

*Financial statements and reports
required by OMB Circular A-133:*

RURAL AIDS ACTION NETWORK

Years ended
December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural AIDS Action Network
St. Cloud, Minnesota

Schechter Dokken Kanter
Andrews & Selcer Ltd

Suite 1600

Report on the Financial Statements

We have audited the accompanying financial statements of Rural AIDS Action Network (the Organization) which comprise the statements of financial position as of December 31, 2014 and 2013 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

100 Washington Avenue South

Minneapolis, MN

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

55401-2192

Phone 612-332-5500

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Other Matter

Report on the Schedule of Expenditures of Federal Awards

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2015 on our consideration of the Organization'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* in considering the Organization's internal control over financial reporting and compliance.

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

Minneapolis, MN
September 18, 2015

RURAL AIDS ACTION NETWORKSTATEMENTS OF FINANCIAL POSITION
DECEMBER 31

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets:		
Cash	\$ 119,056	\$ 33,696
Certificate of deposit		10,000
Grants receivable	134,420	126,957
Miscellaneous receivables	656	81
Prepaid expenses	<u>16,403</u>	<u>16,053</u>
Total current assets	<u>270,535</u>	<u>186,787</u>
Property and equipment, net	16,515	8,987
Other asset, security deposit	<u>3,800</u>	<u>1,300</u>
Total assets	<u>\$ 290,850</u>	<u>\$ 197,074</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 32,441	\$ 24,734
Accrued expenses	32,853	29,124
Deferred rent	<u>2,390</u>	<u>246</u>
Total current liabilities	<u>67,684</u>	<u>54,104</u>
Net assets:		
Unrestricted	206,916	92,970
Temporarily restricted	<u>16,250</u>	<u>50,000</u>
Total net assets	<u>223,166</u>	<u>142,970</u>
Total liabilities and net assets	<u>\$ 290,850</u>	<u>\$ 197,074</u>

See notes to financial statements.

RURAL AIDS ACTION NETWORK

	2014		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Individual donations	\$ 4,242		\$ 4,242
Grants:			
Foundations	19,000	\$ 42,500	61,500
Government	1,000,608		1,000,608
Pharmacy program income	46,801		46,801
Honoraria/events	20,100		20,100
Investment income	228		228
Other	49		49
	<u>1,091,028</u>	<u>42,500</u>	<u>1,133,528</u>
Net assets released from restrictions	<u>76,250</u>	<u>(76,250)</u>	<u> </u>
	<u>1,167,278</u>	<u>(33,750)</u>	<u>1,133,528</u>
Expenses:			
Program services	869,904		869,904
Administrative	176,490		176,490
Fundraising	6,938		6,938
	<u>1,053,332</u>		<u>1,053,332</u>
Change in net assets	113,946	(33,750)	80,196
Beginning net assets	<u>92,970</u>	<u>50,000</u>	<u>142,970</u>
Ending net assets	<u>\$ 206,916</u>	<u>\$ 16,250</u>	<u>\$ 223,166</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES
AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31

2013		
Unrestricted	Temporarily restricted	Total
\$ 5,685		\$ 5,685
14,000	\$ 112,554	126,554
910,704		910,704
27,303		27,303
30		30
<u>865</u>		<u>865</u>
958,587	112,554	1,071,141
<u>68,704</u>	<u>(68,704)</u>	
<u>1,027,291</u>	<u>43,850</u>	<u>1,071,141</u>
876,835		876,835
120,734		120,734
<u>27,851</u>		<u>27,851</u>
<u>1,025,420</u>		<u>1,025,420</u>
1,871	43,850	45,721
<u>91,099</u>	<u>6,150</u>	<u>97,249</u>
<u>\$ 92,970</u>	<u>\$ 50,000</u>	<u>\$ 142,970</u>

RURAL AIDS ACTION NETWORKSTATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 80,196	\$ 45,721
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,484	5,332
(Increase) decrease in:		
Grants receivable	(7,463)	(34,155)
Miscellaneous receivables	(575)	4,849
Prepaid expenses	(350)	(4,552)
Security deposit	(2,500)	
(Decrease) increase in:		
Accounts payable	7,707	(9,223)
Accrued expenses	3,729	1,866
Deferred rent	2,144	(422)
Net cash provided by operating activities	<u>89,372</u>	<u>9,416</u>
Cash flows from investing activities:		
Purchase of equipment	(14,012)	(880)
Redemption of certificates of deposit	<u>10,000</u>	<u>25,000</u>
Net cash (used in) provided by investing activities	<u>(4,012)</u>	<u>24,120</u>
Cash flows from financing activities, change in line of credit		<u>(3,000)</u>
Net change in cash	85,360	30,536
Cash, beginning	<u>33,696</u>	<u>3,160</u>
Cash, ending	<u>\$ 119,056</u>	<u>\$ 33,696</u>
Supplementary disclosures of cash flow information:		
Cash paid for interest	<u>\$ 84</u>	<u>\$ 1,911</u>

See notes to financial statements.

RURAL AIDS ACTION NETWORK

	2014			Total expenses
	Program services	Administrative	Fundraising	
Expenses:				
Salaries and wages	\$ 421,808	\$ 73,871	\$ 99	\$ 495,778
Benefits	42,669	7,473	10	50,152
Taxes, payroll	<u>48,286</u>	<u>8,456</u>	<u>12</u>	<u>56,754</u>
	<u>512,763</u>	<u>89,800</u>	<u>121</u>	<u>602,684</u>
Advertising	3,515	4,994		8,509
Contract services	63,374	44,632	6,604	114,610
Depreciation		6,484		6,484
Professional development	1,803	1,290		3,093
Dues and subscriptions	175	1,105		1,280
Insurance	940	11,490		12,430
Interest	12	72		84
Miscellaneous	1,852	572	213	2,637
Meetings	9,008	813		9,821
Postage	3,070	741		3,811
Printing	4,440	377		4,817
Rent, building	36,263	1,613		37,876
Supplies	43,788	7,544		51,332
Telephone	24,038	1,159		25,197
Client reimbursements	96,295			96,295
Staff travel	<u>68,568</u>	<u>3,804</u>		<u>72,372</u>
Total expenses	<u>\$ 869,904</u>	<u>\$ 176,490</u>	<u>\$ 6,938</u>	<u>\$ 1,053,332</u>

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31

2013			
Program services	Administrative	Fundraising	Total expenses
\$ 434,796	\$ 56,587	\$ 16,340	\$ 507,723
87,395	10,955	3,054	101,404
49,953	6,533	2,765	59,251
572,144	74,075	22,159	668,378
2,652	1,485	196	4,333
54,873	27,815	2,292	84,980
4,373	746	213	5,332
839	25		864
	400	425	825
3,390	3,551		6,941
	1,911		1,911
85	456	48	589
7,248	170	2	7,420
1,939	1,588	14	3,541
2,980	377	469	3,826
26,546	4,900	1,225	32,671
20,505	2,533	633	23,671
26,220	702	175	27,097
87,064			87,064
65,977			65,977
\$ 876,835	\$ 120,734	\$ 27,851	\$ 1,025,420

RURAL AIDS ACTION NETWORK

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Nature of business and significant accounting policies:

Nature of business:

The Rural AIDS Action Network (the Organization) is a nonprofit organization that assists persons living with, affected by and at risk for HIV/AIDS in rural Minnesota. This assistance includes medical case management, HIV counseling, testing and referral, health education/risk reduction workshops, medical transportation, support groups and education and training.

Certificates of deposit:

The Organization held certificates of deposits at various financial institutions. While these certificates had varying maturity dates to January 2015, the certificates were redeemed in early 2014 and therefore were classified as current assets on the statement of financial position.

Property and equipment and depreciation methods:

Equipment, either purchased or received as contributions with a minimum value of \$500, is recorded at cost for purchased items and at estimated fair value on date of receipt for donated items.

Depreciation is computed on equipment using the straight-line method over the estimated useful life ranging from 3 to 7 years.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or an agreement with a third party. When a temporary 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.

Grant revenue:

Grant revenue and receivables on cost-reimbursement grants or contracts are recognized when the Organization requests reimbursement from the granting agency after the program expenditures have been incurred or earned. All recorded amounts are deemed to be collectible. Accordingly, no allowance is recorded.

Pharmacy program income:

PharmBlu is the vendor selected by the Organization to administer its 340B program. Instituted in 2014, the program provides the Organization rebates on medications purchased on behalf of the Organization's clients. The Organization's staff have been diligent to ensure that enrolled clients are not eligible for rebates under any ADAP (AIDS Drug Assistance Program) qualified rebate programs. Revenue received through the rebates is applied to other services and/or programs that are related to HIV service provisions acceptable under HRSA (Health Resource and Services Administration) guidelines.

Donated materials and services:

Donated materials are reflected as contributions in the financial statements at their estimated value on the date of receipt. No amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services. However, a substantial number of volunteers donated significant amounts of time to the Organization's program services and fundraising activities.

RURAL AIDS ACTION NETWORK

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Nature of business and significant accounting policies (continued):

Income taxes:

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain income tax positions that require adjustment to the financial statements. Tax years subject to examination generally are years 2011 through 2014.

Advertising:

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2014 and 2013 were \$8,509 and \$4,333, respectively.

Use of estimates:

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

Functional allocation of expenses:

The costs of providing the various programs operated by the Organization have been presented on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications:

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation.

Subsequent events:

Management has evaluated for subsequent events through September 18, 2015, the date the financial statements were available for issuance.

2. Concentrations of risk:

The Organization maintains cash and money market accounts with local banks. At times, the total cash on deposit can exceed the federally insured limit of \$250,000. The Organization has not experienced any loss as a result of these deposits.

The Organization's revenues include \$789,750 and \$655,162 received under two federal grant programs in 2014 and 2013, respectively.

3. Property and equipment and depreciation:

	<u>2014</u>	<u>2013</u>
Equipment	\$ 53,881	\$ 39,870
Less accumulated depreciation	<u>37,366</u>	<u>30,883</u>
	<u>\$ 16,515</u>	<u>\$ 8,987</u>

4. Line of Credit:

The Organization has entered into a \$10,000 revolving line of credit with a credit union. The agreement charges interest at .5 percentage points above the prime rate as established by the Wall Street Journal with a floor of 4.5%. The prime rate was 3.25% at December 31, 2013. The line of credit expired on December 20, 2014, and was not renewed. No balance was outstanding on December 31, 2013.

RURAL AIDS ACTION NETWORKNOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 20135. Temporarily restricted net assets:

At December 31, 2014 and 2013, temporarily restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Restricted for purpose, Syringe programs	\$ 16,250	
Restricted for time		\$ 50,000
	<u>\$ 16,250</u>	<u>\$ 50,000</u>

6. Net assets released from restriction:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or the lapse of time restrictions:

	<u>2014</u>	<u>2013</u>
Purpose restriction	\$ 26,250	\$ 18,704
Time restriction	<u>50,000</u>	<u>50,000</u>
	<u>\$ 76,250</u>	<u>\$ 68,704</u>

7. Commitments:

Operating Leases:

As of December 31, 2014, the Organization maintained four operating leases for office space in Mankato, Moorhead, Duluth, and St. Cloud, Minnesota. These agreements expire at various times through April 30, 2019.

Subsequent to fiscal year end 2014, the Organization entered into a new lease for its Mankato location. This lease expires in April 2018. Future minimum payments related to this lease are included in the following table.

Minimum future lease payments under these leases are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 49,847
2016	50,913
2017	51,289
2018	28,367
2019	<u>8,310</u>
	<u>\$ 188,726</u>

During 2013, the Organization also rented office space on a month-to-month basis in Bemidji and Duluth, Minnesota.

Rent expense for all leases was \$37,876 and \$32,671 for the years ended December 31, 2014 and 2013, respectively.

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*

Schechter Dokken Kanter
Andrews & Selcer Ltd

INDEPENDENT AUDITOR'S REPORT

Suite 1600

Board of Directors
Rural AIDS Action Network
St. Cloud, Minnesota

100 Washington Avenue South

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural AIDS Action Network (the Organization) which comprise the statement of financial position as of December 31, 2014 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2015.

Minneapolis, MN

55401-2192

Internal Control over Financial Reporting

Phone 612-332-5500

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs, listed as item 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The Organization's Response to Findings

The Organization's response to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

Minneapolis, MN
September 18, 2015



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

INDEPENDENT AUDITOR'S REPORT

Schechter Dokken Kanter
Andrews & Selcer Ltd

Board of Directors
Rural AIDS Action Network
St. Cloud, Minnesota

Suite 1600

Report on Compliance for Each Major Federal Program

100 Washington Avenue South

We have audited Rural AIDS Action Network's (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Minneapolis, MN

Management's Responsibility

55401-2192

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

Phone 612-332-5500

Auditor's Responsibility

Fax 612-332-1529

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

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

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Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002, that we consider to be a significant deficiency.

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

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

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

Minneapolis, MN
September 18, 2015

RURAL AIDS ACTION NETWORK

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

<u>Federal grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Federal expenditures</u>
U.S. Department of Health & Human Services Early Intervention Services	93.918		\$ <u>5,522</u>
U.S. Department of Health & Human Services, passed through Hennepin County:			
Mental Health Services	93.917	A130019-SR	51,663
Medical Transportation	93.917	A130019-SR	87,947
Health Education:			
Risk Reduction, Greater Minnesota Initiatives	93.917	A130019-SR	4,582
Food Vouchers	93.917	A130019-SR	22,900
Early Intervention Services	93.917	A130019-SR	1,191
U.S. Department of Health & Human Services, passed through State of Minnesota Department of Health:			
Medical Case Management	93.917	H5531623	<u>549,405</u>
			<u>717,688</u>
U.S. Department of Health & Human Services, passed through State of Minnesota Department of Health and the Minnesota AIDS Project:			
State Planning and Establishment Grants for Affordable Care Act Exchanges	93.525		<u>66,540</u>
Total expenditures of federal awards			<u>\$ 789,750</u>

RURAL AIDS ACTION NETWORK

1. Basis of presentation:

The accompanying *Schedule of Expenditures of Federal Awards* includes the federal grant activity of Rural AIDS Action Network and is presented on the accrual basis of accounting. Expenses are recognized as incurred using the cost accounting principles contained in the United States Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organization*. Under those principles, certain types of expenses are not allowable and are limited as to reimbursement. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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Section I - Summary of Auditor's Results:

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | Material weakness identified: | No |
| | Significant deficiencies identified: | Yes |
| 3. | Noncompliance material to the financial statements noted: | No |

Federal Awards

- | | | |
|----|---|--|
| 4. | Internal control over major programs: | |
| | Material weakness identified: | No |
| | Significant deficiencies identified: | Yes |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133: | Yes |
| 7. | Identification of major programs: | CFDA #93.917
Ryan White Part B
Supplemental Grants
Program and Medical
Case Management |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as low-risk auditee: | Yes |

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Section II – Financial Statement Findings Section:

2014-001 Incomplete Schedule of Expenditures of Federal Awards

Criteria – OMB Circular A-133 requirements state that it is the auditee’s responsibility to identify all federal awards received and expended and the federal programs under which they were received and to prepare the schedule of expenditures of federal awards (SEFA). The SEFA at a minimum needs to include the total federal awards expended from each individual federal program.

Condition – During the 2014 audit, the auditors identified two errors which required management to correct the SEFA. The first error required management to reduce the total federal expenditures for the Medical Case Management grant (CFDA 93.917) by \$21,994. The second error required management to add the State Planning and Establishment Grant (CFDA 93.525), totaling \$66,540, to the SEFA as it was excluded from the original SEFA provided to the auditors. The net impact of these two errors resulted in an increase of total federal expenditures of \$44,546.

Questioned Costs – N/A

Cause – Currently not all contracts and grants are reviewed to ensure compliance with A-133 requirement and to ensure completeness of the SEFA before it is submitted to the auditors.

Context – During the 2014 audit, two adjustments were made to the SEFA from its original completion totaling a net amount of \$44,546.

Effect – The original SEFA was incomplete and the total amount of federal expenditures was under reported by \$44,546.

Recommendation – We recommend the Organization develop a formal review process of contracts and grants. The Accounting Manager should review all contracts and grants upon receipt to ensure compliance with A-133 requirements, if applicable, and to ensure completeness of the SEFA. We also recommend that after the Accounting Manager prepares the SEFA, the SEFA should be reviewed by the Executive Director to ensure completeness and reasonableness.

Management Response – A key program director was in control of the information, specifically electronic receipts for payments made to the grant. As directed by the State, the agency uses the electronic payment and reporting system (SWIFT) to track payments for services rendered. This program director received payment information and directed how those funds were to be applied to the accounting manager. There were payments that were misallocated to incorrect program areas. While researching the question posed by the auditors, the accounting manager was able to secure access to the payment system where she was able to track the payments, find the error and make the appropriate corrections.

We now have better controls in place to ensure this does not happen in the future. The accounting manager has copies of all of the contracts to monitor compliance and has access to the payment system. The accounting manager will continue to monitor payments and apply them to the appropriate accounts.

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Section III - Findings and Questioned Costs Relating to Federal Awards Section:

2014 – 002 Retain Supporting Documentation for all Federal Expenditures

Federal Agency: U.S. Department of Health & Human Services, passed through Hennepin County

Program Name: Ryan White Part B Supplemental Grants Program

CFDA: 93.917

Criteria – OMB Circular A-133 requirements state it is the auditee’s responsibility to obtain and retain supporting documentation for all expenditures of federal awards.

Condition – During the 2014 audit, the auditors were unable to obtain supporting documentation for eight grant expenditures. Therefore, the auditors were unable to conclude the expenditures were allowable under the grant agreement.

Questioned Costs – Known questioned costs total \$4,134. Likely questioned costs, as calculated by the auditors through projection total \$11,330.

Cause – Procedures are in place for the Business Manager to obtain and retain supporting documentation for all federal expenditures, but documentation for these items was not able to be located during the audit.

Context – A sample of 40 individual expenditures totaling \$44,986 was selected for testing from a population of 883 individual expenditures totaling \$168,283. The testing found that eight expenditures did not have supporting documentation and therefore the auditors were unable to conclude the expenditures were allowable under the grant agreement. This resulted in known questioned costs of \$4,134.

Effect – The eight expenditures may be disallowed by the granting agency.

Recommendation – We recommend the Organization obtain and retain supporting documentation for all federal expenditures. If supporting documentation is not obtained, we recommend the Organization request a copy of the invoice or receipt from the vendor in a timely fashion.

Management Response – A key program director (same as listed above) was in control of the information and withheld appropriate documentation from the accounting manager. She had authorization to sign and did not provided receipts for proper reconciliation. The accounting manager had no basis to apply information as it related to the contracted services nor understanding of the program to adequately monitor expenditures until the audit was in process.

We have better controls in place at this time. The accounting manager has copies of all contracts and leadership team members reviewed those contracts and the parameters contained within. Additional controls are in place by limiting those who have access to accounts and ensuring that receipts are submitted in a timely manner. In the future, if receipts have not been obtained within 30 days, the accounting manager will follow up with the vendor the charges were incurred with to obtain a copy of the receipt.