AIDS Resource Center Ohio, Inc. and Subsidiaries

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

Clark Schaefer Hackett
Strength in Numbers

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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.

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

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.

	2014	2013
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	5,899	-
	2,297,559	897,326
Other liabilities -		
Long-term debt, net of current portion	895,997	688,368
Net assets:		
Unrestricted	2,409,651	1,791,453
Temporarily restricted	83,859	7,722
	2,493,510	1,799,175
	$ 5,687,066	3,384,869

	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	2,319,713	27,369	2,347,082	-	1,385,873	1,385,873
	7,165,013	27,369	7,192,382	-	5,289,324	5,289,324
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	59,661	-	59,661	2,111	-	2,111
	12,014,338	586,511	12,600,849	4,234,570	581,810	4,816,380
Release of restricted contributions	537,743	(537,743)	-	5,874,134	(5,874,134)	-
	19,717,094	76,137	19,793,231	10,108,704	(3,000)	10,105,704
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
Fundrasing and special events	1,173,935	-	1,173,935	703,188	-	703,188
	19,098,896	-	19,098,896	10,307,476	-	10,307,476
Change in net assets	618,198	76,137	694,335	(198,772)	(3,000)	(201,772)
Net assets - beginning of year, as restated	1,791,453	7,722	1,799,175	1,990,225	10,722	2,000,947
Net assets - end of year	$ 2,409,651	83,859	2,493,510	1,791,453	7,722	1,799,175

See accompanying notes to the consolidated financial statements.

	Program Services				Support Services		
	Client Services	Public Education and Information	Public Policy	Medical Center and Pharmacy	Management and General	Fundraising and Special Events	Total
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
	$ 6,274,501	1,009,970	87,932	9,930,446	622,112	1,173,935	19,098,896

See accompanying notes to the consolidated financial statements.

	Program Services				Support Services		
	Client Services	Public Education and Information	Public Policy	Medical Center and Pharmacy	Management and General	Fundraising and Special Events	Total
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
	$ 4,829,939	1,218,833	90,478	3,123,085	341,953	703,188	10,307,476

See accompanying notes to the consolidated financial statements.

		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 lessor 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:

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

3. INVESTMENTS:

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

		2014	2013
Money market funds	$	307	2,423
Real estate investment		2,044	10,445
	$	2,351	12,868

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:

		2014	2013
Interest and dividends	$	673	763
Realized and unrealized losses		(11,837)	(1,182)
Investment fees		(13)	(40)
	$	(11,177)	(459)

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.

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

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

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

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

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

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

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:

Year ending June 30		
2015	$	595,467
2016		529,312
2017		332,941
2018		221,455
2019		133,530
2020		8,120
	$	1,820,825

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:

		2014	2013
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.		285,187	-
		973,855	726,275
Less current portion		77,858	37,907
	$	895,997	688,368

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		76,007
	$	973,855

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.

Federal Grantor Program Title Pass Through	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Community Development Block Grant Program			
Passed through from City of Toledo:			
CDBG/Entitlement Grants	14.218	N/A	$ 20,374
Supportive Housing Program			
Passed through from the YWCA:			
SHP	14.235	N/A	17,774
HOPWA Grants Program:			
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	673,681
Total HOPWA Grants Program			1,854,420
Total U.S. Department of Housing and Urban Development			1,892,568
U.S. Department of Health and Human Services			
Ryan White Part A Program:			
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	11,113
Total Ryan White Part A Program			964,874
Ryan White Part B Program			
Passed through from Ohio Department of Health:			
Ryan White Federal HIV Program	93.917	05760012RW0313	2,999,880
Ryan White Part C Program			
Early Intervention Services	93.918	N/A	543,478

Federal Grantor Program Title Pass Through	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
U.S. Department of Health and Human Services - continued			
HIV Prevention Activities - Non-Governmental Organization Based			
HIV prevention services (GCMC)	93.939	N/A	$ 303,971
HIV Prevention Activities - Health Department Based			
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	23,791
Total HIV Prevention Activities - Health Department Based			479,698
Total U.S. Department of Health and Human Services			5,291,901
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program			
Passed through from UW Greater Toledo FEMA:			
Federal Emergency Management Food and Shelter Program	97.024	N/A	1,350
Total Federal Awards			$ 7,185,819

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.

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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.

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:

CFDA 93.914 – Ryan White Part A Programs
CFDA 93.917 – Ryan White Part B Programs
CFDA 93.939 – HIV Prevention Activities

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