

AIDS RESOURCE CENTER OHIO, INC.
AND SUBSIDIARIES

FINANCIAL REPORT
OMB CIRCULAR A-133

JUNE 30, 2012

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

TABLE OF CONTENTS
OMB CIRCULAR A-133

JUNE 30, 2012

Independent Auditor's Report	Page 1 - 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 16
ADDITIONAL INFORMATION REQUIRED BY OMB CIRCULAR A-133	
Schedule of Expenditures of Federal Awards	17 - 19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20 - 21
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	22 - 23
Schedule of Findings and Questioned Costs	24 - 25



FLAGEL HUBER FLAGEL

Certified Public Accountants | Business Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
AIDS Resource Center Ohio, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial position of AIDS Resource Center Ohio, Inc. and Subsidiaries (the Center) as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 4, 2013, on our consideration of the Center'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 these reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 basic consolidated financial statements as a whole.

Flagel Huber Flagel

Certified Public Accountants

Dayton, Ohio

February 4, 2013

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash:

Unrestricted \$ 1,182,083

Temporarily restricted 137,297

Total cash 1,319,380

Investments 13,327

Funds held by others 3,557

Grants receivable 680,310

Pledges receivable - unrestricted 199,996

Pledges receivable - temporarily restricted 10,722

Other receivables 13,975

Prepaid expenses 30,168

TOTAL CURRENT ASSETS 2,271,435

PROPERTY AND EQUIPMENT, net 220,265

TOTAL ASSETS \$ 2,491,700

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable \$ 196,131

Accrued liabilities 157,325

Grants received in advance - temporarily restricted 137,297

TOTAL CURRENT LIABILITIES 490,753

NET ASSETS

Unrestricted 1,990,225

Temporarily restricted 10,722

2,000,947

TOTAL LIABILITIES AND NET ASSETS \$ 2,491,700

The accompanying notes are an integral part of these consolidated statements.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
GOVERNMENT SUPPORT			
HOPWA	\$ 0	\$ 1,648,629	\$ 1,648,629
ODH \ RW Part B Case Management	0	2,431,283	2,431,283
ODH \ RW Part C	0	548,479	548,479
Other programs	0	885,630	885,630
TOTAL GOVERNMENT SUPPORT	0	5,514,021	5,514,021
OTHER REVENUES			
Individuals	259,814	0	259,814
Corporations and foundations	0	480,855	480,855
Special events	660,252	0	660,252
Interest and dividend income	1,457	0	1,457
Net unrealized gain on investments	298	0	298
Miscellaneous income	9,612	0	9,612
Donated services	9,310	0	9,310
Donated materials	178,787	0	178,787
Donated facilities	41,415	0	41,415
TOTAL OTHER REVENUES	1,160,945	480,855	1,641,800
Net assets released from temporary restrictions	5,999,876	(5,999,876)	0
TOTAL GOVERNMENT SUPPORT AND OTHER REVENUES	7,160,821	(5,000)	7,155,821
EXPENSES			
Program services	6,050,908	0	6,050,908
Management and general	359,980	0	359,980
Fundraising and special events	625,880	0	625,880
TOTAL EXPENSES	7,036,768	0	7,036,768
CHANGE IN NET ASSETS	124,053	(5,000)	119,053
NET ASSETS ACQUIRED IN MERGERS	565,079	0	565,079
NET ASSETS - beginning of period	1,301,093	15,722	1,316,815
NET ASSETS - end of period	\$ 1,990,225	\$ 10,722	\$ 2,000,947

The accompanying notes are an integral part of these consolidated statements.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services				Supporting Services		Total Expenses
	Client Services	Public Education and Information	Public Policy	Medical Center and Pharmacy	Management and General	Fundraising and Special Events	
Salaries	\$ 2,252,879	\$ 545,679	\$ 25,350	\$ 15,461	\$ 217,105	\$ 275,544	\$ 3,332,018
Employee benefits	352,140	81,710	2,915	0	30,065	35,638	502,468
Payroll taxes	210,347	54,556	2,756	1,266	21,909	28,290	319,124
Direct assistance	1,224,812	0	0	0	0	0	1,224,812
Facility costs	229,502	42,321	0	17,097	26,685	9,337	324,942
Special events development	0	0	0	0	0	131,887	131,887
Professional fees	244,961	15,568	20,187	52,565	14,428	57,552	405,261
Advertising and media	4,429	17,449	322	12,383	9,845	7,559	51,987
Community forums	18,225	51	0	0	0	185	18,461
Travel	75,294	19,054	583	365	5,572	5,760	106,628
Supplies	80,794	45,579	1,962	111	7,417	18,315	154,178
Equipment lease	36,955	8,634	0	0	2,009	1,625	49,223
Equipment maintenance	108	0	0	0	0	0	108
Depreciation	48,238	8,511	493	0	3,409	5,971	66,622
Postage	12,978	1,756	0	93	1,409	16,887	33,123
Staff development	28,724	14,757	1,117	5,158	5,053	3,171	57,980
Copying/printing	6,107	968	0	0	491	5,946	13,512
Miscellaneous	6,949	3,474	0	17	2,840	1,642	14,922
Donated services	6,742	1,189	69	0	476	834	9,310
Donated materials	129,452	22,840	1,322	0	9,148	16,025	178,787
Donated facilities	29,987	5,291	306	0	2,119	3,712	41,415
	<u>\$ 4,999,623</u>	<u>\$ 889,387</u>	<u>\$ 57,382</u>	<u>\$ 104,516</u>	<u>\$ 359,980</u>	<u>\$ 625,880</u>	<u>\$ 7,036,768</u>

The accompanying notes are an integral part of these consolidated statements.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	<u>\$ 119,053</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	66,622
Net unrealized gain on investments	(298)
Changes in assets and liabilities:	
Grants receivable	(410,585)
Pledges receivable	157,252
Other receivables	(11,102)
Prepaid expenses	(9,517)
Accounts payable	126,493
Accrued liabilities	87,971
Grants received in advance	65,422
TOTAL ADJUSTMENTS	<u>72,258</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>191,311</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of investments and funds held by others	58
Purchase of investments and funds held by others	(803)
Purchase of property and equipment	<u>(119,457)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(120,202)</u>
CHANGE IN CASH	71,109
CASH ACQUIRED IN MERGERS	533,643
CASH - beginning of year	<u>714,628</u>
CASH - end of year	<u><u>\$ 1,319,380</u></u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:	
Investments and funds held by others acquired in merger	\$ 15,841
Property and equipment acquired in merger, net	15,595

The accompanying notes are an integral part of these consolidated statements.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

1. ORGANIZATION

AIDS Resource Center Ohio, Inc. (ARC Ohio) is a not-for-profit, community-based, health-related organization. With offices in nine cities, ARC Ohio provides holistic HIV medical care, pharmacy/medications, prevention, testing, housing assistance, linkage to care, supportive services, and public policy and awareness throughout Ohio. ARC Ohio's mission is to treat and assist persons living with HIV/AIDS and provide evidence-based testing and prevention to reduce HIV transmission. A July 1, 2011 merger with Columbus AIDS Task Force and a September 26, 2011 merger with the Ohio AIDS Coalition extended these services across Ohio. In September 2012, ARC Ohio opened the AIDS Resource Center Ohio Medical Center and AIDS Resource Center Ohio Pharmacy, the physical locations of which are in Columbus; the pharmacy will provide medications to HIV-positive individuals across Ohio. ARC Ohio's primary funding sources are from government grants, donations from corporations and individuals, and other reimbursable services.

The Board of Trustees and management of ARC Ohio acknowledge that, to the best of their knowledge, all assets received have been used for the purpose for which they were contributed, or have been accumulated to allow management to conduct the operations of ARC Ohio as effectively and efficiently as possible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements. These policies conform to accounting principles generally accepted in the United States of America for not-for-profit organizations.

Principles of Consolidation

ARC Ohio Medical Center and ARC Ohio Pharmacy were determined to be variable interest entities and were consolidated. The consolidated financial statements are not those of a separate legal entity, but include the accounts of AIDS Resource Center Ohio, Inc., ARC Ohio Medical Center, and ARC Ohio Pharmacy (collectively, the Center). All material inter-company accounts and transactions between the entities have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Center have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Center has no permanently restricted net assets.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For purposes of the Consolidated Statement of Cash Flows, cash is defined as demand deposits including checking and savings accounts. The Center maintains its cash balances in local financial institutions which, at times, may exceed federally insured limits. The Center has not experienced any losses related to these balances. All of the non-interest bearing cash balances were fully insured at June 30, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the non-interest bearing cash balances may again exceed federally insured limits. The Center believes it is not exposed to any significant credit risk on cash.

Financial Instruments

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of pledges receivable and grants receivable. Concentrations of credit risk with respect to pledges receivable are limited due to the large number of donors comprising the Center's donor base and their dispersion across different industries and geographic areas. Concentrations of credit risk with respect to grants receivable are due to a small number of grantors comprising the Center's grantor base.

The Center has a number of financial instruments, consisting of cash and accounts receivable. The Center estimates that the fair value of cash and accounts receivable does not differ materially from the aggregate carrying values recorded in the accompanying Consolidated Statement of Financial Position.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Consolidated Statement of Financial Position. Unrealized gains and losses are included in the Consolidated Statement of Activities.

Non-traded real estate investment trusts and limited partnership investments are valued by the initial offering price or by the present value of the lease payments based on anticipated occupancy.

Revenue Recognition

The Center recognizes revenue in the period that it is earned. Contributions, including unconditional pledges, are recognized in the period the commitment is made. Conditional pledges are not recognized until the conditions on which they depend are substantially met.

Grants received in advance consists of grant money received prior to year-end that is to be expended in a subsequent period and is required to be repaid to the grantor organization if not expended by the appropriate date.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

The Center believes that all grants receivable and pledges receivable are fully collectible, therefore an allowance for doubtful accounts is not considered necessary.

Property and Equipment

Purchased property and equipment are stated at cost less accumulated depreciation. Donated property and equipment are stated at fair market value at the date of receipt less accumulated depreciation. Depreciation is determined using the straight-line method. The depreciation taken is designed to amortize the assets' costs over their estimated useful lives.

Impairment of Long-Lived Assets

The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the year ended June 30, 2012.

Compensated Absences

Employees of the Center are entitled to paid vacation and time off depending on the length of service and other factors.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Designation of Unrestricted Net Assets

It is the policy of the Board of Trustees of the Center to review its plans for future investments, property improvements, and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such items.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

The Center accounts for contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor, including pledges, is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions.

Donated Services, Materials, Facilities, and Property and Equipment

Donated services are recognized as contributions only if the donated services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation to the Center. Donated materials are recorded at their fair market value at the date of donation.

Since February 2006, the Center has occupied office space in Dayton, Ohio (Kuhns Building) for a charge below market value. The amount under fair rental value of the use of the premises has been estimated by management at \$41,415 for the year ended June 30, 2012.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the Consolidated Statement of Activities and in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

A favorable determination letter has been obtained from the Internal Revenue Service exempting the Center from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is included in these statements. However, any income from certain activities not directly related to the Center's tax exempt purpose may be subject to taxation as unrelated business income.

The Center determines the recognition of uncertain tax positions, if applicable, that may subject the organization to unrelated business income tax necessary by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Center does not have any uncertain tax positions at June 30, 2012. The Center believes it is no longer subject to income tax examinations for the years prior to 2008.

Advertising

The Center uses advertising to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs for public awareness campaigns incurred were \$51,987 for the year ended June 30, 2012.

3. RESTRICTIONS/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets are available for specific grant programs and facility contributions, which consisted of the following at June 30, 2012:

Cash	\$	137,297
Pledges receivable		10,722
Grants received in advance		(137,297)
Total	\$	<u>10,722</u>

The Center has no permanently restricted net assets.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

4. INVESTMENTS

Investments are stated at fair value and consist of the following at June 30, 2012:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,700	\$ 1,700
Real estate investment trust	4,047	11,627
	<u>\$ 5,747</u>	<u>\$ 13,327</u>

Net investment income, which includes interest on demand deposits, consists of the following for the year ended June 30, 2012:

Interest and dividends	\$ 803
Realized and unrealized gains (losses)	298
Investment fees	(62)
	<u>\$ 1,039</u>

5. FUNDS HELD BY OTHERS

The Columbus Foundation administers a fund for which the Center is the beneficiary. All income from this fund is to be reinvested into the fund principal. The Center may direct the Columbus Foundation as to the distribution of the funds. The fair market value of the funds at June 30, 2012 was \$3,557. No income was distributed to the Center in 2012. The change in fair market value is primarily attributable to investment income net of investment fees and unrealized gains.

6. PROPERTY AND EQUIPMENT

Property and equipment of the Center consisted of the following at June 30, 2012:

	<u>Amount</u>	<u>Estimated Life in Years</u>
Computer equipment	\$ 328,634	3 - 7
Furniture and fixtures	222,786	7
Medical equipment	30,153	7
Leasehold improvements	19,135	39
	<u>600,708</u>	
Less: Accumulated depreciation	(380,443)	
	<u>\$ 220,265</u>	

Depreciation expense was \$66,622 for the year ended June 30, 2012.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

7. OPERATING LEASES

In February 2011, the Center entered into a sixty month agreement to lease a facility (Kuhns Building) located in Dayton, Ohio, requiring monthly payments of \$5,280. The lease expires in January 2016. Lease expense for the year ended June 30, 2012 amounted to \$63,360.

In April 2011, the Center entered into a fourteen and a half month agreement to lease a new facility located in Lima, Ohio, requiring monthly payments of \$550. The lease expired in June 2012. Lease expense for the year ended June 30, 2012 amounted to \$6,600.

In November 2010, the Center entered into a sixty month agreement to lease a new facility located in Mansfield, Ohio, requiring monthly payments of \$891. The lease expires in October 2015. Lease expense for the year ended June 30, 2012 amounted to \$10,692.

In September 2009, the Center entered into an eighty-four month agreement to lease a facility located in Toledo, Ohio, requiring monthly payments of \$2,527 from September 2009 to August 2011, \$2,738 from September 2011 to August 2012, and \$2,948 from September 2012 to August 2016. The lease expires in August 2016. Lease expense for the year ended June 30, 2012 amounted to \$32,219.

In September 2010, the Center entered into a seventy-two month agreement to lease a facility located in Columbus, Ohio, requiring monthly payments of \$8,083 from September 2010 to August 2011 and \$9,000 from September 2011 to July 2016. The lease expires in July 2016. Lease expense for the year ended June 30, 2012 amounted to \$106,166.

In April 2011, the Center entered into a twelve month agreement to lease a facility located in Chillicothe, Ohio, requiring monthly payments of \$150. The lease expired in March 2012 and will continue month-to-month. Lease expense for the year ended June 30, 2012 amounted to \$1,650.

In April 2011, the Center entered into a twelve month agreement to lease a facility located in Newark, Ohio, requiring monthly payments of \$200. The lease was extended an additional year and expires March 2013. Lease expense for the year ended June 30, 2012 amounted to \$2,200.

In April 2011, the Center entered into a twenty-four month agreement to lease a facility located in Athens, Ohio, requiring monthly payments of \$150. The lease expires in March 2013. Lease expense for the year ended June 30, 2012 amounted to \$1,650.

In December 2011, the Center entered into a fifty-one month agreement to lease a facility located in Cleveland, Ohio, requiring monthly payments of \$250. The lease expires in December 2012. Lease expense for the year ended June 30, 2012 amounted to \$1,375.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

7. OPERATING LEASES (Continued)

In June 2012, the Center entered into a fifty-one month agreement to lease a facility located in Columbus, Ohio, requiring monthly payments of \$1,900. The lease expires in September 2016. Additionally, a monthly facilitation payment of \$2,500 is required for months beginning June 2012 and ending November 2012. Lease expense for the year ended June 30, 2012 amounted to \$4,400.

In April 2012, the Center entered into a sixty month agreement to lease a facility located in Columbus, Ohio, requiring monthly payments of \$7,165. This lease did not commence until operations began in September 2012. The lease expires in September 2017.

The Center leases certain office equipment under lease agreements requiring annual payments of \$23,783. The leases expire through January 2017. Lease expense for the year ended June 30, 2012 amounted to \$30,510.

Approximate minimum future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 354,000
2014	342,000
2015	329,000
2016	295,000
2017	108,000
Thereafter	20,000
	<u>\$ 1,448,000</u>

8. RETIREMENT PLAN

The Center sponsors a defined contribution plan established under the guidelines of Section 401(k) of the Internal Revenue Code available to all eligible employees. The Center has agreed to match 50% of eligible employees' deferrals up to a maximum of 2% of payroll. The Center is not required to, but may make additional profit-sharing contributions under the terms of the plan. The Center contributed \$4,426 to the plan during the year ended June 30, 2012.

9. CONTINGENCIES

The AIDS Resource Center Ohio, Inc. participates in certain federally assisted programs which are subject to program compliance audits by the grantors or their representatives. The grantor agencies, at their option, may perform economy and efficiency audits, program results audits or conduct monitoring visits. Such audits and visits could lead to reimbursement to the grantor agencies.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

10. FAIR VALUE MEASUREMENTS

The Center applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Observable inputs such as quoted prices in active markets;
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following are descriptions of the valuation methodologies used for assets measured at fair value. There have been no changes from the prior year in the methodologies used at June 30, 2012. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2012.

Corporate securities – The valuation of corporate securities are based on the quoted market prices.

Money market account – The valuation of the money market account is the quoted market prices.

Real estate investment trust (REIT) – The valuation of non-traded REIT and limited partnership investments is either the initial offering price or the present value of the lease payments based on anticipated occupancy.

Fair values of assets measured on a recurring basis at June 30, 2012 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate securities	\$ 3,557	\$ 0	\$ 0
Money market account	1,700	0	0
Real estate investment trust	0	0	11,627
	<u>\$ 5,257</u>	<u>\$ 0</u>	<u>\$ 11,627</u>

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

10. FAIR VALUE MEASUREMENTS (Continued)

The changes in level 3 assets measured at fair value on a recurring basis are summarized as follows:

	<u>Real Estate Investment Trust</u>
Balance – beginning of year	\$ 11,342
Unrealized gain	285
Balance – end of year	<u>\$ 11,627</u>

11. PLEDGES RECEIVABLE

Pledges receivable includes unconditional promises to give which are due in future years. The Center has not discounted pledges as the balances are receivable in less than one year. Pledges receivable at June 30, 2012 were \$199,996.

12. MERGERS

On July 1, 2011, the Columbus AIDS Task Force merged with the Center.

On September 26, 2011, Ohio AIDS Coalition merged with the Center.

13. SUBSEQUENT EVENTS

The Center has evaluated subsequent events through February 4, 2013 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASSTHROUGH NUMBER</u>	<u>FEDERAL DISBURSEMENTS/ EXPENDITURES</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant Program	14.218	N/A	\$ 31,450
Passed through from YWCA: Supportive Housing Program	14.235	N/A	19,840
Passed through from State of Ohio Department of Development: HOPWA Grants Program	14.241	N/A	756,329
Passed through from City of Columbus: HOPWA Grants Program	14.241	N/A	<u>858,490</u>
Total - U.S. Department of Housing and Urban Development			<u>\$ 1,666,109</u>
<u>U. S. Department of Health and Human Services</u>			
HIV Prevention Program (CRCS)	93.939	N/A	\$ 50,180
HIV Prevention Program (CTR)	93.939	N/A	55,262
HIV Prevention Program (MSM)	93.939	N/A	50,445
Passed through Ohio Department of Health: Ryan White Part B Program	93.917	05760012RW0212	2,365,255
Ryan White Part C Early Intervention Services	93.918	H76HA00531	525,969
Special Projects of National Significance Grant	93.928	N/A	80,807
HIV Prevention Activities (Hotline)	93.940	N/A	82,510

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASSTHROUGH NUMBER</u>	<u>FEDERAL DISBURSEMENTS/ EXPENDITURES</u>
<u>U. S. Department of Health and Human Services (Continued)</u>			
Passed through from Toledo Lucas County Health Department:			
HIV Prevention Non-Government Education	93.939	4810012A08	7,227
HIV Prevention Non-Government Education Youth	93.939	4810012A08	17,318
Men Who Have Sex With Men HIV Program	93.939	4810012A08	43,378
Passed through from Public Health Dayton - Montgomery County			
Federal AIDS Prevention Project (CDC) Gay/Bi-sexual Men and Gay/Bi-sexual Men of Color Program	93.940	N/A	59,688
Comprehensive Risk Counseling Services	93.940	N/A	59,688
Passed Through from City of Columbus:			
HIV Prevention Program (HRHS)	93.940	EL012468	56,939
HIV Prevention Program (MSM)	93.940	EL012468	84,188
HIV Prevention Program (CRCS)	93.940	EL012468	<u>24,350</u>
Total - U. S. Department of Health and Human Services			<u>\$ 3,563,204</u>
<u>Federal Emergency Management Agency</u>			
Federal Emergency Management Food and Shelter Program	97.024	N/A	<u>\$ 12,950</u>
Total All Programs			<u>\$ 5,242,263</u>

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of AIDS Resource Center Ohio, Inc. under programs of the federal government for the year ended June 30, 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements. Because the schedule presents only a selected portion of the operations of AIDS Resource Center Ohio, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of AIDS Resource Center Ohio, Inc.

NOTE B - 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.



FLAGEL HUBER FLAGEL

Certified Public Accountants | Business Advisors

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*

Board of Trustees
AIDS Resource Center Ohio, Inc. and Subsidiaries

We have audited the consolidated financial statements of AIDS Resource Center Ohio, Inc. and Subsidiaries (the Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated 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*.

We noted certain matters that we reported to management of the Center in a separate letter dated February 4, 2013.

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

Flagel Huber Flagel

Certified Public Accountants

Dayton, Ohio

February 4, 2013



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

Board of Trustees
AIDS Resource Center Ohio, Inc. and Subsidiaries

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Flagel Huber Flagel

Certified Public Accountants

Dayton, Ohio

February 4, 2013

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.917	Ryan White Part B Program
93.918	Ryan White Part C Early Intervention Services
93.940	Gay/Bisexual Men of Color Program

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

Auditee qualified as low-risk auditee: yes no

AIDS RESOURCE CENTER OHIO, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Section II - Financial Statement Findings

Our audit disclosed no significant deficiencies, material weaknesses, or instances of noncompliance related to the consolidated financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

Section III - Federal Award Findings and Questioned Costs

Our audit disclosed no audit findings required to be reported by section 510(a) of OMB Circular A-133 (for example, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).