

**AIDS ACTION COALITION, INC. and
SUBSIDIARY**

Huntsville, Alabama

**Audited Financial Statements and
Required Supplemental Information**

September 30, 2012 and 2011



TABLE OF CONTENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities.....	4-5
Consolidated Statements of Functional Expenses	6-7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9-19
ADDITIONAL INFORMATION:	
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21
Report on Internal Control over Financial Reporting and On Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	22
Independent Auditor's Report on Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance with OMB Circular A-133	24
Summary Schedule of Prior Audit Findings	26
Schedule of Findings and Questioned Costs	27-29



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
AIDS Action Coalition, Inc. and Subsidiary
Huntsville, Alabama

We have audited the accompanying consolidated statement of financial position of AIDS Action Coalition, Inc. (a nonprofit organization) and Subsidiary as of September 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of AIDS Action Coalition, Inc. as of September 30, 2011, were audited by other auditors whose report dated March 6, 2012, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AIDS Action Coalition, Inc. and Subsidiary as of September 30, 2012 and the changes in their net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013 on our consideration of AIDS Action Coalition, Inc. and Subsidiary'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Barnes, Blackwell & Company, P.C.

Barnes, Blackwell & Company, P.C.
Certified Public Accountants
Huntsville, Alabama

March 18, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 317,456	\$ 193,530
Grants receivable	235,826	193,457
Receivable - HealthStat Pharmacy	88,037	17,710
Other receivable	3,588	2,740
Inventory	1,724	2,848
Investments, mutual fund	<u>30,962</u>	<u>-</u>
Total Current Assets	677,593	410,285
PROPERTY AND EQUIPMENT, Net	149,674	101,710
OTHER ASSETS		
Software, net of accumulated amortization	20,724	32,350
Deposits	<u>6,756</u>	<u>6,455</u>
Total Other Assets	<u>27,480</u>	<u>38,805</u>
Total Assets	<u>\$ 854,747</u>	<u>\$ 550,800</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 31,537	\$ 21,217
Payroll taxes payable	3,538	3,866
Other payroll withholdings	1,539	750
Accrued salaries	47,665	43,402
Accrued vacation	<u>40,037</u>	<u>33,718</u>
Total Current Liabilities	<u>124,316</u>	<u>102,953</u>
Total Liabilities	124,316	102,953
NET ASSETS		
Unrestricted	<u>730,431</u>	<u>447,847</u>
Total Net Assets	<u>730,431</u>	<u>447,847</u>
Total Liabilities and Net Assets	<u>\$ 854,747</u>	<u>\$ 550,800</u>

See independent auditor's report and notes to financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For years ended
September 30, 2012 and 2011

AIDS Action Coalition, Inc. and Subsidiary

	2012		
	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
REVENUE			
Clinic services	\$ 74,363	\$ -	\$ 74,363
Pharmacy income	578,386	-	578,386
Rental income	6,884	-	6,884
Interest income	1,413	-	1,413
Total Revenue	661,046	-	661,046
SUPPORT			
Grants and contracts	1,764,963	33,415	1,798,378
Fundraising	89,332	-	89,332
Contributions	31,918	-	31,918
Net assets released from restrictions	33,415	(33,415)	-
Total Support	1,919,628	-	1,919,628
Total Revenue and Support	2,580,674	-	2,580,674
FUNCTIONAL EXPENSES			
Client services	792,510	-	792,510
Clinic services	765,453	-	765,453
General and administrative	284,744	-	284,744
Outreach services	218,699	-	218,699
Prevention education	196,235	-	196,235
Fundraising	40,449	-	40,449
Total Functional Expenses	2,298,090	-	2,298,090
Excess (Deficit) of revenues over expenses	282,584	-	282,584
Change in net assets	282,584	-	282,584
Net assets - beginning	447,847	-	447,847
Net Assets - End of Year	\$ 730,431	\$ -	\$ 730,431

See independent auditor's report and notes to financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES – CONTINUED

AIDS Action Coalition, Inc. and Subsidiary For years ended
September 30, 2012 and 2011

	<u>2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
REVENUE			
Clinic services	\$ 103,534	\$ -	\$ 103,534
Pharmacy income	21,083	-	21,083
Rental income	-	-	-
Interest income	574	-	574
Total Revenue	<u>125,191</u>	-	<u>125,191</u>
SUPPORT			
Grants and contracts	1,884,515	54,130	1,938,645
Fundraising	103,199	-	103,199
Contributions	35,747	-	35,747
Net assets released from restrictions	<u>54,130</u>	<u>(54,130)</u>	<u>-</u>
Total Support	<u>2,077,591</u>	<u>-</u>	<u>2,077,591</u>
Total Revenue and Support	2,202,782	-	2,202,782
FUNCTIONAL EXPENSES			
Client services	720,092	-	720,092
Clinic services	652,134	-	652,134
General and administrative	256,762	-	256,762
Outreach services	180,830	-	180,830
Prevention education	171,759	-	171,759
Fundraising	<u>31,848</u>	<u>-</u>	<u>31,848</u>
Total Functional Expenses	<u>2,013,425</u>	<u>-</u>	<u>2,013,425</u>
Excess (Deficit) of revenues over expenses	<u>189,357</u>	<u>-</u>	<u>189,357</u>
Change in net assets	<u>189,357</u>	<u>-</u>	<u>189,357</u>
Net assets - beginning	<u>258,490</u>	<u>-</u>	<u>258,490</u>
Net Assets - End of Year	<u>\$ 447,847</u>	<u>\$ -</u>	<u>\$ 447,847</u>

See independent auditor's report and notes to financial statements.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

AIDS Action Coalition, Inc. and Subsidiary For years ended
September 30, 2012 and 2011

	2012							
	PROGRAM SERVICES					SUPPORT SERVICES		
	Clinic Services	Client Services	Prevention Education	Outreach Services	Total Program Services	General and Admin.	Fund- raising	Total Expenses
Salaries and related	\$ 387,425	\$ 492,728	\$ 122,909	\$ 122,389	\$ 1,125,451	\$ 182,417	\$ -	\$ 1,307,868
Contract services	183,772	-	-	-	183,772	-	-	183,772
Payroll taxes & benefits	29,449	37,455	9,341	9,302	85,547	13,870	-	99,417
Assistance	-	29,663	-	-	29,663	-	-	29,663
Rent expense	26,512	33,719	8,411	8,375	77,017	12,484	-	89,501
Travel	30,190	38,395	9,579	9,537	87,701	14,217	-	101,918
Retreat	-	35,276	17,638	35,276	88,190	-	-	88,190
Computer service	21,145	26,892	6,708	6,680	61,425	9,957	-	71,382
Fundraising expense	-	-	-	-	-	-	40,449	40,449
Printing, copy, postage	5,776	7,345	1,831	1,826	16,778	2,722	-	19,500
Medical supplies	10,298	-	-	-	10,298	-	-	10,298
Telephone	7,859	9,996	2,494	2,485	22,834	3,701	-	26,535
Office supplies	-	15,647	3,903	3,887	23,437	5,794	-	29,231
Utilities	6,186	7,867	1,962	1,953	17,968	2,913	-	20,881
Advertising	4,146	5,273	1,315	1,309	12,043	1,951	-	13,994
Professional fees	4,768	6,064	1,513	1,506	13,851	2,245	-	16,096
Depreciation	10,663	13,564	3,383	3,369	30,979	5,021	-	36,000
Lease expense	3,245	4,127	1,030	1,025	9,427	1,528	-	10,955
Training expense	5,970	7,593	1,893	1,887	17,343	2,813	-	20,156
Insurance	7,880	4,940	1,232	1,227	15,279	1,829	-	17,108
Rental assistance	-	11,600	-	-	11,600	-	-	11,600
Cleaning and disposal	16,742	-	-	-	16,742	-	-	16,742
Repairs & maintenance	1,524	1,939	484	482	4,429	717	-	5,146
Dues & subscriptions	-	-	-	-	-	7,034	-	7,034
Grants to other agencies	-	-	-	5,585	5,585	-	-	5,585
Awards and recognition	-	-	-	-	-	6,985	-	6,985
Bank charges	-	-	-	-	-	4,276	-	4,276
Meetings	-	-	-	-	-	1,372	-	1,372
Medical billing	-	-	-	-	-	-	-	-
Employee benefits	507	645	161	160	1,473	239	-	1,712
Security	1,396	1,782	448	439	4,065	659	-	4,724
TOTALS	\$ 765,453	\$ 792,510	\$ 196,235	\$ 218,699	\$ 1,972,897	\$ 284,744	\$ 40,449	\$ 2,298,090

See independent auditor's report and notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AIDS Action Coalition, Inc. and Subsidiary For years ended
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 282,583	\$ 189,358
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	36,000	17,781
Changes in		
Grants receivable	(112,696)	(49,265)
Other receivables	(848)	(14,450)
Inventory	1,124	2,748
Deposits	(300)	-
Accounts payable	10,320	(17,227)
Payroll taxes payable	(328)	367
Other payroll withholdings	789	262
Accrued salaries	4,263	11,833
Accrued vacation	6,319	8,789
Net Cash Provided by Operating Activities	<u>227,226</u>	<u>150,196</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(30,962)	-
Acquisition of property and equipment	(72,338)	(70,548)
Net Cash Used by Investing Activities	<u>(103,300)</u>	<u>(70,548)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments for capital lease	-	(1,987)
Net Cash Used by Financing Activities	<u>-</u>	<u>(1,987)</u>
Net Increase in Cash	123,926	77,661
Cash and Cash Equivalents - beginning of year	<u>193,530</u>	<u>115,869</u>
Cash and Cash Equivalents - end of year	<u>\$ 317,456</u>	<u>\$ 193,530</u>

See independent auditor's report and notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the accompanying consolidated financial statements. The consolidated financial statements and notes are the representations of AIDS Action Coalition, Inc. and Subsidiary's (AAC) management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting policies generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

The September 30, 2012 presentation includes the financial statements of AIDS Action Coalition, Inc. (AAC) and its wholly owned subsidiary, North Alabama Housing Assistance, LLC (NAHA). All significant intercompany balances and transactions have been eliminated in consolidation. The September 30, 2011 financial statement presentation includes AIDS Action Coalition, Inc.

Nature of Activities

AIDS Action Coalition, Inc. (the Organization) is a nonprofit tax-exempt Alabama corporation organized June 13, 1988, for the purpose of limiting the spread of Human Immunodeficiency Virus and Acquired Immune Deficiency Syndrome, and to ameliorate the suffering of persons with HIV-related illnesses and concerns, as well as their friends, families and loved ones.

North Alabama Housing Association, LLC (the Subsidiary), a nonprofit organization, provides housing assistance to certain individuals in need. NAHA is a limited liability company organized pursuant to the laws of the State of Alabama on November 21, 2011. NAHA operates under the direction and as part of the AAC.

Program Services

AAC maintains various programs upon which costs have been directly attributed to the various programs or have been allocated to the programs based on direct salaries and estimates by management. The following services are offered through the various programs:

Clinic Services: AAC operates the Joe Davis Clinic in Huntsville, Alabama and a satellite clinic in Florence, Alabama to help provide medical services to persons infected with HIV and / or AIDS.

Client Services: AAC provides case management support to individuals with HIV and /or AIDS reimbursed through various fees for services and grants.

Social Services: AAC's social work team provides a support network for individuals and gives them a link to other social services they may need for daily living. These services include case management, housing, medication and emergency assistance, psychosocial support, nutrition counseling, mental health assistance and transportation.

Education/Outreach: AAC provides HIV prevention education throughout the community. Funds indirectly funded by the State of Alabama and through AIDS Alabama for educational programs and services to help prevent the spread of AIDS.

Ryan White II: AAC has entered into grant agreements with the Alabama Department of Public Health for the Ryan White CARE Consortium Program. Under this program, AAC agreed to provide for medical and direct support services for persons with HIV within AAC's service area.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

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

Program Services - continued

Ryan White III: AAC has entered into grant agreements with the Health Resources & Services Administration to receive federal grant money under Ryan White III. These funds are to provide primary care for persons living with HIV/AIDS and to provide direct-care support services to persons with AIDS and/or HIV infection and their families.

ARAP: AAC has entered into an agreement with AIDS Alabama to provide outreach activities for ten of the twelve counties in North Alabama, identify individuals not in care, and provide referrals.

HOPWA: AAC has entered into an agreement with AIDS Alabama to provide housing for persons living with AIDS.

CDC - CONNECT: AAC has entered into an agreement with Centers for Disease Control and Prevention (CDC) for The Connect Program. The Connect Program was established to build communication and negotiation skills around relationship issues, helping African American heterosexual couples over age 18 to examine risky behaviors and assess their relationships, as well as develop skills to reduce risk and improve communication.

CDC – CLEAR: AAC has entered into an agreement with Centers for Disease Control and Prevention (CDC) for The Clear Program. The Clear Program helps African American women and adolescent girls over age 16 identify and reduce risky behaviors, while encouraging healthy lifestyles. The program focuses around individualized case plans and sessions with a prevention educator.

CDC – CRCS: AAC has entered into an agreement with Centers for Disease Control and Prevention (CDC) for the Comprehensive Risk Counseling & Services (CRCS) Program. The CRCS program helps African American men who have sex with men (MSMs) identify behaviors that place them at high risk for contracting HIV/STDs and develop a risk reduction plan to reduce or eliminate these risky behaviors.

CDC – CTR: AAC has entered into an agreement with Centers for Disease Control and Prevention (CDC) for the Counseling, Testing and Referral (CTR) Program to build on the AAC's existing HIV testing program, expanding testing opportunities, increasing clients' knowledge of their HIV status, and providing more comprehensive risk-reduction and referral for appropriate services.

Basis of Accounting

AAC uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Accrual accounting recognizes revenues as they are earned, not necessarily when cash is received. Unconditional promises to give are recognized as revenue when made, not when monies are actually collected. Expenses are recognized and recorded when they are incurred, not necessarily when cash is paid.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial statement presentation

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of AAC and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control, amounts are not restricted or donor imposed restrictions have expired or been satisfied.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of AAC or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by AAC. At September 30, 2012, there were no net assets or activities classified as permanently restricted.

AAC has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, some expenses have been allocated among the programs and services benefited.

Fair Values of Financial Instruments

AAC's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable, prepaid expenses, accounts payable and deferred revenues: The carrying amounts reported in the statement of financial position approximate fair values.

Cash and Cash Equivalents

For the purpose of reporting cash flows, AAC considers all cash accounts and certificates of deposit with a maturity of less than 90 days to be cash or cash equivalents.

Investments

Investments are stated at fair value based on quoted market prices. Unrealized gains and losses are included in current income.

Inventory

Donated inventory is not recorded on the statement of financial position. Sufficient records are not maintained for the receipt of donated inventory and the use of the inventory items. Excluding prescription inventory, purchased inventory is reported as an expense on the statement of activities when purchased. The effect of the omission of this asset on the financial statements is not known. Prescription inventory records are kept, and are recorded at the lower of cost or market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

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

Advertising

The Organization expenses advertising costs as incurred.

Revenues and receivables

AAC's major source of revenue is reimbursement grants from various Federal, State and other agencies. Support is recognized as the pay requests are submitted to the grantor. Support that is restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All the donor-restricted support is reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grants receivable represents amounts due from granting agencies for services provided under grant agreements and billed to the granting agency based upon these agreements. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability to AAC. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time. Management believes this amount if any, would not be material to the financial statements. No allowance for uncollectable receivables has been recognized at September 30, 2012 or 2011 because management believes all receivables represent valid claims for payments or reimbursements.

Public Support and Revenue

Contributions are generally available for unrestricted use unless specifically restricted by the donor.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. Volunteers generally benefit all AAC programs. No amounts have been reflected in the statements for donated services, inasmuch as, no objective basis is available to measure the value of such services.

Property and Equipment

AAC's policy for capitalizing expenditures for property and equipment varies depending on the policy used by the granting agency. The cost of maintenance and repairs is charged to income as incurred. Significant renewals and betterments are capitalized. The State and Federal funding agencies may maintain equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. AAC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. AAC reclassifies temporarily restricted net assets to unrestricted net assets at that time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

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

Property and Equipment - continued

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful life used for the assets range from 3 – 10 years. Purchased assets are valued and depreciated based on historical cost and donated assets are valued and depreciated based on the fair market value at the time of the donation. The estimated useful lives of depreciable assets are:

Office furniture and equipment	7–10 years
Medical equipment and furnishings	7–10 years
Automotive	5 years
Furniture and fixtures	7–10 years
Software	3 years

Income Taxes

AAC is exempt from taxes under Section 501(c) (3) of the Internal Revenue Code. In addition, AAC has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2012 or 2011.

AAC’s accounting policy is to provide liabilities for uncertain tax provisions when a liability is probable and estimable. Management is not aware of any violations of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

AAC files form 990 as a tax-exempt organization. As of September 30, 2012, its 2009 through 2011 fiscal year tax returns are open for examination by the IRS.

Compensated Absences

Annual leave is granted, to all regular full-time employees. Accruals begin immediately and accrued leave may be used upon approval of the supervisor. Full time employees accrue seven hours per pay period and part time employees accrue three and one-half hours per pay period.

Employees are encouraged to use accrued annual leave. Earned but unused annual leave is paid only in the case of termination. Annual leave hours are not considered time worked when calculating overtime. Non-managers are permitted to carry over up to a maximum of 80 hours from one year to the next. Managers are allowed to carry over up to 120 hours.

Accounting for Planned Major Maintenance Activities

AAC does not have any plans for major maintenance activities.

Fair Values of Financial Instruments

The following methods and assumptions were used by AAC in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents and certificates of deposit: The carrying amounts reported in the statement of financial position approximate fair values because of the maturities of those instruments.

Retirement Plan

Employees of AAC are eligible to participate in a retirement plan established pursuant to section 403(b) of the Internal Revenue Code. For the periods ending September 30, 2012 and 2011, AAC elected to not make a contribution.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

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

Fair Value Measurements

AAC categorizes its assets and liabilities measured at fair value into a three level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that AAC has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level II – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised value.

Subsequent to initial recognition, AAC may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. AAC has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Fair values are measured using independent pricing models or other model-based valuation techniques such as appraised values, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions.

AAC has no assets or liabilities that are valued using Level II or III inputs.

NOTE 2 – INVENTORY

Donated inventory is not recorded on the statement of financial position. Sufficient records are not maintained for the receipt of donated inventory and the use of the inventory items. Purchased prescription inventory on hand at September 30, 2012 and 2011 was \$1,723 and \$2,848, respectively, and is reported at lower of cost or market, which approximates fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

NOTE 3- INVESTMENTS

Investments in the consolidated statement of financial position include mutual funds which are valued at fair value as determined by quoted market value at September 30, 2012 and are not held for trading. During the year ending September 30, 2012, AAC invested funds with the Community Foundation Huntsville/Madison County to enhance visibility in the community. By investing, AAC is highlighted on The Community Foundation website and presentations educating donors about the benefits of giving and supporting charities in the Huntsville/Madison County community. As of September 30, 2012, AAC had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>Fair Value</u>
Vanguard Prime Money Market Fund	N/A	Not rated	\$ 12,375
Vanguard Bond Market Index Fund	N/A	Not rated	10,185
Vanguard 500 Index Stock Fund	N/A	Not rated	<u>8,402</u>
			<u>\$ 30,962</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2012</u>	<u>2011</u>
Office equipment	\$ 94,782	\$ 93,358
Software	34,359	34,359
Medical equipment and furnishings	59,264	31,434
Automotive	61,252	19,885
Furniture and fixtures	<u>12,819</u>	<u>12,319</u>
	262,476	191,355
Less accumulated depreciation	<u>(92,078)</u>	<u>(57,295)</u>
Property and equipment, net	<u>\$170,398</u>	<u>\$134,060</u>

Depreciation expense for the years ended September 30, 2012 and 2011 was \$30,434 and \$17,431, respectively.

NOTE 6 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the granting agencies. Any disallowed claims, including amounts already collected, may constitute a liability for AAC. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

NOTE 7 – CONCENTRATIONS

Cash and cash equivalents: The Organization maintains its cash accounts at various banks located in North Alabama. Cash accounts at each bank are insured by the Federal Deposit Insurance Corporation for up to \$250,000 per depositor on interest bearing accounts, and unlimited on non-interest bearing accounts. At times amounts may exceed FDIC limits.

Support: AAC is dependent on funds received through various grants and programs. Funds are received on a reimbursement basis. A significant portion of total support is received through these grants and programs; without this funding the AAC could not continue. Other funding is received from the fund raising efforts of the Organization and other groups in the community as well as contributions from the public.

The following summarizes support and grant receivables that are considered concentrations at September 30, 2012:

<u>Grant</u>	<u>Grantor</u>	<u>CFDA Number</u>	<u>Support</u>	<u>Percent of Total Support</u>	<u>Grant Receivable</u>	<u>Percent of Total Grant Receivable</u>
Ryan White III	U.S D.H.H.S.	93.918B	\$ 501,835	26.14 %	\$ 48,754	20.67 %
Ryan White II	U.S D.H.H.S.	93.918B	465,077	24.23 %	89,885	38.12 %
Office of Women's Health	U.S D.H.H.S.	93.015	143,791	7.49 %	25,840	10.96 %
AL Legislative	State of AL	N/A	51,756	2.70 %	11,593	4.92 %
ARAP	U.S D.H.H.S.	N/A	41,474	2.16 %	6,588	2.79 %
Alabama Department of Public Health	State of AL	93.940	51,169	2.67 %	10,190	4.32 %
CDC	U.S D.H.H.S.	93.939	374,281	19.50 %	26,771	11.35 %
HOPWA	H.U.D.	14.241	29,905	1.56 %	8,465	3.59 %
State Education	State of AL	N/A	25,285	1.32 %	4,868	2.06 %
HPRP	H.U.D.	14.257	400			
Social Innovation Fund	U.S.C.N.C.S.	94.019	84,714	4.41 %	2,870	1.22 %
			<u>\$ 1,769,687</u>	<u>92.17 %</u>	<u>\$ 235,824</u>	<u>100.00 %</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

NOTE 7 – CONCENTRATIONS (continued)

The following summarizes support and grant receivables that are considered concentrations at September 30, 2011:

<u>Grant</u>	<u>Grantor</u>	<u>CFDA Number</u>	<u>Support</u>	<u>Percent of Total Support</u>	<u>Grant Receivable</u>	<u>Percent of Total Grant Receivable</u>
Ryan White III	U.S D.H.H.S.	93.918B	\$ 784,097	37.67 %	\$ -	- %
Ryan White II	U.S D.H.H.S.	93.918B	421,382	20.24 %	76,302	50.44 %
Office of Women's Health	U.S D.H.H.S.	93.015	114,765	5.51 %	-	- %
AL Legislative	State of AL	N/A	41,108	1.97 %	21,454	14.18 %
ARAP	U.S D.H.H.S.	N/A	42,589	2.05 %	7,154	4.73 %
Alabama Department of Public Health	State of AL	93.940	38,920	1.87 %	3,756	2.48 %
Expansion Funding	U.S D.H.H.S.	93.510		- %	-	- %
CDC	U.S D.H.H.S.	93.939	424,646	20.40 %	21,797	14.41 %
HOPWA	H.U.D.	14.241	25,595	1.23 %	2,096	1.39 %
State Education	State of AL	N/A	23,432	1.13 %	7,077	4.68 %
HPRP	H.U.D.	14.257	16,916	0.81	4,553	3.01
State Medicaid	State of AL	N/A	6,286	0.30 %	7,077	4.68 %
			<u>\$ 1,939,736</u>	<u>93.19 %</u>	<u>\$ 151,266</u>	<u>100.00 %</u>

NOTE 8 – LEASES

AAC leases office and clinic space under operating leases. AAC entered into an operating lease agreement for the office and clinic space in Huntsville. The lease term is for 36 months and requires monthly minimum lease payments of \$4,383 per month.

On March 16, 2010 the AAC entered into a lease for additional office and clinic space at the Huntsville facility. During the term of the lease, the AAC shall pay as rent the sum of \$197,640. Said rent shall be paid in thirty-six (36) consecutive monthly installments of \$5,490 beginning April 1, 2010, and ending March 1, 2013.

On December 1, 2011, AAC entered into a lease for additional office space at the Huntsville facility. During the term of the lease, the AAC shall pay as rent the sum of \$13,536.00. Said rent shall be paid in sixteen consecutive monthly installments of \$846.00 beginning December 1, 2011, and ending March 1, 2013.

On June 25, 2010, AAC entered into a lease for office equipment. The lease calls for 60 monthly payments of \$198.32.

On June 25, 2010, AAC entered into a lease for office equipment. The lease calls for 60 monthly payments of \$68.36.

On August 1, 2010, AAC entered into a lease for office equipment. The lease calls for 36 monthly payments of \$150.47.

On August 25, 2010 AAC entered into a lease for office equipment. The lease calls for 36 monthly payments of \$368.33.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

NOTE 8 – LEASES (continued)

On October 28, 2010, AAC entered into a lease for a vehicle. The lease term is 36 months. The first payment was due on October 28, 2010, to be followed by 35 payments of \$649.57 due on the 28th day of each month until the lease is completed. However, the lease contained an option to purchase the vehicle which AAC exercised in August 2012, at a cost of \$22,771.

On November 23, 2010, AAC entered into a lease for a vehicle. The lease term is 39 months. The first payment was due on November 23, 2010, followed by 38 payments of \$510.86 due on the 23rd day of each month until the lease is completed. However, the lease contained an option to purchase the vehicle which AAC exercised in August 2012, at a cost of \$18,596.

AAC entered into an operating lease agreement, for their Florence location. The lease term is for 60 months and requires monthly minimum lease payments of \$1,000 a month with a 3% increase in year 3 and 5.

Future minimum lease payments are as follows for the years ended September 30:

2013	\$ 83,766
2014	16,641
2015	16,244
2016	2,319
	<u>\$ 118,970</u>

NOTE 9 – LINE OF CREDIT

As of September 30, 2011, AAC maintained a \$45,000 line of credit with Worthington Federal Bank with an interest rate of 4.050% and was secured by an interest in a certificate of deposit and a cash (savings) account. The line matured May 1, 2012 and was not renewed. At September 30, 2011, there was no balance outstanding.

NOTE 10: RETIREMENT PLAN

The Organization maintains a retirement plan established pursuant to section 403(b) of the Internal Revenue Service code covering all employees. Employees may elect to defer compensation within the annual limits specified by the Internal Revenue Code. AAC does not match or make other contributions to the plan. Plan participants contributed \$51,674 and \$23,153 for the years ending September 30, 2012 and 2011, respectively.

NOTE 11 – FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value at September 30, 2012 and 2011.

Cash, cash equivalents and mutual funds are valued at the closing price reported on the active market on which they are traded.

The methods described at Note A may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the AAC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012 and 2011

NOTE 11 – FAIR VALUE MEASUREMENTS (continued)

The AAC's assets at fair value as of September 30, 2012 and 2011 by level, within the fair value hierarchy, are summarized as follows:

	<u>Assets at Fair Value as of September 30, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 314,173	\$ -	\$ -	\$ 314,173
Mutual funds	30,962	-	-	30,962
Total assets at fair value	<u>\$ 345,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,135</u>

	<u>Assets at Fair Value as of September 30, 2011</u>			
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cash and cash equivalents	193,530	-	-	193,530
Total assets at fair value	<u>193,530</u>	<u>-</u>	<u>-</u>	<u>193,530</u>

NOTE 11 – RECLASSIFICATIONS

Certain reclassifications of amounts in the previous year's financial statements have been reclassified to conform to the presentation of the current year amounts.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 18, 2013, the date the financial statements were available to be issued.

ADDITIONAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012

<u>Federal Grantor/ Pass-Through Grantor Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Ryan White Title II	93.917	n/a	\$ 465,077
Ryan White Title III - Early Intervention	93.918	n/a	501,835
Office of Women's Health	93.015	n/a	143,791
Alabama Department of Public Health	93.940	n/a	51,169
Center For Disease Control	93.939	n/a	<u>374,281</u>
Total U.S. Department of Health and Human Services			\$ 1,536,153
<u>U.S. Corporation for National and Community Service</u>			
Social Innovation Fund	94.019	n/a	<u>\$ 84,714</u>
Total U.S. Corporation for National and Community Service			\$ 84,714
<u>U.S. Department of Housing and Urban Development</u>			
HOPWA	14.241	n/a	\$ 29,905
HPRP	14.257	n/a	<u>400</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 30,305</u>
Total			<u>\$ 1,651,172</u>

See independent auditor's report

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards or AIDS Action Coalition, Inc. (AAC). The reporting entity is defined in Note A to AAC's accompanying financial statements for the year ended September 30, 2012. All expended federal awards received directly from federal agencies as well as federal awards passed through other agencies are included in the schedule.

NOTE 2 - BASIS OF PRESENTATION

The schedule of federal expenditures includes the federal grant activity of the AIDS Action Coalition, Inc. and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



Randy Barnes, CPA
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Greg Barnes, CPA
Chuck Brand, CPA

Paul Putman, CPA
Floyd Brumelow, CPA
Camilla Watts, CPA
Sonatina Mitchell, CPA
Keith Gray, CPA
Angela King, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
AIDS Action Coalition, Inc. and Subsidiary
Huntsville, Alabama

We have audited the financial statements of AIDS Action Coalition, Inc. and Subsidiary (AAC) (a nonprofit organization) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 item 2012-01 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AAC'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 on instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of AIDS Action Coalition, Inc. and Subsidiary in a separate letter dated March 18, 2013.

AIDS Action Coalition, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit AIDS Action Coalition, Inc.'s response and, accordingly, we express no opinion on it.

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

Barnes, Blackwell & Company, P.C.

Barnes, Blackwell & Company, P.C.
Certified Public Accountants
Huntsville, Alabama

March 18, 2013



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

To the Board of Directors
AIDS Action Coalition, Inc. and Subsidiary
Huntsville, Alabama

Compliance

We have audited AIDS Action Coalition, Inc. and Subsidiary's (AAC) 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 AAC's major federal programs for the year ended September 30, 2012. AIDS Action Coalition, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of AIDS Action Coalition, Inc. and Subsidiary's management. Our responsibility is to express an opinion on AAC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about AIDS Action Coalition, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of AIDS Action Coalition, Inc. and Subsidiary's compliance with those requirements.

In our opinion, AIDS Action Coalition, Inc. and Subsidiary complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of AIDS Action Coalition, Inc. and Subsidiary 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 AIDS Action Coalition, Inc. and Subsidiary'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 the management of AAC'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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-01. 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.

AIDS Action Coalition, Inc. and Subsidiary's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit AAC's responses and, accordingly, we express no opinion on the responses.

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 AAC's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on AAC's compliance but not to provide an opinion on the effectiveness of AAC's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AAC'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.

Barnes, Blackwell & Company, P.C.

Barnes, Blackwell & Company, P.C.
Certified Public Accountants
Huntsville, Alabama

March 18, 2013

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012

Finding 2011-01: Internal Control Document:

Condition: AAC's policies and procedures manual is inaccurate and needs to be updated.

Recommendation: The auditor recommended that the Board review the current policies and procedures manual compared to current operations, procedures, management and controls; compare the results of the review and make and document the necessary changes; and to review the policies and procedures manual on a continual basis.

Current Status: AAC has undertaken a comprehensive review of the policies and procedures manual, comparing it to current operations, procedures, management and controls. The Board started to officially adopt new policies and procedures for the manual in the October 2012 Board meeting. The Board is continuing its review of policies and procedures, and anticipates having a complete updated manual by the end of the September 30, 2013, fiscal year.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)

Finding 2011-02: Improper Draw Down of Federal Funds:

Condition: AAC prematurely requested and received funds that were not available to the AAC under the guidelines of the grant.

Current Status: Corrective action was taken.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012

Section I – Summary of Auditor’s Results

AIDS Action Coalition, Inc. and Subsidiary

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

X Yes No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

Yes X No

Noncompliance material to financial statements noted

Yes X No

Federal Awards

Internal control over the major program:

Material weakness(es) identified?

Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

X Yes No

Type of report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be Reported in accordance with section 510(a) of Circular A-133?

Yes X No

Identification of major programs:

CFDA Number(s)

93.917
93.918
93.939

Name of Federal Program or Cluster

Ryan White Part B
Ryan White Part C
HIV Prevention Activities
Non-Governmental Organization Based

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

Yes X No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012

Section II - Financial Statement Findings

Finding 2012-01 Internal Control Document:

Condition: As noted in previous engagements, audit procedures revealed that the AAC's policies and procedures manual is inaccurate and needs to be updated. We noted various issues where the procedures or positions have changed, but the manual was not updated to reflect the changes. The existing controls appear to be in place, but the documentation is outdated.

Criteria and Effect: An organization establishes internal control processes to provide a reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations. An organization establishes *financial statement controls*, which ensure the accuracy, reliability and completeness of the financial statements, and *compliance controls*, which assure adherence to applicable laws, regulations or contract terms.

Each internal control process contains five components: (1) the control environment, (2) risk assessment, (3) control activities, (4) information and assessment and (5) monitoring. These components were first identified and described in *Internal Control — Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Report). This description of internal controls is incorporated into the American Institute of Certified Public Accountants' auditing standards and in *Government Auditing Standards*.

These controls should be in writing and become part of the Organization's internal control document. The AAC has developed this document and it is in writing, however the Organization has undergone several changes since this document was developed. We noted various instances where the procedures or positions have changed, but the manual were not updated to reflect the changes.

Failure to maintain an adequate and up to date internal control document could lead to multiple problems such as confusion, inefficiencies, monitoring difficulties, lack of responsibility and other break downs in the internal control.

Recommendation: We recommend the Board review the current policies and procedures manual compared to current operations, procedures, management and controls. This may reveal unnecessary procedures, inefficiencies, or the need for additional procedures. We suggest the Board compare the results of the review and make and document the necessary changes. We suggest this be reviewed on a continual basis. This document should be a "living" document that should be continually updated and adhered to.

Management Response:

AAC has undertaken a comprehensive review of the policies and procedures manual, comparing it to current operations, procedures, management and controls. The Board started to officially adopt new policies and procedures for the manual in the October 2012 Board meeting. The Board is continuing its review of policies and procedures, and anticipates having a complete updated manual by the end of the September 30, 2013, fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AIDS Action Coalition, Inc. and Subsidiary

September 30, 2012

Section III – Federal Awards Findings and Questioned Costs

Finding 2012-01 Internal Control Document:

Condition: As noted in previous engagements, audit procedures revealed that the AAC's policies and procedures manual is inaccurate and needs to be updated. We noted various issues where the procedures or positions have changed, but the manual was not updated to reflect the changes. The existing controls appear to be in place, but the documentation is outdated.

Criteria and Effect: An organization establishes internal control processes to provide a reasonable assurance that it will achieve certain objectives concerning the reliability of its financial reporting, the effectiveness and efficiency of its operations, and its compliance with laws and regulations. An organization establishes *financial statement controls*, which ensure the accuracy, reliability and completeness of the financial statements, and *compliance controls*, which assure adherence to applicable laws, regulations or contract terms.

Each internal control process contains five components: (1) the control environment, (2) risk assessment, (3) control activities, (4) information and assessment and (5) monitoring. These components were first identified and described in *Internal Control — Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Report). This description of internal controls is incorporated into the American Institute of Certified Public Accountants' auditing standards and in *Government Auditing Standards*.

These controls should be in writing and become part of the Organization's internal control document. The AAC has developed this document and it is in writing, however the Organization has undergone several changes since this document was developed. We noted various instances where the procedures or positions have changed, but the manual were not updated to reflect the changes.

Failure to maintain an adequate and up to date internal control document could lead to multiple problems such as confusion, inefficiencies, monitoring difficulties, lack of responsibility and other break downs in the internal control.

Recommendation: We recommend the Board review the current policies and procedures manual compared to current operations, procedures, management and controls. This may reveal unnecessary procedures, inefficiencies, or the need for additional procedures. We suggest the Board compare the results of the review and make and document the necessary changes. We suggest this be reviewed on a continual basis. This document should be a "living" document that should be continually updated and adhered to.

Management Response:

AAC has undertaken a comprehensive review of the policies and procedures manual, comparing it to current operations, procedures, management and controls. The Board started to officially adopt new policies and procedures for the manual in the October 2012 Board meeting. The Board is continuing its review of policies and procedures, and anticipates having a complete updated manual by the end of the September 30, 2013, fiscal year.