

**CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES – SACRAMENTO**
Sacramento, California

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**
December 31, 2012

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
Sacramento, California

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION
For the Year Ended December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and
Board of Directors
Center for AIDS Research, Education
and Services – Sacramento
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of Center for AIDS Research, Education, and Services – Sacramento (CARES), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 CARES as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

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 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the 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 other 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 expenditure of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2013 on our consideration of CARES' 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 CARES' internal control over financial reporting and compliance.



Crowe Horwath LLP

Sacramento, California
April 17, 2013

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,038,434
Investments (Notes 2 and 3)	8,435,244
Contracts and grants receivable (Note 4)	1,713,603
Accounts receivable, net	2,274,091
Interest receivable	5,764
Inventories	417,291
Prepaid expenses	<u>171,397</u>

Total current assets 15,055,824

Noncurrent assets:

Security deposit	480
Investments (Notes 2 and 3)	2,107,818
Fixed assets, net (Note 5)	<u>2,598,971</u>

Total assets \$ 19,763,093

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 2,135,764
Deferred revenue	<u>76,650</u>

Total liabilities 2,212,414

Commitments, contingencies and concentrations (Note 6)

Net assets, unrestricted 17,550,679

Total liabilities and net assets \$ 19,763,093

See accompanying notes to financial statements.

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

	<u>Unrestricted Fund</u>
Revenues:	
Revenues, grants and other support:	
Contracts and other grants	\$ 302,569
Grants with federal government	3,888,470
Contributions	221,562
Net ancillary outpatient revenue, net	449,364
Net unrealized gains on investments (Note 3)	1,103,162
Investment income (Note 3)	210,024
Miscellaneous revenue	<u>260,705</u>
Total revenues, grants and other support	<u>6,435,856</u>
Pharmacy revenues, net of contractual allowance	31,953,335
Cost of goods sold	<u>(17,930,822)</u>
Net pharmacy revenue	<u>14,022,513</u>
Total revenues	<u>20,458,369</u>
Expenses:	
Medical	3,553,918
Pharmacy	1,936,170
Behavioral Health	1,597,085
Dental	871,395
Social services	311,377
Outreach	1,400,238
Management and general	2,859,301
Contributions – CARES Foundation (Note 9)	<u>23,932,840</u>
Total expenses	<u>36,462,324</u>
Change in net assets	(16,003,955)
Net assets, beginning of year	<u>33,554,634</u>
Net assets, end of year	<u>\$ 17,550,679</u>

See accompanying notes to financial statements.

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012

Cash flows from operating activities:	
Change in net assets	\$ (16,003,955)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	364,662
Amortization	77,942
Transfer of investments	23,932,840
Unrealized gains on investments	1,103,162
Increase in contracts and grant receivables	(536,470)
Increase in accounts receivable	(360,653)
Decrease in inventories	75,100
Increase in prepaid expenses	(126,893)
Decrease in Cash with Fiscal Agent, restricted	177,888
Decrease in accounts payable and accrued expenses	(145,772)
Decrease in interest payable	(62,607)
Decrease in deferred revenue	<u>22,353</u>
Net cash used in operating activities	<u>8,517,597</u>
Cash flows from investing activities:	
Acquisition of property and equipment	(313,395)
Purchase of investments	(10,487,235)
Proceeds from sale of investments	<u>2,988,517</u>
Net cash used in investing activities	<u>(7,812,113)</u>
Cash flows from financing activities:	
Decrease in security deposit	16,460
Decrease in Cash with Fiscal Agent – bond reserve accounts	247,010
Payment of long-term debt	<u>(2,145,000)</u>
Net cash used in financing activities	<u>(1,881,530)</u>
Net decrease in cash and cash equivalents	(1,176,046)
Cash and cash equivalents, beginning of the year	<u>3,214,480</u>
Cash and cash equivalents, end of the year	<u>\$ 2,038,434</u>
Supplemental cash flow disclosures:	
Interest paid	<u>\$ 155,225</u>
Supplemental schedule of non-cash disclosures:	
Transfer of investments	<u>\$ 19,325,593</u>

See accompanying notes to financial statements.

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2012

	Medical	Pharmacy	Behavioral Health	Dental	Social Services	Outreach	Management and General	Total
Expense:								
Wages and benefits	\$ 1,360,682	\$ -	\$ 1,064,119	\$ 382,484	\$ 92,375	\$ 689,859	\$ 2,000,973	\$ 5,590,494
Doctors	908,772	-	248,514	7	5	51	-	1,157,348
Pharmacy staff	136,520	1,580,208	-	-	-	-	-	1,716,728
Other professional fees	156,259	8,319	84,486	277,458	19,501	21,327	330,014	897,363
Emergency financial assistance	10,211	-	4,034	-	172,985	12,038	-	199,268
Medical supplies	159,496	9,939	21,953	47,956	45	430	-	239,820
Laboratory fees	339,262	-	40	40,020	3,758	57	-	383,137
Telephone and utilities	6,334	1,584	3,351	510	1,055	5,547	91,962	110,343
Insurance	77,669	265	-	-	-	-	40,267	118,201
Repairs and maintenance	2,024	-	49	10	7	70	142,955	145,115
Computer hardware/software support	21,363	37,680	14,016	86,394	2,554	18,976	90,219	271,202
Depreciation and amortization	25,550	74,576	22,390	4,566	3,337	31,960	280,225	442,604
Interest expense	-	-	-	-	-	-	92,618	92,618
Other costs/transfers	349,777	223,599	134,133	31,990	15,754	619,923	(209,932)	1,165,245
Total expense	\$ 3,553,919	\$ 1,936,170	\$ 1,597,085	\$ 871,395	\$ 311,376	\$ 1,400,238	\$ 2,859,301	\$ 12,529,484

See accompanying notes to financial statements.

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Center for AIDS Research, Education and Services - Sacramento (CARES) was developed to assist in the appropriate distribution of healthcare resources to Human Immunodeficiency Virus (HIV) or Acquired Immune Deficiency Syndrome (AIDS) patients and healthcare providers in the Northern California area. The organization was formed to:

- Provide a freestanding facility to provide outpatient care and services to persons with HIV/AIDS and their care givers
- Develop and conduct educational programs
- Focus leadership in the HIV/AIDS healthcare network

CARES is primarily supported by contracts, contributions, grants, user fees and pharmacy operations.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. CARES reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor 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. CARES did not have any temporarily or permanently restricted net assets for the year ended December 31, 2012.

CARES reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, CARES reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Federal Grants

Revenue from federal grants is recognized when qualified expenses have been incurred.

Cash, Cash Equivalents and Investments

Cash and cash equivalents includes highly liquid investments with an original maturity of three months or less. CARES maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Those insured financial institutions elected to participate in the FDIC sponsored Transaction Account Guarantee Program under which all noninterest-bearing transaction accounts were fully guaranteed through December 31, 2010. The FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for noninterest-bearing transaction accounts for two additional years starting December 31, 2010. At December 31, 2012, CARES had deposits with a carrying amount of \$1,758,066 and bank balances of \$2,423,902, of which \$847,275 was insured and \$1,576,627 was uninsured.

(Continued)

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments (Continued)

Investments held in brokerage firms are insured up to \$500,000 by the Securities Investor Protection Corporation (SIPC). SIPC insures CARES' investments from risk of loss in the event the brokerage firms go out of business. SIPC insurance does not provide insured coverage related to economical performance of individual investment securities. Additionally, UBS Financial Services (UBS), CARES' investment broker, has purchased supplemental protection. The maximum amount payable to all of UBS' clients collectively under the supplemental policy is \$500 million. At December 31, 2012, CARES had deposits and securities with carrying amounts of \$280,368, all of which was fully insured.

Investments consist of certificates of deposit, short-term commercial paper, mutual funds, U.S. Government treasury notes, U.S. Government agency asset-backed securities, U.S. Corporate bonds and equity securities. Investments are stated at fair value. Realized gains and losses are reflected in the statement of activities. Investments that mature over one year from the statement of financial position are classified as long-term investments.

Uncollectible Accounts Receivable

CARES provides an allowance for doubtful accounts receivable and contractual allowance based upon estimates of the collectible balance of accounts receivable. The balance of receivables is net of the allowance for doubtful accounts and contractual allowance at December 31, 2012 of \$375,759. The activity in the allowance account during the year ended December 31, 2012 is as follows:

Beginning balance	\$ 478,077
Change in provision for doubtful accounts	(102,318)
Write-off of doubtful accounts	<u>-</u>
Ending balance	<u>\$ 375,759</u>

Inventories

Inventories consist of both medical supplies and pharmaceuticals and are stated at the lower of cost (first in - first out method) or market. Because of its status as a federal grantee, CARES' pharmacy is eligible to participate in the federal 340B drug program. The program allows pharmaceuticals sold to eligible clients to be purchased at significant discounts. The pharmacy cost of goods sold reflects these discounts.

Fixed Assets

Fixed assets purchased or acquired, with an original cost of \$5,000 or more, are stated at acquisition cost or fair value on the date of purchase or donation, respectively, net of accumulated depreciation. Major additions which extend the asset's useful life are capitalized. The cost and accumulated depreciation of fixed assets sold or otherwise retired is removed from the accounts and the gain or loss on disposition is reflected in the financial statements.

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CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets (Continued)

Depreciation is provided on a straight-line basis over the lesser of the estimated useful life of the assets or the lease term for assets under capital leases and leasehold improvements as follows:

Building	25 years
Leasehold improvements	7-15 years
Art work	15 years
Furniture and fixtures	10 years
Computer equipment	5 years

Impairment of Long-Lived Assets:

CARES evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to forecasted undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset. Once an impairment charge is recorded, the carrying amount cannot be increased. There was no impairment recorded for the year ended December 31, 2012.

Deferred Revenue

Revenue from Federal, State and local sources is recognized when earned. Funds received but not earned are recorded as deferred revenue until earned.

Bond Issuance Costs

Costs associated with the issuance of the 1998 Series "A" bonds used to acquire and equip the current facility are being amortized over the terms of the related debt, using the straight line method. The bonds were paid off in October 2012 and the remaining issuance costs of \$77,942 were expensed as of December 31, 2012.

Advertising

CARES expenses advertising costs when incurred. Total advertising costs charged to various activities during the year ended December 31, 2012 was \$28,230, and is included in other costs on the Statement of Functional Expenses.

Net Ancillary Outpatient Revenue

Ancillary outpatient revenue is recorded at CARES' established rates with contractual adjustments and allowances deducted to arrive at net ancillary outpatient revenue.

CARES participates in Medicare, Medi-Cal and other insurance programs which provide reimbursement lower than CARES' standard charges.

(Continued)

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Ancillary Outpatient Revenue (Continued)

The laws and regulations under which the Medicare program operates are complex, subject to frequent change and subject to interpretation. As part of operating under the Medicare program, there is a possibility that governmental authorities may review CARES' compliance with these laws and regulations. Such review may result in adjustments made to Medicare reimbursement previously received and subject CARES to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of the Medicare program.

Net amount due from government health insurance programs included in accounts receivable were \$109,449 at December 31, 2012.

Income Taxes

CARES has been granted tax-exempt status by the Internal Revenue Service pursuant to code section 501(c)(3) and also by the California Revenue and Tax Code Section 23701d. CARES is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Tax Code Section 23701d. Accordingly, no provision for income taxes has been included in the accompanying financial statements. However, CARES files informational returns annually with federal and state taxing authorities.

Current accounting standards require CARES to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the year ended December 31, 2012, management has determined that CARES does not have any tax positions that result in any uncertainties regarding the possible impact on the CARES' financial statements. CARES is no longer subject to examination by taxing authorities for years before 2008. CARES does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. CARES recognizes interest and/or penalties related to income tax matters in income tax expense. CARES did not have any amounts accrued for interest and penalties at December 31, 2012.

Functional Expenses

Program services comprise all expenses directly associated with promoting CARES' purpose. Management and general expenses are those expenses not directly associated with a specific program.

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. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(Continued)

NOTE 2 - FAIR VALUE MEASUREMENTS

CARES applies the guidance FASB ASC 820, *Fair Value Measurements*, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for the asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including CARES' own credit risk.

In addition to defining fair value, the standard expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets in Level 1 include domestic and international equities, corporate bonds and exchange-traded mutual funds.

Level 2 – Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets in this category generally include certificates of deposit, short-term commercial paper, government agencies and municipal bonds, asset-backed securities and corporate bonds.

Level 3 – Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve judgment including private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. Financial assets in this category include alternative investments.

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value

The following tables present information about CARES' assets measured at fair value on a recurring basis as of December 31, 2012:

<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Instruments (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Balance at December 31, 2012</u>
Certificates of deposit and short-term commercial paper	\$ -	\$ 249,985	\$ -	\$ 249,985
Mutual funds	3,469,309	-	-	3,469,309
U.S. Government treasury notes	-	622,003	-	622,003
U.S. Government agency asset-backed securities	-	1,489,013	-	1,489,013
Equity securities – common stock	<u>4,712,752</u>	<u>-</u>	<u>-</u>	<u>4,712,752</u>
	<u>\$ 8,182,061</u>	<u>\$ 2,361,001</u>	<u>\$ -</u>	<u>\$ 10,543,062</u>

There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2012.

During the year ended December 31, 2012, there were no significant transfers in or out of Levels 1 and 2. CARES' policy is to recognize transfer in and out as of actual date of the event or change in circumstances that caused the transfer.

As of December 31, 2012, the Level 2 instruments listed in the fair value hierarchy table above use the following valuation techniques and inputs:

Certificates of Deposit and Short-Term Commercial Paper

The fair value of certificates of deposit and short-term commercial paper classified as Level 2 is primarily determined by the market approach using a multi-dimensional relational model significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

U.S. Government Treasury Notes

The fair value of U.S. Government treasury notes classified as Level 2 is primarily determined by the market approach using broker feeds and Electronic Communication Networks (ECNs). Significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data including market research publications and vendor trading platform data.

(Continued)

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

U.S. Government Agency Asset-Backed Securities

The fair value of U.S. Government agency asset-backed securities classified as Level 2 is primarily determined by the market approach using multi-dimensional, collateral specific spread/prepayment speed tables. Significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data including market research publications, new issue data, monthly payment information and collateral performance.

NOTE 3 - INVESTMENTS

Investments at December 31, 2012 consisted of the following:

Certificates of deposit and short-term commercial paper	\$ 249,985
Mutual funds	3,469,309
U.S. Government treasury notes	622,003
U.S. Government agency asset-backed securities	1,489,013
Equity securities – common stock	<u>4,712,752</u>
Total	10,543,062
Less current investments	<u>(8,435,244)</u>
Noncurrent investments	<u>\$ 2,107,818</u>

Investments are carried at fair value; therefore, realized and unrealized gains and losses are reflected in the statement of activities in the year incurred. Investment income at December 31 was as follows:

Net realized gains on sale of securities	\$ 23,056
Interest and dividends, net of fees of \$78,751	<u>186,968</u>
	<u>\$ 210,024</u>

NOTE 4 - CONTRACTS AND GRANTS RECEIVABLE

Contracts and grants receivable include contract revenue earned but not received from the Sacramento County Health Department. The contracts receivable from the County Health Department was \$1,410,523 at December 31, 2012, and is included in contracts and grants receivable.

(Continued)

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 5 - FIXED ASSETS

Fixed assets consisted of the following at December 31, 2012:

Land	\$ 429,000
Building	2,404,426
Leasehold improvements	1,290,030
Furniture and equipment	<u>1,388,036</u>
Total cost	5,511,492
Less accumulated depreciation	<u>(2,912,521)</u>
Fixed assets, net	<u>\$ 2,598,971</u>

NOTE 6 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Operating Leases

CARES leases certain equipment under operating leases. The leases expire on various dates through 2016 and have various renewal options. The total amount of the payments is being charged to expense using a straight-line method over the term of the lease. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 67,704
2014	67,704
2015	67,704
2016	<u>11,284</u>
	<u>\$ 214,396</u>

Rental expense included in management and general expenses totaled \$67,704 for the year ended December 31, 2012.

Contingencies

CARES is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of CARES.

CARES has received federal funds for specific purposes that are subject to review and audit by the grantor agency. Although such audits could generate expenditure disallowances under the terms of the grant, management believes that any required reimbursements will not be material.

(Continued)

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS (Continued)

Concentrations

A substantial amount of CARES' income is received from federal and state governments. A significant reduction in the level of this revenue, if it were to occur, could have an impact on CARES' ability to provide services to its clients. Additionally, if federal legislation were to change the structure of the 340B drug program, there could be a significant reduction of net pharmacy revenues.

NOTE 7 - RELATED-PARTY TRANSACTIONS

During 2012, CARES entered into the following transactions with the employers of various board members:

Revenues:		
Part A/B Contract (County of Sacramento, as Fiscal Agent)	\$	2,417,734
County Medically Indigent Services Program (County of Sacramento)	\$	120,730
Department of Human Assistance (County of Sacramento, as Fiscal Agent)	\$	222,730
Grant (Kaiser Foundation Health Plan)	\$	75,000
Rent (UC Davis Medical Center)	\$	16,983

During 2012, CARES entered into the following transactions with the employers of various board members:

Expenses:		
Contracted professional services for medical director and physician staffing (UC Davis Medical Group)	\$	899,870
Contracted professional services for pharmacists and pharmacy staffing (UC Davis Medical Group)	\$	1,716,728
Contracted professional services for interpreters, psychologists, and other services (UC Davis Medical Group)	\$	210
Contracted medical provider expense (Sutter Medical)	\$	10,000

(Continued)

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE 8 – EMPLOYEE BENEFIT PLAN

The CARES 401(k) Savings Plan commenced July 1, 2004 and is available to employees who have completed 90 days of employment and have attained the age of 18. Under the Plan, eligible employees are able to defer a selected percentage of their annual compensation. For employees who have completed one year of eligible service and are 18 or older, CARES will make a matching contribution to the Plan equal to the participant's contribution up to a maximum of 4% of the employee's compensation. CARES' contribution to the plan totaled \$74,179 for the year ended December 31, 2012.

NOTE 9 – CARES FOUNDATION

The CARES Foundation was established in 2011. The mission of the Foundation is to support and promote organizations that engage in activities that directly or indirectly further the prevention of HIV/AIDS and/or provide services to or improve the welfare of individuals with HIV/AIDS in the Sacramento region. The Foundation will make grants or donations to organizations that help fulfill this mission. In January 2012, CARES' Board of Directors voted to contribute certain long-term investment assets managed by UBS Financials Service, a broker/dealer to the CARES Foundation. Investments totaling \$23,932,840 were transferred to the Foundation in January 2012.

During 2012, the Foundation paid \$23,505 in rent and management fees, to CARES, in accordance with a management agreement, subject to renewal on an annual basis.

NOTE 10 – LONG-TERM DEBT

In April 1998, CARES issued bonds in order to finance the purchase of a building, building improvements and land. The total amount of the bonds issued was \$3,300,000. The bonds carry interest rates ranging from 3.07% to 5.3% and mature through the year 2024. The bonds were completely paid off during the year ended December 31, 2012.

NOTE 11 – SUBSEQUENT EVENTS

On March 1, 2013, CARES entered into an agreement to purchase a building adjacent to its current location. The purchase price is to be paid by a bank loan, with a down payment coming from CARES' reserves and a donation from the CARES Foundation.

CARES has made a deposit of \$100,000 upon signing the Sales agreement. This amount is non-refundable. CARES is currently in the due diligence phase of the transaction, and upon successful completion of its due diligence, CARES will deposit another \$100,000. CARES expects to complete its due diligence in late April 2013. It expects to complete the purchase by late May 2013.

CARES has reviewed all events occurring from December 31, 2012 through April 17, 2013, the date the financial statements were available to be issued and no additional subsequent events occurred requiring accrual or disclosure.

SUPPLEMENTAL INFORMATION

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
Year Ended December 31, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expend- itures</u>
Pass-Through from the County of Sacramento:		
HIV Emergency Relief Project Grants	93.914	\$ 2,333,951
Homeless Prevention Activities (HOPWA) Targeted Housing and Assistance, Shelter Plus Care	14.231	<u>222,729</u>
Subtotal passed through the County of Sacramento		<u>2,556,680</u>
U.S. Department of Health and Human Services:		
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	584,655
Center for Substance Abuse and Treatment (CSAT) HIV Prevention Activities Non-Governmental Organization Based	93.243	375,101
Ryan White Part D	93.939	304,502
	93.153	<u>67,532</u>
Subtotal direct awards		<u>1,331,790</u>
		<u>\$ 3,888,470</u>

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
NOTE TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditure of Federal Awards includes the Federal grant activity of Center for Aids Research, Education and Services - Sacramento, and is presented on the 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.

INDEPENDENT AUDITORS 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 Audit Committee and Board of Directors
Center for Aids Research, Education and Services – Sacramento
Sacramento, California

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 CARES, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 17, 2013. The financial statements of CARES were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CARES' 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 CARES' internal control. Accordingly, we do not express an opinion on the effectiveness of CARES' internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely 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. 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.

Crowe Horwath LP

Crowe Horwath LLP

Sacramento, California
April 17, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Audit Committee and
Board of Directors
Center for Aids Research, Education
and Services - Sacramento
Sacramento, California

Report on Compliance for Each Major Program

We have audited Center for Aids Research, Education and Services – Sacramento's (CARES) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Center for Aids Research, Education and Services – Sacramento's major federal programs for the year ended December 31, 2012. Center for Aids Research, Education and Services - Sacramento's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Center for Aids Research, Education and Services – Sacramento'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 Center for Aids Research, Education and Services – Sacramento's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Center for Aids Research, Education and Services – Sacramento's compliance.

Opinion on Each Major Federal Program

In our opinion, Center for Aids Research, Education and Services – Sacramento 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, 2012.

Report on Internal Control Over Compliance

Management of Center for Aids Research, Education and Services – Sacramento 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 CARES' 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 Center for Aids Research, Education and Services – Sacramento's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Center for Aids Research, Education and Services – Sacramento as of and for the year ended December 31, 2012, and have issued our report thereon dated April 17, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
April 17, 2013

FINDINGS AND RECOMMENDATIONS

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES - SACRAMENTO
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered
to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements
noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered
to be material weakness(es)? _____ Yes X None reported

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

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510(a)? _____ Yes X No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
93.914	HIV Emergency Relief Project Grants

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

Auditee qualified as low-risk auditee? _____ Yes X No

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES – SACRAMENTO
SUMMARY OF FINDINGS AND RECOMMENDATIONS
Year Ended December 31, 2012

No matters were reported in the current year.

CENTER FOR AIDS RESEARCH,
EDUCATION AND SERVICES – SACRAMENTO
SUMMARY OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2012

No matters were reported in the prior year.