

VALLEY AIDS COUNCIL, INC.

ANNUAL FINANCIAL REPORT

AUGUST 31, 2012

Valley AIDS Council, Inc.
Organizational Data
For the Fiscal Year 2011-2012

Board of Directors

James K. Judkins	Chairperson
Luis C. Mascorro	Vice-chairperson
Edward Cooley	Treasurer
Jordan Williams	Secretary
Elias Villarreal, Jr.	Member
Ruthie Ewers	Member
Hedwig Ann Green	Member
Diana Hernandez	Member
Esperanza Martin	Member
Jonathan J. Torrez	Member
Brad Fitch	Member
Jonathan Powers	Member
Miriam Luna	Member
Jeannette Flores	Member
Marisol Calderon	Member
Seth Rivera	Member
America Gonzalez	Member

Executive Director

Dean G. Hall

Finance Director

Alfredo Blanco

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Valley AIDS Council, Inc.
Annual Financial Report
August 31, 2012

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Cash Flows.....	4
Statement of Functional Expenses.....	5
Notes to Financial Statements.....	6 - 11
SINGLE AUDIT SECTION	
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12 - 13
Report on Compliance with Requirements Applicable To Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	14 - 15
Schedule of Findings and Questioned Costs.....	16 - 17
Schedule of Prior Year Findings.....	18
Corrective Action Plan.....	19
Schedule of Expenditures of Federal and State Awards.....	20 - 21
Notes to Schedule of Expenditures of Federal and State Awards.....	22

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Valley AIDS Council, Inc., (a non-profit organization) as of August 31, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Valley AIDS Council Inc.'s management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

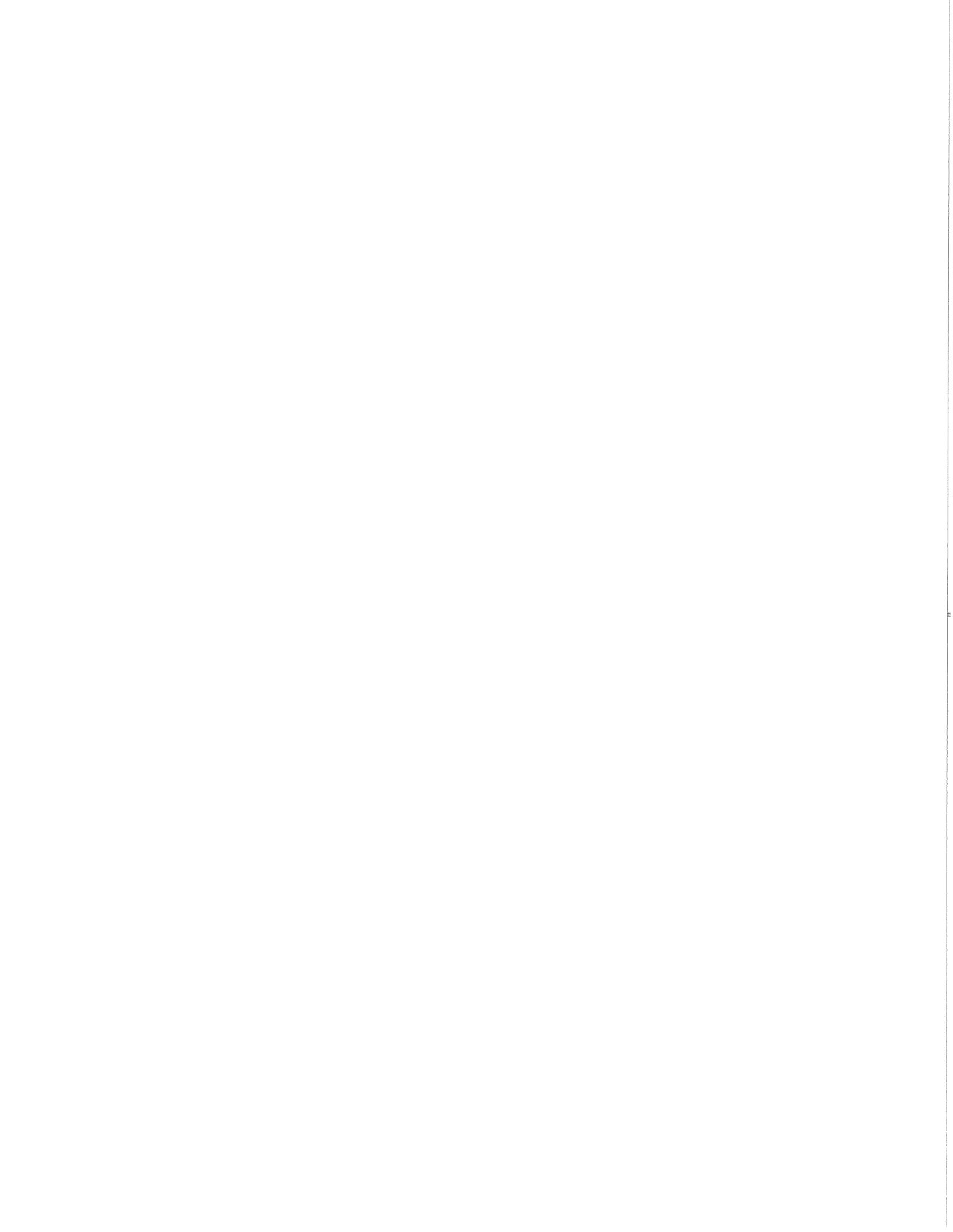
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley AIDS Council, Inc., as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2013, on our consideration of Valley AIDS Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Valley AIDS Council, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 taken as a whole.

Pattillo, Brown & Hill, C.P.A.

May 22, 2013



FINANCIAL SECTION

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Valley AIDS Council, Inc.
Statement of Financial Position
Year Ended August 31, 2012

(With comparative information at August 31, 2011)

	2012	2011
Assets:		
Cash	\$ -	\$ 170,126
Accounts receivable:		
Grants	547,824	492,864
Other	76,481	24,809
Patients (net of allowance for doubtful accounts of \$406,341 & \$346,802 in 2012 & 2011, respectively)	343,080	302,124
Prepaid expenses	7,594	2,190
Property, equipment and improvements - net	220,635	280,600
Other assets	3,454	3,054
	<u>\$ 1,199,068</u>	<u>\$ 1,275,767</u>
 Total Assets		
	<u>\$ 1,199,068</u>	<u>\$ 1,275,767</u>
 Liabilities and Net Assets:		
 Bank overdraft	\$ 139,281	\$ -
Accounts payable	202,639	174,254
Accrued expenses	87,364	137,460
Accrued vacation	137,463	96,567
Line of credit	80,353	83,816
Other liabilities	675	-
Total Liabilities	<u>647,775</u>	<u>492,097</u>
 Net Assets:		
Unrestricted	541,293	773,670
Temporarily restricted	10,000	10,000
Total Net Assets	<u>551,293</u>	<u>783,670</u>
 Total Liabilities and Net Assets	<u>\$ 1,199,068</u>	<u>\$ 1,275,767</u>

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

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Valley AIDS Council, Inc.
Statement of Activities
Year Ended August 31, 2012

(With comparative information for the year ended August 31, 2011)

	Unrestricted	Temporarily Restricted	Totals (Memorandum Only)	
			2012	2011
Revenues and Other Support:				
Contributions	\$ 2,425	\$ -	\$ 2,425	\$ 12,306
Federal grants	3,633,280	-	3,633,280	4,976,452
State grants	283,009	-	283,009	285,756
Fundraisers	5,553	-	5,553	7,212
Foundation	75,105	-	75,105	61,058
Interest income	152	-	152	336
Patient fees	199,748	-	199,748	317,016
Clinical trials	111,676	-	111,676	82,576
340B Income	485,661	-	485,661	-
Other income	96,425	-	96,425	25,245
Total revenues and other support	<u>4,893,034</u>	<u>-</u>	<u>4,893,034</u>	<u>5,767,957</u>
Expenses and Other Losses:				
Program services:				
Health care assistance	2,737,365	-	2,737,365	3,560,723
Housing assistance	347,986	-	347,986	585,205
Substance abuse services	344,118	-	344,118	472,235
Substance abuse treatment	36,300	-	36,300	48,315
Education	746,530	-	746,530	876,713
Planning and training	64,517	-	64,517	67,974
Total program services	<u>4,276,816</u>	<u>-</u>	<u>4,276,816</u>	<u>5,611,165</u>
Support services:				
Management and general	817,779	-	817,779	259,150
Fundraising	2,410	-	2,410	3,454
Total support services	<u>820,189</u>	<u>-</u>	<u>820,189</u>	<u>262,604</u>
Total expenses and other losses	<u>5,097,005</u>	<u>-</u>	<u>5,097,005</u>	<u>5,873,769</u>
Change in net assets	(203,971)	-	(203,971)	(105,812)
Net assets, beginning of year	773,670	10,000	783,670	889,482
Prior period adjustment	<u>(28,406)</u>	<u>-</u>	<u>(28,406)</u>	<u>-</u>
Net assets, ending of year	<u>\$ 541,293</u>	<u>\$ 10,000</u>	<u>\$ 551,293</u>	<u>\$ 783,670</u>

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

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Valley AIDS Council, Inc.
Statement of Cash Flows
Year Ended August 31, 2012

(With comparative information for the year ended August 31, 2011)

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ (203,971)	\$ (105,812)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	66,965	49,474
Prior period adjustment	(28,406)	-
(Increase) decrease in accounts receivable	(106,632)	143,111
(Increase) decrease in patient receivables	(40,956)	2,286
(Increase) decrease in prepaid expenses	(5,404)	23,991
(Increase) in other assets	(400)	-
Increase in accounts payable	28,385	61,747
Increase (decrease) in accrued expenses	(50,096)	7,760
Increase (decrease) in accrued vacation payable	40,896	(15,423)
Increase (decrease) deferred revenue	675	(18,116)
Net Cash Provided (Used) by Operations	(298,944)	149,018
Cash Flow From Financing Activities:		
Purchase of equipment	(7,000)	(193,632)
Disposal of capital assets	-	-
Net Cash Used by Financing Activities	(7,000)	(193,632)
Cash Flow From Investment Activities:		
Proceeds from lines of credit	201,015	1,436,098
Payments on line of credit	(204,478)	(1,352,282)
Net Cash Provided (Used) by Investing Activities	(3,463)	83,816
Net increase (decrease) in cash and cash equivalents	(309,407)	39,202
Cash and cash equivalents at beginning of year	170,126	130,924
Cash and cash equivalents (overdraft) at end of the year	\$ (139,281)	\$ 170,126

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

Valley AIDS Council, Inc.
Statement of Functional Expenses
Year Ended August 31, 2012

(With comparative information for the year ended August 31, 2011)

	Program Services					
	Health Care Assistance	Housing Assistance	Substance Abuse	Substance Abuse Treatment	Education	Planning & Training
Salaries	\$ 1,563,107	\$ 53,212	\$ 231,904	\$ 28,648	\$ 473,980	\$ 36,779
Fringe benefits	303,127	9,225	49,611	6,878	76,192	9,143
Travel	25,223	3,959	14,326	754	19,146	3,576
Supplies	33,579	3,065	10,885	10	24,312	156
Contractual	35,846	257	1,258	-	51,982	-
Specific assistance	498,027	275,464	-	-	5,026	-
Client transportation	26,761	-	-	-	11,100	-
Pharmacy	51,759	-	-	-	-	-
Medical waste	2,250	-	-	-	-	-
Quality assurance	960	-	-	-	-	-
Food pantry	12,327	-	-	-	-	-
Advertising	505	-	-	-	19,039	-
Dues and subscriptions	10,288	5	10	-	67	-
Rentals	10,056	157	1,697	9	5,980	-
Insurance	29,396	41	278	-	1,037	-
Postage	1,439	112	215	-	450	266
Duplication/reproduction	-	-	443	-	6,624	172
Occupancy costs	55,059	1,049	10,267	-	13,732	-
Telephone	23,257	326	8,279	1	19,321	-
Utilities	15,600	212	4,056	-	5,021	-
Repairs and maintenance	6,568	-	4,522	-	4,010	1
Services	9,174	-	2,825	-	4,492	-
Training	1,592	346	974	-	971	14,424
Bank and interest charges	-	-	-	-	-	-
Miscellaneous	21,465	556	2,568	-	4,048	-
Bad debt expense	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Total expenses	<u>\$ 2,737,365</u>	<u>\$ 347,986</u>	<u>\$ 344,118</u>	<u>\$ 36,300</u>	<u>\$ 746,530</u>	<u>\$ 64,517</u>

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

Total Program Expenses	Support Services			Totals (Memorandum Only)	
	Management & General	Fundraising	Total Support Services	2012	2011
	\$ 2,387,630	\$ -	\$ -	\$ -	\$ 2,387,630
454,176	-	-	-	454,176	581,676
66,984	24,213	-	24,213	91,197	163,210
72,007	26,553	129	26,682	98,689	130,239
89,343	9,392	-	9,392	98,735	214,439
778,517	-	-	-	778,517	884,028
37,861	2,409	-	2,409	40,270	53,451
51,759	-	-	-	51,759	115,098
2,250	-	-	-	2,250	29,043
960	-	-	-	960	11,140
12,327	-	-	-	12,327	18,483
19,544	-	-	-	19,544	21,638
10,370	42,105	-	42,105	52,475	31,405
17,899	-	-	-	17,899	25,057
30,752	-	-	-	30,752	116,193
2,482	4,968	-	4,968	7,450	9,079
7,239	4,737	-	4,737	11,976	18,465
80,107	-	-	-	80,107	212,599
51,184	21,503	-	21,503	72,687	95,468
24,889	-	-	-	24,889	48,776
15,101	-	-	-	15,101	77,226
16,491	-	-	-	16,491	29,440
18,307	11,193	-	11,193	29,500	57,860
-	-	-	-	-	8,396
28,637	484,661	2,281	486,942	515,579	60,718
-	119,080	-	119,080	119,080	135,627
-	66,965	-	66,965	66,965	49,474
<u>\$ 4,276,816</u>	<u>\$ 817,779</u>	<u>\$ 2,410</u>	<u>\$ 820,189</u>	<u>\$ 5,097,005</u>	<u>\$ 5,873,769</u>

Valley AIDS Council, Inc.
Notes to Financial Statements
August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Valley AIDS Council, Inc. 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.

Basis of Accounting

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.

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

For purposes of the statement of cash flows, 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Equipment, and Improvements

It is the Organization'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 straight-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 Organization 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 Organization 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Grants (Continued)

A contribution, in the prior year, of \$10,000 from Amigo Home Health for a web-based outreach initiative was temporarily restricted at August 31, 2012. There were no permanently restricted contributions at August 31, 2012. Grants are considered to be exchange transactions. Accordingly, revenue is recognized as the related expenses are incurred.

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.

Income Tax Status

The Organization 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. There was no unrelated business income for fiscal year 2012.

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 data.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. CASH

Valley AIDS Council, Inc.'s deposits are in one financial institution and are carried at cost. At August 31, 2012 the carrying amount of the Council's deposits was \$(139,281) and the bank balance was \$165,995. Deposits at August 31, 2012 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, 2012 was \$66,965.

	Balance 8/31/2011	Additions	Deletions	Balance 8/31/2012
Property, furniture & equipment	\$ 582,515	\$ 7,000	\$ (100,403)	\$ 489,112
Vehicles	122,888	-	-	122,888
Total	705,403	7,000	(100,403)	612,000
Less: accumulated depreciation	(424,803)	(66,965)	100,403	(391,365)
Net book value	<u>\$ 280,600</u>	<u>\$ (59,965)</u>	<u>\$ -</u>	<u>\$ 220,635</u>

3. GRANTS RECEIVABLE

Amounts due from federal, state and other funding sources at August 31, 2012 are as follows:

Source		Source	
HOPWA	\$ 32,440	State HIV Services	\$ 33,015
TCADA - HIV Outreach Services	49,052	Total state receivables	33,015
TCADA - Youth Prevention Universal	14,666	Total grants receivable	<u>\$ 547,824</u>
TCADA - Youth Prevention Indicated	3,900		
Ryan White Part D - UTSA	37,839	Other	\$ 76,481
Ryan White Part B	185,777	Total other receivables	<u>\$ 76,481</u>
Ryan White IV (Direct)	37,785		
Ryan White Part C	25,150		
CDBG	31		
CDBG (HPRP)	4,859		
SAMHSA	44,922		
HIV Prevention	40,796		
AETC	12,234		
EBI	16,099		

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. REVOLVING LINE OF CREDIT

Valley AIDS Council, Inc. has a \$100,000 unsecured revolving line of credit, of which \$19,647 was unused at August 31, 2012. Bank advances on the line of credit carry an interest rate of 2% over the Wall Street Journal prime rate ranging from 6.5% to 18.00%. The revolving line of credit renewed on May 07, 2012.

5. LEASE OBLIGATIONS

Valley AIDS Council, Inc. has leased its Harlingen, McAllen and Corpus Christi locations through various non-cancellable agreements expiring March 31, 2021, December 31, 2014 and January 31, 2014, 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, 2012, as follows:

Year Ended August 31,	
2013	194,604
2014	153,785
2015	153,785
2016	153,785
2017	153,785
Thereafter	<u>384,175</u>
Totals	<u>\$ 1,193,919</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, 2012 is \$80,107.

6. EMPLOYEE PENSION PLAN

The Board of Directors adopted a simplified employee pension plan for employees of the Council. Wachovia Securities administers the plan where funds are invested in flexible annuities. Provisions of the plan call for an employer contribution rate of 3.7% of compensation during 2012. Employees become fully vested after six months. Pension expense for the fiscal year ended August 31, 2012 totaled \$27,324.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. CONTINGENCIES

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.

8. 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.

9. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures during the reporting period. Actual results could differ from those estimates.

10. LITIGATION

Management has represented that there is no litigation pending against the Council.

11. PRIOR PERIOD ADJUSTMENT

The Organization made a prior period adjustment to fund balance in the amount of \$28,406 for expenditures that were not recorded in prior year and clearing out abnormal balances.

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SINGLE AUDIT SECTION

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

**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 the financial statements of Valley AIDS Council, Inc. (a nonprofit organization) as of and for the year ended August 31, 2012, and have issued our report thereon dated May 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

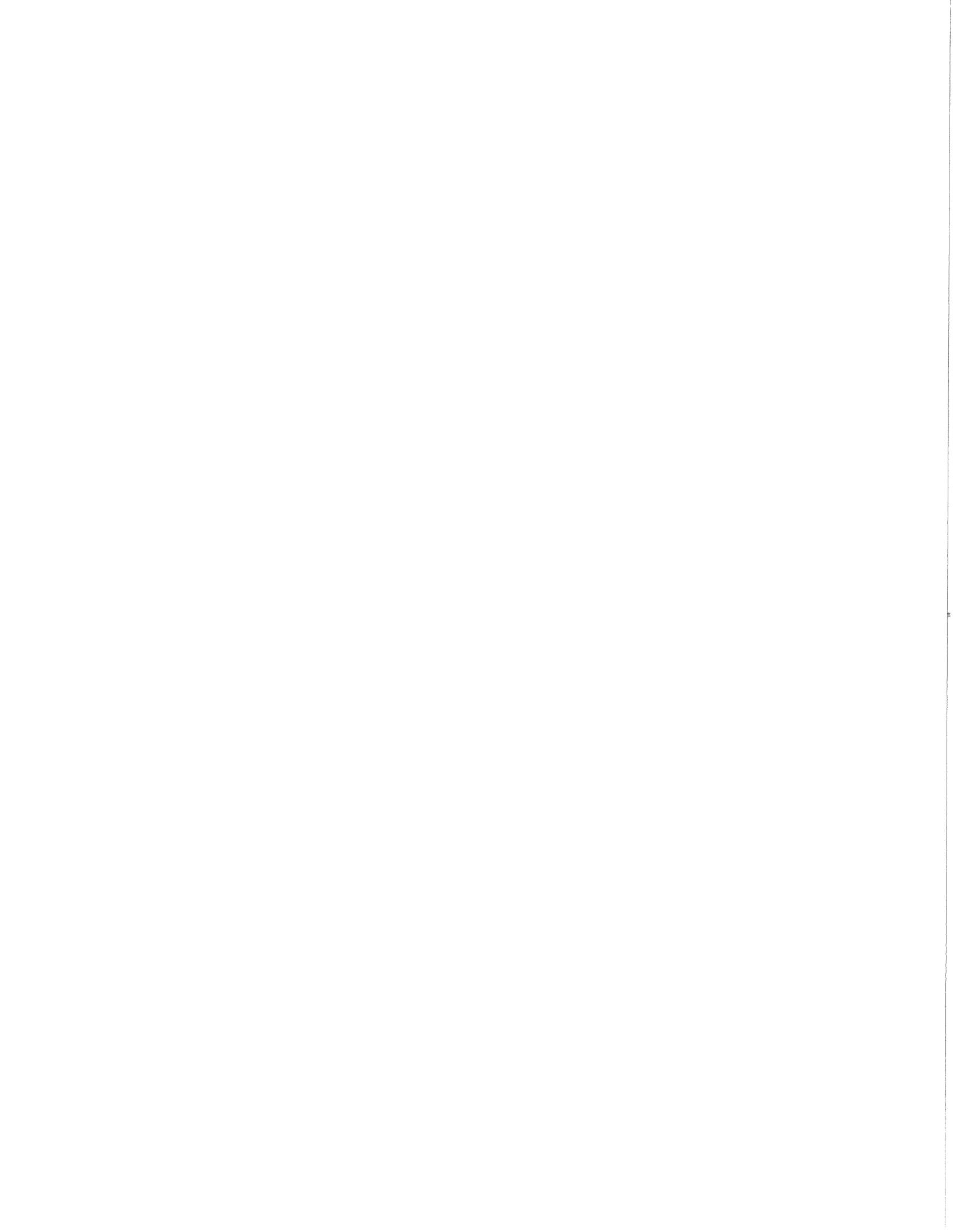
Management of Valley AIDS Council, Inc. is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Valley AIDS Council, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Valley AIDS Council, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

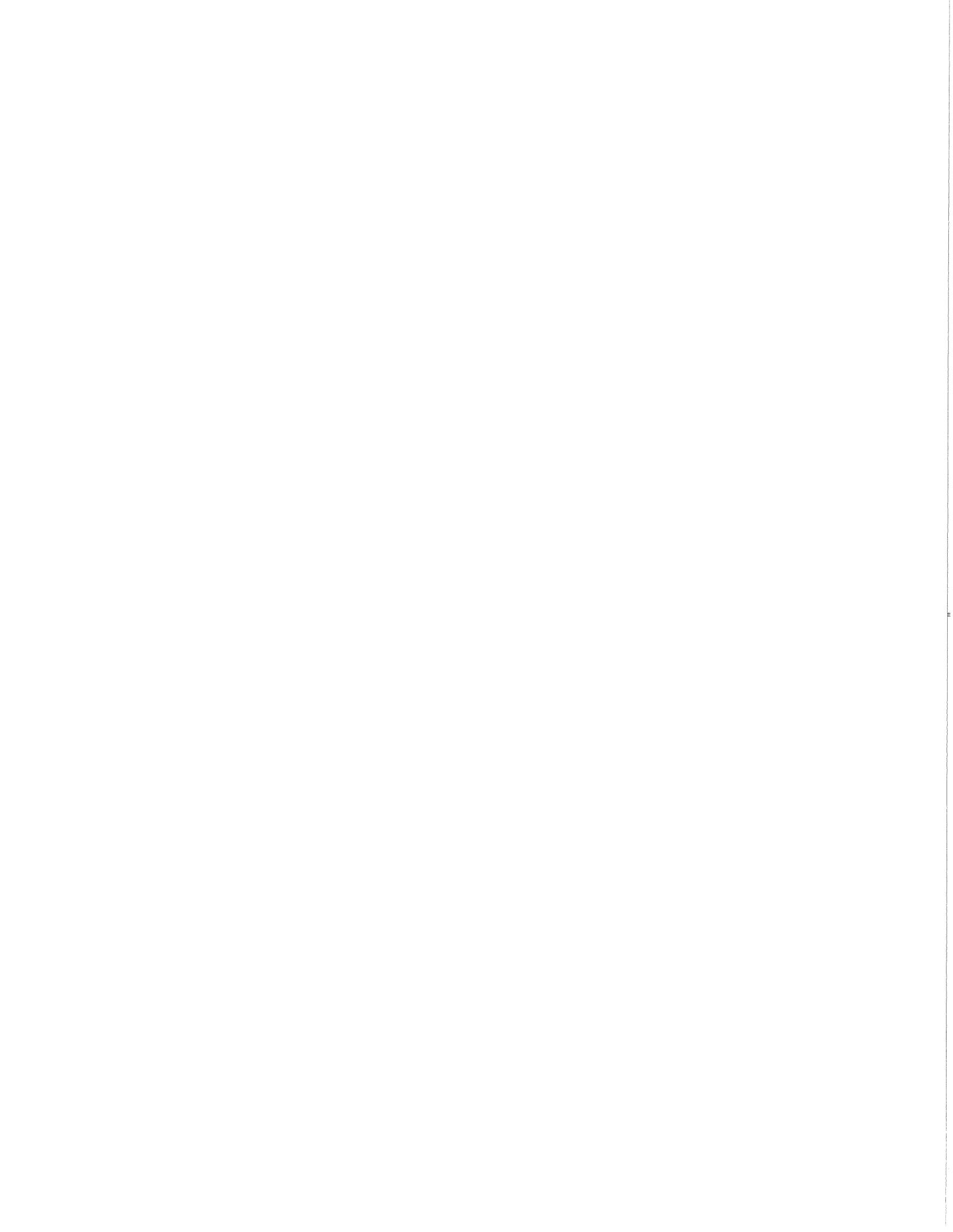


We noted certain matters that we reported to management of Valley AIDS Council, Inc. in a separate letter dated May 22, 2013.

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

Pattillo, Bron Hill, C.P.

May 22, 2013





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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors
Valley AIDS Council, Inc.

Compliance

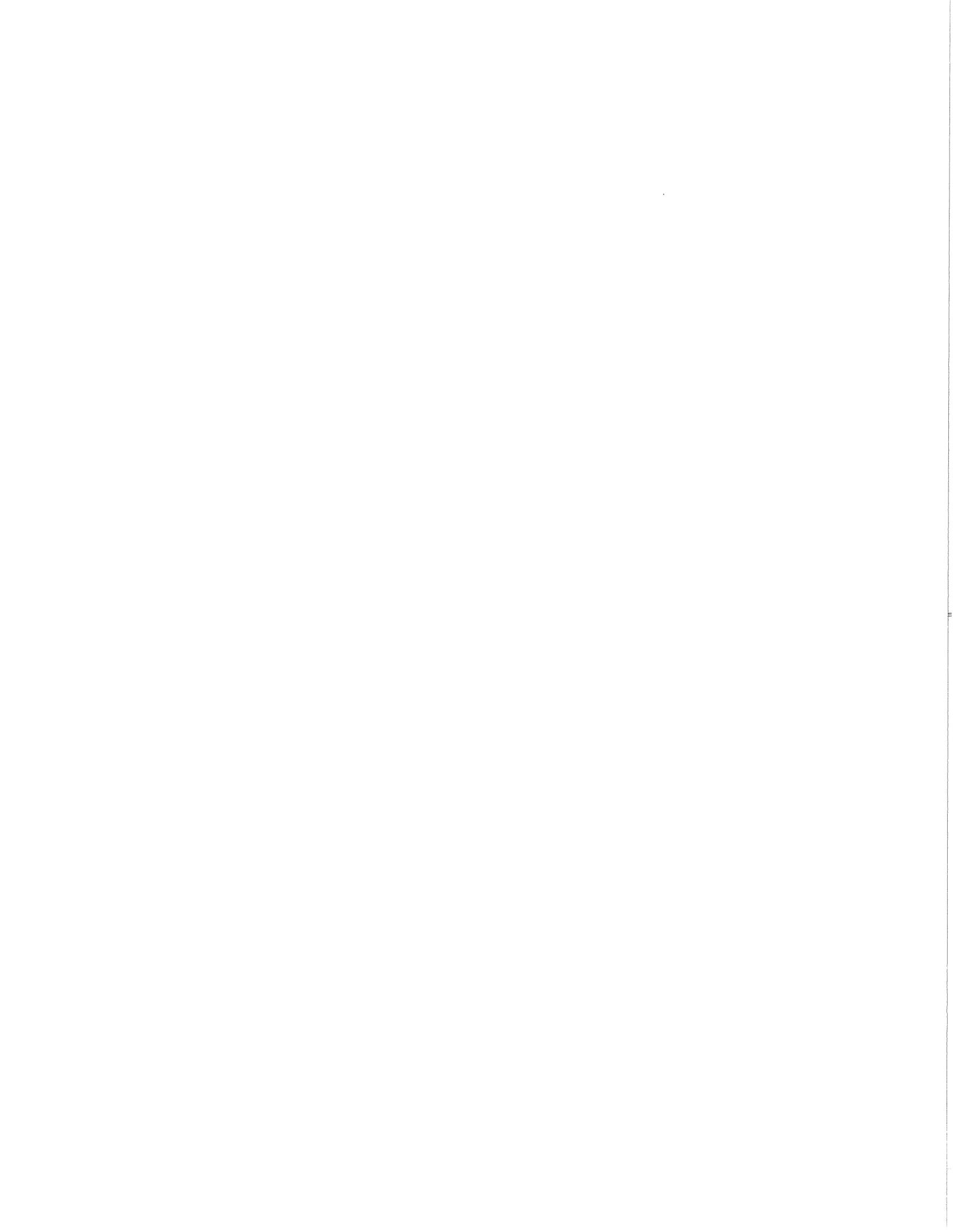
We have audited the compliance of Valley AIDS Council, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Valley AIDS Council, Inc.'s major federal programs for the year ended August 31, 2012. 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.

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. Our audit does not provide a legal determination of Valley AIDS Council, Inc.'s compliance with those requirements.

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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 12-01.

Internal Control Over Compliance

Management of Valley AIDS Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valley AIDS Council, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in



accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

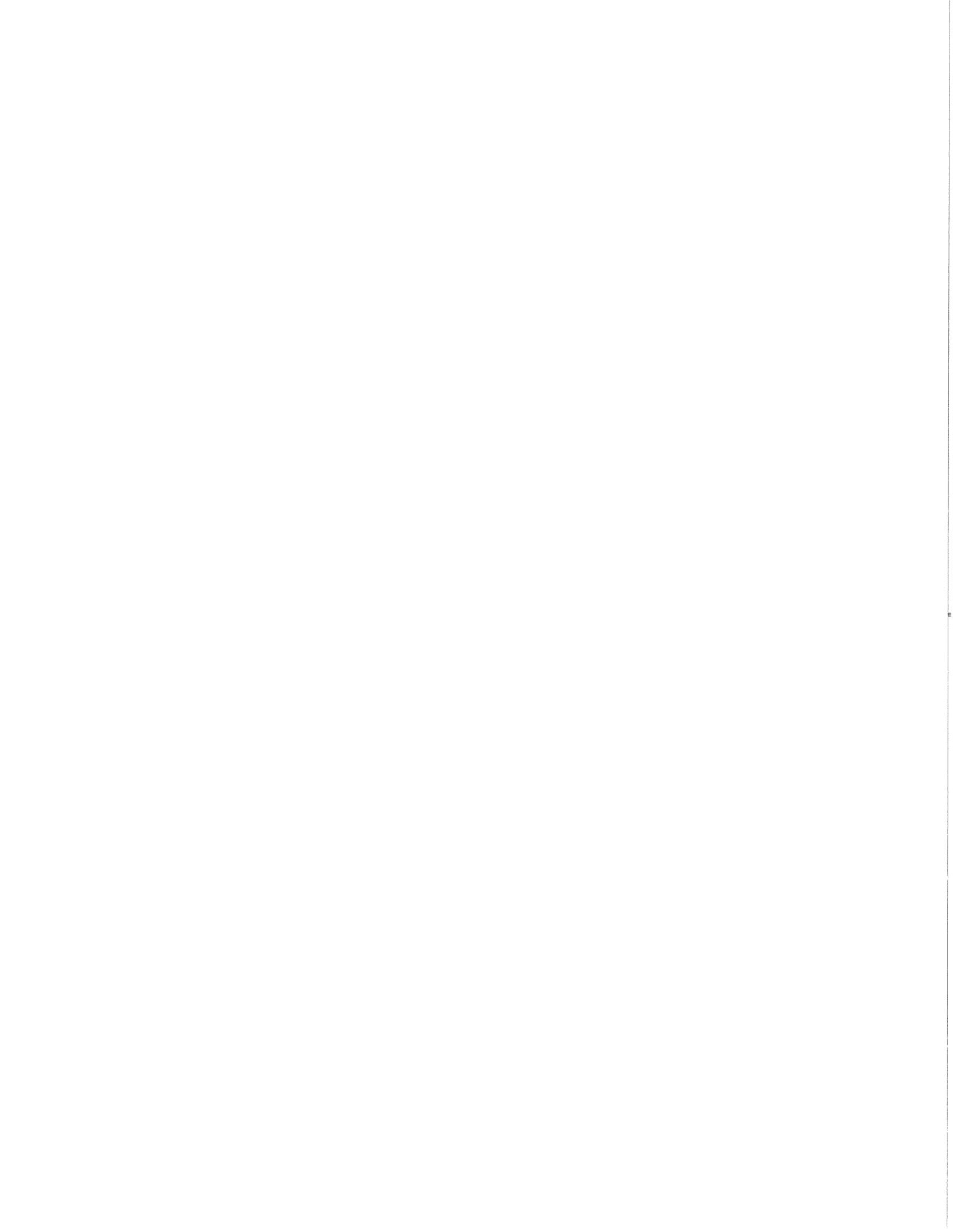
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did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

Valley Aids Council Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Valley Aids Council Inc.'s responses and, accordingly, we express no opinion on the responses.

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



May 22, 2013



Valley AIDS Council, Inc.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2012

I. Summary of Auditors' Results

- | | |
|--|---|
| a. Type of auditors' report on financial statements: | Unqualified |
| b. Regarding internal control over financial reporting:
Material weakness(es) identified: | No |
| Significant deficiency(s) identified that are not considered
to be material weaknesses: | No |
| c. Noncompliance which is material to the financial statements: | No |
| d. Regarding internal control over major programs:
Material weakness(es) identified: | No |
| Significant deficiency(s) identified that are not considered
to be material weaknesses: | Yes |
| e. Type of auditors' report on compliance for major programs: | Unqualified |
| f. Any audit findings which are required to be reported in
accordance with OMB Circular A-133, Sec. 510(a): | Yes |
| g. Major federal programs include: | Housing Opportunity for Persons with AIDS
CFDA 14.241
Ryan White, Part B HIV - C&I
CFDA 93.917
Ryan White, Part D
CFDA 93.153
Substance Abuse Prevention and Treatment
CFDA 93.959 |
| h. Dollar threshold used to distinguish between Type A and
Type B programs: | \$300,000 |
| i. 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**

None reported.

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Valley AIDS Council, Inc.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2012

III. Findings and Questioned Costs for Federal Awards

Major Programs:	Ryan White, Part B HIV - C&I Ryan White, Part D Substance Abuse & Mental Health Services Administration
<u>Reference No.</u>	<u>Findings/Noncompliance</u>
<i>Finding 12-01</i>	<i>TIME & EFFORT REPORTS</i>
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 that the Organization ensure that the appropriate steps be taken to ensure employees properly document time and effort spent on all grants.

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**Valley AIDS Council, Inc.
Schedule of Prior Year Findings
Year Ended August 31, 2012**

Findings and Questioned Costs

None reported.

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**Valley AIDS Council, Inc.
Corrective Action Plan
Year Ended August 31, 2012**

Finding 12-01:

Major Programs: Ryan White, Part B HIV - C&I
Ryan White, Part D
Substance Abuse & Mental Health Services Administration

Reference No. Findings /Noncompliance

Finding 12-01 TIME & EFFORT REPORTS

Corrective measures: The Organization will create new time sheets for each employee, each timesheet listing the specific Grant allocation percentage at the top for the employee. This timesheet will be placed on a secure employee site by the Grants Manager/Comptroller; only the Grants Manager/Comptroller will have access to change the percentage on the employee's account/timesheet.

The employee can access their timesheet through their user name and password created by them, thus ensuring that the proper time and effort is expended by personnel. The employee's signature will be on file and a box to check with the language: "This Document is considered signed and dated by clicking and sending the document to their supervisor." Once the supervisor receives the timesheets, they will be responsible for checking over each time sheet, signing it, and forwarding it to Human Resources for processing.

The Grants Manager/Comptroller will be responsible for implementing this corrective measure; it will be implemented on or before June 30, 2013.

Responsible Party: Lizette Saenz

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Valley AIDS Council, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2012

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
FEDERAL:			
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through City of McAllen:</i>			
Community Development Block Grant	14.218	-	\$ 13,014
Total CFDA Number 14.218			<u>13,014</u>
 <i>Passed Through Texas Department of State Health Services:</i>			
HIV - HOPWA	14.241	021-3-11(12)	160,606
HIV - HOPWA	14.241	021-3-12(13)	<u>169,418</u>
Total CFDA Number 14.241			<u>330,024</u>
 Total U.S. Department of Housing & Urban Development			<u>343,038</u>
 U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Direct Programs:</i>			
Ryan White Part D (Youth)	93.153	5H12HA-23051	258,260
Total CFDA 93.153			<u>258,260</u>
 Outpatient Early Intervention (Ryan White Part C)	93.918	H76HA-00131	182,806
Outpatient Early Intervention (Ryan White Part C)	93.918	H76HA00131	<u>614,818</u>
Total CFDA 93.918			<u>797,624</u>
 Substance Abuse & Mental Health Services Administration	93.243	5U79-SP015208-04	22,968
Substance Abuse & Mental Health Services Administration	93.243	5U79-SP013208-04	<u>294,779</u>
Total CFDA 93.243			<u>317,747</u>
 Total Direct Programs			<u>1,373,631</u>
 <i>Passed Through Parkland Health & Hospital Systems:</i>			
AETC - Grant Training	93.145	-	51,845
AETC - Grant Training	93.145	-	<u>10,676</u>
Total CFDA 93.145			<u>62,521</u>
 <i>Passed Through Texas Department of State Health Services:</i>			
Ryan White Part B, HIV	93.917	021-01-11(12)	470,728
Ryan White Part B, HIV	93.917	021-01-12(13)	443,056
Ryan White Part B, HIV	93.917	022-01-12(13)	10,371
Ryan White Part B, HIV	93.917	022-01-11(12)	<u>9,308</u>
Total CFDA Number 93.917			<u>933,463</u>
 <i>Passed Through Texas Department of State Health Services:</i>			
HIV Prevention Activities_Health Department (B)	93.940	2011-037645	32,021
HIV Prevention Activities_Health Department (B)	93.940	2011-037645	43,137
HIV Prevention Activities_Health Department (B)	93.940	2011-037645	30,591
HIV Prevention Activities_Health Department (B)	93.940	2012-0404031	70,414
HIV Prevention Activities_Health Department (B)	93.940	2012-0404031	107,863
HIV Prevention Activities_Health Department (B)	93.940	2012-0404431	<u>86,268</u>
Total CFDA Number 93.940			<u>370,294</u>

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Valley AIDS Council, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2012

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Texas Department of State Health Services-DSHS TRA	93.959	2012-038828-01-001	181,777
Texas Department of State Health Services-DSHS TRY	93.959	2012-039014-001	222,242
Block Grants for Prevention and Treatment of Substance Abuse (A)	93.959	2012-038855-001	<u>65,946</u>
Total CFDA 93.959			<u>469,965</u>
 Total Passed Through Texas Department of State Health Services			 <u>1,773,722</u>
 <i>Passed Through The Univeristy of Texas Health Science Center:</i>			
Ryan White, Part D (WICY)	93.153	.51097 & 151440 RWIV (WICY)	<u>80,368</u>
Total CFDA 93.153			<u>80,368</u>
 Total U.S. Department of Health and Human Services			 <u>1,836,243</u>
 Total Expenditures of Federal Awards			 <u>3,633,280</u>
 STATE:			
TEXAS DEPARTMENT OF STATE HEALTH SERVICES			
<i>Passed Through South Texas Development Council:</i>			
State Services	-	021-2-1-11(12)	<u>283,009</u>
 Total Expenditures of Federal and State Awards			 \$ <u>3,916,289</u>

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Valley AIDS Council, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
August 31, 2012

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.

(Last page.)