

**MATTHEW 25 AIDS SERVICES, INC.**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2012**

MATTHEW 25 AIDS SERVICES, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Matthew 25 Aids Services, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Matthew 25 AIDS Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows 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 Matthew 25 AIDS Services, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 October 11, 2013, on our consideration of Matthew 25 AIDS Services, Inc. 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 Matthew 25 AIDS Services Inc.'s internal control over financial reporting and compliance.



Kemper CPA Group LLP  
Certified Public Accountants and Consultants

Henderson, KY  
October 11, 2013

MATTHEW 25 AIDS SERVICES, INC.

Statement of Financial Position

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 121,673	\$ 41,148	\$ 162,821
Grant receivables	87,232	-	87,232
Patient receivables	112,692	-	112,692
Prepaid expenses	10,417	-	10,417
Inventory	<u>623</u>	<u>-</u>	<u>623</u>
Total current assets	<u>332,637</u>	<u>41,148</u>	<u>373,785</u>
Noncurrent assets:			
Property and equipment, net of accumulated depreciation	<u>38,036</u>	<u>-</u>	<u>38,036</u>
Total noncurrent assets	<u>38,036</u>	<u>-</u>	<u>38,036</u>
Total assets	<u>\$ 370,673</u>	<u>\$ 41,148</u>	<u>\$ 411,821</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current liabilities:			
Accounts payable	\$ 87,432	\$ -	\$ 87,432
Accrued liabilities	<u>65,105</u>	<u>-</u>	<u>65,105</u>
Total liabilities	<u>152,537</u>	<u>-</u>	<u>152,537</u>
Net assets:			
Unrestricted	218,136	-	218,136
Temporarily restricted	<u>-</u>	<u>41,148</u>	<u>41,148</u>
Net assets	<u>218,136</u>	<u>41,148</u>	<u>259,284</u>
Total liabilities and net assets	<u>\$ 370,673</u>	<u>\$ 41,148</u>	<u>\$ 411,821</u>

See accompanying notes to financial statements.

MATTHEW 25 AIDS SERVICES, INC.

Statement of Activities

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue:</b>			
<b>Support:</b>			
<b>Contributions:</b>			
Federated	\$ -	\$ -	\$ -
General public	22,368	3,360	25,728
Governmental grants	635,826	420,865	1,056,691
Other grants	-	47,089	47,089
Special events	9,064	-	9,064
<b>Total support</b>	<b>667,258</b>	<b>471,314</b>	<b>1,138,572</b>
<b>Revenue:</b>			
Patient service fees	657,179	-	657,179
Other income	18,135	-	18,135
<b>Total revenue</b>	<b>675,314</b>	<b>-</b>	<b>675,314</b>
Net assets released from restrictions	473,962	(473,962)	-
<b>Total support and revenue</b>	<b>1,816,534</b>	<b>(2,648)</b>	<b>1,813,886</b>
<b>Expenses:</b>			
<b>Program services:</b>			
Clinical services	1,022,798	-	1,022,798
Housing	116,583	-	116,583
Prevention and education	103,316	-	103,316
Support services	343,922	-	343,922
<b>Total program services</b>	<b>1,586,619</b>	<b>-</b>	<b>1,586,619</b>
<b>Support services:</b>			
Management and general	139,226	-	139,226
Fund raising	10,800	-	10,800
<b>Total support services</b>	<b>150,026</b>	<b>-</b>	<b>150,026</b>
<b>Total expenses</b>	<b>1,736,645</b>	<b>-</b>	<b>1,736,645</b>
Change in net assets	79,889	(2,648)	77,241
Net assets, beginning of year	138,247	43,796	182,043
Net assets, end of year	\$ 218,136	\$ 41,148	\$ 259,284

See accompanying notes to financial statements.

MATTHEW 25 AIDS SERVICES, INC.

Statement of Functional Expenses

Year Ended December 31, 2012

	Program Services				Total Program Services
	Clinical Services	Housing	Prevention/ Education	Support Services	
Salaries	\$ 305,346	\$ 12,796	\$ 63,990	\$ 165,328	\$ 547,460
Payroll taxes and fringe benefits	63,718	2,670	13,353	34,500	114,241
Specific assistance to individuals	89,498	78,041	-	74,572	242,111
Supplies	323,963	11,758	4,927	33,797	374,445
Professional fees	44,579	-	6,700	5,200	56,479
Rent	18,513	1,392	2,088	21,037	43,030
Utilities	3,348	595	1,578	1,560	7,081
Telephone	-	-	1,771	1,856	3,627
Insurance	9,272	570	1,833	1,414	13,089
Conferences and training	-	-	-	-	-
Travel	4,292	-	2,979	3,154	10,425
Dues and subscriptions	1,080	-	-	-	1,080
Advertising	-	-	-	-	-
Equipment rent and maintenance	-	5,277	-	-	5,277
Miscellaneous	156,874	3,196	3,070	-	163,140
Depreciation	2,315	288	1,027	1,504	5,134
<b>Total expenses</b>	<b><u>\$1,022,798</u></b>	<b><u>\$116,583</u></b>	<b><u>\$ 103,316</u></b>	<b><u>\$343,922</u></b>	<b><u>\$1,586,619</u></b>

See accompanying notes to financial statements.

Management and General	Fund Raising	Total Expenses
\$ 45,233	\$ 3,184	\$ 595,877
9,439	665	124,345
-	-	242,111
4,057	6,943	385,445
40,850	-	97,329
3,807	-	46,837
2,349	-	9,430
2,176	-	5,803
4,808	8	17,905
1,153	-	1,153
9,611	-	20,036
1,079	-	2,159
1,451	-	1,451
2,421	-	7,698
8,363	-	171,503
2,429	-	7,563
<u>\$ 139,226</u>	<u>\$ 10,800</u>	<u>\$ 1,736,645</u>

MATTHEW 25 AIDS SERVICES, INC.

Statement of Cash Flows

Year Ended December 31, 2012

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Cash flows from operating activities:	
Change in net assets	\$ 77,241
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,563
(Increase) decrease in grant receivables	(4,117)
(Increase) decrease in patient receivables	(84,923)
(Increase) decrease in employee receivables	-
(Increase) decrease in prepaid expenses	(6,422)
(Increase) decrease in inventory	3,951
Increase (decrease) in accounts payable	53,583
Increase (decrease) in accrued liabilities	<u>18,387</u>
Net cash provided (used) by operating activities	<u>65,263</u>
Cash flows from investing activities:	
Purchase of fixed assets	<u>(6,370)</u>
Net cash provided (used) by investing activities	<u>(6,370)</u>
Net increase (decrease) in cash	58,893
Cash, beginning of year	<u>103,928</u>
Cash, end of year	<u>\$ 162,821</u>

See accompanying notes to financial statements.

MATTHEW 25 AIDS SERVICES, INC.

Notes to Financial Statements

December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

Matthew 25 AIDS Services, Inc. is a Kentucky nonprofit corporation created to support, educate, and treat those infected with and affected by HIV/AIDS in the Western Kentucky and Southern Indiana area. Approximately 58% of the Organization's funding is derived from grants from the Federal government either received directly from the U.S. Department of Health and Human Services or passed through the State of Kentucky Department for Public Health.

B. Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/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 net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Matthew 25 AIDS Services, Inc. currently has no permanently restricted net assets.

C. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Unconditional promises to give are recognized as revenues or gains in the period received.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

D. Donated Services and Materials

The organization reports amounts for donated services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. No amounts were recognized for donated services in the current year.

Donated materials are recorded as contributions at their fair values at the date of donation. No amounts were recognized for donated materials in the current year.

#### E. Property and Equipment

Purchases of property and equipment having a cost of \$1,000 or more are capitalized at cost. Donated assets are capitalized at the estimated fair market value at time of receipt. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The following is a summary of useful lives:

Furniture & equipment	3 – 10 years
Leasehold Improvements	10 – 39 years
Vehicles	5 years

#### F. Income Taxes

The organization, a nonprofit organization classified under section 501(c)(3) of the Internal Revenue Code as other than a private foundation, is exempt from income taxes and, accordingly, the financial statements do not reflect a provision for income taxes.

The Financial Accounting Standards Board has issued an FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which requires entities to disclose known or anticipated positions of income tax uncertainty. The organization is not aware of any uncertain income tax positions as of October 11, 2013. The organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2009 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

#### G. Functional Allocation of Expenses

The organization allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

#### H. Estimates

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

#### I. Cash and Cash Equivalents

The organization considers cash equivalents to be all short-term, highly liquid investments, which are readily convertible into cash. All deposits are fully insured by the Federal Deposit Insurance Corporation.

#### J. Contingent Liabilities

Support funded by governmental grants is recognized as the organization incurs outlays for eligible reimbursement under reimbursement grant agreements or as draws are requested from non-reimbursement grants. These grants are subject to program compliance audits by the grantors or their representatives. Such audits for or including the year ended December 31, 2012, have not been conducted. The amount, if any, of expenses which may be disallowed cannot be determined at this time although the organization expects such amounts, if any, to be immaterial.

#### K. Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full principal payments are not received in

accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected

L. Net Patient Service Fees

The organization has agreements with third-party payers that provide for payments at amounts different than its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, and discounted charges. Net patient service fees are reported at the estimated net realizable amount from patients, third-party payers, and others for services rendered, including estimated retroactive agreements with third-party payers.

M. Charity Care

The organization provides care to patients who meet certain criteria under its charity care policy without charge. Such patients are identified based on financial information obtained from the patient. Since the organization does not expect payment, estimated charges for charity care are not included in revenue.

N. Inventories

Inventories, which consist only of pharmaceutical supplies and are maintained by a third party vendor, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

O. Date of Management's Review

Subsequent events have been evaluated through October 11, 2013, which is the date the financial statements were available to be issued.

NOTE 2 – GRANT RECEIVABLES

Grant receivables at December 31, 2012, are deemed to be fully collectible and are receivable in less than one year. The following is a summary by source of grant receivables.

<u>Funding Source</u>	<u>Amount</u>
KY Housing Corporation – Housing Opportunities for Persons with AIDS	\$ 2,553
KY Cabinet for Health and Family Services – HIV Care Formula Grants	68,828
KY Cabinet for Health and Family Services – HIV Prevention Grants	6,404
KY Housing Corporation – Shelter Plus Care	5,014
United Way – National Board Program	<u>4,433</u>
Total grant receivables	<u>\$87,232</u>

NOTE 3 – PATIENT RECEIVABLES

Patient receivables are stated net of contractual adjustments and un-collectibles.

Third party receivable	\$104,139
Patient receivable	13,953
Less allowance for doubtful accounts	<u>5,400</u>
Net patient receivables	<u>\$112,692</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Clinic equipment	\$ 13,561
Office equipment	40,023
Leasehold improvements	18,706
Vehicles	<u>48,722</u>
	121,012
Less accumulated depreciation	<u>82,976</u>
	<u>\$ 38,036</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose at December 31, 2012:

Prevention	\$ 94
Food pantry	27,336
Street Smarts	1,423
Primary care and support	11,481
National testing day	504
World AIDS day	121
Supplies	<u>189</u>
	<u>\$41,148</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Purpose restrictions accomplished:	
Primary care and support	\$409,792
Prevention	1,605
Food pantry	25,399
Street Smarts	5,592
HIV Testing	30,000
National test day, African American	1,168
World AIDS day	<u>406</u>
Total restrictions released	<u>\$473,962</u>

NOTE 6 – SUMMARY OF GOVERNMENTAL GRANT FUNDING

The organization received funding through the following governmental grants for the year ended December 31, 2012:

<u>Funding Source</u>	<u>Direct or Pass-through</u>	<u>Recognized Support</u>
U.S. Department of Health and Human Services:		
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct	\$ 416,432
HIV Prevention Activities Non-Governmental Based	Direct	
HIV Care Formula Grants	KY Pass-through	368,254
HIV Prevention Grants	KY Pass-through	67,138
U.S. Department of Housing and Urban Development:		
Shelter Plus Care	KHC Pass-through	56,827
Housing Opportunities for Persons with Aids	KHC Pass-through	55,301

U.S. Department of Homeland Security: Emergency Food and Shelter National Board Program	UW Pass-through	4,433
Commonwealth of Kentucky: General Fund – KY HIV/AIDS Care Coordinator Program	Direct	<u>88,306</u>
Total governmental grants		<u>\$1,056,691</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

During the year, the organization paid rent of \$38,209 for office and clinic space to Matthew 25 AIDS Services Foundation, a nonprofit corporation. Some of Matthew 25 AIDS Services Foundation board of directors members also serve on Matthew 25 AIDS Services, Inc. board of directors.

NOTE 8 – LEASED PROPERTY

The organization leases property for its operations at various locations. All leases have monthly payments with lease terms of less than one year.

MATTHEW 25 AIDS SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

	Federal CFDA Number	Pass-Through Grantor's Number	Amount Expended
<u>U.S. Department of Health and Human Services</u>			
Direct programs:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (M)	93.918		\$ 367,239
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		<u>53,471</u>
Total direct programs			<u>420,710</u>
Pass-through programs from:			
KY State Cabinet for Health and Family Services:			
HIV Care Formula Grants (M)	93.917	0169	370,314
HIV Prevention Activities Health Department Based	93.940	PS-11/12-1001	<u>67,708</u>
Total pass-through programs			<u>438,022</u>
Total Department of Health and Human Services			<u>858,732</u>
<u>U.S. Department of Housing and Urban Development</u>			
Pass-through programs from Kentucky Housing Corporation:			
Shelter Plus Care	14.238	TB10/12-0069-01	56,987
Housing Opportunities for Persons with Aids	14.241	KYH11/12F-999	<u>55,707</u>
Total Department of Housing and Urban Development			<u>112,694</u>
<u>U.S. Department of Homeland Security</u>			
Pass-through program from United Way:			
Emergency Food and Shelter National Board Program	97.024		<u>4,433</u>
Total Department of Homeland Security			<u>4,433</u>
Total expenditures of federal awards			<u>\$ 975,859</u>

(M) - Major program

See accompanying notes to schedule of expenditures of federal awards.

MATTHEW 25 AIDS SERVICES, INC.

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Matthew 25 AIDS Services, Inc. under programs of the federal government for the year ended December 31, 2012. 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*. Because the schedule presents only a selected portion of the operations of Matthew 25 AIDS Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Matthew 25 AIDS Services, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE 3 – INSURANCE AND LOAN GUARANTEES

The Organization had no Federal insurance or loan guarantees during the year ended December 31, 2012.

NOTE 4 – NON-CASH ASSISTANCE

The Organization did not receive any non-cash assistance for the year ended December 31, 2012.



INDEPENDENT AUDITOR'S 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 of  
Matthew 25 AIDS Services, Inc.

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 Matthew 25 AIDS Services, Inc. (a nonprofit organization), 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 October 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Matthew 25 AIDS Services, Inc.'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 Matthew 25 AIDS Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 Matthew 25 AIDS Services, Inc.'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*.

**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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kemper CPA Group LLP*

Kemper CPA Group LLP  
Certified Public Accountants and Consultants

Henderson, KY  
October 11, 2013



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

To the Board of Directors of  
Matthew 25 AIDS Services, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Matthew 25 AIDS Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Matthew 25 AIDS Services, Inc.'s major federal programs for the year ended December 31, 2012. Matthew 25 AIDS Services, Inc.'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 Matthew 25 AIDS Services, Inc.'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 Matthew 25 AIDS Services, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Matthew 25 AIDS Services, Inc.'s compliance.

**Opinion on Each Major Federal Program**

In our opinion, Matthew 25 AIDS Services, Inc. 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 Matthew 25 AIDS Services, Inc. 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 Matthew 25 AIDS Services, Inc.'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 Matthew 25 AIDS Services Inc.'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.

*Kemper CPA Group LLP*

Kemper CPA Group LLP

Certified Public Accountants and Consultants

Henderson, KY

October 11, 2013

MATTHEW 25 AIDS SERVICES, INC.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Matthew 25 AIDS Services, Inc.
2. No significant deficiencies were disclosed during the audit of the financial statements as reported in the "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*".
3. No instances of noncompliance material to the financial statements of Matthew 25 AIDS Service, Inc. were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit as reported in the "Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for Matthew 25 AIDS Services, Inc. expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Matthew 25 AIDS Services, Inc. are reported in this schedule.
7. The programs tested as major programs included: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Program Part C) - CFDA 93.918 and HIV Care Formula Grants - CFDA 93.917.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Matthew 25 AIDS Services, Inc. was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None