>								
<u>TENNESSEE DEPARTMENT OF HEALTH:</u>								
HIV Prevention Activities Health Department Based		GR-13-35519	01-01-13 - 12-31-13	\$ 62,100	\$ (10,993)	\$ 41,182	\$ 30,189	\$ -
HIV Prevention Activities Health Department Based		GR-14-40631	01-01-14 - 12-31-14	\$ 62,100	-	18,604	29,209	(10,605)
HIV Care Formula Grants		GR-13-35613	04-01-13 - 03-31-14	\$ 224,800	(43,837)	248,303	204,466	-
HIV Care Formula Grants		GR-14-40204	04-01-14 - 03-31-15	\$ 285,700	-	28,261	99,213	(70,952)
					\$ (54,830)	\$ 336,350	\$ 363,077	\$ (81,557)

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

Summary of Federal Expenditures by CFDA Number:

14,241	\$ 569,778
14,231	19,224
93,242	60,552
93,914	1,766,472
93,917	7,653,274
93,936	14,000
93,940	599,502
93,959	160,000
	<u>\$ 10,842,802</u>

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*.

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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

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.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
December 2, 2014

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, 2014. 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, 2014.

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.



Nashville, Tennessee
December 2, 2014

NASHVILLE CARES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

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

Unmodified

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

☐ yes ☒ no

Identification of major programs:

CFDA Number(s) *Name of Federal Program or Cluster*

93.917 HIV Care Formula Grants

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

\$324,270

Auditee qualified as low-risk auditee?

☒ yes ☐ no