

AIDS ARMS, INC. AND SUBSIDIARY  
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

AIDS ARMS, INC. AND SUBSIDIARY  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
AIDS Arms, Inc. and Subsidiary  
Dallas, Texas

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

We have audited the accompanying consolidated financial statements of AIDS Arms, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013 and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's 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 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 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 auditor's 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.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIDS Arms, Inc. and Subsidiary as of December 31, 2014 and 2013, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 September 29, 2015, on our consideration of AIDS Arms, Inc. and Subsidiary 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 Arms, Inc. and Subsidiary internal control over financial reporting and compliance.

Dallas, Texas  
September 29, 2015

**AIDS ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2014 AND 2013**

**ASSETS**

	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 2,959,352	\$ 2,232,234
Grants and other receivables, net	2,594,137	2,071,861
Prepaid expenses and other	37,269	76,059
Total current assets	<u>5,590,758</u>	<u>4,380,154</u>
Fixed assets		
Property and equipment	2,447,358	2,066,456
Accumulated depreciation	(1,063,883)	(900,945)
	<u>1,383,475</u>	<u>1,165,511</u>
Total assets	<u>\$ 6,974,233</u>	<u>\$ 5,545,665</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable	\$ 645,170	\$ 572,431
Grant advances	22,155	-
Obligations under capital leases, current portion	80,109	30,829
Deferred rent, current portion	23,224	17,305
Total current liabilities	<u>770,658</u>	<u>620,565</u>
Obligations under capital leases, less current portion	118,921	28,495
Deferred rent, less current portion	57,886	87,661
Total liabilities	<u>947,465</u>	<u>736,721</u>
Net assets:		
Unrestricted		
Undesignated	3,770,974	3,553,454
Designated risk reserve	2,072,990	1,072,990
	<u>5,843,964</u>	<u>4,626,444</u>
Temporarily restricted	182,804	182,500
Total net assets	<u>6,026,768</u>	<u>4,808,944</u>
Total liabilities and net assets	<u>\$ 6,974,233</u>	<u>\$ 5,545,665</u>

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

**AIDS ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues</b>				
Government grants	\$ 7,644,094	\$ -	\$ -	\$ 7,644,094
Program service fees	8,634,128	-	-	8,634,128
United Way	225,910	167,500	-	393,410
Contributions	240,001	15,304	-	255,305
Special events (net of cost of direct benefits to participants of \$38,488)	552,082	-	-	552,082
Other income	32,329	-	-	32,329
Net assets released from restrictions:				
Satisfaction of program restrictions	182,500	(182,500)	-	-
<b>Total support and revenues</b>	<b>17,511,044</b>	<b>304</b>	<b>-</b>	<b>17,511,348</b>
<b>Expenses</b>				
Program services:				
HIV services	12,985,071	-	-	12,985,071
Prevention services	1,590,185	-	-	1,590,185
Research	551,440	-	-	551,440
Support services:				
Management and general	584,048	-	-	584,048
Fundraising	582,780	-	-	582,780
<b>Total expenses</b>	<b>16,293,524</b>	<b>-</b>	<b>-</b>	<b>16,293,524</b>
Change in net assets	1,217,520	304	-	1,217,824
Net assets, beginning of year	4,626,444	182,500	-	4,808,944
Net assets, end of year	<u>\$ 5,843,964</u>	<u>\$ 182,804</u>	<u>\$ -</u>	<u>\$ 6,026,768</u>

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

**AIDS ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues				
Government grants	\$ 6,573,114	\$ -	\$ -	\$ 6,573,114
Program service fees	7,233,242	-	-	7,233,242
United Way	81,113	335,000	-	416,113
Contributions	209,242	15,000	-	224,242
Special events (net of cost of direct benefits to participants of \$30,142)	478,567	-	-	478,567
Other income	52,853	-	-	52,853
Net assets released from restrictions:				
Satisfaction of program restrictions	335,000	(335,000)	-	-
Total support and revenues	<u>14,963,131</u>	<u>15,000</u>	<u>-</u>	<u>14,978,131</u>
Expenses				
Program services:				
HIV services	10,724,086	-	-	10,724,086
Prevention services	1,566,019	-	-	1,566,019
Research	488,286	-	-	488,286
Support services:				
Management and general	504,175	-	-	504,175
Fundraising	552,726	-	-	552,726
Total expenses	<u>13,835,292</u>	<u>-</u>	<u>-</u>	<u>13,835,292</u>
Change in net assets	1,127,839	15,000	-	1,142,839
Net assets, beginning of year	<u>3,498,605</u>	<u>167,500</u>	<u>-</u>	<u>3,666,105</u>
Net assets, end of year	<u>\$ 4,626,444</u>	<u>\$ 182,500</u>	<u>\$ -</u>	<u>\$ 4,808,944</u>

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

**AIDS ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>HIV Services</b>	<b>Prevention Services</b>	<b>Research</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and related expenses	\$ 4,099,599	\$ 1,127,704	\$ 303,915	\$ 446,682	\$ 322,299	\$ 6,300,199
Specific assistance to individuals	7,508,893	197,109	116,586	18,378	-	7,840,966
Professional services	164,221	9,275	43,639	44,128	4,171	265,434
Supplies	202,507	45,907	14,897	238	6,900	270,449
Telephone	52,738	14,955	18	194	1,582	69,487
Postage and printing	21,705	6,785	6,248	143	23,258	58,139
Occupancy	519,613	87,639	26,049	16,484	29,349	679,134
Travel	72,865	56,817	6,297	-	9,165	145,144
Conferences, meetings and training	27,519	7,528	2,352	246	5,171	42,816
Dues and subscriptions	13,400	398	696	220	3,078	17,792
Equipment rental and maintenance	5,911	1,379	288	635	2,019	10,232
Advertising and public relations	2,092	2,346	-	-	6,795	11,233
Clinical studies program support	-	-	17,220	-	-	17,220
Other	55,148	3,126	924	41,258	17,813	118,269
Insurance	67,005	3,609	433	670	873	72,590
Special events expense	-	-	-	-	138,221	138,221
Depreciation	171,855	25,608	11,878	14,772	12,086	236,199
	<u>\$ 12,985,071</u>	<u>\$ 1,590,185</u>	<u>\$ 551,440</u>	<u>\$ 584,048</u>	<u>\$ 582,780</u>	<u>\$ 16,293,524</u>

*The accompany notes are an integral part of these financial statements.*

**AIDS ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>HIV Services</b>	<b>Prevention Services</b>	<b>Research</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and related expenses	\$ 3,675,294	\$ 1,090,132	\$ 284,971	\$ 387,007	\$ 330,406	\$ 5,767,810
Specific assistance to individuals	5,894,964	200,451	79,359	-	-	6,174,774
Professional services	94,222	10,620	26,826	1,612	1,315	134,595
Supplies	227,800	69,831	14,338	1,891	7,878	321,738
Telephone	39,339	7,431	3	2,103	1,489	50,365
Postage and printing	11,067	5,634	16,719	667	20,353	54,440
Occupancy	453,004	80,598	21,763	63,157	25,539	644,061
Travel	57,195	72,820	3,177	2,346	8,142	143,680
Conferences, meetings and training	19,113	5,519	-	2,829	5,962	33,423
Dues and subscriptions	13,083	-	-	2,134	3,749	18,966
Equipment rental and maintenance	17,710	-	121	218	3,798	21,847
Advertising and public relations	2,155	750	-	-	2,401	5,306
Clinical studies program support	-	-	34,286	-	-	34,286
Other	20,379	1,346	147	27,806	10,981	60,659
Insurance	49,605	4,466	303	1,307	1,187	56,868
Special events expense	-	-	-	-	121,911	121,911
Depreciation	149,156	16,421	6,273	11,098	7,615	190,563
	<u>\$ 10,724,086</u>	<u>\$ 1,566,019</u>	<u>\$ 488,286</u>	<u>\$ 504,175</u>	<u>\$ 552,726</u>	<u>\$ 13,835,292</u>

*The accompany notes are an integral part of these financial statements.*

**AIDS ARMS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 1,217,824	\$ 1,142,839
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	236,199	190,563
(Increase) decrease in current assets		
Receivables	(522,276)	(416,345)
Prepays and other	38,790	157,016
Increase (decrease) in current liabilities		
Accounts payable	72,739	60,560
Grant advances	22,155	(203,751)
Deferred rent	(23,856)	49,789
Unexpended insurance recovery liability	-	(30,875)
Net cash provided by operating activities	<u>1,041,575</u>	<u>949,796</u>
Cash flows from investing activities		
Purchases of property and equipment	(283,652)	(172,319)
Net cash used in investing activities	<u>(283,652)</u>	<u>(172,319)</u>
Cash flows from financing activities		
Principal payments made on capital lease obligations	(30,805)	(32,293)
Net cash used in investing activities	<u>(30,805)</u>	<u>(32,293)</u>
Net increase in cash and cash equivalents	727,118	745,184
Cash and cash equivalents, beginning of year	<u>2,232,234</u>	<u>1,487,050</u>
Cash and cash equivalents, end of year	<u>\$ 2,959,352</u>	<u>\$ 2,232,234</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid during the year	<u>\$ 7,659</u>	<u>\$ 6,138</u>
Noncash investing and financing activities		
Property and equipment acquired through capital lease obligations	<u>\$ 170,511</u>	<u>\$ 46,518</u>

No income taxes were paid during the years ended December 31, 2014 or 2013.

*The accompany notes are an integral part of these financial statements.*

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

AIDS Arms, Inc. was incorporated in 1980 as a Texas nonprofit corporation, and operated as part of the Community Council of Greater Dallas, Inc. until March 1, 1990, at which time it became a separate entity. In January 1993, AIDS Arms Network, Inc. changed its name to AIDS Arms, Inc. Over the past seventeen years, AAI has created and maintained a legacy of innovative programs that address the unique needs of People Living with HIV/AIDS (“PLWH/A”) in the Dallas Eligible Metropolitan Area “(EMA”) and HIV Services Delivery Area “(HSDA)”. The mission of AAI is to combat HIV/AIDS in the community by improving the lives and health of individuals living with the disease and preventing its spread. AIDS Arms Physicians, Inc. was founded in 2014 to employ physicians for treatment and is wholly-owned by AIDS Arms, Inc.

Operations are funded primarily from program services fees generated from the 340B Drug Pricing Program, providing approximately 47% and 48% of total revenue and support for the years ended December 31, 2014 and 2013, respectively, and by federal and state grants, which accounted for approximately 44% and 44% of total revenue and support for the years ended December 31, 2014 and 2013, respectively.

AAI is the largest AIDS Service Organization (ASO) that provides comprehensive HIV-specific services in the 12-county EMA/HSDA. The HIV services include the following: 1) Case Management provides a range of client-centered services that include the provision of advice and assistance in obtaining medical, social, community, legal, financial, and other needed services; 2) Medical Case Management provides a range of client-centered services that link clients with health care and other services including provision of treatment adherence counseling to ensure readiness for, and adherence to, complex HIV/AIDS treatments; 3) Outpatient/Ambulatory Medical Care includes the provision of professional diagnostic and therapeutic services rendered by a physician, physician assistant, clinical nurse specialist, nurse practitioner or other health care professionals who are certified in the jurisdiction to prescribe antiretroviral (“ARV”) therapy in an outpatient setting at the Peabody Health Center (PHC) and Trinity Health and Wellness Center (THWC); and 4) AIDS Pharmaceutical Assistance Program (APAP) is a local pharmacy assistance program established to provide medications to HIV infected individuals who meet federal eligibility guidelines.

THWC is an approved AIDS Clinical Trial Group (ACTG) for the National Institute of Health. AAI is engaged in multiple studies in the HIV disease process, as well as participating in multiple private clinical trials for emerging medications seeking FDA approval.

AAI has also developed programs to meet the needs of clients with specific characteristics, needs and/or challenges, including the Dallas Family Access Network program (DFAN, youth and women), Viviendo Valiente (Latin initiative targeting the Hispanic community), and Hope Help and Recovery (homeless initiative targeting homeless or at risk for homelessness PLWH/A).

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(continued)

The Organization maintains a diverse portfolio of prevention programs which focus on both primary and secondary prevention. Primary HIV prevention includes services, such as HIV testing, risk-reduction, and educational/outreach programs. Secondary HIV prevention focuses on wellness for those living with HIV to achieve the treatment goal of a suppressed viral load, thereby preventing HIV infection transmission.

Principles of Consolidation

The consolidated financial statements include the accounts of the AIDS Arms, Inc. and AIDS Arms Physicians, Inc. (collectively “AAI”). Intercompany transactions, profits and balances are eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, management made certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of AAI and changes therein are classified and reported as follows.

**Unrestricted** – net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** – net assets subject to donor-imposed stipulations that may or will be met, either by actions of AAI and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted** – net assets required to be maintained in perpetuity.

There were no permanently restricted net assets for the years ended December 31, 2014 and 2013.

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Contributions

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those contributions are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending of the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed Services

During the years ended December 31, 2014 and 2013, the value of contributed services meeting the requirements for recognition in the consolidated financial statements was not material and has not been recorded.

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(continued)

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Purchased property and equipment costing \$500 or greater is capitalized at cost. Donated property and equipment is recorded at its fair market value at the date of gift. Depreciation is computed on the straight-line basis over the estimated useful lives of assets, which range from three to seven years for furniture and equipment and leasehold improvements, and thirty years for buildings.

Title to property and equipment acquired with federal or state funds is retained by the respective federal or state agency. These assets are considered unrestricted as to use and as such, are classified as unrestricted net assets.

Income Taxes

The Internal Revenue Service recognizes AIDS Arms, Inc. as a nonprofit organization exempt from income tax under Section 501(c) (3) of the Internal Revenue Code. The Organization is not classified as a private foundation. Tax years prior to 2012 are no longer subject to examination by major tax jurisdictions.

Functional Expense Allocation

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

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 the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 2 – GRANTS AND OTHER RECEIVABLES

Grants and other receivables consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Dallas County Health and Human Services	\$ 753,182	\$ 675,398
United Way	167,761	167,500
340B Partners	824,036	771,652
Substance Abuse and Mental Health Services Administration	31,973	310,963
Centers for Disease Control	26,918	-
National Institute of Allergy & Infectious Diseases	112,776	-
Northwestern University (ACTG)	-	32,614
Texas Department of State Health Services	412,990	37,763
Health Resources and Services Administration	115,304	24,677
Third party billings, net	30,413	27,397
AIDS Foundation of Houston	19,000	-
Contributions receivable	33,573	23,897
Clinical Trials	<u>66,211</u>	<u>-</u>
Total	<u>\$ 2,594,137</u>	<u>\$ 2,071,861</u>

Three providers comprise 77% of total grant and other receivables for the year ended December 31, 2014. Four providers comprise 85% of total grant and other receivables for the year ended December 31, 2013.

NOTE 3 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 47,030	\$ 47,030
Buildings	92,696	92,696
Furniture and equipment	1,304,904	1,046,205
Leasehold improvements	<u>1,002,728</u>	<u>880,525</u>
	2,447,358	2,066,456
Less: Accumulated depreciation	<u>(1,063,883)</u>	<u>(900,945)</u>
Property and equipment, net	<u>\$ 1,383,475</u>	<u>\$ 1,165,511</u>

Depreciation expense was \$236,199 for the year ended December 31, 2014, including \$24,384 of depreciation on capital lease equipment. Depreciation expense was \$190,563 for the year ended December 31, 2013, including \$39,081 of depreciation on capital lease equipment.

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 4 – CAPITAL LEASES

The Organization entered into non-cancelable leases for equipment which have been classified as capital leases. The amounts capitalized under these lease arrangements are included in property and equipment in the accompanying balance sheet at December 31:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 298,837	\$ 216,464
Less accumulated depreciation	<u>(44,347)</u>	<u>(135,550)</u>
Total	<u>\$ 254,490</u>	<u>\$ 80,914</u>

The following is a schedule by year of future minimum lease payments required under these capital leases as of December 31, 2014:

2015	\$ 97,593
2016	68,927
2017	<u>63,224</u>
	229,744
Less interest on capital lease obligations	<u>(30,714)</u>
	<u>\$ 199,030</u>

NOTE 5 – TEMPORARY RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
United Way	\$ 167,500	\$ 167,500
Improvements for laboratory facilities	-	15,000
Housing funds	<u>15,304</u>	<u>-</u>
Total	<u>\$ 182,804</u>	<u>\$ 182,500</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Contingent Liability – Government Programs

AAI participates in federal and state programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and unit of services billed are subject to audit and adjustment by the grantor agencies; therefore, to the extent that AAI has not complied with the respective rules and regulations governing each respective grant, refunds of monies received may be required. As such, the collectability of any related receivables as of December 31, 2014 and 2013 may be impaired. In the opinion of AAI's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying consolidated financial statements for such contingencies.

AIDS Arms, Inc. and Subsidiary  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 7 – ECONOMIC CONCENTRATION AND DEPENDENCY

In 2014 and 2013, the Organization received 91% and 92%, respectively, of its total support and revenues from program service fees provided by the 340B Drug Pricing Program and from grants provided directly or indirectly through the U.S. Department of Health and Human Services. Continued funding from these sources at current levels is dependent upon various factors. Such factors include economic conditions, compliance with grant provisions, continued government approval, new legislation, donor satisfaction and public perception of mission effectiveness and relative importance.

NOTE 8 – EMPLOYEE BENEFIT PLANS

In January 2006, AAI established Section 403(b) and 401(a) retirement plans (the Plans) for the benefit of its employees. The plans are a defined contribution plan with employee contributions only for the 403(b) and with matching employer contributions for the 401(a). Eligible employees for the 401(a) plan are full time and part time (employees with more than 1,000 hours of employment) employees who have satisfied the minimum eligibility requirements of twenty and one-half (20 ½) years of age and one year of service. The matching employer contributions from AAI become effective the first day of the plan year following the date eligibility requirements are met. Employer contributions to the plan were \$57,477 and \$59,404 for the years December 31, 2014 and 2013, respectively.

AAI began sponsoring a Section 125 Health Reimbursement Arrangement plan during 2014 for which AAI funds up to \$4,750 of qualifying medical expenses of eligible employees after the employee has paid the first \$1,250 qualifying medical expenses. The health reimbursement arrangement plan expense was \$103,219 for the year ended December 31, 2014 and the liability was \$10,464 at December 31, 2014.

NOTE 9 – CONDITIONAL PROMISES TO GIVE

Substantially all of AAI's governmental grants are conditional and funded only after AAI has expended funds for the purposes specified in the grants and has applied for government reimbursement pursuant to the grant terms.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, receivables, and accounts payable approximate their respective fair values as of December 31, 2014 and 2013, respectively, due to the short maturities of these instruments.

AIDS Arms, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 11 – LEASE COMMITMENTS

The Organization leases space under three operating leases expiring through February 2020. The Organization subleases a portion of the space and received \$21,244 and \$22,776 of rental income on the sublease which is included in other income for the years ended December 31, 2014 and 2013, respectively. This sublease expires in February 2020.

The following is a schedule of minimum lease payments required under these leases as of December 31, 2014:

2015	\$ 463,691
2016	305,455
2017	204,817
2018	204,817
2019	204,817
Thereafter	<u>34,136</u>
Total	<u>\$ 1,417,733</u>

The following is a schedule of payments to be received under a sublease as of December 31, 2014:

2015	\$ 21,069
2016	22,279
2017	22,521
2018	22,521
2019	22,521
Thereafter	<u>3,754</u>
Total	<u>\$ 114,665</u>

Rent expense was \$467,890 and \$469,717 for the years ended December 31, 2014 and 2013, respectively.

NOTE 12 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains certain of its cash balances in financial institutions located in Dallas, Texas. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. Deposit amounts in excess of insured limits were \$2,489,317 at December 31, 2014. Management does not believe that these funds are at risk.

AIDS Arms, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2014

NOTE 13 – HEALTH CARE ENTITIES

The Organization implemented FASB Accounting Standards Codification 954-605, Health Care Entities – Revenue Recognition, during 2013, whereby program service fees due from third parties, including insurance companies, Medicare, and Medicaid, are recognized on an accrual basis rather than as collected. The Organization records amounts receivable at the invoiced amounts and provides a reserve for estimated uncollectible amounts. After four months, any uncollected amounts are charged off as bad debts.

The Organization's third party program service fee revenues were \$233,940 and \$213,996 during 2014 and 2013, respectively, and amounts charged off as bad debts were \$59,121 and \$77,739, respectively. The Organization had \$30,413 and \$42,149 of these third party receivables at December 31, 2014 and 2013, respectively, with allowances for bad debts of \$0 and \$14,752 at December 31, 2014 and 2013, respectively.

NOTE 14 – DESIGNATED RISK RESERVE

The Organization's Board of Directors designated \$2,072,990 and \$1,072,990 of unrestricted net assets as a Risk Reserve as of December 31, 2014 and 2013, respectively. The Risk Reserve is to be funded annually through surpluses realized from program fees and other sources as determined by the Board. Any subsequent withdrawals from the Risk Reserve must be approved by the Organization's Finance Committee and, then, by the Board of Directors.

NOTE 15 – SUBSEQUENT REVIEW

The management of AIDS Arms, Inc. evaluated subsequent events through September 29, 2015, which is the date that the consolidated financial statements were available to be issued.

## Supplemental Schedules

**AIDS ARMS, INC. AND SUBSIDIARY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
Dallas County Health and Human Services			
Ryan White HIV/AIDS Treatment Extension Act of 2009-Part A Formula Funding Grant	93.914		\$ 1,378,517
Ryan White HIV/AIDS Treatment Extension Act of 2009-Part A Supplemental Funding	93.914		775,778
Ryan White HIV/AIDS Treatment Extension Act of 2009-Part B Formula Funding Grant	93.917		771,120
Ryan White HIV/AIDS Treatment Extension Act of 2009-Part A Minority AIDS Initiative	93.914		889,550
			<u>3,814,965</u>
<b>Texas Department of State Health Services</b>			
HIV - Minority AIDS Initiative	93.917	2014-002575	133,208
HIV-Prevention Services	93.940	2014-002534	903,294
			<u>1,036,502</u>
<b>Substance Abuse and Mental Health Services Administration</b>			
Project Stay Free	93.243	5U79SP017296	325,861
The Prevention Goes Viral Project	93.243	1U79SP020246	8,707
			<u>334,568</u>
<b>Health Resources and Services Administration</b>			
Ryan White Part C Outpatient EIS Program	93.918	H76HA01710	315,210
Special Projects of National Significance	93.928	H97HA24956	434,478
Special Projects of National Significance	93.928	H97HA26497	287,958
University of Texas Southwestern Medical School			
Ryan White Title IV Program Women, Infants and Children	93.153	H12HA24837	189,740
			<u>1,227,386</u>
<b>National Institute of Allergy &amp; Infectious Diseases</b>			
Northwestern University - Chicago Clinical Trials Unit	93.855	60036149 AA	330,907
Brigham and Women's Hospital, Inc. - AIDS Clinical Trials Group Networks	93.855	UM1A1068636	31,110
			<u>362,017</u>
<b>Centers for Disease Control and Prevention</b>			
Human Immunodeficiency Virus (HIV) Prevention Projects for Community Based Organization	93.939	U65PS002448	312,848
			<u>312,848</u>
<i>Total Expenditures of U.S. Department of Health and Human Services Awards</i>			7,088,286
<b>State Awards</b>			
<b>Texas Department of State Health Services</b>			
Dallas County Health and Human Services			
State of Texas HIV Health and Social Services Grant	N/A		198,080
University of North Texas Health Science Center at Fort Worth			
Cancer Prevention Research Institute of Texas			357,728
<i>Total Expenditures of State Awards</i>			<u>555,808</u>
<i>Total Expenditures of Federal and State Awards</i>			<u><u>\$ 7,644,094</u></u>

*See accompany notes to schedule of expenditures of federal and state awards.*

AIDS Arms, Inc. and Subsidiary  
Notes to Schedule of Expenditures of Federal and State Awards  
For the Year Ended December 31, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state grant activity of AIDS Arms, Inc. and Subsidiary under programs of the federal and state government for the year ended December 31, 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*. Because the Schedule presents only a selected portion of the operations of AIDS Arms, Inc. and Subsidiary, it is not intended to and does not present the financial position, changes in net assets, or cash flows of AIDS Arms, Inc. and Subsidiary.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) 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.

(2) Pass-through entity identifying numbers are presented where available.

NOTE 3 – SUBRECIPIENTS

Of the federal and state expenditures presented in the schedule, AIDS Arms, Inc. and Subsidiary did not provide federal awards to subrecipients.

NOTE 4 – NONMONETARY ASSISTANCE

The schedule of expenditures of federal and state awards for the year ended December 31, 2014 does not include any value of federal and state awards expended in the form of noncash assistance. The Organization received no federal or state awards in the form of noncash assistance, insurance, or loans or loan guarantees.

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

To the Board of Directors of  
AIDS Arms, Inc. and Subsidiary  
Dallas, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of AIDS Arms, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered AIDS Arms, Inc. and Subsidiary 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 AIDS Arms, Inc. and Subsidiary internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether AIDS Arms, Inc. and Subsidiary 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 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*.

## **Purpose of this Report**

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

Dallas, Texas  
September 29, 2015

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

To the Board of Directors of  
AIDS Arms, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited AIDS Arms, Inc. and Subsidiary's 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 AIDS Arms, Inc. and Subsidiary's major federal programs for the year ended December 31, 2014. AIDS Arms, Inc. and Subsidiary'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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of AIDS Arms, Inc. and Subsidiary'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 AIDS Arms, Inc. and Subsidiary'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 AIDS Arms, Inc. and Subsidiary's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, AIDS Arms, Inc. and Subsidiary 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 December 31, 2014.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported on accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002. Our opinion on each major program is not modified with respect to these matters.

AAI's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. AAI's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of AIDS Arms, Inc. and Subsidiary 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 AIDS Arms, Inc. and Subsidiary'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 AIDS Arms, Inc. and Subsidiary's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses; however, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

## **Report on Internal Control Over Compliance (continued)**

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be significant deficiencies.

AIDS Arms, Inc. and Subsidiary's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. AIDS Arms, Inc. and Subsidiary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Dallas, Texas  
September 29, 2015

AIDS Arms, Inc. and Subsidiary  
 Schedule of Findings and Questioned Costs  
 For the Year Ended December 31, 2014

Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued: Unqualified

Material weaknesses identified? \_\_\_ yes   x   no

Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_ yes   x   no

Noncompliance material to financial statements noted? \_\_\_ yes   x   no

*Federal Awards*

Internal control over major programs:

Material weaknesses identified? \_\_\_ yes   x   no

Significant deficiencies identified that are not considered to be material weaknesses?   x   yes \_\_\_ no

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

There were two audit findings for the year ended December 31, 2014.  
 See audit findings 2014-001 and 2014-002.

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.914	HIV Emergency Relief Project Grants
93.928	Special Projects of National Significance

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   x   yes \_\_\_ no

AIDS Arms, Inc.  
Schedule of Findings and Questioned Costs (continued)  
For the Year Ended December 31, 2014

**FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDITS – SIGNIFICANT DEFICIENCIES**

Questioned  
Costs

**U.S. Department of Health and Human Services**

**2014-001** – HIV Emergency Relief Project Grants – CFDA No. 93.914; Year ended December 31, 2014

**CONDITION:**

Required patient eligibility documentation maintained by the Organization, such as proof of residency and and income, were incomplete.

**CRITERIA:**

Complete patient eligibility documentation such as proof of residency in the service delivery area, HIV diagnosis, proof of income, and other documentation is required to be obtained and maintained in each patient or client's case record before or for accessing Ryan White funded services.

**CAUSE:**

Obtaining eligibility documentation from patients is a challenge for the Organization, and collecting the documentation at the time another service is about to be provided is more efficient, in terms of time and transportation costs, for both the client and the eligibility staff member. AAI has at times provided necessary treatment prior to obtaining all required documentation.

**EFFECT:**

AAI has provided Ryan White funded services to clients and patients using funds provided by HIV Emergency Relief Project Grants without obtaining complete documentation including proof of residency and proof of income as required by the grant.

AIDS Arms, Inc.  
Schedule of Findings and Questioned Costs (continued)  
For the Year Ended December 31, 2014

**RECOMMENDATION:**

AAI should implement new policies and procedures to ensure that complete patient eligibility documentation is maintained in the patient portal database as required prior to treatment using grant funds.

**MANAGEMENT RESPONSE:**

Management of AIDS Arms has developed and is implementing new eligibility documentation and six-month eligibility update procedures to address the challenge related to eligibility documentation. The procedures were reviewed by appropriate staff from Dallas County Health and Human Services. All program staff have been trained on the new policies and procedures. The implementation and the training on the new procedures should effectively resolve the challenges related to eligibility documentation and ensure required eligibility documentation is maintained in each patient or client's case record.

**2014-002** – HIV Emergency Relief Project Grants – CFDA No. 93.914; Year ended December 31, 2014

**CONDITION:**

AIDS Arms requested and received grant funding for some patients who have third party insurance coverage as of the dates of services.

**CRITERIA:**

AIDS Arms agreed to effectively verify eligibility for Medicare, Medicaid, and other health insurance coverage before each medical visit. Only services provided to patients not covered by third party insurance as of the date of services should be billed to HIV Emergency Relief Project Grants.

**CAUSE:**

AAI staff did not effectively follow established procedures, which consists of verifying third party insurance coverage before each medical visit. AAI billed and collected funds for services that should have been billed to Medicare, Medicaid, and other commercial insurances.

AIDS Arms, Inc.  
Schedule of Findings and Questioned Costs (continued)  
For the Year Ended December 31, 2014

**EFFECT:**

AAI has provided treatment to patients with third party insurance coverage and billed the HIV Emergency Relief Project Grants instead of billing their third party insurances.

AAI has acknowledged that \$22,155 of grant funds should be returned, of which \$21,408 has been returned to the grant source during 2015. AAI has submitted documentation for \$43,373 of additional funding that it believes will complete the required documentation.

\$43,373

**RECOMMENDATION:**

AAI should implement new policies and provide additional training to program staff to ensure that services that should be billed to Medicare, Medicaid, and other commercial insurances are not billed to HIV Emergency Relief Project Grants.

**MANAGEMENT RESPONSE:**

Policies and procedures regarding third party insurance billing and grant fund requests have been developed and implemented by AAI. The Agency's employees must verify eligibility for Medicare, Medicaid, or other health insurance before each medical visit. The revised Ryan White Payer of Last Resort policy, the new eligibility documentation and six-month eligibility updates, and the periodic comprehensive compliance reviews will help to continually educate staff members and mitigate the risk of non-compliance.

Total

\$43,373

September 29, 2015

### **Corrective Action Plan**

U.S. Department of Health and Human Services  
Dallas County Health and Human Services

AIDS Arms, Inc. respectfully submits the following action plan for the year ended December 31, 2014.

Name and address of independent public accounting firm:  
Brosowske, Mares, Smothermon & Co., P.C.  
14850 Quorum Drive, Suite 210  
Dallas, Texas 75254

Audit period: For the year ended December 31, 2014

The findings from the 2014 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS – FEDERAL AWARDS PROGRAMS AUDIT**

U.S. Department of Health and Human Services

**2014-001** – HIV Emergency Relief Project Grants – CFDA No. 93.914  
Significant Deficiency: Eligibility

**Recommendation:** Management should implement new policies and procedures to ensure that complete patient eligibility documentation is maintained in the patient portal database to ensure compliance with the HIV Emergency Relief Project Grants requirement.

**Action Taken:** Management of AIDS Arms has developed and is implementing new eligibility documentation and six-month eligibility update procedures to address the challenge related to eligibility documentation. The procedures were reviewed by appropriate staff from Dallas County Health and Human Services. All program staff have been trained on the new policies and procedures. The implementation and the training on the new procedures should effectively resolve the challenges related to eligibility documentation and ensure required eligibility documentation is maintained in each patient or client's case record.

**2014-002 – HIV Emergency Relief Project Grants – CFDA No. 93.914**  
**Significant Deficiency: Third-party insurance**

**Recommendation:** AAI should implement new policies and provide additional training to program staff to ensure that services that should be billed to Medicare, Medicaid, and other commercial insurances are not billed to HIV Emergency Relief Project Grants.

**Action Taken:** Policies and procedures regarding third party insurance billing and billing to Ryan White funded services have been developed and implemented by AIDS Arms. The Agency's program employees must verify eligibility for Medicare, Medicaid, and other insurance coverage before each medical visit. The revised Ryan White Payer of Last Resort policy, the new eligibility documentation and the six-month eligibility updates, and the periodic compliance reviews will help to continually educate staff members and mitigate the risk of non-compliance.

If the Department of Health and Human Services has questions regarding this plan, please call Gilbert Kouame at (214)-521-5191.

Sincerely Yours,

Gilbert Kouame, MBA, CPA  
Chief Financial Officer