

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**

AUDITED FINANCIAL STATEMENTS

June 30, 2012 and 2011

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
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June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Nevada HIV Outpatient Program, Education and Services
Reno, Nevada

We have audited the accompanying statement of financial position of the Northern Nevada HIV Outpatient Program, Education and Services (Northern Nevada HOPES) as of June 30, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Northern Nevada HIV Outpatient Program, Education and Services' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Northern Nevada HIV Outpatient Program, Education and Services as of June 30, 2011, were audited by other auditors whose report dated October 28, 2011, expressed an unqualified opinion on those financial 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 the Northern Nevada HIV Outpatient Program, Education and Services as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012 on our consideration of the Northern Nevada HIV Outpatient Program, Education and Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards 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 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 basic 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 basic financial statements as a whole.

Reno, NV
October 30, 2012

Northern Nevada HIV Outpatient Program, Education and Services
 Statements of Financial Position
 June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,119,963	\$ 935,322
Accounts Receivable, less allowance for doubtful accounts of \$67,149 and \$106,906, respectively	328,435	361,293
Due from Grantors	424,268	374,409
Inventories	113,809	189,358
Prepaid Expenses	31,212	24,242
Total Current Assets	4,017,687	1,884,624
LAND, BUILDINGS, AND EQUIPMENT, less accumulated depreciation	1,570,283	1,636,896
TOTAL ASSETS	\$ 5,587,970	\$ 3,521,520
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-term Debt	\$ 6,261	\$ 20,528
Accounts Payable	313,713	404,149
Accrued Payroll and Compensated Absences	78,821	72,342
Deferred Grant Revenue	14,227	9,597
Security Deposits Held Received in Advance	500	500
Total Current Liabilities	413,522	507,116
LONG-TERM DEBT, net of current portion	22,122	261,147
Total Liabilities	435,644	768,263
NET ASSETS		
Unrestricted		
Investment in Land, Buildings and Equipment, less related debt	1,541,900	1,355,221
Undesignated	3,610,426	1,398,036
Total Unrestricted Net Assets	5,152,326	2,753,257
TOTAL LIABILITIES AND NET ASSETS	\$ 5,587,970	\$ 3,521,520

The attached auditor's report and notes should be read with the financial statements.

Northern Nevada HIV Outpatient Program, Education and Services
 Statements of Activities and Changes in Net Assets
 For the Years Ended June 30, 2012 and 2011

	2012	2011
PUBLIC AND GOVERNMENTAL SUPPORT, REVENUE AND GAINS		
Public and Governmental Support		
Federal and State Contracts		
United States (U.S.) Department of Health and Human Services	\$ 3,172,009	\$ 2,654,139
U.S. Department of Housing and Urban Development	311,354	272,250
State of Nevada - Department of Human Services, Health Division	73,393	359,986
Contributions and Gifts	111,236	55,566
Total Public and Governmental Support	<u>3,667,992</u>	<u>3,341,941</u>
Revenue and Gains		
Patient and Insurance Payments	6,944,558	6,379,487
Interest and Dividend Income	527	47
Rental Income	3,500	14,406
Miscellaneous	-	710
Total Revenue and Gains	<u>6,948,585</u>	<u>6,394,650</u>
Total Public and Governmental Support, Revenue and Gains	<u>10,616,577</u>	<u>9,736,591</u>
EXPENSES		
Program Services	7,629,800	8,707,489
Management and Administrative	587,708	511,422
Total Expenses	<u>8,217,508</u>	<u>9,218,911</u>
INCREASE IN UNRESTRICTED NET ASSETS	2,399,069	517,680
UNRESTRICTED NET ASSETS, beginning of year	2,753,257	2,235,577
UNRESTRICTED NET ASSETS, end of year	<u>\$ 5,152,326</u>	<u>\$ 2,753,257</u>

The attached auditor's report and notes should be read with the financial statements.

Northern Nevada HIV Outpatient Program, Education and Services
Statement of Functional Expenses
For the Year Ended June 30, 2012

	Program Services	Management and Administrative	Total
Accounting	\$ -	\$ 30,668	\$ 30,668
Advertising	31,936	-	31,936
Bad Debt	-	44,417	44,417
Bank Fees	-	5,427	5,427
Biologicals	5,048,253	-	5,048,253
Contractual Services	398,187	4,051	402,238
Depreciation	-	71,582	71,582
Dues and Subscriptions	-	6,009	6,009
Consulting and Office Equipment	-	22,241	22,241
Fire and Security	-	3,520	3,520
HIV Care Consortium	459,984	-	459,984
Insurance	-	31,454	31,454
Interest	-	13,269	13,269
Janitorial Services	-	916	916
Licenses and Permits	-	2,807	2,807
Maintenance and Repairs	-	45,927	45,927
Miscellaneous	27,733	2,462	30,195
Payroll Processing Fees	-	3,622	3,622
Payroll Taxes and Employee Benefits	305,162	33,906	339,068
Postage	-	6,320	6,320
Property Taxes	-	3,188	3,188
Salaries and Wages	1,244,480	138,276	1,382,756
Supplies	71,868	43,038	114,906
Travel and Training	42,197	2,121	44,318
Utilities	-	72,487	72,487
TOTALS	\$ 7,629,800	\$ 587,708	\$ 8,217,508

The attached auditor's report and notes should be read with the financial statements.

Northern Nevada HIV Outpatient Program, Education and Services
Statement of Functional Expenses
For the Year Ended June 30, 2011

	Program Services	Management and Administrative	Total
Accounting	\$ -	\$ 29,871	\$ 29,871
Advertising	10,505	-	10,505
Bad Debt	-	10,643	10,643
Bank Fees	-	4,795	4,795
Biologicals	6,471,749	-	6,471,749
Contractual Services	273,174	2,779	275,953
Depreciation	-	76,383	76,383
Dues and Subscriptions	-	7,679	7,679
Consulting and Office Equipment	-	21,675	21,675
Fire and Security	-	10,305	10,305
HIV Care Consortium	413,901	-	413,901
Insurance	-	33,868	33,868
Interest	-	17,550	17,550
Janitorial Services	-	4,418	4,418
Licenses and Permits	-	1,115	1,115
Maintenance and Repairs	-	12,024	12,024
Miscellaneous	13,057	1,159	14,216
Payroll Processing Fees	-	3,292	3,292
Payroll Taxes and Employee Benefits	286,905	31,878	318,783
Postage	-	6,264	6,264
Property Taxes	-	4,060	4,060
Salaries and Wages	1,142,178	126,909	1,269,087
Supplies	58,814	35,221	94,035
Travel and Training	37,206	1,870	39,076
Utilities	-	67,664	67,664
TOTALS	\$ 8,707,489	\$ 511,422	\$ 9,218,911

The attached auditor's report and notes should be read with the financial statements.

Northern Nevada HIV Outpatient Program, Education and Services
 Statements of Cash Flows
 For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Federal and State Grants	\$ 3,506,897	\$ 3,330,119
Cash Received from and on Behalf of Clients	7,093,282	6,375,837
Other Operating Cash Receipts	3,500	69,982
Cash Paid to Vendors and Employees	(8,148,035)	(9,178,988)
Interest Received	527	47
Interest Paid	(13,269)	(17,750)
Net Cash Provided by Operating Activities	<u>2,442,902</u>	<u>579,247</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(4,968)	(26,031)
Proceeds Received from Disposal of Property	<u>-</u>	<u>700</u>
Net Cash Flows Used in Investing Activities	<u>(4,968)</u>	<u>(25,331)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	<u>(253,292)</u>	<u>(22,217)</u>
Net Cash Flows Used in Financing Activities	<u>(253,292)</u>	<u>(22,217)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,184,641	531,699
CASH AND CASH EQUIVALENTS, beginning of year	935,322	403,623
CASH AND CASH EQUIVALENTS, end of year	\$ 3,119,963	\$ 935,322
NON-CASH INVESTING ACTIVITIES		
Assets Acquired through Capitalized Lease	\$ -	\$ 35,181
TOTAL NON-CASH INVESTING ACTIVITIES	\$ -	\$ 35,181

The attached auditor's report and notes should be read with the financial statements.

Northern Nevada HIV Outpatient Program, Education and Services
 Statements of Cash Flows
 For the Years Ended June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,399,069	\$ 517,680
Adjustments to Reconcile Change in Net Assets to Net Cash		
Flows Provided by Operating Activities:		
Depreciation	71,582	76,383
(Gain) Loss on Disposal of Property	-	(700)
Decrease (Increase) in Accounts Receivable	32,858	(3,650)
Decrease (Increase) in Grants Receivable	(49,859)	54,147
Decrease (Increase) in Inventories	75,549	(99,799)
Decrease (Increase) in Prepaid Expenses and Other Current Assets	(6,969)	5,350
(Decrease) Increase in Accounts Payable	(90,437)	42,641
(Decrease) Increase in Deferred Revenue	4,630	(10,403)
(Decrease) Increase in Accrued Expenses	6,479	(2,402)
<i>Net Cash Flows Provided by Operating Activities</i>	\$ 2,442,902	\$ 579,247

The attached auditor's report and notes should be read with the financial statements.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Description

Northern Nevada HIV Outpatient Program, Education and Services (Northern Nevada HOPES) was incorporated in the state of Nevada on March 27, 1997, as a nonprofit corporation. Northern Nevada HOPES is dedicated to enhancing the quality of life for those affected with HIV throughout Northern Nevada. This mission is accomplished through ongoing, client-centered intervention, medical and social case management, and community leadership advocacy. Northern Nevada HOPES provides education to residents, students, community physicians and other health care workers, as well as patients, to empower them to participate in the care of patients and themselves.

B. Revenue Recognition

Revenue from contracts/grants is considered earned as funds are expended, or as services are provided in accordance with grant terms.

C. Basis of Presentation

Northern Nevada HOPES reports information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based upon the existence or absence of donor imposed restrictions.

Contributions received are recorded as unrestricted, temporarily restricted, and permanently restricted support, depending on the existence and/or nature of any donor restrictions. Northern Nevada HOPES has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases the net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Northern Nevada HOPES reports restricted contributions whose restrictions are fulfilled in the same reporting period in which the contribution is received as unrestricted.

D. Statement of Cash Flows

For purposes of financial reporting, Northern Nevada HOPES considers money market funds and certificates of deposit with original maturities of three months or less to be cash equivalents.

E. Receivables

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Past due status is based on contractual terms.

Client fee receivable represent amounts receivable for client services. The allowance for doubtful accounts is based upon management's estimate of uncollectible accounts taking into consideration past payment history. Currently, the allowance for doubtful accounts is estimated to be 80% of total client fee receivables.

Pharmacy receivables represent amounts due for insurance billing. No allowance for doubtful accounts is considered necessary by management since the entire amount was collected subsequent to year end.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(CONTINUED):

F. Due From Grantors/Deferred Grant Revenue

Due from grantors represents grant funds that have been expended, but not received. Deferred grant revenue represents grant funds that have been received, but not yet expended for their intended purpose.

G. Inventories

Inventories consist of pharmaceutical drugs and are stated at the lower of cost or market determined by the first-in, first-out method.

H. Land, Buildings, and Equipment

The Organization's policy is to capitalize property and equipment with an estimated useful life of more than one year and a value of more than \$1,000. Purchases of land, buildings, and equipment are recorded at cost. Donated property is recorded at its estimated value at the date received. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives of 3 to 40 years on a straight-line basis.

Northern Nevada HOPES utilizes certain furniture, fixtures, and equipment in its clinic which were purchased by the Washoe County District Health Department (District). Should Northern Nevada HOPES discontinue operating the clinic, all such furniture, fixtures, and equipment will be returned to the District. These donated assets are not reflected in the accompanying financial statements as the value could not be determined by the District.

I. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

J. Estimates

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

K. Advertising Costs

Advertising costs are expensed as incurred. Advertising costs totaled \$31,936 and \$10,505 for the years ended June 30, 2012 and 2011, respectively.

L. Income Taxes

Northern Nevada HOPES is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made. The Internal Revenue Service classifies HOPES as an organization other than a private foundation. The federal income tax returns of Northern Nevada HOPES for 2009, 2010, and 2011 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

M. Contributed Services

Northern Nevada HOPES is required to recognize the contributions of services if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

donation. Services requiring specialized skills are those provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professional craftsmen.

Members of the board of directors donate significant amounts of time to the activities of Northern Nevada HOPES. The services donated do not meet the criteria for recognition as defined above. Accordingly, the financial statements do not reflect the value of these services

NOTE 2- CONCENTRATION OF CREDIT RISK:

Northern Nevada HOPES receives a substantial portion of its revenue from contracts/grants administered by federal and state agencies. Northern Nevada HOPES' operations are significantly dependent upon this revenue.

Northern Nevada HOPES maintains cash accounts at one commercial bank and one brokerage firm. The bank account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and the brokerage account is guaranteed by the Securities Investor Protection Corporation (SIPC) up to \$250,000 with the brokerage firm providing additional insurance. In the unlikely event that the institutions would encounter severe financial difficulties, Northern Nevada HOPES would be at risk as a result of uninsured balances. At June 30, 2012 Northern Nevada HOPES uninsured cash balance was \$599,366.

Northern Nevada HOPES acquires all of its pharmaceutical drugs from a single supplier. Although there are other suppliers of pharmaceutical drugs, a delay resulting from changing suppliers or an increase in pricing could adversely affect operating results.

NOTE 3- LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consisted of the following at June 30:

	2012	2011
Land	\$ 696,412	\$ 696,412
Buildings	952,156	952,166
Improvements	180,660	177,714
Machinery and equipment	180,816	180,816
Furniture and fixtures	34,325	32,302
Vehicles	<u>94,451</u>	<u>94,451</u>
Subtotal	2,138,830	2,133,861
Accumulated Depreciation and Amortization	(568,547)	(496,965)
Total	\$ 1,570,283	\$ 1,636,896

NOTE 4 - RETIREMENT PLAN:

HOPES maintains a 401K plan covering all eligible employees. HOPES matches 4% of the employees' compensation and contributed \$40,414 and \$42,787 to the plan during the years ended June 30, 2012 and 2011, respectively.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

NOTE 5- LONG TERM DEBT:

Long-term debt consisted of the following at June 30:

	2012	2011
Mortgage payable refinanced in 2008 with a bank. \$285,000 face value; 180 payments of \$2,479 including interest at 6.375% commencing June 2008. The loan matures in May 2023 and is secured by real property owned by HOPES.	\$ -	\$ 246,494
Equipment under a capital lease with a capitalized cost of \$35,181. Accumulated depreciation on the statement of financial position and depreciation expense on the statement of activities was \$6,778 and \$6,257. The lease ends in 2016 after 60 monthly payments have been made.	<u>28,383</u>	<u>35,181</u>
	28,383	281,675
Less Current Maturities	6,261	20,528
Long-term Debt	\$ 22,122	\$ 261,147

Following are the maturities of long-term debt for the years ended June 30:

Year Ending June 30		Amount
2013	\$	6,261
2014		7,444
2015		7,459
2016		7,219
	\$	<u>28,383</u>

NOTE 6- LINE OF CREDIT:

HOPES had a \$250,000 line of credit available with a bank which expired in May 2012. Borrowings under the agreement bore interest at the bank's prime rate plus 2.25%. Any obligations to the bank under the line of credit agreement were secured by real property owned by HOPES. At June 30, 2012 and 2011 there was no liability outstanding and the line of credit was not renewed in May 2012.

NOTE 7- COMMITMENTS AND CONTINGENCIES:

Various federal, state and local agencies have the authority to audit the books and records of HOPES as they pertain to the grants and contracts they have awarded. As the result of these potential audits, some grants or contract costs could be disallowed which would create a liability to the organization.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

NOTE 8-SUBSEQUENT EVENTS:

Events subsequent to June 30, 2012 have been evaluated through October 30, 2012, the date that these statements were available to be issued, to determine whether they should be disclosed to keep the financial statements from being misleading. Management found no subsequent events to be disclosed.

SUPPLEMENTARY INFORMATION

Northern Nevada HIV Outpatient Program, Education and Services
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
Department of Health & Human Services		
FQHC Planning Grant	93.527	\$ 51,007
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Program Part C)	93.918	757,774
Grant for Coordinated Services and Access to Research for Women, Infants, Children and Youth (Ryan White CARE Act Title IV Program)	93.153	417,101
Passed Through Nevada Department of Human Resources, Health Division:		
HIV Care Formula Grants - Medical Case Management and Treatment Adherence	93.917	63,164
HIV Care Formula Grants - Ryan White Mental Health	93.917	399
HIV Care Formula Grants - AIDS & Drug Assistance Program	93.917	1,362,376
HIV Care Formula Grants - Health Insurance Continuation	93.917	137,595
HIV Care Formula Grants - Medical Case Management	93.917	166,709
HIV Care Formula Grants - Medication Adherence	93.917	91,631
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>124,253</u>
Total Department of Health & Human Services		<u>3,172,009</u>
Department of Housing and Urban Development		
Passed through from the Nevada Department of Human Services:		
Housing Opportunities for Persons with AIDS	14.241	311,354
Total Federal Expenditures		<u>\$ 3,483,363</u>

The attached auditor's report and notes should be read with the financial statements.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Northern Nevada HIV Outpatient Program, Education and Services and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**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
Northern Nevada HIV Outpatient Program, Education and Services
Reno, Nevada

We have audited the financial statements of the Northern Nevada HIV Outpatient Program, Education and Services as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Northern Nevada HIV Outpatient Program, Education and Services is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northern Nevada HIV Outpatient Program, Education and Services' 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 Northern Nevada HIV Outpatient Program, Education and Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization'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 organization'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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding reference numbers 2012-1 and 2012-2. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northern Nevada HIV Outpatient Program, Education and Services' 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 and federal awarding agencies and pass-through entities listed in the Schedule of Expenditures of Federal Awards and is not intended to be and should not be used by anyone other than these specified parties.

Pangborn & Co., Ltd

Reno, NV
October 30, 2012



INDEPENDENT AUDITOR'S 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
Northern Nevada HIV Outpatient Program, Education and Services
Reno, Nevada

Compliance

We have audited the Northern Nevada HIV Outpatient Program, Education and Services' 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 Organization's major federal programs for the year ended June 30, 2012. The Northern Nevada HIV Outpatient Program, Education and Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Northern Nevada HIV Outpatient Program, Education and Services' management. Our responsibility is to express an opinion on the Northern Nevada HIV Outpatient Program, Education and Services' 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 Northern Nevada HIV Outpatient Program, Education and Services' 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 on the Northern Nevada HIV Outpatient Program, Education and Services' compliance with those requirements.

In our opinion Northern Nevada HIV Outpatient Program, Education and Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-3 and 2012-4.

Internal Control Over Compliance

Management of the Northern Nevada HIV Outpatient Program, Education and Services 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 Northern Nevada HIV Outpatient Program, Education and Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order 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 Northern Nevada HIV Outpatient Program, Education and Services' 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.

Northern Nevada HIV Outpatient Program, Education and Services' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Northern Nevada HIV Outpatient Program, Education and Services' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pangborn & Co., Ltd

Reno, NV
October 30, 2012

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

A – SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the Findings – Financial Statements, section contained within this schedule.
3. No instances of noncompliance material to the financial statements of Northern Nevada HIV Outpatient Program, Education and Services were disclosed during the audit.
4. Two significant deficiencies relating to the audit of major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Northern Nevada HIV Outpatient Program, Education and Services expresses an unqualified opinion on all major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of *OMB Circular A-133* are reported in this schedule.
7. The programs tested as major programs included:
 - HIV Care Formula Grant (93.917)
 - Housing Opportunities for Persons With AIDS (14.241)
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Northern Nevada HIV Outpatient Program, Education and Services was determined to be a low-risk auditee.

B – FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2012-1 - Pharmacy

Condition: The organization does not employ an adequate level of segregation of duties in its pharmacy department. As a result, several tasks are performed by one individual the Pharmacy Director, this may increase the risk of error and misappropriation.

Criteria: One individual should not have the ability to submit information for payment, receive payments and post payments to the receivable system.

Cause of Condition: The pharmacy department employs three employees and it is not always possible to utilize a proper level of segregation of duties without hindering the pharmacy operations.

Effect of Condition: The organization cannot ensure all prescriptions billed were received and deposited. This increases the risk of loss to the organization. This condition impairs the organizations ability to prevent or detect errors and irregularities in a timely manner.

Recommendation: The organization design and implement a system to adequately segregate duties, that includes having another employee post the receipts to the pharmacy's accounts receivable system.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Response: Northern Nevada HOPES will implement a new procedure effective October 25, 2012, where the accounts receivable payments for the Pharmacy will be posted and reconciled in the Pharmacy's billing & collections system by the Accountant, who has no authority or access to generate or change Pharmacy revenue billings/claims. The Administrative Assistant will open all incoming mail and make copies of all checks that are received, which will immediately be sent to the Pharmacy for reconciliation. The Administrative Assistant will retain the original checks, which will be deposited when notified that the reconciliations are completed.

Status: Not yet implemented.

2012-2 – Clinic sliding fee adjustments

Condition: During our audit, we were unable to determine that proper eligibility requirements were applied in determining sliding fee adjustments for clinic patients.

Criteria: The organization should have a system in place to determine eligibility for patient discounts adjusted on the basis of the patient's ability to pay.

Cause of Condition: Eligibility for patient discounts was determined based on reports obtained from a third party. The reports were not retained by the organization.

Effect of Condition: It is unknown if sliding fee adjustments were properly determined for clinic patients.

Recommendation: The organization implements a document retention policy.

Response: Northern Nevada HOPES is in the process of hiring an Eligibility Specialist, who will be required to document Clinic patients FPL in the electronic medical records system, and update this information at least annually.

Status: Not yet implemented.

C – FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCIES

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

2012-3 Housing Opportunities for People with AIDS (HOPWA) CFDA No. 93.917; Grant No. NVH10-F999; Grant period: Year Ended June 30, 2012

Condition: During our audit, we determined the HOPWA participant files either did not contain the proper documentation or the documentation obtained was outdated or was not used properly to determine the participant's rent calculation.

Criteria: Participant files should contain the following documentation: Household income was properly calculated; their rent payment was properly calculated; and the HOPWA subsidy was properly calculated, including use of utility allowances (when applicable) and FMR rent standards. Files should contain third-party income documentation, such as pay stubs, earnings statements, checks, W-2 forms and income tax returns. If a participant reports that they have no income, a signed and witnessed "Verification of No Income" statement should be present in the participant's file. Participant eligibility status, household composition, and rental payments should be verified at least annually.

Cause of Condition: The organization does not have a documented policy for maintaining HOPWA participant file documentation nor a training and oversight plan.

Effect of Condition: Auditor was unable to determine the participant's rent calculation was done properly. Participant's rental calculation may have been over or under calculated. Additionally the HOPWA grant may have

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

been over or under charged.

Recommendation: We recommend the organization document and implement a policy for maintaining HOWPA participant files and a training and oversight plan to ensure compliance with the policy.

Response: We concur with the recommendation, and have implemented a policy and procedure effective October 10, 2012, to ensure that HOPWA standards of documenting household income are consistently followed by all case managers, as well as properly calculating rental payments and utility allowances, and verifying that FMR standards are being applied. Each file will contain a checklist signed off by the responsible case manager to verify that all documentation is received and steps have been completed. This procedure will also require that annual re-certifications will be started 90 days in advance of the expiration date. Trainings for all case managers will be conducted at least once annually, and documented. In addition, the Director of Social Services will be responsible for conducting and reviewing quarterly internal audits of at least 20% (random sampling) of active HOPWA participant files to ensure compliance with this new procedure.

Status: Implemented.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND DEPARTMENT OF HEALTH AND HUMAN SERVICES

2012-4 Housing Opportunities for People with AIDS (HOPWA) CFDA No. 14.241; Grant No. NVH10-F999; Grant period: Year Ended June 30, 2012 and HIV Formula Care Grants CFDA No. 93.917; Grant No. NVH10-F999; Grant period: Year Ended June 30, 2012

Condition: During our audit it was noted that payments were made to vendors, using Federal funds, without proper certification from the vendor that they were not suspended or debarred. In addition, there was no evidence that the organization had taken steps to ensure the vendor was not suspended or debarred.

Criteria: The OMB Circular A-133 Compliance Supplement states that nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Cause of Condition: The organization did not have a procedure in place to ensure payments were not made to vendors who were suspended or debarred or otherwise declared ineligible from receiving Federal funds.

Effect of Condition: The organization may have made payments to an entity that had been suspended or debarred or otherwise declared ineligible from receiving Federal funds.

Recommendation: We recommend the organization implement procedures to ensure vendors who perform services for the organization who are paid with Federal funds are not suspended or debarred.

Response: Northern Nevada HOPES has implemented a procedure effective October 10, 2012, whereby all vendors who are paid with Federal funds will be verified by the Administrative Assistant that they are not on the Federal government's website (<https://www.epls.gov/>) that lists parties who are suspended and debarred. This process will be documented by the Administrative Assistant on the vendor's W-9 form. In addition, all new HOPWA agreements will include a clause that the landlord is not prohibited from receiving Federal funds, which they will certify to as part of signing the HOPWA agreement.

Status: Implemented.

**NORTHERN NEVADA HIV OUTPATIENT
PROGRAM, EDUCATION AND SERVICES**
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

No findings were noted in the audit for the year ended June 30, 2011.

CORRECTIVE ACTION PLAN

BOARD OF DIRECTORS

Douglas H. Brewer
Merrill Lynch
PRESIDENT

October 30, 2012

Scott Brenneke
Advanced Asset Management
VICE PRESIDENT

U.S. Department of Health & Human Services

Jerome Edwards, Ph.D.
University of Nevada Reno
SECRETARY

Northern Nevada HOPES respectfully submits the following corrective action plan for the year ended June 30, 2012.

Chris Bosse
Renown Medical Center
TREASURER

Name and address of independent public accounting firm: Pangborn & Co., Ltd., 924 So. Virginia St, Reno, NV 89502

Kevin J. Wood
Historic Preservation
BOARD MEMBER

Audit period: July 1, 2011 through June 30, 2012

Stanley Shane, M.D.
*University of Nevada Reno
School of Medicine*
BOARD MEMBER

The findings from the October 30, 2012 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Todd Alexander, Esq.
Lemons, Grundy, & Eisenburg
BOARD MEMBER

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

ADMINISTRATION

2012-1 – Pharmacy

Sharon Chamberlain
EXECUTIVE DIRECTOR

Recommendation: The organization design and implement a system to adequately segregate duties, that includes having another employee post the receipts to the pharmacy's accounts receivable system.

Kerry Deal, CPA
DEPUTY DIRECTOR

Charles Krasner M.D.
MEDICAL DIRECTOR

Action Taken: Northern Nevada HOPES will implement a new procedure effective October 25, 2012, where the accounts receivable payments for the Pharmacy will be posted and reconciled in the Pharmacy's billing & collections system by the Accountant, who has no authority or access to generate or change Pharmacy revenue billings/claims. The Administrative Assistant will open all incoming mail, and make copies of all checks that are received, which will immediately be sent to the Pharmacy for reconciliation. The Administrative Assistant will retain the original checks, which will be deposited when notified that the reconciliations are completed.

Stacey Rice, LCSW
SOCIAL SERVICES DIRECTOR

Sue Trimmer, R.Ph.
PHARMACY DIRECTOR

2012-2 – Clinic Sliding Fee Adjustments

Recommendation: Northern Nevada HOPES will implement a documentation policy regarding sliding fee adjustments for Clinic patients.

Action Taken: Northern Nevada HOPES is in the process of hiring an Eligibility Specialist, who will be required to document Clinic patients FPL in the electronic medical records system, and update this information at least annually.

FINDINGS – FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCIES

2012-3 – HOPWA

Recommendation: Northern Nevada HOPES should document and implement a policy for maintaining HOPWA participant files, and a training and oversight plan to ensure compliance with the policy.

Action Taken: We concur with the recommendation, and have implemented a policy and procedure effective October 10, 2012, to ensure that HOPWA standards of documenting household income are consistently followed by all case managers, as well as properly calculating rental payments and utility allowances, and verifying that FMR standards are being applied. Each file will contain a checklist signed off by the responsible case manager to verify that all documentation is received and steps have been completed. This procedure will also require that annual re-certifications will be started 90 days in advance of the expiration date. Trainings for all case managers will be conducted at least once annually, and documented. In addition, the Director of Social Services will be responsible for conducting and reviewing quarterly internal audits of at least 20% (random sampling) of active HOPWA participant files to ensure compliance with this new procedure.

2012-4 – Suspension & Debarment

Recommendation: Northern Nevada HOPES should implement procedures to ensure vendors who perform services for the organization who are paid with Federal funds are not suspended or debarred.

Action Taken: Northern Nevada HOPES has implemented a procedure effective October 10, 2012, whereby all vendors who are paid with Federal funds will be verified by the Administrative Assistant that they are not on the Federal government's website (<https://www.epls.gov/>) that lists parties who are suspended and debarred. This process

will be documented by the Administrative Assistant on the vendor's W-9 form. In addition, all new HOPWA agreements will include a clause that the landlord is not prohibited from receiving Federal funds, which they will certify to as part of signing the HOPWA agreement.

If the U.S. Department of Health and Human Services has questions regarding this plan, please contact Kerry Deal at 775-348-2892.

Sincerely yours,



Kerry Deal
Deputy Director/CFO