

**A C CENTER, INC.
D/B/A AIDS CARE AND
PLEASANT STREET APOTHECARY**

**Financial Statements
as of June 30, 2012
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 1, 2012

To the Board of Directors of
A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary:

We have audited the accompanying balance sheet of A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary (ACCI) (a New York not-for-profit corporation) as of June 30, 2012 and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of ACCI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from ACCI's 2011 financial statements and, in our report dated September 16, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACCI as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012 on our consideration of ACCI's 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* and should be considered in assessing the results of our audit.

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**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

BALANCE SHEET

JUNE 30, 2012

(With Comparative Totals for 2011)

	Total		
	Unrestricted	Temporarily Restricted	2011
	2012	2012	2011
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	\$ 1,628,460	\$ -	\$ 1,089,331
Accounts receivable, net of allowance for doubtful accounts of approximately \$16,000 in 2012 and 2011	1,431,602	-	1,114,978
Grants receivable	1,956,739	-	1,080,346
Inventory	486,896	-	488,746
Prepaid expenses and other current assets	109,093	-	114,359
Due from (to) other funds	(60,328)	60,328	-
Total current assets	5,552,462	60,328	3,887,760
INVESTMENTS	2,404,635	-	2,314,436
PROPERTY AND EQUIPMENT, net	1,119,881	-	1,103,125
DEPOSITS	59,511	-	55,838
	<u>\$ 9,136,489</u>	<u>\$ 60,328</u>	<u>\$ 7,361,159</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Lines-of-credit	\$ 500,000	\$ -	\$ 500,000
Accounts payable and accrued expenses	1,549,800	-	1,708,982
Total current liabilities	2,049,800	-	2,208,982
DEFERRED COMPENSATION	91,562	-	70,508
EMPLOYEE BENEFITS PAYABLE	84,735	-	54,317
Total liabilities	2,226,097	-	2,333,807
NET ASSETS	<u>6,910,392</u>	<u>60,328</u>	<u>5,027,352</u>
	<u>\$ 9,136,489</u>	<u>\$ 60,328</u>	<u>\$ 7,361,159</u>

The accompanying notes are an integral part of these statements.

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)**

	Unrestricted	Temporarily Restricted	2012	2011
			Total	
REVENUE AND SUPPORT:				
Pharmacy sales	\$ 17,002,628	\$ -	\$ 17,002,628	\$ 15,604,683
Grants	4,374,428	-	4,374,428	4,304,306
Fees for services, net	1,552,715	-	1,552,715	1,277,316
Contributions	394,243	-	394,243	260,678
United Way support	144,066	-	144,066	147,113
Other	3,541	-	3,541	8,244
Net assets released from restriction	46,519	(46,519)	-	-
Total revenue and support	<u>23,518,140</u>	<u>(46,519)</u>	<u>23,471,621</u>	<u>21,602,340</u>
EXPENSES:				
Program	19,958,766	-	19,958,766	19,380,208
Management and general	1,267,970	-	1,267,970	1,245,277
Fundraising	372,946	-	372,946	215,416
Total expenses	<u>21,599,682</u>	<u>-</u>	<u>21,599,682</u>	<u>20,840,901</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,918,458	(46,519)	1,871,939	761,439
INVESTMENT INCOME, net	<u>71,429</u>	<u>-</u>	<u>71,429</u>	<u>287,107</u>
CHANGE IN NET ASSETS	1,989,887	(46,519)	1,943,368	1,048,546
NET ASSETS - beginning of year	<u>4,920,505</u>	<u>106,847</u>	<u>5,027,352</u>	<u>3,978,806</u>
NET ASSETS - end of year	<u>\$ 6,910,392</u>	<u>\$ 60,328</u>	<u>\$ 6,970,720</u>	<u>\$ 5,027,352</u>

The accompanying notes are an integral part of these statements.

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)**

	Program					Total
	Agency	Pharmacy Services	Total	Management and General	Fundraising	
Cost of goods sold	\$ -	\$ 11,477,886	\$ 11,477,886	\$ -	\$ -	\$ 11,477,886
Salaries	3,551,938	722,057	4,273,995	640,343	162,235	5,076,573
Employee benefits and payroll taxes	851,661	259,576	1,111,237	166,489	42,181	1,319,907
Rent and utilities, net of sublease income	740,865	39,758	780,623	123,947	31,403	935,973
Direct client expenses	650,405	-	650,405	-	-	650,405
Repairs and maintenance	206,061	39,766	245,827	34,366	12,718	292,911
Consultants	128,893	-	128,893	113,949	9,713	252,555
Depreciation and amortization	196,978	21,839	218,817	14,986	-	233,803
Program supplies	170,204	21,345	191,549	-	-	191,549
Contract services	163,350	1,454	164,804	9,649	4,181	178,634
Travel and conferences	108,804	5,654	114,458	48,327	3,870	166,655
Provision for doubtful accounts	163,231	-	163,231	-	210	163,441
Office supplies	73,125	10,010	83,135	12,851	5,962	101,948
Insurance	78,935	12,173	91,108	6,521	3,987	101,616
Professional services	57,518	9,643	67,161	9,210	2,334	78,705
Shipping	-	75,220	75,220	-	-	75,220
Special events	-	-	-	-	68,130	68,130
Advertising	25,108	19,294	44,402	4,893	18,795	68,090
Interest	-	-	-	21,608	-	21,608
Laboratory	18,344	-	18,344	-	-	18,344
Data processing	-	13,449	13,449	-	-	13,449
Other	39,197	5,025	44,222	60,831	7,227	112,280
	\$ 7,224,617	\$ 12,734,149	\$ 19,958,766	\$ 1,267,970	\$ 372,946	\$ 21,599,682
						\$ 20,840,901

The accompanying notes are an integral part of these statements.

A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,943,368	\$ 1,048,546
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Provision for doubtful accounts	163,441	34,571
Gain on investments, net	(45,018)	(310,242)
Depreciation and amortization	233,803	220,667
Changes in:		
Accounts receivable	(480,065)	(9,821)
Grants receivable	(876,393)	39,137
Inventory	1,850	76,461
Prepaid expenses and other current assets	5,266	(89,967)
Deposits	(3,673)	-
Accounts payable and accrued expenses	(159,182)	(98,885)
Deferred compensation	21,054	(21,502)
Employee benefits payable	30,418	21,526
	<u>834,869</u>	<u>910,491</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
(Purchases of) proceeds from the sale of investments, net	(45,181)	24,665
Purchases of property and equipment	(250,559)	(72,117)
	<u>(295,740)</u>	<u>(47,452)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayments on lines-of-credit, net	-	(251,325)
	<u>-</u>	<u>(251,325)</u>
CHANGE IN CASH AND EQUIVALENTS	539,129	611,714
CASH AND EQUIVALENTS - beginning of year	<u>1,089,331</u>	<u>477,617</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 1,628,460</u>	<u>\$ 1,089,331</u>

The accompanying notes are an integral part of these statements.

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. THE ORGANIZATION

A C Center, Inc. (ACCI) is licensed as a diagnostic and treatment center that provides comprehensive, specialized services to HIV-infected individuals residing primarily in Western New York under the d/b/a of AIDS Care.

ACCI also offers pharmacy services under the d/b/a of Pleasant Street Apothecary. The pharmacy primarily provides prescription drugs and over-the-counter medicines to HIV-infected and at-risk individuals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

ACCI categorizes net assets and activities as unrestricted and temporarily restricted. ACCI reports contributions as restricted, if they are received with donor stipulations that limit their use. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restriction.

Unrestricted net assets include ACCI's operating resources and its net investment in property and equipment that are available to support operating activities.

Temporarily restricted net assets include amounts restricted by donors for specified program services or by the passage of time.

Cash and Equivalents

Cash and equivalents consist of amounts in demand deposit accounts and money market funds. The balances in these bank accounts may, at times, exceed federally insured limits. ACCI has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash and equivalents.

Accounts Receivable

ACCI has uncollateralized accounts receivable from third-party payers, private pay individuals, corporations, and various governmental agencies. ACCI records an allowance for doubtful accounts based on prior collection experience and an analysis of amounts outstanding. When an account is considered to be uncollectible, it is written off.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

ACCI records pledges receivable and direct public support in the year the unconditional pledge is received. Pledges are recorded at their estimated net present value based on anticipated future cash flow to reflect the time value of money. The difference between the pledges outstanding and their net present value is recorded as a reduction to pledges receivable and is recognized as contribution revenue over the term of the related pledge. At June 30, 2012 and 2011, ACCI did not have any outstanding pledges receivable.

Inventory

Inventory consists of pharmaceuticals and is stated at market value which approximates cost.

Investments

Investments are recorded at fair value based on quoted market prices, except cash and equivalents, which are stated at cost. Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments may occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair Value Measurement

Generally accepted accounting principles establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of ACCI. Unobservable inputs are inputs that reflect ACCI's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that ACCI has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost or fair value at the date of acquisition. ACCI capitalizes additions greater than \$1,000 that have a useful life in excess of one year. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets, which range from three to twenty years. Leasehold improvements are amortized over the shorter of the remaining lease term or the asset's estimated useful life.

Employee Benefits Payable

ACCI allows its employees to carry over unused paid time off to be used in the event of a long-term disability or to provide supplemental retirement payments. ACCI has recorded an estimate of the liability earned to date by its employees as long-term employee benefits payable.

Pharmacy Sales Revenue

ACCI recognizes revenue from the sale of pharmaceuticals and merchandise at the time these items are sold.

Grant Revenue

ACCI receives support and revenue primarily from federal and New York State government agencies, which are to be used for specific program services and administrative functions. ACCI classifies grants from government agencies as unrestricted. However, these government grants have restrictions as to time and purpose.

ACCI recognizes revenue from funding sources as support when eligible expenditures are incurred or as funded services are performed. A receivable is recognized to the extent support earned exceeds cash advances. Amounts received in advance of the related costs being incurred are recorded as deferred revenue.

Certain ACCI revenue is subject to audit by the funding sources. Any changes resulting from these audits are recognized as they become known.

Fees for Services Revenue

ACCI renders medical services under agreements with third-party payers whereby ACCI is reimbursed under provisions of the third-party payers' respective rate formulas. Amounts received from third-party payers may be less than ACCI's established billing rates, any difference is accounted for as a contractual adjustment, or a deduction from revenue.

During the year ended June 30, 2011, ACCI opened a Medicaid funded adult day health program that provides a variety of health, social and related support services is reimbursed at a fixed rate based on cost for these services. The reimbursement rate for this program is established and is subject to revisions under the provisions of New York State regulations.

ACCI also renders family-centered intensive case management services through a Medicaid funded program known as "Health Homes". ACCI is reimbursed at a fixed rate for these services based on cost. The reimbursement rate for this program is established and is subject to revisions under the provisions of New York State regulations.

ACCI also performs clinical research and enters into other contractual arrangements that generate fees for services as specified under each contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fees for Services Revenue (Continued)

Final determination of a majority of the fees for services revenue earned by ACCI is subject to audit by third-party payers. Provisions are made in the financial statements for anticipated adjustments that may result from such audits. Differences between amounts provided and final settlements are included in the statement of activities in the year of settlement.

ACCI has a policy of providing charity care to patients who are unable to pay for services received. Such patients are identified based on financial information obtained from the patient. Charity care is provided to those patients who have a demonstrated and documented inability to pay full charges for required services and are not covered by any third-party insurer. Since no payment is expected for charity care, the estimated charges are excluded from revenue.

Change in Net Assets from Operations

ACCI's statements of activities and change in net assets include ACCI's excess of revenue over expenses from operations before net investment income. Investment income is excluded from this performance indicator, which is consistent with industry practice.

Donated Services

Volunteers have donated significant amounts of time in support of ACCI's activities. However, the value of these services is not reflected in the accompanying financial statements as they do not meet the criteria for recognition under generally accepted accounting principles.

Advertising

ACCI expenses advertising costs as incurred.

Income Taxes

ACCI is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. ACCI has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. At June 30, 2012, ACCI does not have a liability for unrecognized tax benefits. ACCI files returns in the U.S. federal jurisdiction and New York State. ACCI is generally no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2009.

Sales Tax

ACCI reports its sales tax on a net basis (excluded from revenues).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ACCI's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts have been reclassified in the 2011 statements to conform to the current year presentation.

3. FEES FOR SERVICES REVENUE

Contractual Adjustments

Contractual adjustments included in fees for services revenue were approximately \$53,000 and \$10,000 during the years ended June 30, 2012 and 2011, respectively.

Charity Care

Charity care services were approximately \$20,000 and \$27,000 during the years ended June 30, 2012 and 2011, respectively, when measured at ACCI's established private pay billing rates. These amounts are excluded from fees for services revenue or pharmacy sales, where applicable, in the accompanying statements of activities and change in net assets.

4. NET ASSETS

ACCI's net assets were restricted for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Primary care services	\$ 52,272	\$ 62,002
Special events	8,000	36,166
Supportive services	<u>56</u>	<u>8,679</u>
	<u>\$ 60,328</u>	<u>\$ 106,847</u>

Net assets were released from restriction by satisfying the restricted purposes or by occurrence of other events specified by donors during the year ended June 30 as follows:

	<u>2012</u>	<u>2011</u>
Purpose restriction met	\$ 44,519	\$ 30,302
Provision for doubtful accounts	-	25,000
Time restriction met	<u>2,000</u>	<u>2,500</u>
	<u>\$ 46,519</u>	<u>\$ 57,802</u>

5. CONCENTRATIONS

Fees for Service Revenue

For the years ended June 30, 2012 and 2011, services provided to patients covered under the Medicaid and Medicare programs and the AIDS Drug Assistance Program Plus (ADAP+) represented approximately 81% and 72%, respectively, of fees for services revenue. During the same period, 26% and 41%, respectively, of ACCI's pharmacy sales were covered under the Medicaid and ADAP+ programs.

5. CONCENTRATIONS (Continued)

Accounts Receivable

At June 30, 2012 and 2011, approximately 55% and 54%, respectively, of ACCI's accounts receivable were related to services provided under the Medicaid, Medicare, and ADAP+ programs.

Grant Revenue

Grants are provided to ACCI by federal, state, and local governments, as well as foundations. During the years ended June 30, 2012 and 2011, approximately 47% and 40%, respectively, of ACCI's grants were funded by New York State.

Vendor

During the years ended June 30, 2012 and 2011, ACCI purchased nearly 100% of its pharmacy inventory from one vendor. Amounts payable to this vendor were approximately \$742,000 and \$932,000, respectively, at June 30, 2012 and 2011.

6. INVESTMENTS

Composition

Investments consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Cash and equivalents	\$ 62,924	\$ 311,550
International bond funds	57,855	60,059
Corporate bonds	53,769	54,118
Equity mutual funds	1,229,706	949,455
Bond mutual funds	681,727	634,567
Fixed income mutual funds	<u>318,654</u>	<u>304,687</u>
	<u>\$ 2,404,635</u>	<u>\$ 2,314,436</u>

Net Investment Income

Net investment income, including interest earned on cash and equivalents, consisted of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Interest	\$ 26,411	\$ 1,530
Realized gain on investments, net	3,413	26,137
Unrealized gain on investments, net	<u>41,605</u>	<u>259,440</u>
	<u>\$ 71,429</u>	<u>\$ 287,107</u>

During the years ended June 30, 2012 and 2011, ACCI incurred investment management fees of approximately \$10,900 and \$11,500, respectively, which are included in net investment income.

6. INVESTMENTS (Continued)

Fair Value

Fair value of ACCI's corporate bonds is determined by entering standard inputs into a pricing model. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, and industry and economic events.

ACCI's investments are measured at fair value on a recurring basis at June 30, 2012 utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 62,924	\$ -	\$ -	\$ 62,924
International bond funds	57,855	-	-	57,855
Corporate bonds	-	53,769	-	53,769
Equity mutual funds	1,229,706	-	-	1,229,706
Bond mutual funds	681,727	-	-	681,727
Fixed income mutual funds	<u>318,654</u>	<u>-</u>	<u>-</u>	<u>318,654</u>
	<u>\$ 2,350,866</u>	<u>\$ 53,769</u>	<u>\$ -</u>	<u>\$ 2,404,635</u>

ACCI's investments are measured at fair value on a recurring basis at June 30, 2011 utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and equivalents	\$ 311,550	\$ -	\$ -	\$ 311,550
International bond funds	60,059	-	-	60,059
Corporate bonds	-	54,118	-	54,118
Equity mutual funds	949,455	-	-	949,455
Bond mutual funds	634,567	-	-	634,567
Fixed income mutual funds	<u>304,687</u>	<u>-</u>	<u>-</u>	<u>304,687</u>
	<u>\$ 2,260,318</u>	<u>\$ 54,118</u>	<u>\$ -</u>	<u>\$ 2,314,436</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 921,420	\$ 862,652
Furniture and office equipment	360,359	356,850
Computer hardware and software	591,732	403,450
Medical equipment	<u>10,648</u>	<u>10,648</u>
	1,884,159	1,633,600
Less: Accumulated depreciation and amortization	<u>(764,278)</u>	<u>(530,475)</u>
	<u>\$ 1,119,881</u>	<u>\$ 1,103,125</u>

8. LINES-OF-CREDIT

ACCI has a bank line-of-credit agreement intended for agency and pharmacy cash flow purposes with maximum borrowings of \$400,000. ACCI also has an equipment line-of-credit with maximum borrowings of \$500,000 from the same bank. Amounts borrowed on both lines-of-credit bear interest at the Wall Street Journal prime rate plus 1% (4.25% at June 30, 2012) and are collateralized by ACCI's investment account maintained by that bank. At June 30, 2012 and 2011, the amount outstanding under the terms of the equipment line-of-credit agreement was \$500,000. There were no borrowings on the cash flow line-of-credit at June 30, 2012 and 2011.

Interest expense and the amount paid on amounts outstanding was \$21,608 and \$24,755 during the years ended June 30, 2012 and 2011, respectively.

9. COMMITMENTS AND CONTINGENCIES

Leases

ACCI has an operating lease agreement for its primary office space at 259 Monroe Avenue in Rochester, New York through October 2023. This agreement requires ACCI to make monthly base rental payments of \$56,955 with an annual rental increase of 2% each November.

ACCI also has three additional operating lease agreements for its satellite operations in Rochester, Bath, and Geneva, New York. These agreements require aggregate monthly payments ranging from \$1,055 to \$2,010 through April 2013.

Rent expense recognized by ACCI under the terms of the above agreements was approximately \$748,000 and \$718,000 during the years ended June 30, 2012 and 2011, respectively.

9. COMMITMENTS AND CONTINGENCIES (Continued)

Leases (Continued)

Future minimum payments due under the terms of these lease agreements are as follows for the years ending June 30:

2013	\$	734,555
2014		720,550
2015		734,961
2016		749,660
2017		764,653
Thereafter		<u>5,208,924</u>
	\$	<u>8,913,303</u>

Third-Party Payers

Third-party payers, especially governmental funders, have substantially increased their scrutiny of payments made to their designated service providers. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulation, compliance, etc. The stated purpose for these reviews is to recover reimbursements that the payers believe may be inappropriate.

ACCI has reviewed its internal records and policies with respect to such matters and believes that it has no liability. However, due to the nature of these matters, it is difficult to estimate the ultimate liability, if any, which it may incur for such matters.

Laws and regulations governing the Medicaid program are complex and subject to interpretation. ACCI believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicaid program.

10. BENEFIT PLANS

ACCI has a profit-sharing plan qualified under section 401(k) (the Plan) in which employees are eligible to participate upon date of employment, as defined in the Plan. Contributions to the Plan are discretionary on the part of ACCI. ACCI contributed approximately \$51,000 and \$89,000 to the Plan during the years ended June 30, 2012 and 2011, respectively.

ACCI also has a 457(b) deferred compensation plan into which eligible employees can make elective deferrals. These deferrals are invested in marketable securities and are included in investments on the accompanying balance sheets. These investments totaled \$91,562 and \$70,508 at June 30, 2012 and 2011, respectively.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 1, 2012, which is the date the financial statements were available to be issued.

**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**

October 1, 2012

To the Board of Directors of
A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary:

We have audited the financial statements of A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary (ACCI) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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(Continued)

**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**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACCI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and others within A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

**A C CENTER, INC.
D/B/A AIDS CARE AND
PLEASANT STREET APOTHECARY**

**Single Audit Reports
for the Year Ended
June 30, 2012**

Bonadio & Co., LLP
Certified Public Accountants

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

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**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**

October 1, 2012

To the Board of Directors of
A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary:

We have audited the financial statements of A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary (ACCI) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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(Continued)

**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**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACCI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and others within A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

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

December 5, 2012 (except for the Schedule of Expenditures of Federal Awards,
as to which the date is October 1, 2012)

To the Board of Directors of
A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary:

Compliance

We have audited A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary's (ACCI'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 ACCI's major federal program for the year ended June 30, 2012. ACCI's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of ACCI's management. Our responsibility is to express an opinion on ACCI's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 ACCI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ACCI's compliance with those requirements.

In our opinion, ACCI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

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

(Continued)

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of ACCI as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012, which contained an unqualified opinion on those financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 1, 2012. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

(Continued)

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

(Continued)

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Organization's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Organization's compliance but not to provide an opinion on the effectiveness of the Organization's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

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(Continued)

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/Grantor Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Passed through City of Rochester - Housing Opportunities for Persons with AIDS	14.241	122725	\$ 566,935
Passed through New York State Office of Temporary and Disability Assistance - Housing Opportunities for Persons with AIDS	14.241	C-020963	<u>159,186</u>
			726,121
U.S. Department of Health and Human Services:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA02462	657,081
Passed through Health Research, Inc. - HIV Care Formula Grants	93.917	Various	695,950
Passed through Health Research, Inc. - HIV Prevention Activities - Health Department Based	93.940	Various	<u>254,211</u>
			<u>\$ 2,333,363</u>

The accompanying notes are an integral part of this schedule.

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary (ACCI). The schedule includes expenditures of federal programs received directly from federal agencies, as well as federal assistance passed through other organizations.

2. BASIS OF ACCOUNTING

ACCI's schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States.

Amounts included in the accompanying schedule of expenditures of federal awards are actual expenditures for the year ended June 30, 2012. Differences between amounts included in the accompanying schedule of expenditures of federal awards and amounts reported to funding agencies for these programs result from report timing.

**A C CENTER, INC.
D/B/A AIDS CARE AND PLEASANT STREET APOTHECARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of A C Center, Inc. d/b/a AIDS Care and Pleasant Street Apothecary (ACCI).
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of ACCI were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for ACCI's major federal award program expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for ACCI.
7. The program tested as a major program was Housing Opportunities for Persons with AIDS, CFDA No. 14.241.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. ACCI was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None.