

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**

**FINANCIAL AND COMPLIANCE REPORTS**

**For the Years Ended December 31, 2012 and 2011**

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**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**For the Years Ended December 31, 2012 and 2011**

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**FINANCIAL SECTION**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Special Health Resources for Texas, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Special Health Resources for Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities 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.

### **Auditors' 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 auditors' 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 entity'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 entity'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 Special Health Resources for Texas, Inc. as of December 31, 2012 and 2011, and the changes in 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**

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Texas Single Audit Circular*, 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 July 22, 2013, on our consideration of Special Health Resources for Texas, Inc.'s 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* in considering Special Health Resources for Texas, Inc.'s internal control over financial reporting and compliance.

Brown Bronstad Habenicht & Rosson, PC  
BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.  
July 22, 2013

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2012 and DECEMBER 31, 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash	\$ 207,955	\$ 194,092
Grants receivable	519,708	338,662
Accounts receivable, net of allowance for doubtful accounts	32,710	13,345
Property and equipment, net of accumulated depreciation	414,815	411,246
Prepaid expense	16,372	13,076
Deposits	2,800	2,800
	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 1,194,360</u>	<u>\$ 973,221</u>
<b>Liabilities</b>		
Accounts payable	\$ 177,885	\$ 132,923
Salaries payable	63,348	66,280
Payroll taxes and related liabilities	21,235	22,091
Deferred revenue	-	1,290
Refundable advances & repayments payable	116,343	42,364
	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>378,811</u>	<u>264,948</u>
<b>Net Assets</b>		
Unrestricted:		
Board designated	31,646	-
Operating	369,088	297,027
Property and equipment	414,815	411,246
	<u>                    </u>	<u>                    </u>
Total Net Assets	<u>815,549</u>	<u>708,273</u>
Total Liabilities and Net Assets	<u>\$ 1,194,360</u>	<u>\$ 973,221</u>

The accompanying notes are an integral part of these financial statements.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**

**STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Changes in Unrestricted Net Assets</b>		
<b>Support</b>		
Contributions	\$ 20,534	\$ 15,547
Designated donations	12,937	5,530
State and federal financial assistance	4,197,840	4,377,288
Program income	227,794	187,636
General health income	256,248	177,371
Fundraising income	34,141	35,445
Other income	16,916	21,130
Gain/(loss) on disposal of assets	-	(124)
Interest earned	93	84
	<u>4,766,503</u>	<u>4,819,907</u>
<b>Total Unrestricted Support</b>		
	<u>4,766,503</u>	<u>4,819,907</u>
<b>Expenses</b>		
<b>Program services</b>		
Outreach and intervention	746,420	758,310
HIV prevention	1,330,228	1,150,647
HIV services	2,291,722	2,708,110
Substance abuse intervention & treatment	50,615	24,553
General health	189,218	147,682
<b>Supporting services</b>		
Management and general	39,921	23,956
Fundraising	11,103	14,400
	<u>4,659,227</u>	<u>4,827,658</u>
<b>Total Expenses</b>		
	<u>4,659,227</u>	<u>4,827,658</u>
Increase (Decrease) in Unrestricted Net Assets	107,276	(7,751)
Net Assets at Beginning of Year	<u>708,273</u>	<u>716,024</u>
Net Assets at End of Year	<u>\$ 815,549</u>	<u>\$ 708,273</u>

The accompanying notes are an integral part of these financial statements.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 107,276	\$ (7,751)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	62,042	63,415
Loss on disposal of assets	-	124
(Increase)/decrease in grants receivable	(181,046)	82,493
(Increase)/decrease in prepaid expense	(3,296)	(1,178)
(Increase)/decrease in other assets	(19,365)	5,596
Increase/(decrease) in accounts payable	44,962	(84,909)
Increase/(decrease) in salaries payable	(2,932)	(2,543)
Increase/(decrease) in payroll taxes payable	(856)	(427)
Increase/(decrease) in deferred revenue	(1,290)	1,290
Increase/(decrease) in refundable advances	73,979	(30,970)
Net Cash Provided by Operating Activities	79,474	25,140
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and leasehold improvements	(65,611)	(60,759)
Net Cash Used by Investing Activities	(65,611)	(60,759)
<b>Cash Flows From Financing Activities</b>		
Principal payments on short-term loans	-	-
Net Cash Provided by Investing Activities	-	-
Net Increase (Decrease) in Cash	13,863	(35,619)
Cash - Beginning of Year	194,092	229,711
Cash - End of Year	\$ 207,955	\$ 194,092
Interest paid in cash	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Special Health Resources for Texas, Inc. (the “Organization”) provides assistance to persons infected with the HIV virus, including medical and dental services, case management, transportation, housing, and other essential living expenses. Other programs include HIV prevention, a community health clinic for the general population, drug treatment for adolescents, and youth and family programs designed to reduce alcohol and drug use by youth. The Organization receives state and federal financial assistance to provide outreach, education, and intervention to individuals at risk for HIV/AIDS and substance abuse.

**Basis of Accounting**

The accompanying financial statements of Special Health Resources for Texas, Inc. have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

The Organization follows the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification with respect to financial statement presentation. Under this topic, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted net assets*

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operation objectives of the Organization. Board designated net assets represent amounts the Board specifically set aside. The Board has elected to designate the net revenues from fundraising as money to be spent at the discretion of the Board. As of December 31, 2012, Board designated net assets that are the result of fundraising efforts was \$31,646.

*Temporarily restricted net assets*

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions.” At December 31, 2012 the Organization had no temporarily restricted net assets.

*Permanently restricted net assets*

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations. The Organization had no permanently restricted net assets at December 31, 2012.

**Subsequent Events**

The Organization has evaluated events and transactions through July 22, 2013, the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements. No subsequent events were noted by the Organization.

**Income Taxes**

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Contributed Services**

The Organization received contributed counselor intern services used in their Youth Substance Abuse Youth Treatment services during 2012 and 2011 as well as dental assistant services used in their HIV services programs during 2012. Revenue and expense amounts of \$20,016 and \$10,548 for years ending December 31, 2012 and 2011, respectively (the amounts determined to be the total value of such services had the Organization paid for these services) have been reflected in the financial statements for these services as they meet the criteria for recognition.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition under SFAS No. 116, “Accounting for Contributions Received and Contributions Made” as contributed services and have not been recorded in the financial statements.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Use of Estimates**

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

**Expense Allocation**

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of personnel distributions. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**Property and Equipment**

All acquisitions of property and equipment in excess of \$5,000 (\$500 for electronic equipment) and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

**Revenue Recognition**

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

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Organization places its temporary cash

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

investments with high credit quality financial institutions. At times such investments may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

**NOTE B – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 69,300	\$ 69,300
Buildings	175,300	158,900
Equipment	541,503	560,122
Vehicles	251,705	282,826
Leasehold improvements	<u>228,348</u>	<u>228,348</u>
	1,266,156	1,299,496
Accumulated depreciation	<u>851,341</u>	<u>888,250</u>
Totals	<u>\$ 414,815</u>	<u>\$ 411,246</u>

A significant portion of property and equipment has been acquired through federal and state grant programs. Therefore, approval by appropriate agencies must be obtained before disposition of these assets.

Depreciation expense for the years ended December 31, 2012 and 2011 was \$62,042 and \$63,415, respectively.

**NOTE C – OPERATING LEASES**

During 2012 and 2011, the Organization maintained non-cancelable operating leases for the purpose of copier service. Future minimum annual rental commitments with initial or remaining terms are as follows:

For the year ending December 31,

2013		\$ 20,490
2014		12,370
2015		-0-
2016		-0-
2017		<u>-0-</u>
Totals		<u>\$ 32,860</u>

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE C – OPERATING LEASES - Continued**

Rent expense under these operating leases was \$20,490 and \$20,490 for years ended December 31, 2012 and 2011, respectively.

During 2012, the Organization maintained a non-cancelable operating lease for a mobile specialty vehicle; payable in 72 monthly installments of \$1,493. Future minimum annual rental commitments with initial or remaining terms are as follows:

For the year ending December 31,

2013	\$ 17,916
2014	17,916
2015	17,916
2016	17,916
2017-2018	<u>25,381</u>
Totals	<u>\$ 97,045</u>

Rent expense under this operating lease was \$11,026 and \$-0- for years ended December 31, 2012 and 2011, respectively.

Future minimum annual rental commitments are detailed only for non-cancelable leases. The Organization has several real estate leases that are cancelable if funding is lost. Details regarding these cancelable leases can be obtained from the Organization's management.

**NOTE D – COMPENSATED ABSENCES**

Employees of the Organization are entitled to paid vacation and paid sick days. The Organization pays these benefits as they come due by claiming reimbursement for salary expense from various grants. The Organization is reimbursed 100% for these benefits; therefore no accrual has been made.

**NOTE E – LONG-TERM OBLIGATIONS**

Long-term obligations include debt and other long-term liabilities. The Organization's long-term obligations consisted of the following.

Line of Credit

The Organization had a line of credit that was available to be used during the year ending December 31, 2012 for operating expenses until reimbursement could be received from

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE E – LONG-TERM OBLIGATIONS – Continued**

grantor agencies. This line of credit is renewable annually and is secured by liens on vehicles. At December 31, 2012 and 2011 the line of credit had a balance of \$-0-. Interest expense incurred in connection with the line of credit for both 2012 and 2011 was \$-0-.

**NOTE F – CONCENTRATION OF CREDIT RISK FOR CASH DEPOSITS AT BANKS**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. The Organization maintains its accounts at one financial institution and is insured by the Federal Deposit Insurance Corporation (FDIC).

At December 31, 2012 and 2011, the Organization had FDIC insurance coverage of \$250,000, total cash deposits of \$217,503 and \$203,250.

**NOTE G - FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and 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.

**NOTE H – ACCOUNTS RECEIVABLE**

The Organization provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Organization's estimate is based on historical collection experience and a review of the current status of trade accounts receivable (collection of most accounts over 90 days delinquent are considered doubtful). It is reasonably possible that the Organization's estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$163,631 for 2012 and \$29,574 for 2011.

**NOTE I – COMMITMENTS AND CONTINGENCIES**

The Organization participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE I – COMMITMENTS AND CONTINGENCIES - Continued**

receivable may be impaired. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

**NOTE J – NON-CASH DONATIONS**

Certain donations are non-cash in nature and are recognized in the financial statements based on the fair value of the donated items and/or services received. In the absence of donor restrictions, donated items and/or services are reported as unrestricted support.

**NOTE K – RELATED PARTY TRANSACTIONS**

The Special Health Resources for Texas Trust (the “Trust”) was established to purchase and temporarily hold an office building that the Organization leases while Special Health Resources for Texas Foundation (the “Foundation”) was being established and obtaining tax-exempt status. The Foundation is the beneficiary of the Trust. As of December 31, 2012 the Foundation had not yet received tax-exempt status from the IRS, therefore no transfer of property had taken place. The Chairman of the Foundation’s Board is also on the Organization’s Board.

During the year ended December 31, 2012, the Organization made payments of \$57,384 to the Trust for office lease space.

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**STATE AND FEDERAL ASSISTANCE SECTION**

## SPECIAL HEALTH RESOURCES FOR TEXAS, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
<b>FEDERAL AWARDS</b>			
<b>U. S. Department of Health and Human Services</b>			
SAMHSA CHAMPS - Youth HIV Prevention	93.243	5U79SP016451-02	\$ 223,319
SAMHSA CHAMPS - Youth HIV Prevention	93.243	10SP16451A	77,849
SAMHSA GAALS - Minority HIV Prevention	93.243	U9SP15206A	412,931
SAMHSA GAALS - Minority HIV Prevention	93.243	U9SP15206A	98,058
SAMHSA SA Treatment HIV Minorities	93.243	12TI24423A	21,578
Total CFDA number 93.243			<u>833,735</u>
Special Proj of Natl Significance-Access to Care-WOC	93.928	6H97HA15147-03-01	255,804
Special Proj of Natl Significance-Access to Care-WOC	93.928	H97HA15147A0	127,629
Total CFDA number 93.928			<u>383,433</u>
Grants to Provide Outpatient Early Intervention	93.918	H76HA01705B0	40,186
Grants to Provide Outpatient Early Intervention	93.918	H76HA01705C0	240,422
Total CFDA number 93.918			<u>280,608</u>
<i>Passed through Houston Regional HIV/AIDS Group, Inc.:</i>			
HIV Care Formula Grants	93.917	12SHR00PTB-05	137,520
HIV Care Formula Grants	93.917	13SHR00PTB-05	123,886
HIV Care Formula Grants	93.917	13ASHR00PTB-05	100,677
HIV Care Formula Grants	93.917	12SHR00PTB-06	155,563
HIV Care Formula Grants	93.917	13SHR00PTB-06	206,248
HIV Care Formula Grants	93.917	13ASHR00PTB-06	156,645
HIV Care Formula Grants - Part C	93.917	12SHR01RWC-06	30,786
HIV Care Formula Grants - Part C	93.917	13SHR01RWC-06	34,237
Total CFDA number 93.917			<u>945,562</u>
<i>Passed through Texas Department of State Health Services:</i>			
HIV Prevention	93.940	2012-040423-001	458,090
HIV Prevention Perinatal	93.940	2012-040337-001	63,158
Total CFDA number 93.940			<u>521,248</u>
Block Grants for Prevention and Treatment of Substance Abuse:			
HIV Early Intervention Project	93.959	2012-039029-001	115,716
HIV Early Intervention Project	93.959	2013-041495-001	50,782
Substance Abuse Outreach/HIV	93.959	2012-038572-001	107,930
Substance Abuse Outreach/HIV	93.959	2013-041401-001	36,504
Female Adolescent Treatment Program	93.959	2012-039149-001	19,558
Female Adolescent Treatment Program	93.959	2013-041507-001	2,188
Total CFDA number 93.959			<u>332,678</u>
<i>Passed through Dallas County Hospital District:</i>			
TX/OK Aids Education and Training Centers	93.145	75-2405203	37,993
TX/OK Aids Education and Training Centers	93.145	75-2405203	20,252
Total CFDA number 93.145			<u>58,245</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>3,355,509</u>

The accompanying notes to the Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

## SPECIAL HEALTH RESOURCES FOR TEXAS, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenses
<b>FEDERAL AWARDS (continued)</b>			
<b>Department of Housing and Urban Development</b>			
<i>Passed through Houston Regional HIV/AIDS Group, Inc.:</i>			
Housing Opportunities for Persons with AIDS	14.241	12SHR01HP-06	\$ 112,053
Housing Opportunities for Persons with AIDS	14.241	13SHR01HP-06	181,821
Housing Opportunities for Persons with AIDS	14.241	13ASHR00HP-06	130,154
Housing Opportunities for Persons with AIDS	14.241	12SHR01HP-05	18,225
Housing Opportunities for Persons with AIDS	14.241	13SHR01HP-05	26,654
Housing Opportunities for Persons with AIDS	14.241	13ASHR00HP-05	20,625
Total CFDA number 14.241			<u>489,532</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>489,532</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>3,845,041</u>
<b>STATE AWARDS</b>			
<b>Texas Department of State Health Services</b>			
<i>Passed through Houston Regional HIV/AIDS Group, Inc.:</i>			
State Services	N/A	12SHR00SS-06	46,286
State Services	N/A	12ASHR00SS-06	75,265
State Services	N/A	13SHR00SS-06	51,783
State Services	N/A	12SHR00SS-05	27,815
State Services	N/A	12ASHR00SS-05	39,512
State Services	N/A	13SHR00SS-05	30,136
			<u>270,797</u>
Block Grants for Prevention and Treatment of Substance Abuse:			
HIV Early Intervention Project	N/A	2012-039029-001	948
HIV Early Intervention Project	N/A	2013-041495-001	6,856
Substance Abuse Outreach/HIV	N/A	2012-038572-001	8,980
Substance Abuse Outreach/HIV	N/A	2013-041401-001	4,446
Female Adolescent Treatment Program	N/A	2012-039149-001	4,046
			<u>25,276</u>
<b>Total Texas Department of State Health Services</b>			<u>296,073</u>
<b>TOTAL STATE AWARDS</b>			<u>296,073</u>
<b>TOTAL FEDERAL AND STATE AWARDS</b>			<u>\$ 4,141,114</u>

The accompanying notes to the Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

**NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AND STATE AWARDS**

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Special Health Resources for Texas, Inc. 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” and *the State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

P. O. BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

LYNDA R. NEWSOME, C.P.A.

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THOMAS DANIEL PHILLIPS, C.P.A.

CINDY ALFORD, C.P.A.

MEMBERS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Special Health Resources for Texas, Inc.

We have audited, in accordance with the 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 Special Health Resources for Texas, Inc. (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of and for the years ended December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated July 22, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies and are identified as items 2012-1 and 2012-2.

### **Organization's Response to Findings**

The Organization's response to the findings identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

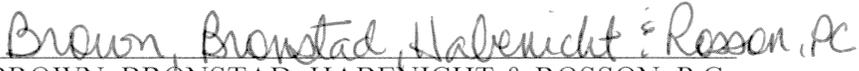
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Special Health Resources for Texas, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Special Health Resources for Texas, Inc., in a separate letter dated July 22, 2013.

### **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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.  
July 22, 2013

**BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.**  
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133  
AND THE  
STATE OF TEXAS SINGLE AUDIT CIRCULAR**

To the Board of Directors  
Special Health Resources for Texas, Inc.

**Report on Compliance for Each Major Federal and/or State Program**

We have audited Special Health Resources for Texas, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of the Organization's major federal and/or state programs for the year ended December 31, 2012. The Organization's major federal and/or state programs are identified in the summary of auditors' 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 and/or state programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and/or state 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; OMB Circular A-133, *Audits of States, Local*

*Governments, and Non-Profit Organizations, and the State of Texas Single Audit Circular.* Those standards, OMB Circular A-133 and the *State of Texas Single Audit Circular*, 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 and/or state program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 and/or state program. However, our audit does not provide a legal determination of the Organization's compliance.

### **Opinion on Each Major Federal and/or State Program**

In our opinion, Special Health Resources for Texas, Inc. 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 and/or state programs for the year ended December 31, 2012.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, 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. Our opinion on each major federal and/or state program is not modified with respect to these matters.

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

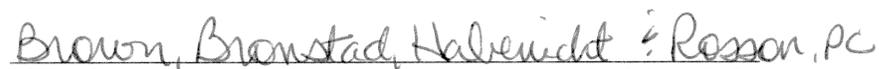
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and/or state 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 and/or state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, 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 Organization'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 and/or state 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 and/or state 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 and/or state 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2012-3 and 2012-4, which we consider to be significant deficiencies.

The Organization's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

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 and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

  
BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.  
July 22, 2013

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Program Name</b>	<b>Finding/Noncompliance</b>	<b>Status</b>
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No prior audit findings.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Section I - Summary of Auditors' Results

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified?	_____ yes	<u>  X  </u> no
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u>  X  </u> yes	_____ none reported
Noncompliance material to financial statements noted?	_____ yes	<u>  X  </u> no

*Federal/State Awards*

Internal control over major programs:

One or more material weaknesses identified?	_____ yes	<u>  X  </u> no
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u>  X  </u> yes	_____ none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 and/or the State of Texas Single Audit Circular?	<u>  X  </u> yes	_____ no
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Major programs tested:

<u>CFDA Number</u>	<u>Name of Federal or State Program or Cluster</u>
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities - Health Department Based

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	<u>  X  </u> yes	_____ no
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**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Section II - Financial Statement Findings

**Significant Deficiencies**

Finding 2012-1: Payroll

*Condition:*

Employee information, such as pay rate, as well as salary allocations by grant, did not correspond between the Payroll system and employee files in the Human Resource department.

*Criteria:*

Procedures should be in place for Payroll and Human Resources staff to compare information in order to verify that correct and updated information is being used, correct salaries are being paid, and also salaries are allocated to appropriate grants by the correct percentages.

*Cause:*

There are no procedures in place for Payroll and Human Resource staff to compare information on a routine basis in order to verify that the correct salaries are being paid and are allocated to appropriate grants by correct percentages.

*Effect:*

Because of the lack of procedures to update and agree information in the Payroll system to Human Resources, employees may and have been paid an incorrect amount and allocations of salaries to grants may not be appropriate or adequately documented.

*Recommendation:*

At least once every twelve (12) months, the Payroll and Human Resources staff should compare information in order to verify that the correct salaries are being paid and the appropriate percentages are being allocated to the correct grants.

Finding 2012-2: Payroll

*Condition:*

Supporting documentation could not be located for an employee's bankruptcy deduction.

*Criteria:*

Adequate documentation should be retained to support the validity and amounts of all payroll deductions.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 2012-2: Payroll (continued)

*Cause:*

Adequate documentation was not retained for the employee's bankruptcy deduction.

*Effect:*

The amount of the employee's bankruptcy deduction could not be verified.

*Recommendation:*

All disbursements should have supporting documentation present. For payroll-related deductions, the supporting documentation should also be maintained in the employee's personnel file.

Section III - Federal/State Award Findings and Questioned Costs

U. S. Department of Health and Human Services

Finding 2012-3:

HIV Care Formula Grants - CFDA No. 93.917

Significant Deficiency - Eligibility

Questioned Cost \$41

*Condition:*

Lab services for an Organization Community Clinic client were paid out of HIV Care Formula Grant funds.

*Criteria:*

Only expenses for eligible individuals should be paid out of grant funds.

*Cause:*

Individuals who received lab services on a particular statement were not compared to eligible grant recipients.

*Effect:*

Lab services were paid out of HIV Care Formula Grant funds for an individual who was not an eligible recipient under the grant requirements.

*Recommendation:*

Billings for services rendered should be reviewed to ensure that all individuals receiving benefits are eligible individuals under a particular grant.

SPECIAL HEALTH RESOURCES FOR TEXAS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

FOR THE YEAR ENDED DECEMBER 31, 2012

Finding 2012-4:

HIV Care Formula Grants - CFDA No. 93.917

Significant Deficiency - Eligibility

Questioned Cost Unknown

*Condition:*

Eligibility for eight (8) out of ten (10) individuals selected for testing could not be verified. Reassessments of eligibility are not being performed as required.

*Criteria:*

Client reassessments should be performed based on the six (6) month (at minimum) requirement for HIV Care Formula grants.

*Cause:*

The Organization was not following required guidelines for HIV Care Formula grant client reassessments and adequate supporting documentation was not present.

*Effect:*

During the testing of client eligibility for HIV Care Formula grants, eight (8) out of ten (10) clients selected for testing could not be verified as eligible for services (based on the low-income criteria) as the required guidelines for client reassessment was not being followed.

*Recommendation:*

The Organization should perform client financial reassessments based on the six (6) month guidelines (at minimum), client files should contain all supporting documentation, and client tracking/information system should also be updated accordingly.

**SPECIAL HEALTH RESOURCES FOR TEXAS, INC.**

**CORRECTIVE ACTION PLAN**

**DECEMBER 31, 2012**

Finding 2012-1:

Organization's employee information such as pay rate, salary allocation percentages by grant, etc. did not correspond between Payroll and Human Resources. One (1) employee had been underpaid since 2009, several employees' information in their personnel file was not up to date.

Corrective Action:

At least once every twelve (12) months, the Payroll and Human Resources staff will compare information in order to verify that correct salaries are being paid and appropriate percentages are being allocated to the correct grants.

Finding 2012-2:

Supporting documentation could not be located for an employee's payroll bankruptcy deduction.

Corrective Action:

For payroll-related deductions, supporting documentation will be maintained in the employee's personnel file.

Finding 2012-3:

The Organization paid for a Community Clinic client's lab services out of Ryan White grant funds.

Corrective Action:

Charges on all invoices will be verified as allowable expenditures and also verified that they are services for eligible clients, and that the appropriate funding source is used prior to payment.

Finding 2012-4:

The Organization was not following the required guidelines for Ryan White client reassessments and adequate financial supporting document was also not present.

Corrective Action:

The Organization will perform client financial reassessments based on the six (6) month guidelines (at minimum), client files will contain all supporting documentation, and client tracking/information system will also be updated accordingly.

Contact:

Mr. Kim Nesvig, Interim Executive Director

Implementation Timeline:

August 31, 2013

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