

VALLEY AIDS COUNCIL, INC.

ANNUAL FINANCIAL REPORT

AUGUST 31, 2014

Valley AIDS Council, Inc.
Organizational Data
August 31, 2014

Board of Directors

George Hodak	Chairperson
Seth Rivera	Vice-Chairperson
America Gonzalez	Secretary
James Judkins	Treasurer
Marcia Fuller	Member
Michael Gutierrez	Member
Angela Burton	Member
Edward Cooley	Member
Remi Garza	Member

Executive Director

Dean Hall

Finance Director

Wally Cantu

Valley AIDS Council, Inc.
Annual Financial Report
August 31, 2014

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P A T T I L L O , B R O W N & H I L L , L L P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valley AIDS Council, Inc.
Harlingen, Texas

We have audited the accompanying statements of Valley AIDS Council, Inc., (a non-profit organization) which comprise the statement of financial position as of August 31, 2014 and the related statements of activities, cash flows, and functional expenses for the year then ended, and 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk 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 express 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that our 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 Valley AIDS Council, Inc., as of August 31, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Valley AIDS Council, Inc. 2013 financial statements, and our reported dated May 8, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 March 20, 2015 on our consideration of Valley AIDS Council's, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley AIDS Council's Inc. internal control over financial reporting and compliance.



Brownsville, Texas
March 20, 2015

Valley AIDS Council, Inc.
Statement of Financial Position
August 31, 2014

(With comparative information at August 31, 2013)

	2014	2013
Assets:		
Cash	\$ 185,844	\$ 154,445
Accounts receivable:		
Grants	584,713	719,609
Other	65,851	27,334
Patients (net of allowance for doubtful accounts of \$ 0 & \$228,800 in 2014 & 2013, respectively)	325,267	396,448
Prepaid expenses	1,034	6,637
Property, equipment and improvements - net	124,459	145,370
Other assets	5,834	3,204
 Total Assets	 \$ 1,293,002	 \$ 1,453,047
 Liabilities and Net Assets:		
 Accounts payable	\$ 172,169	\$ 355,872
Accrued expenses	51,687	51,889
Accrued vacation	135,953	145,191
Litigation settlement payable	-	192,703
Other liabilities	26,584	425
Total Liabilities	386,393	746,080
 Net Assets:		
Unrestricted	906,609	706,967
Temporarily restricted	-	-
Total Net Assets	906,609	706,967
 Total Liabilities and Net Assets	 \$ 1,293,002	 \$ 1,453,047

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

Valley AIDS Council, Inc.
Statement of Activities
For the Year Ended August 31, 2014

(With comparative information for the year ended August 31, 2013)

	Unrestricted	Temporarily Restricted	Totals (Memorandum Only)	
			2014	2013
Revenues and Other Support:				
Contributions	\$ 4,049	\$ -	\$ 4,049	\$ 800
Federal grants	3,701,169	-	3,701,169	3,829,440
State grants	251,530	-	251,530	228,274
Fundraisers	7,093	-	7,093	35,192
Foundation	-	-	-	285
Interest income	-	-	-	95
Patient fees	278,373	-	278,373	347,383
Clinical trials	-	-	-	30,227
340B Income	1,992,520	-	1,992,520	2,280,229
Other income	62,586	-	62,586	62,513
Total revenues and other support	<u>6,297,320</u>	<u>-</u>	<u>6,297,320</u>	<u>6,814,438</u>
Expenses and Other Losses:				
Program services:				
Health care assistance	2,132,320	-	2,132,320	2,826,361
Housing assistance	361,866	-	361,866	323,781
Substance abuse services	-	-	-	45,252
Education	1,534,625	-	1,534,625	986,220
Planning and training	94,217	-	94,217	67,391
Total program services	<u>4,123,028</u>	<u>-</u>	<u>4,123,028</u>	<u>4,249,005</u>
Support services:				
Management and general	1,971,194	-	1,971,194	2,404,400
Fundraising	3,456	-	3,456	5,359
Total support services	<u>1,974,650</u>	<u>-</u>	<u>1,974,650</u>	<u>2,409,759</u>
Total expenses and other losses	<u>6,097,678</u>	<u>-</u>	<u>6,097,678</u>	<u>6,658,764</u>
Change in net assets	199,642	-	199,642	155,674
Net assets, beginning of year	<u>706,967</u>	<u>-</u>	<u>706,967</u>	<u>551,293</u>
Net assets, ending of year	<u>\$ 906,609</u>	<u>\$ -</u>	<u>\$ 906,609</u>	<u>\$ 706,967</u>

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

Valley AIDS Council, Inc.
Statement of Cash Flows
For the Year Ended August 31, 2014

(With comparative information for the year ended August 31, 2013)

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	\$ 199,642	\$ 155,674
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	53,608	52,013
Loss on disposal of capital assets	12,541	35,252
(Increase) decrease in accounts receivable	96,379	(122,638)
(Increase) decrease in patient receivables	71,181	(53,368)
(Increase) in prepaid expenses	5,603	957
(Increase) decrease in other assets	(2,630)	250
Increase (decrease) in accounts payable	(183,703)	153,233
(Decrease) in accrued expenses	(202)	(35,475)
Increase (decrease) in accrued vacation payable	(9,238)	7,728
Increase (decrease) litigation settlement payable	(192,703)	192,703
Increase (decrease) other liabilities	26,159	(250)
Net Cash Provided by Operations	76,637	386,079
Cash Flow From Financing Activities:		
Purchase of equipment	(45,238)	(12,000)
Net Cash Used by Financing Activities	(45,238)	(12,000)
Cash Flow From Investment Activities:		
Payments on line of credit	-	(80,353)
Net Cash Provided (Used) by Investing Activities	-	(80,353)
Net increase in cash and cash equivalents	31,399	293,726
Cash and cash equivalents at beginning of year	154,445	(139,281)
Cash and cash equivalents at end of the year	\$ 185,844	\$ 154,445

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

Valley AIDS Council, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2014

(With comparative information for the year ended August 31, 2013)

	Program Services				Total Program Expenses
	Health Care Assistance	Housing Assistance	Education	Planning & Training	
Salaries	\$ 834,655	\$ 53,105	\$ 929,109	\$ 48,152	\$ 1,865,021
Fringe benefits	195,797	8,210	221,538	11,002	436,547
Travel	37,216	2,591	48,654	7,229	95,690
Supplies	44,287	1,626.00	85,092	12,554	143,559
Contractual	28,763	-	1,396	-	30,159
Specific assistance	746,546	296,292	6,491	-	1,049,329
Client transportation	22,935	-	6,546	-	29,481
Pharmacy	64,773	-	20,901.00	-	85,674
Medical waste	31,492	-	-	-	31,492
Food pantry	11,866	-	-	-	11,866
Advertising	-	-	518.00	-	518
Dues and subscriptions	-	-	-	594	594
Rentals	453	-	20,437	-	20,890
Insurance	56,001	-	12	-	56,013
Postage	606	42	302	312.00	1,262
Duplication/reproduction	1,489	-	15,474	3,819	20,782
Occupancy costs	23,823	-	77,084	-	100,907
Telephone	10,369	-	45,998	115	56,482
Utilities	2,036	-	13,293	-	15,329
Repairs and maintenance	9,212	-	2,572	-	11,784
Services	936	-	699	-	1,635
Training	-	-	4,808	10,440	15,248
Bank and interest charges	-	-	-	-	-
Miscellaneous	9,065	-	33,701	-	42,766
Bad debt expense	-	-	-	-	-
Litigation	-	-	-	-	-
Depreciation	-	-	-	-	-
Total expenses	<u>\$ 2,132,320</u>	<u>\$ 361,866</u>	<u>\$ 1,534,625</u>	<u>\$ 94,217</u>	<u>\$ 4,123,028</u>

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

Support Services			Totals	
Management & General	Fundraising	Total Support Services	(Memorandum Only)	
			2014	2013
\$ 391,264	\$ -	\$ 391,264	\$ 2,256,285	\$ 2,362,317
71,517	-	71,517	508,064	499,645
33,254	-	33,254	128,944	134,791
18,906	284	19,190	162,749	145,539
102,369	-	102,369	132,528	154,533
1,889	-	1,889	1,051,218	1,080,173
14,004	-	14,004	43,485	37,332
443,765	-	443,765	529,439	770,825
17,199	-	17,199	48,691	28,744
-	-	-	11,866	10,930
6,038	-	6,038	6,556	20,462
34,937	-	34,937	35,531	35,314
34,221	-	34,221	55,111	40,361
38,158	-	38,158	94,171	71,047
6,556	-	6,556	7,818	4,041
6,940	-	6,940	27,722	8,478
275,328	-	275,328	376,235	314,546
55,169	-	55,169	111,651	97,531
29,608	-	29,608	44,937	55,147
51,630	-	51,630	63,414	132,862
22,316	-	22,316	23,951	35,906
25,441	-	25,441	40,689	48,788
13,755	-	13,755	13,755	19,196
55,674	3,172	58,846	101,612	132,681
167,648	-	167,648	167,648	172,859
-	-	-	-	192,703
53,608	-	53,608	53,608	52,013
<u>\$ 1,971,194</u>	<u>\$ 3,456</u>	<u>\$ 1,974,650</u>	<u>\$ 6,097,678</u>	<u>\$ 6,658,764</u>

Valley AIDS Council, Inc.
Notes to Financial Statements
August 31, 2014

I. NATURE OF OPERATIONS

Valley AIDS Council, Inc. (the “Council”) is a nonprofit tax-exempt corporation as defined by Section 501 (c)(3) of the Internal Revenue Code. The primary purpose of the Valley AIDS Council, Inc. is to provide timely and accurate information to the general public regarding AIDS and HIV infection; to promote and develop the coordination of services for persons affected with AIDS and to develop programs to prevent the spread of AIDS. The Valley AIDS Council, Inc. also provides primary health care and support services for patients infected with AIDS.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Valley AIDS Council, Inc. have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principals.

Codification

The Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) is the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP).

Use of Accounting 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.

Cash Equivalents

The indirect method is used to prepare the statement of cash flows. For purposes of this statement, Valley AIDS Council, Inc. considers all unrestricted interest bearing deposit accounts with original maturities of three months or less to be cash equivalents.

Allowance for Uncollectible Accounts

The Council calculates its allowances for uncollectible accounts using historical collection data, specific account analysis and management’s judgment.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Equipment, and Improvements

It is the Council's policy to capitalize property and equipment for controlled items and items over \$5,000. All other items are expensed in the period incurred. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets are placed in service as instructed by the donor restrictions when the temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the strait-line method.

Property, equipment, and improvements are stated at cost or at their estimated market value at the date of receipt from donors. Valley AIDS Council, Inc. follows the practice of capitalizing all costs for property, equipment and improvements equal to or greater than \$5,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets generally as follows:

Furniture, equipment and vehicles	5-7 years
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Concentration of Credit Risk

The Council maintains cash balances in local financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. From time to time during the year, cash balances may exceed insurance limits.

The Council provides services to financially independent as well as to underprivileged individuals in Harlingen, Texas. Many of these services are rendered to Medicare and Medicaid eligible individuals, from whom collection is significantly certain up to specified contractual or capitation limits. For other patient and third party receivables not covered by Medicare or Medicaid, credit loss is significant due to contractual limits and bad debts. An allowance for uncollectible accounts has been established to account for such contractual losses and bad debts.

Contributions and Grants

The Organization has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

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 net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Support and Revenue

Valley AIDS Council, Inc. receives substantially all its grant revenue from the U.S. Department of Health and Human Services and the U.S. Department of Housing and Urban Development. Valley AIDS Council, Inc. recognizes grant revenue to the extent of grant expenses. Valley AIDS Council, Inc. also receives client fees and third party income for billable client services and recognizes these fees and income when earned.

Functional Allocation of Expenses

The costs of providing 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.

Classification of Net Assets

In accordance with ASC 958, Not-for-Profit Entities, the Council reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets

Unrestricted net assets represent resources over which the Board of Directors has discretionary control and can be used currently for the general purposes of the Council in accordance with its bylaws. These designations of unrestricted resources by the governing board do not have the same legal requirements as do restrictions of funds.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent resources currently available for use, but expendable only for those operating purposes of service programs or time restriction specified by the donor.

Permanently Restricted Net Assets

Permanently restricted net assets represent principal amounts of gifts and bequest which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity or a specific period, with only the income to be utilized.

Federal Income Tax

The Council is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

Valley AIDS Council, Inc. is exempt from federal income taxes under section 501 (c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, Valley AIDS Council, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509 (a) of the Internal Revenue Code.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Memorandum Only – Total Columns

Total columns on the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregate in this.

1. CASH

Valley AIDS Council, Inc.’s deposits are in one financial institution and are carried at cost. At August 31, 2014 the carrying amount of the Council’s deposits was \$185,844 and the bank balance was \$249,381. Deposits at August 31, 2014 were covered by Federal Deposit Insurance Corporation (FDIC) Insurance up to \$250,000.

2. PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements are recorded at cost. The assets are depreciated over their useful lives ranging from 5-7 years using straight-line method of depreciation. Donated equipment is recorded at fair market value and depreciated over the estimated useful lives of the assets. Depreciation expense for the year ending August 31, 2014 was \$53,608.

	<u>Balance</u> <u>8/31/2013</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Balance</u> <u>8/31/2014</u>
Property, furniture & equipment	\$ 426,943	\$ 12,500	\$ (18,633)	\$ 420,810
Vehicles	<u>103,890</u>	<u>32,738</u>	<u>-</u>	<u>136,628</u>
Total	530,833	45,238	(18,633)	557,438
Less: accumulated depreciation	<u>(385,463)</u>	<u>(53,608)</u>	<u>6,092</u>	<u>(432,979)</u>
Net book value	<u>\$ 145,370</u>	<u>\$ (8,370)</u>	<u>\$ (12,541)</u>	<u>\$ 124,459</u>

3. GRANTS RECEIVABLE

Amounts due from federal, state and other funding sources at August 31, 2014 are as follows:

<u>Source</u>		<u>Source</u>	
HOPWA	\$ 59,096	State HIV Services	\$ <u>82,537</u>
TCADA - HIV Outreach Services	46,084	Total state receivables	<u>82,537</u>
TCADA - HEI	41,976	Total grants receivable	<u>\$ 584,713</u>
Ryan White, Part B	191,889		
Ryan White, Part D	57,697	Other	\$ <u>65,851</u>
Ryan White, Part C	13,361	Total other receivables	<u>\$ 65,851</u>
SAMHSA	33,401		
HIV Prevention	35,556		
EBI	11,017		
AETC- Training	<u>12,099</u>		
Total federal receivables	502,176		

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. LEASE OBLIGATIONS

Valley AIDS Council, Inc. has leased its Harlingen, McAllen and Corpus Christi locations through various agreements expiring March 31, 2015, December 31, 2014 and March 1, 2016, respectively. The operating leases require minimum rental payments payable on a monthly basis. Valley AIDS Council is responsible for repair and maintenance costs on the leased properties. The lease payments for both Harlingen and McAllen offices include overhead and administrative costs of 25% of the monthly rental.

Commitments under operating lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2014, as follows:

Year Ended August 31,	
2015	\$ 238,364
2016	66,900
2017	66,900
2018	66,900
2019	<u>66,900</u>
Totals	<u>\$ 505,964</u>

The rental expense for the non-cancellable lease agreements included under Occupancy costs in the Statement of Function Expenses for the year ended August 31, 2014 is \$376,235.

5. CONTINGENT LIABILITIES

The Council receives a substantial amount of its support from federal, state and local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Council's programs and activities. These programs are subject to compliance audits by the grantor agencies or their representatives.

6. LIABILITY INSURANCE COVERAGE

The Council carries Director's and Officers' liability insurance in the amount of \$1,000,000; a professional liability insurance policy in the amount of \$1,000,000 for each medical incident and \$3,000,000 for aggregate losses; and a general liability insurance policy of \$2,000,000. Employees are bonded for \$100,000 for dishonesty.



P A T T I L L O , B R O W N & H I L L , L L P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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
Valley AIDS Council, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Valley AIDS Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2014, and the related statement of activities, and cash flows for the year ended, and related notes to the financial statements, and have issued our report thereon dated March 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley AIDS Council, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley AIDS Council, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Valley AIDS Council Inc.'s internal control over financial reporting.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. *Finding 2014-01*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley AIDS Council, 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 matters that we reported to management of Valley AIDS Council, Inc. in a separate letter dated March 20, 2015.

Organization's Response to Findings

Valley AIDS Council Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Valley AIDS Council Inc.'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.

Purpose of this Report

The purpose of this report is solely to describe the scope of testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the Valley AIDS Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Valley AIDS Council Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, C.P.

Brownsville, Texas
March 20, 2015



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

To the Board of Directors
Valley AIDS Council, Inc.

Report on Compliance for Each Major Federal Program

We have audited Valley AIDS Council, Inc. (a nonprofit organization) 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 Valley AIDS Council, Inc.'s major federal programs for the year ended August 31, 2014. Valley AIDS Council, Inc.'s 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 Valley AIDS Council, Inc.'s management. Our responsibility is to express an opinion on Valley AIDS Council, Inc.'s compliance based on our audit.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Valley AIDS Council Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley AIDS Council Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Valley AIDS Council, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion Valley AIDS Council, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. 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 *Finding 2014-02*.

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 *Finding 2014-02*. Our opinion on each major federal program is not modified with respect to these matters.

Valley AIDS Council Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Valley AIDS Council Inc.'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 Valley AIDS Council Inc.'s is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Valley AIDS Council Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley AIDS Council Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Patricia Brown Hill, C.P.

Brownsville, Texas
March 20, 2015

Valley AIDS Council, Inc.
Schedule of Expenditures of Federal and State Awards

For the Year Ended August 31, 2014

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
FEDERAL:			
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Texas Department of State Health Services:</i>			
HIV - HOPWA	14.241	021-3-13(14)	\$ 156,635
HIV - HOPWA	14.241	021-3-14(15)	<u>206,550</u>
Total CFDA 14.241			<u>363,185</u>
Total U.S. Department of Housing & Urban Development			<u>363,185</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Direct Programs:</i>			
Ryan White Part D (Youth)	93.153	H12HA-23051	376,022
Ryan White Part D (Youth)	93.153	H12HA-24840	<u>36,331</u>
Total CFDA 93.153			<u>412,353</u>
Outpatient Early Intervention (Ryan White Part C)	93.918	H76HA-00131-21	263,881
Outpatient Early Intervention (Ryan White Part C)	93.918	H76HA-00131-22	<u>651,371</u>
Total CFDA 93.918			<u>915,252</u>
Substance Abuse & Mental Health Services Administration (SAMHSA)	93.243	5U79SP015208-05	<u>31,736</u>
Total CFDA 93.243			<u>31,736</u>
Total Direct Programs			<u>1,359,341</u>
<i>Passed Through Parkland Health & Hospital Systems:</i>			
AETC - Grant Training	93.145	2710-SET	81,890
AETC - Grant Training	93.145	2710-SET	<u>12,098</u>
Total CFDA 93.145			<u>93,988</u>
<i>Passed Through Texas Department of State Health Services:</i>			
Ryan White Part B	93.924	021-1-13(14)	18,339
Ryan White Part B, HIV	93.924	021-1-13	924,915
Supplemental	93.924	021-1-13(14)	<u>33,401</u>
Total CFDA 93.924			<u>976,655</u>
<i>Passed Through Texas Department of State Health Services:</i>			
HIV Prevention Activities Health Department	93.940	2014-002538-001	295,048
HIV Prevention Activities Health Department	93.940	2014-043132-001	<u>188,535</u>
Total CFDA Number 93.940			<u>483,583</u>

Valley AIDS Council, Inc.
Schedule of Expenditures of Federal and State Awards

For the Year Ended August 31, 2014

Federal Grantor/ Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
HIV Outreach Services	93.959	2014-04462-001-SA/HIV	245,449
HIV Outreach Services	93.959	2014-044733-001-SA/HEI	<u>178,968</u>
Total CFDA 93.959			<u>424,417</u>
Total Passed Through Texas Department of State Health Service:			<u>1,884,655</u>
Total U.S. Department of Health and Human Services:			<u>1,978,643</u>
Total Expenditures of Federal Awards			<u>3,701,169</u>
STATE:			
State Services	-	021-2-13(14)	<u>251,350</u>
Total Expenditures of Federal and State Awards			<u>\$ 3,952,519</u>

Valley AIDS Council, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2014

1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of Valley AIDS Council, 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*.

Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The period of availability for federal and state funds for the purpose of liquidation of outstanding Department of Health and Human Services obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project ending date, in accordance with provisions in Section H., Period of Availability of Federal Funds, Part 3, OMB Circular Compliance Supplement.

Valley AIDS Council, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2014

I. Summary of Auditors' Results

Type of auditors' report on financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	No
Significant deficiency(s) identified that are not considered to be material weaknesses:	See <i>Finding 2014-01</i>
Noncompliance which is material to the financial statements:	No
Internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiency(s) identified that are not considered to be material weaknesses:	See <i>Finding 2014-02</i>
Type of auditors' report on compliance for major programs:	Unmodified
Any audit findings which are required to be reported in accordance with OMB Circular A-133, Sec. 510(a):	Yes
Identification of major programs:	
CFDA Numbers:	
93.924	Ryan White, Part B HIV - C&I
93.918	Ryan White, Part C
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Low risk auditee:	No

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

See Finding 2014-01

Valley AIDS Council, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2014

Reference No.

Findings/Noncompliance

Finding 2014-01

Criteria:

The Organization has been operating without a finance officer since June 2014. The staff, while trying to perform their duties to the best of their abilities, has been operating without effective and proper oversight and supervision.

Effect:

General ledger accounts have been out of balance or reflect incorrect information, numerous errors occurred because of the lack of supervision and financial information has not been prepared in a timely manner.

Recommendation:

We recommend the Organization hire a qualified finance officer.

Valley AIDS Council, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2014

III. Findings and Questioned Costs for Federal Awards

Major Programs: Ryan White, Part B HIV – C&I
Ryan White, Part C

Reference No. Findings/Noncompliance

Finding 2014-02 ***TIME & EFFORT REPORTS***

Criteria: The Organization failed to properly maintain time and effort records that identified the processes and forms that it would use to ensure compliance with the time and effort requirements promulgated in OMB Circular A-133. The Organization is required to address the allocation of payroll costs to federal awards based upon the actual time reported by each employee paid from a federal program.

Condition: During our testing of the major programs, we found several instances where the Organization did not properly document time and effort spent on each of the grants. Timesheets did not agree to the hours billed and requested for reimbursement from the granting agencies.

Questioned Cost: Questioned costs could not be quantified because the finding does not relate to a specific dollar amount.

Effect: The Organization was not in compliance with time and effort requirements.

Recommendation: We recommend the Organization ensures that the appropriate steps be taken to ensure employees properly document time and effort spent on the all grants.

Current Year Status: Status unchanged.

**Valley AIDS Council, Inc.
Schedule of Prior Year Findings
For the Year Ended August 31, 2014**

See *Finding 2014-02*.

Valley AIDS Council, Inc.
Corrective Action Plan
Year Ended August 31, 2014

Finding 2014-01

Responsible Party: CEO

Date to be completed: September 1, 2016

Corrective measures:

VAC's CFO resigned in June 2014. During the search for a qualified candidate, the accounting department was supervised by the CEO and work was reviewed by the Board Finance Committee.

After an extensive search, the position was filled on September 1, 2014. Both the current CFO and CEO have experience in accounting and recognized the deficiencies in the chart of accounts, use of batch entries and less than elegant methods of tracking transfers between accounts.

There was information that needed correction/adjustment as well as submission of information in less than a timely manner in some instances. All accounting staff received training with the accounting software on November 17-18, 2014. VAC will continue to develop accounting skills in the department through additional staff development training (to be completed by September 2016).

Corrective actions that the CEO and CFO had recognized as necessary were put on hold pending review by the current audit team, confirmation that these were the proper corrections and the contracting of either a CFO or outside consultants to provide additional professionalism and guidance to the department.

A second search for a CFO in February 2015 did not result in a more qualified candidate.

Valley AIDS Council, Inc.
Corrective Action Plan
Year Ended August 31, 2014

Finding 2014--02

Major Programs: Ryan White, Part B
Ryan White, Part C

Reference No. FindingsNoncompliance

Finding 2014-02:

Responsible Party: CFO

Date Completed: March 25, 2015

Corrective measures:

VAC's Comptroller ensures that all employees have a personal action form in personnel files that demonstrated what grant their time and effort.

If there is ever a change in which grant an employee is drawn from, the Comptroller will issue a new Personnel Action form demonstrating the change. All changes to personnel action (time and effort) will be approved by the CEO.

Personnel Action Forms are signed by the employee, Department Director, Comptroller and CEO. Employees will turn in time sheets with appropriate grant allocation demonstrated on the top of each time sheet.

Before time sheets are processed for payment, the Comptroller will check all time sheets against grant log for time and effort to make certain that all employees are being charged to the correct grants. If there are any discrepancies on time sheets by not showing correct grant allocations, the employee will be made aware and have them correct time sheet before payroll is processed. All Department Directors are given a grant log so they will know what grants their staff are drawn from so they may verify before signing time sheet.