

AIDS Resource Center Ohio, Inc. and Subsidiaries

Consolidated Financial Statements
June 30, 2014 and 2013
(with Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
AIDS Resource Center Ohio, Inc. and Subsidiaries

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AIDS Resource Center Ohio, Inc. and Subsidiaries (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 statements contained in the *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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4449 easton way, 4th floor
columbus, oh 43219

www.cshco.com
p. 614.885.2208
f. 614.885.8159

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIDS Resource Center Ohio, Inc. and Subsidiaries as of June 30, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 February 23, 2015, on our consideration of AIDS Resource Center Ohio, Inc. and Subsidiaries' 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 AIDS Resource Center Ohio, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Adjustments to Prior Period Consolidated Financial Statements

The consolidated financial statements of AIDS Resource Center Ohio, Inc. and Subsidiaries as of June 30, 2013, were audited by other auditors whose opinion dated February 18, 2014, on those statements was unmodified. As discussed in Note 13, the Organization has restated its June 30, 2013 consolidated financial statements during the current year to correct an error and to apply appropriate revenue recognition procedures, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2013 consolidated financial statements before the restatement.

As part of our audit of the 2014 consolidated financial statements, we also audited adjustments described in Note 13 that were applied to restate the 2013 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 consolidated financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 consolidated financial statements as whole.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
February 23, 2015

AIDS Resource Center Ohio, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2014 and 2013

| Assets | 2014 | 2013 |
|---|--------------|-----------|
| Current assets: | | |
| Cash: | | |
| Unrestricted | \$ 264,387 | 534,699 |
| Restricted | 202,818 | 200,000 |
| Investments | 2,351 | 12,868 |
| Beneficial interest in assets held by others | 111,296 | 111,117 |
| Receivables: | | |
| Accounts receivable, net of allowance of \$31,214 and \$16,201, respectively | 1,691,872 | 430,347 |
| Grants receivable | 1,430,834 | 795,931 |
| Contributions receivable, current portion | 478,029 | 308,669 |
| Inventories | 396,082 | 165,944 |
| Prepaid expenses | 49,741 | 35,847 |
| | 4,627,410 | 2,595,422 |
| Property and equipment: | | |
| Computers and equipment | 405,847 | 378,365 |
| Furniture and fixtures | 329,443 | 274,648 |
| Leasehold improvements | 876,441 | 582,206 |
| | 1,611,731 | 1,235,219 |
| Less accumulated depreciation | 592,049 | 445,772 |
| | 1,019,682 | 789,447 |
| Other assets - | | |
| Contributions receivable, less current portion | 39,974 | - |
| | \$ 5,687,066 | 3,384,869 |

See accompanying notes to the consolidated financial statements.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Consolidated Statements of Financial Position (continued)
June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|------------------|
| Current liabilities: | | |
| Lines of credit | \$ 374,661 | 130,626 |
| Accounts payable | 1,296,997 | 548,555 |
| Accrued expenses | 542,144 | 180,238 |
| Current portion of long-term debt | 77,858 | 37,907 |
| Unearned revenue | <u>5,899</u> | <u>-</u> |
| | <u>2,297,559</u> | <u>897,326</u> |
| Other liabilities - | | |
| Long-term debt, net of current portion | <u>895,997</u> | <u>688,368</u> |
| Net assets: | | |
| Unrestricted | 2,409,651 | 1,791,453 |
| Temporarily restricted | <u>83,859</u> | <u>7,722</u> |
| | <u>2,493,510</u> | <u>1,799,175</u> |
| | <u>\$ 5,687,066</u> | <u>3,384,869</u> |

See accompanying notes to the consolidated financial statements.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013

| | 2014 | | | 2013 | | |
|---|---------------------|---------------------------|-------------------|-------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Government Support Revenues: | | | | | | |
| HOPWA | \$ 1,845,420 | - | 1,845,420 | - | 1,500,547 | 1,500,547 |
| ODH \ Ryan White Part B | 2,999,880 | - | 2,999,880 | - | 2,402,904 | 2,402,904 |
| Other programs | <u>2,319,713</u> | <u>27,369</u> | <u>2,347,082</u> | <u>-</u> | <u>1,385,873</u> | <u>1,385,873</u> |
| | <u>7,165,013</u> | <u>27,369</u> | <u>7,192,382</u> | <u>-</u> | <u>5,289,324</u> | <u>5,289,324</u> |
| Other Revenues: | | | | | | |
| Individual donations | 841,707 | - | 841,707 | 564,953 | - | 564,953 |
| Corporations and foundations | - | 530,021 | 530,021 | - | 581,810 | 581,810 |
| Special events | 938,468 | - | 938,468 | 1,026,606 | - | 1,026,606 |
| Medical income | 943,034 | - | 943,034 | 335,750 | - | 335,750 |
| Pharmacy income | 9,055,698 | - | 9,055,698 | 2,090,002 | - | 2,090,002 |
| In-kind donations | 175,770 | 56,490 | 232,260 | 215,148 | - | 215,148 |
| Other | <u>59,661</u> | <u>-</u> | <u>59,661</u> | <u>2,111</u> | <u>-</u> | <u>2,111</u> |
| | <u>12,014,338</u> | <u>586,511</u> | <u>12,600,849</u> | <u>4,234,570</u> | <u>581,810</u> | <u>4,816,380</u> |
| Release of restricted contributions | <u>537,743</u> | <u>(537,743)</u> | <u>-</u> | <u>5,874,134</u> | <u>(5,874,134)</u> | <u>-</u> |
| | <u>19,717,094</u> | <u>76,137</u> | <u>19,793,231</u> | <u>10,108,704</u> | <u>(3,000)</u> | <u>10,105,704</u> |
| Expenses: | | | | | | |
| Program services | 17,302,849 | - | 17,302,849 | 9,262,335 | - | 9,262,335 |
| Management and general | 622,112 | - | 622,112 | 341,953 | - | 341,953 |
| Fundraising and special events | <u>1,173,935</u> | <u>-</u> | <u>1,173,935</u> | <u>703,188</u> | <u>-</u> | <u>703,188</u> |
| | <u>19,098,896</u> | <u>-</u> | <u>19,098,896</u> | <u>10,307,476</u> | <u>-</u> | <u>10,307,476</u> |
| Change in net assets | 618,198 | 76,137 | 694,335 | (198,772) | (3,000) | (201,772) |
| Net assets - beginning of year, as restated | <u>1,791,453</u> | <u>7,722</u> | <u>1,799,175</u> | <u>1,990,225</u> | <u>10,722</u> | <u>2,000,947</u> |
| Net assets - end of year | <u>\$ 2,409,651</u> | <u>83,859</u> | <u>2,493,510</u> | <u>1,791,453</u> | <u>7,722</u> | <u>1,799,175</u> |

See accompanying notes to the consolidated financial statements.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2014

| | Program Services | | | Support Services | | | Total |
|----------------------------|---------------------|----------------------------------|---------------|-----------------------------|------------------------|--------------------------------|-------------------|
| | Client Services | Public Education and Information | Public Policy | Medical Center and Pharmacy | Management and General | Fundraising and Special Events | |
| Salaries | \$ 2,926,323 | 589,619 | 17,272 | 1,380,020 | 299,309 | 396,569 | 5,609,112 |
| Employee benefits | 530,376 | 143,255 | 101 | 194,288 | 65,250 | 53,557 | 986,827 |
| Payroll taxes | 224,063 | 47,502 | 975 | 102,734 | 20,876 | 31,960 | 428,110 |
| Contract services | - | - | - | 142,535 | - | - | 142,535 |
| Direct assistance | 1,691,317 | - | - | - | - | 175 | 1,691,492 |
| Medical expenses | - | - | - | 469,844 | - | - | 469,844 |
| Pharmaceuticals | - | - | - | 6,426,222 | - | - | 6,426,222 |
| Facility costs | 320,924 | 74,230 | 378 | 311,037 | 38,102 | 30,382 | 775,053 |
| Special events development | 4,514 | 233 | 74 | - | 1,110 | 315,492 | 321,423 |
| Professional fees | 95,837 | 42,487 | 68,199 | 481,159 | 46,181 | 44,547 | 778,410 |
| Advertising and media | 23,017 | 6,721 | - | 59,731 | 24,021 | 44,860 | 158,350 |
| Community forums | 57,229 | - | - | - | - | - | 57,229 |
| Travel | 117,181 | 16,325 | 35 | - | 3,153 | 6,931 | 143,625 |
| Supplies | 132,760 | 63,019 | 69 | 67,778 | 13,772 | 18,698 | 296,096 |
| Equipment lease | 30,708 | 6,858 | 2 | - | 4,171 | 4,885 | 46,624 |
| Equipment maintenance | 259 | 16 | - | - | 11 | 8 | 294 |
| Depreciation | - | - | - | 94,992 | 51,285 | - | 146,277 |
| Postage | 6,487 | 1,434 | 25 | 38,174 | 765 | 14,048 | 60,933 |
| Staff development | 53,387 | 12,024 | 802 | 55,618 | 5,930 | 6,767 | 134,528 |
| Copying and printing | 6,310 | 6,103 | - | 16,266 | 9,554 | 31,360 | 69,593 |
| Miscellaneous | 53,809 | 144 | - | - | 518 | 1,385 | 55,856 |
| Interest expense | - | - | - | 54,341 | - | - | 54,341 |
| Bad debt | - | - | - | 35,707 | - | 34,645 | 70,352 |
| Donated services | - | - | - | - | 2,426 | - | 2,426 |
| Donated materials | - | - | - | - | - | 137,666 | 137,666 |
| Donated facilities | - | - | - | - | 35,678 | - | 35,678 |
| | <u>\$ 6,274,501</u> | <u>1,009,970</u> | <u>87,932</u> | <u>9,930,446</u> | <u>622,112</u> | <u>1,173,935</u> | <u>19,098,896</u> |

See accompanying notes to the consolidated financial statements.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended June 30, 2013

| | Program Services | | | | Support Services | | Total |
|----------------------------|---------------------|---|---------------|-----------------------------------|---------------------------|--------------------------------------|-------------------|
| | Client Services | Public Education and Information | Public Policy | Medical Center and Pharmacy | Management and General | Fundraising and Special Events | |
| Salaries | \$ 2,284,855 | 709,406 | 10,774 | 586,626 | 216,403 | 281,749 | 4,089,813 |
| Employee benefits | 448,444 | 153,033 | - | 55,952 | 29,451 | 33,902 | 720,782 |
| Payroll taxes | 176,695 | 55,482 | 873 | 46,388 | 21,203 | 29,749 | 330,390 |
| Contract services | - | - | - | 74,828 | - | - | 74,828 |
| Direct assistance | 1,059,365 | - | - | - | - | - | 1,059,365 |
| Medical expenses | - | - | - | 275,719 | - | - | 275,719 |
| Pharmaceuticals | - | - | - | 1,519,490 | - | - | 1,519,490 |
| Facility costs | 252,113 | 72,765 | - | 117,950 | 13,677 | 15,718 | 472,223 |
| Special events development | - | - | - | - | - | 155,045 | 155,045 |
| Professional fees | 129,229 | 35,848 | 71,217 | 261,760 | 15,969 | 63,299 | 577,322 |
| Advertising and media | 17,559 | 42,535 | - | 36,146 | 1,697 | 29,577 | 127,514 |
| Community forums | 21,288 | 400 | 72 | - | - | - | 21,760 |
| Travel | 89,270 | 20,653 | 729 | - | 1,576 | 6,592 | 118,820 |
| Supplies | 66,736 | 66,907 | 212 | 28,864 | 16,120 | 13,499 | 192,338 |
| Equipment lease | 30,801 | 7,331 | - | - | 3,565 | 2,511 | 44,208 |
| Depreciation | 40,042 | 10,091 | 737 | 18,135 | 2,833 | 5,840 | 77,678 |
| Postage | 14,542 | 1,280 | - | 13,632 | 994 | 9,223 | 39,671 |
| Staff development | 11,379 | 3,845 | 3,201 | 30,701 | 3,810 | 7,657 | 60,593 |
| Copying and printing | 11,037 | 2,794 | - | 8,756 | 3,630 | 27,724 | 53,941 |
| Miscellaneous | - | - | - | - | 312 | - | 312 |
| Interest expense | - | - | - | 31,937 | - | - | 31,937 |
| Loss on disposals | - | - | - | - | 478 | - | 478 |
| Bad debt | 31,900 | - | - | 16,201 | - | - | 48,101 |
| Donated services | 3,386 | 853 | 62 | - | 240 | 494 | 5,035 |
| Donated materials | 113,447 | 28,591 | 2,088 | - | 8,025 | 16,547 | 168,698 |
| Donated facilities | 27,851 | 7,019 | 513 | - | 1,970 | 4,062 | 41,415 |
| | <u>\$ 4,829,939</u> | <u>1,218,833</u> | <u>90,478</u> | <u>3,123,085</u> | <u>341,953</u> | <u>703,188</u> | <u>10,307,476</u> |

See accompanying notes to the consolidated financial statements.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|-------------|-----------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 694,335 | (201,772) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 146,277 | 77,678 |
| Loss on disposal of property and equipment | - | 478 |
| Bad debt expense | 70,352 | 48,101 |
| Net realized and unrealized (gain) loss on investments and funds held by others | 11,837 | (146) |
| Effects of changes in operating assets and liabilities: | | |
| Grants receivable | (634,903) | (115,621) |
| Contributions receivable | (209,334) | (97,951) |
| Accounts receivable, net | (1,331,877) | (464,473) |
| Inventories | (230,138) | (165,944) |
| Prepaid expenses | (13,894) | (5,679) |
| Accounts payable | 748,442 | 352,424 |
| Accrued liabilities expenses | 361,906 | 22,913 |
| Unearned revenue | 5,899 | (137,297) |
| Net cash used in operating activities | (381,098) | (687,289) |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments and funds held by others | (1,499) | 516 |
| Purchase of investments and funds held by others | - | (107,471) |
| Purchase of property and equipment | (376,512) | (88,962) |
| Net cash used in investing activities | (378,011) | (195,917) |
| Cash flows from financing activities: | | |
| Net proceeds on lines of credit | 244,035 | 130,626 |
| Proceeds from long-term debt | 300,000 | 191,624 |
| Payment on long-term debt | (52,420) | (23,725) |
| Net cash provided by financing activities | 491,615 | 298,525 |
| Decrease in cash | (267,494) | (584,681) |
| Cash - beginning of year | 734,699 | 1,319,380 |
| Cash - end of year | \$ 467,205 | 734,699 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | \$ 54,341 | 31,937 |
| In-kind donations received and expensed in the same year | \$ 232,260 | 215,148 |
| Schedule of noncash investing and financing activities: | | |
| Long-term debt incurred in connection with purchase of property and equipment | \$ - | 558,376 |

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of AIDS Resource Center Ohio, Inc. and Subsidiaries are set forth to facilitate the understanding of data presented in the consolidated financial statements:

Nature of activities

AIDS Resource Center Ohio, Inc. and Subsidiaries (the Center) is a not-for-profit, community-based, health-related organization. The Center's mission is to provide a comprehensive and coordinated response to HIV, from prevention to diagnosis and treatment.

Mergers/consolidation of regional organizations has resulted in a footprint with multiple offices serving much of Ohio. Programs include holistic, coordinated HIV medical care, pharmacy/medications, prevention, testing, housing assistance, linkage to care, mental health services, supportive services, and public policy and awareness. The Center provides treatment and supportive services to 4,000 HIV-positive Ohioans annually; tens of thousands more are reached through HIV testing, counseling, and evidence based prevention activities. Additional services are provided through the Ohio AIDS Coalition and Camp Sunrise, program divisions of the Center.

In September 2012, AIDS Resource Center Ohio, Inc. opened the AIDS Resource Center Ohio Medical Center and AIDS Resource Center Ohio Pharmacy, the physical locations of which are in Columbus. The pharmacy provides medications to HIV-positive individuals and is open to the public. A second medical center and pharmacy were opened in Dayton, Ohio in January and February 2014. The Center's primary funding sources are from government grants, charitable donations from corporations and individuals, reimbursable services, and earned income through its pharmacy.

Principles of consolidation

The consolidated financial statements include the accounts of AIDS Resource Center Ohio, Inc., ARC Ohio Medical Center, LLC, and AMC Ohio Pharmacy, LLC (collectively, the Center). All material inter-company accounts and transactions between the entities have been eliminated in the consolidated financial statements.

Basis of accounting

The consolidated financial statements of the Center have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The Center 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. The Center has no permanently restricted net assets.

Cash

For purposes of the consolidated statements of cash flows, cash is defined as demand deposits including checking and savings accounts, as well as, certificates of deposit.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the consolidated statements of activities.

Non-traded real estate investment trusts and limited partnership investments are valued by the initial offering price or by the present value of the lease payments based on anticipated occupancy.

Accounts receivable

Accounts receivable represent amounts due from individuals and insurance companies for medical services and pharmaceuticals provided. The receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to valuation allowance based on assessment of individual accounts. Balances that remain outstanding after management has used reasonable efforts are written off.

Pledges and grants receivable

Unconditional grants and pledges receivable are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional grants and pledges receivable are recognized when the conditions on which they depend are substantially met. The Center has not discounted pledges as the balances are receivable in less than one year. Allowances are provided for amounts estimated to be uncollectible, based on management's analysis of specific outstanding pledges at June 30, 2014 and 2013; no allowance for doubtful accounts was deemed necessary.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method and consists of pharmaceuticals held for sale in the pharmacy.

Property and equipment

Property and equipment are recorded at cost, or fair value, if donated. Depreciation on property and equipment is provided using the straight-line method over the estimated useful life, which is three to seven years for computers and equipment, seven years for furniture and fixtures and the lesser of the life of the lease or thirty-nine years for leasehold improvements. Additions and betterments in excess of \$500 are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

Restricted and unrestricted revenue and support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished) in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as release of restricted contributions.

Donated services, materials, and facilities

Donated services are recognized as contributions only if the donated services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation to the Center. Donated materials are recorded at their fair value at the date of donation.

For a number of years, the Center has occupied office space in Dayton, Ohio (Kuhns Building) for a charge below market value. The amount under fair rental value of the use of the premises has been estimated by management at \$35,678 and \$41,415 for the years ended June 30, 2014 and 2013, respectively.

Net assets

The Center classifies its net assets as unrestricted, temporarily restricted, or permanently restricted based upon donor restrictions. Net assets are classified as temporarily restricted if donor-imposed stipulations exist that may or will be met, either by actions of the Center or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. There were no permanently restricted net assets as of June 30, 2014 and 2013.

Designation of unrestricted net assets

It is the policy of the Board of Trustees of the Center to review its plans for future investments, property improvements, and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such items.

Expense allocation

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

Advertising expense

The Center uses advertising to promote its programs. The production costs of advertising are expensed as incurred.

Income taxes

AIDS Resource Center Ohio, Inc., ARC Ohio Medical Center, LLC, and AMC Ohio Pharmacy, LLC are each exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, donations to the Center qualify for the charitable contribution deduction under Section 170(b)(1)(A) and the Center has been classified as an organization that is not a private foundation under Section 509(a)(2).

Accounting for uncertainty in income taxes

The Center has adopted the provisions of Accounting for Uncertainty in Income Taxes. These provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Center's income tax returns. The Center's income tax filings are subject to audit by various taxing authorities. The Center's open audit periods are 2011-2014. The Center's policy with regard to interest and penalties is to recognize interest expense and penalties through other expense. In evaluating the Center's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Center believes its estimates are appropriate based on current facts and circumstances.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year consolidated financial statements.

Subsequent events

The Center evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through February 23, 2015, the date on which the consolidated financial statements were available to be issued.

2. CONTRIBUTIONS RECEIVABLE:

Unconditional contributions receivable at June 30, 2014 and 2013 consist of the following:

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|--------------------|
| Receivable in less than one year | \$ 478,029 | 308,669 |
| Receivable in one to five years | <u>39,974</u> | <u>-</u> |
| Total unconditional promises to give | \$ <u>518,003</u> | <u>308,669</u> |

3. INVESTMENTS:

Investments are stated at fair value and consist of the following at June 30:

| | <u>2014</u> | <u>2013</u> |
|------------------------|---------------------|-------------------|
| Money market funds | \$ 307 | 2,423 |
| Real estate investment | <u>2,044</u> | <u>10,445</u> |
| | \$ <u>2,351</u> | <u>12,868</u> |

Net investment income, which includes interest on demand deposits, is reported as other income in the statement of activities. Net investment income consists of the following for the year ended June 30:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|--------------------|--------------|
| Interest and dividends | \$ 673 | 763 |
| Realized and unrealized losses | (11,837) | (1,182) |
| Investment fees | <u>(13)</u> | <u>(40)</u> |
| | <u>\$ (11,177)</u> | <u>(459)</u> |

4. FAIR VALUE MEASUREMENTS:

The Center applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities the Center has the ability to access;
- Level 2 – inputs, other than quoted prices in active markets, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability which rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following are descriptions of the valuation methodologies used for assets measured at fair value. There have been no changes from the prior year in the methodologies used at June 30, 2014. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2014 and 2013.

Beneficial interest in assets held by others – The valuation is determined by underlying interest in funds held by various foundations, which are primarily invested in marketable securities with quoted market prices.

Money market account – The valuation of the money market account is the quoted market prices.

Real estate investment trust (REIT) – The valuation of non-traded REIT and limited partnership investments is either the initial offering price or the present value of the lease payments based on anticipated occupancy.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
June 30, 2014 and 2013

Fair values of assets measured on a recurring basis at June 30, 2014 are as follows:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|-------------------|----------------|----------------|----------------|
| Beneficial interest in assets held by others | \$ 111,296 | - | 111,296 | - |
| Investments: | | | | |
| Money market funds | 307 | 307 | - | - |
| Real estate investment trust | <u>2,044</u> | <u>-</u> | <u>-</u> | <u>2,044</u> |
| | <u>\$ 113,647</u> | <u>307</u> | <u>111,296</u> | <u>2,044</u> |

The changes in level 3 assets measured at fair value on a recurring basis at June 30, 2014 are summarized as follows:

| | <u>Real Estate Investment Trust</u> |
|------------------------------|---|
| Balance - beginning of year | \$ 10,445 |
| Realized and unrealized gain | 6,583 |
| Sales of investments | <u>(14,984)</u> |
| Balance - end of year | <u>\$ 2,044</u> |

Fair values of assets measured on a recurring basis at June 30, 2013 are as follows:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---|-------------------|----------------|----------------|----------------|
| Beneficial interest in assets held by others | \$ 111,117 | - | 111,117 | - |
| Investments: | | | | |
| Money market funds | 2,423 | 2,423 | - | - |
| Real estate investment trust | <u>10,445</u> | <u>-</u> | <u>-</u> | <u>10,445</u> |
| | <u>\$ 123,985</u> | <u>2,423</u> | <u>111,117</u> | <u>10,445</u> |

The changes in level 3 assets measured at fair value on a recurring basis at June 30, 2013 are summarized as follows:

| | | Real Estate Investment Trust |
|--------------------------------|----|------------------------------------|
| Balance - beginning of year | \$ | 11,627 |
| Realized and unrealized losses | | (1,182) |
| Sales of investments | | - |
| Balance - end of year | \$ | 10,445 |

5. TEMPORARILY RESTRICTED NET ASSETS:

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

| | | 2014 | 2013 |
|--------------------|----|--------|-------|
| Camp Sunrise | \$ | 27,369 | - |
| Rent receivable | | 56,490 | - |
| Pledges receivable | | - | 7,722 |
| | \$ | 83,859 | 7,722 |

6. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS:

The Columbus Foundation administers a fund for which the Center is the beneficiary. All income from this fund is to be reinvested into the fund principal. The Center may direct the Columbus Foundation as to the distribution of the funds. The fair value of the funds at June 30, 2014 and 2013 was \$97,342 and \$98,767, respectively. No income was distributed to the Center in 2014 or 2013. The change in fair value is primarily attributable to investment income net of investment fees and unrealized gains and losses.

The Dayton Foundation administers a fund for which the Center is the beneficiary. All income from this fund is to be reinvested into the fund principal. The Center may direct the Dayton Foundation as to the distribution of the funds. The fair value of the funds at June 30, 2014 and 2013 was \$13,954 and \$12,350, respectively. No income was distributed to the Center in 2014 or 2013. The change in fair value is primarily attributable to investment income net of investment fees and unrealized gains and losses.

7. OPERATING LEASES:

The Center leases buildings and equipment under non-cancelable operating lease agreements. Certain leases include escalation clauses and renewal and purchase provisions at the option of the Center. These leases expire at various dates through 2020. The Center has additional leases on a month-to-month basis. Total rent expense was approximately \$521,000 and \$362,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum lease obligations subsequent to the year ended June 30, 2014 are as follows:

| <u>Year ending June 30</u> | |
|----------------------------|---------------------|
| 2015 | \$ 595,467 |
| 2016 | 529,312 |
| 2017 | 332,941 |
| 2018 | 221,455 |
| 2019 | 133,530 |
| 2020 | <u>8,120</u> |
| | <u>\$ 1,820,825</u> |

8. LINE OF CREDIT:

In September 2012, the Center entered into a revolving line of credit financing agreement for the purpose of financing the renovations of the Medical Center and Pharmacy. The maximum borrowing amount under this line of credit is \$750,000. Interest for this line of credit is payable monthly at the prime rate plus 2% (5.25% at June 30, 2014). The line of credit initial maturity of September 27, 2013 was extended until April 22, 2015. The balance outstanding as of June 30, 2014 was \$189,218.

In December 2013, another line of credit was entered into. The maximum borrowing amount under this line of credit is \$700,000, maturing on January 6, 2021. Interest for this line of credit is payable monthly at the prime rate plus 2% (5.25% at June 30, 2014). The balance outstanding as of June 30, 2014 was \$185,443. A \$200,000 certificate of deposit is used as collateral for the line of credit and the notes payable as discussed in Note 9 below.

9. LONG-TERM DEBT:

Long-term debt at June 30, 2014 and 2013 consists of the following:

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|----------------|
| Note payable to a bank in monthly installments of \$5,671 including interest at a rate of 4.25%, with a balloon payment of approximately \$554,000 due September 2017. The note is secured by all assets of the Center. | \$ 688,668 | 726,275 |
| Note payable to a bank in monthly installments of \$4,147 including interest at a rate of 4.25%. Final payment is due January 2021. The note is secured by all assets of the Center. | <u>285,187</u> | <u>-</u> |
| | 973,855 | 726,275 |
| Less current portion | <u>77,858</u> | <u>37,907</u> |
| | <u>\$ 895,997</u> | <u>688,368</u> |

Maturities of long-term debt for each of the five years succeeding June 30, 2014 and thereafter are as follows:

| | | |
|-----------|----|-----------------------|
| 2015 | \$ | 77,858 |
| 2016 | | 81,139 |
| 2017 | | 84,760 |
| 2018 | | 608,621 |
| 2019 | | 45,470 |
| 2020-2021 | | <u>76,007</u> |
| | \$ | <u><u>973,855</u></u> |

10. RETIREMENT PLAN:

The Center sponsors a defined contribution plan established under the guidelines of Section 401(k) of the Internal Revenue Code available to all eligible employees. The Center has agreed to match 50% of eligible employees' deferrals up to a maximum of 2% of payroll. The Center is not required to, but may make additional profit-sharing contributions under the terms of the plan. The Center contributed \$38,787 and \$8,876 to the plan during the years ended June 30, 2014 and 2013, respectively.

11. CONTINGENCIES:

The Center participates in certain federally assisted programs which are subject to program compliance audits by the grantors or their representatives. The grantor agencies, at their option, may perform economy and efficiency audits, program results audits or conduct monitoring visits. Such audits and visits could lead to reimbursement to the grantor agencies.

12. CONCENTRATION OF CREDIT RISK:

The Center maintains its cash balances in two financial institutions located in Ohio. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of June 30, 2014 and 2013, the Center had uninsured cash balances of \$60,080 and \$73,487, respectively.

13. RESTATEMENT OF NET ASSETS:

Certain errors resulting in an overstatement of previously reported contributions receivables, grants receivables and inventories were discovered during the current year. Accordingly, an adjustment of \$60,000 was made to write down contributions receivables, an adjustment of \$110,360 was made to write down grants receivables and an adjustment of \$113,855 was made to write down inventories as of the beginning of the year. A corresponding entry was made to reduce previously reported unrestricted net assets by \$284,215.

AIDS Resource Center Ohio, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

| Federal Grantor Program Title <u>Pass Through</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| U.S. Department of Housing and Urban Development | | | |
| <u>Community Development Block Grant Program</u> | | | |
| Passed through from City of Toledo: | | | |
| CDBG/Entitlement Grants | 14.218 | N/A | \$ <u>20,374</u> |
| <u>Supportive Housing Program</u> | | | |
| Passed through from the YWCA: | | | |
| SHP | 14.235 | N/A | <u>17,774</u> |
| <u>HOPWA Grants Program:</u> | | | |
| Passed through from State of Ohio Department of Development: | | | |
| Balance of State - HOPWA Grant | 14.241 | N/A | 1,180,739 |
| Passed through from City of Columbus: | | | |
| Columbus Public Health HOPWA Grant | 14.241 | N/A | <u>673,681</u> |
| Total HOPWA Grants Program | | | <u>1,854,420</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>1,892,568</u> |
| U.S. Department of Health and Human Services | | | |
| <u>Ryan White Part A Program:</u> | | | |
| Passed through from City of Columbus: | | | |
| Behavioral health services | 93.914 | N/A | 207,801 |
| Medical services | 93.914 | N/A | 269,121 |
| Medical case management | 93.914 | N/A | 476,839 |
| Passed through from City of Cleveland: | | | |
| Outreach | 93.914 | N/A | <u>11,113</u> |
| Total Ryan White Part A Program | | | <u>964,874</u> |
| <u>Ryan White Part B Program</u> | | | |
| Passed through from Ohio Department of Health: | | | |
| Ryan White Federal HIV Program | 93.917 | 05760012RW0313 | <u>2,999,880</u> |
| <u>Ryan White Part C Program</u> | | | |
| Early Intervention Services | 93.918 | N/A | <u>543,478</u> |

AIDS Resource Center Ohio, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards (continued)
Year Ended June 30, 2014

| Federal Grantor Program Title <u>Pass Through</u> | Federal CFDA <u>Number</u> | Pass-Through Entity <u>Number</u> | Federal <u>Expenditures</u> |
|--|----------------------------------|---|--------------------------------|
| U.S. Department of Health and Human Services - continued | | | |
| <u>HIV Prevention Activities - Non-Governmental Organization Based</u> | | | |
| HIV prevention services (GCMC) | 93.939 | N/A | \$ 303,971 |
| <u>HIV Prevention Activities - Health Department Based</u> | | | |
| Passed through from City of Columbus: | | | |
| Gay/Bisexual Men Program | 93.940 | N/A | 220,443 |
| Passed through from Ohio Department of Health: | | | |
| Statewide initiatives | 93.940 | N/A | 112,227 |
| Passed through from Public Health | | | |
| Dayton/Montgomery County: | | | |
| Gay/Bisexual Men & MSMS of Color | 93.940 | N/A | 110,155 |
| Passed through from Summit County: | | | |
| HIV prevention services | 93.940 | N/A | 13,082 |
| Passed through from Toledo Lucas County | | | |
| Health Department: | | | |
| Gay/Bisexual Men of Color Program | 93.940 | N/A | <u>23,791</u> |
| Total HIV Prevention Activities - Health Department Based | | | <u>479,698</u> |
| Total U.S. Department of Health and Human Services | | | <u>5,291,901</u> |
| U.S. Department of Homeland Security | | | |
| <u>Emergency Food and Shelter National Board Program</u> | | | |
| Passed through from UW Greater Toledo FEMA: | | | |
| Federal Emergency Management Food and Shelter Program | 97.024 | N/A | <u>1,350</u> |
| Total Federal Awards | | | \$ <u>7,185,819</u> |

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of AIDS Resource Center Ohio, Inc. and Subsidiaries under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. Because the schedule presents only a selected portion of the operations of AIDS Resource Center Ohio, Inc. and Subsidiaries, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of AIDS Resource Center Ohio, Inc. and Subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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*

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
AIDS Resource Center Ohio, Inc. and Subsidiaries

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 consolidated financial statements of AIDS Resource Center Ohio, Inc. and Subsidiaries (the Center, a not-for-profit organization), which comprise the statement of financial position as of June 30, 2014, and the and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as references 2014-001 and 2014-002 to be material weaknesses.

4449 easton way, 4th floor
columbus, oh 43219

www.cshco.com
p. 614.885.2208
f. 614.885.8159

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 deficiency described in the accompany schedule of findings and questioned costs as reference 2014-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002 and 2014-003.

The Center's Response to Findings

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the auditing procedures applied in the audit of the consolidated 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
February 23, 2015

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
AIDS Resource Center Ohio, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited AIDS Resource Center Ohio, Inc. and Subsidiaries' (the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

4449 easton way, 4th floor
columbus, oh 43219

www.cshco.com
p. 614.885.2208
f. 614.885.8159

Report on Internal Control Over Compliance

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

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
February 23, 2015

Section I - Summary of Auditors' Results

Financial Statements

| | |
|--|------------|
| Type of auditors' report issued: | unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | yes |
| • Significant deficiency(ies) identified not considered to be material weaknesses? | yes |
| Noncompliance material to financial statements noted? | yes |

Federal Awards

| | |
|--|------------|
| Internal Control over major programs: | |
| • Material weakness(es) identified? | none |
| • Significant deficiency(ies) identified not considered to be material weaknesses? | none |
| Type of auditors' report issued on compliance for major programs: | unmodified |
| Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133? | none |
| Identification of major programs: | |
| <i>CFDA 93.914 – Ryan White Part A Programs</i> | |
| <i>CFDA 93.917 – Ryan White Part B Programs</i> | |
| <i>CFDA 93.939 – HIV Prevention Activities</i> | |
| Dollar threshold to distinguish between Type A and Type B Programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | yes |

Section II - Financial Statement Findings

Finding 2014-001 – Preparation of Consolidated Financial Statements and SEFA and Audit Adjustments

Condition: As is common with many not-for-profit organizations, the Center did not prepare its own year-end consolidated financial statements with footnotes or the schedule of expenditures of federal awards (the SEFA). Additionally, management did not prepare all the adjustments necessary for the Center's consolidated financial statements to be in accordance with generally accepted accounting principles. We identified several adjustments for the year under audit that were not initially identified by the Center's internal control over financial reporting. In this case, the internal controls over the preparation and review of the Center's consolidated financial statements were not sufficiently designed to identify these adjustments prior to the year-end audit.

The material adjustments made during the audit related to the recognition of revenue, inconsistent coding of transactions resulting in missed or double bookings of revenue, and lack of reconciliation of subsidiary ledgers resulting in inaccurate balances on the books.

Criteria: The Center's management is responsible for developing internal controls and procedures sufficient to produce consolidated financial statements with footnotes and the SEFA in accordance with generally accepted accounting principles.

Effect: Assistance from the external auditor was required to prepare the consolidated financial statements, SEFA and adjusting journal entries.

Recommendation: We realize that management is aware of this issue, and has asked us to assist in the preparation of the consolidated financial statements and SEFA for the current year. We recommend that the Center continue to re-evaluate and enhance its internal controls over financial reporting. We also recommend that management continue to implement appropriate month-end closing procedures to ensure that all accounts are being reconciled on a timely basis.

Management response:

Over the past two years, AIDS Resource Center Ohio has experienced unprecedented and rapid growth in size, geographic reach, scope of services, and size. This includes the addition of healthcare and pharmacy subsidiaries. With such increased complexity, a top priority is directing necessary resources to infrastructure improvements, including our financial management mechanisms.

Previously, adjusting entries were made after input was given by the external auditors. Moving forward we will be completing all the financial statements.

Previously, the SEFA was completed by the external auditors. Moving forward we will complete it.

AIDS Resource Center Ohio has made the following changes to enhance and improve internal controls and to shorten the month-end and year-end processes:

- Increased staffing technical expertise in the areas of the Chief Financial Officer, Accounting Manager, and Accountant

- Enhanced processes for revenue recognition, including identifying type and classification of revenue, proper GL coding, and appropriate matching to period of record
- Shortened the monthly close process; expanding trial balance review
- Established new processes to assure timely reconciliation of all subsidiary ledgers and balance sheet accounts
- Instituted additional layers of management oversight over all areas related to Finance

The immediate improvements to the Finance processes and procedures corrected the issues.

Finding 2014-002 – Improper Revenue Recognition

Condition: The Center's process for recognizing revenue was not in accordance with generally accepted accounting principles. Several of the grants received by the Center were being recognized monthly based on 1/12th of the total funding available verses recognizing the revenue when earned by the Center. Additionally, there was no process in place to determine if the funds awarded are restricted or unrestricted nor if the funding is a contribution or an exchange transaction. Several material adjustments were made to ensure appropriate generally accepted accounting principles were being applied.

Criteria: The Center's management is responsible for ensuring that appropriate classification and revenue recognition principles are being applied to all revenue earned by the Center.

Effect: Assistance was needed from the external auditors to adjust the balances in the revenue accounts.

Recommendation: We recommend that management continue to develop internal control procedures to ensure that all personnel involved with reporting of revenue apply the generally accepted accounting principles to revenue recognition and the classification of each of the funds awarded. We also recommend that all accounts be reconciled monthly and compared to the corresponding expense accounts to determine that the appropriate amount of revenue is being recognized each month based on the amounts earned (expended). We also recommend that management put in place a tracking mechanism to determine when restricted funds come in and have been spent during the period, in order to release funds from restrictions as appropriate.

Management response:

Over the past two years, AIDS Resource Center Ohio has experienced unprecedented and rapid growth in size, geographic reach, scope of services, and size. This includes the addition of healthcare and pharmacy subsidiaries. With such increased complexity, a top priority is directing necessary resources to infrastructure improvements, including our financial management mechanisms.

AIDS Resource Center Ohio has made the following changes to enhance and improve internal controls and to shorten the month-end and year-end processes:

- Increased staffing technical expertise in the areas of the Chief Financial Officer, Accounting Manager, and Accountant
- Enhanced processes for revenue recognition, including identifying type and classification of revenue, proper GL coding, and appropriate matching to period of record
- Formed Grant Committee to follow flow of each grant from creation to completion to assist in the appropriate classification, recognition, and reporting of each
- Established new processes to assure timely reconciliation of all subsidiary ledgers and balance sheet accounts
- Instituted additional layers of management oversight over all areas related to Finance

The immediate improvements to the Finance processes and procedures corrected the issues.

Finding 2014-003 – Reconciliation of Account Balances

Condition: The Center's formal process for performing reconciliations of account balances on a monthly basis and during year-end closing procedures could be strengthened. There were several accounts that were unreconciled at year-end that needed to be thoroughly reviewed and corrected during the audit. This resulted in several adjustments to accounts receivable. We also noted some inconsistencies in the coding of transactions which resulted in reclassification of revenue accounts.

Criteria: The Center's management is responsible for the review and reconciliation of accounts.

Effect: There were several delays in getting the trial balance ready for audit procedures and extra testing needed to be applied by the external auditors.

Recommendation: We recommend that management continue to implement new monthly and year-end closing internal control procedures, including management review the trial balance on a monthly basis to ensure that the closing procedures are being performed by all accounting personnel timely.

Management response:

Over the past two years, AIDS Resource Center Ohio has experienced unprecedented and rapid growth in size, geographic reach, scope of services, and size. This includes the addition of healthcare and pharmacy subsidiaries. With such increased complexity, a top priority is directing necessary resources to infrastructure improvements, including our financial management mechanisms.

Previously, adjusting entries were made after input was given by the external auditors. Moving forward we will be completing all the financial statements.

AIDS Resource Center Ohio has made the following changes to enhance and improve internal controls and to shorten the month-end and year-end processes:

- Increased staffing technical expertise in the areas of the Chief Financial Officer, Accounting Manager, and Accountant
- Enhanced processes for revenue recognition, including identifying type and classification of revenue, proper GL coding, and appropriate matching to period of record
- Established new processes to assure timely reconciliation of all subsidiary ledgers and balance sheet accounts
- Instituted additional layers of management oversight over all areas related to Finance

The immediate improvements to the Finance processes and procedures corrected the issues.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Schedule of Prior Audit Findings

None