

# **Equitas Health, Inc. and Subsidiaries**

Consolidated Financial Statements

June 30, 2016 and 2015

(with Independent Auditors' Report)

**TABLE OF CONTENTS**

Independent Auditors' Report ..... 1 - 2

Consolidated Financial Statements:

    Consolidated Statements of Financial Position ..... 3 - 4

    Consolidated Statements of Activities..... 5

    Consolidated Statements of Functional Expenses ..... 6 - 7

    Consolidated Statements of Cash Flows ..... 8

    Notes to the Consolidated Financial Statements ..... 9 - 17

Additional Information:

    Schedule of Expenditures of Federal Awards..... 18 - 19

    Notes to the Schedule of Expenditures of Federal Awards ..... 20

    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*..... 21 - 22

    Independent Auditors' Report on Compliance for Each Major Program and on Internal  
    Control Over Compliance Required by the Uniform Guidance ..... 23 - 24

    Schedule of Findings and Questioned Costs..... 25 - 26

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Equitas Health, Inc. and Subsidiaries

### **Report on Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Equitas Health, Inc. and Subsidiaries (a not-for-profit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

4449 easton way, 4<sup>th</sup> floor  
columbus, oh 43219

www.cshco.com  
p. 614.885.2208  
f. 614.885.8159

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Equitas Health, Inc. and Subsidiaries as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 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 consolidated 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 December 14, 2016, on our consideration of Equitas Health, Inc. and Subsidiaries' 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 Equitas Health, Inc. and Subsidiaries' internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Columbus, Ohio  
December 14, 2016

Equitas Health, Inc. and Subsidiaries  
Consolidated Statements of Financial Position  
June 30, 2016 and 2015

Assets	<u>2016</u>	<u>2015</u>
Current assets:		
Cash:		
Unrestricted	\$ 5,803,914	1,354,796
Restricted	206,090	204,445
Investments	965	1,852
Receivables:		
Accounts receivable, net of allowance of \$13,786 and \$16,299, respectively	3,737,112	2,503,480
Grants receivable	1,258,044	1,495,216
Contributions receivable, current portion	802,161	531,188
Inventories	605,104	825,696
Prepaid expenses	<u>196,335</u>	<u>164,819</u>
	<u>12,609,725</u>	<u>7,081,492</u>
Property and equipment:		
Computers and equipment	553,844	376,235
Furniture and fixtures	412,693	347,304
Leasehold improvements	<u>1,005,887</u>	<u>877,727</u>
	1,972,424	1,601,266
Less accumulated depreciation	<u>841,681</u>	<u>638,315</u>
	<u>1,130,743</u>	<u>962,951</u>
Other assets -		
Contributions receivable, less current portion	119,672	227,974
Beneficial interest in assets held by others	<u>112,594</u>	<u>113,535</u>
	<u>232,266</u>	<u>341,509</u>
	<u>\$ 13,972,734</u>	<u>8,385,952</u>

See accompanying notes to the consolidated financial statements.

Equitas Health, Inc. and Subsidiaries  
Consolidated Statements of Financial Position (continued)  
June 30, 2016 and 2015

Liabilities and Net Assets

	2016	2015
Current liabilities:		
Line of credit	\$ 18,295	32,701
Accounts payable	1,939,285	1,605,460
Accrued expenses	1,947,745	737,047
Current portion of long-term debt	84,760	81,139
Unearned revenue	104,642	39,463
	4,094,727	2,495,810
Other liabilities -		
Long-term debt, net of current portion	725,997	814,985
	4,820,724	3,310,795
Net assets:		
Unrestricted	8,919,473	4,775,678
Temporarily restricted	232,537	299,479
	9,152,010	5,075,157
	\$ 13,972,734	8,385,952

See accompanying notes to the consolidated financial statements.

Equitas Health, Inc. and Subsidiaries  
Consolidated Statements of Activities  
Years Ended June 30, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Government support revenues:						
HOPWA	\$ 1,600,336	-	1,600,336	1,507,942	-	1,507,942
ODH \ Ryan White Part B	4,336,344	-	4,336,344	4,218,036	-	4,218,036
Other programs	<u>2,960,394</u>	<u>-</u>	<u>2,960,394</u>	<u>2,543,637</u>	<u>-</u>	<u>2,543,637</u>
	<u>8,897,074</u>	<u>-</u>	<u>8,897,074</u>	<u>8,269,615</u>	<u>-</u>	<u>8,269,615</u>
Other revenues:						
Individual donations	293,002	51,000	344,002	768,832	227,974	996,806
Corporations and foundations	606,101	-	606,101	356,197	-	356,197
Special events, net of expenses of \$269,892 and \$320,027, respectively	507,168	-	507,168	708,845	-	708,845
Medical income	826,798	-	826,798	523,816	-	523,816
Pharmacy income	40,801,198	-	40,801,198	25,701,793	-	25,701,793
In-kind donations	174,877	112,865	287,742	114,449	-	114,449
Other	<u>19,521</u>	<u>-</u>	<u>19,521</u>	<u>21,425</u>	<u>-</u>	<u>21,425</u>
	<u>43,228,665</u>	<u>163,865</u>	<u>43,392,530</u>	<u>28,195,357</u>	<u>227,974</u>	<u>28,423,331</u>
Release of restricted contributions	<u>230,807</u>	<u>(230,807)</u>	<u>-</u>	<u>12,354</u>	<u>(12,354)</u>	<u>-</u>
	<u>52,356,546</u>	<u>(66,942)</u>	<u>52,289,604</u>	<u>36,477,326</u>	<u>215,620</u>	<u>36,692,946</u>
Expenses:						
Program services	43,741,132	-	43,741,132	32,019,372	-	32,019,372
Management and general	3,624,233	-	3,624,233	1,221,733	-	1,221,733
Fundraising	<u>847,386</u>	<u>-</u>	<u>847,386</u>	<u>870,194</u>	<u>-</u>	<u>870,194</u>
	<u>48,212,751</u>	<u>-</u>	<u>48,212,751</u>	<u>34,111,299</u>	<u>-</u>	<u>34,111,299</u>
Change in net assets	4,143,795	(66,942)	4,076,853	2,366,027	215,620	2,581,647
Net assets - beginning of year	<u>4,775,678</u>	<u>299,479</u>	<u>5,075,157</u>	<u>2,409,651</u>	<u>83,859</u>	<u>2,493,510</u>
Net assets - end of year	<u>\$ 8,919,473</u>	<u>232,537</u>	<u>9,152,010</u>	<u>4,775,678</u>	<u>299,479</u>	<u>5,075,157</u>

See accompanying notes to the consolidated financial statements.

Equitas Health, Inc. and Subsidiaries  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2016

	Program Services				Support Services			
	Client Services	Public Education and Information	Public Policy	Medical Center and Pharmacy	Program Services Total	Management and General	Fundraising	Total
Salaries	\$ 3,156,112	984,308	313,198	3,065,295	7,518,913	2,027,489	526,517	10,072,919
Employee benefits	740,740	205,909	53,837	477,171	1,477,657	320,659	63,633	1,861,949
Payroll taxes	251,216	79,395	23,623	226,099	580,333	150,292	42,497	773,122
Contract services	-	-	-	244,539	244,539	-	-	244,539
Direct assistance	1,170,999	95	956	-	1,172,050	-	-	1,172,050
Medical expenses	18,124	53,093	-	421,146	492,363	-	-	492,363
Pharmaceuticals	-	-	-	29,361,523	29,361,523	-	-	29,361,523
Facility costs	397,969	107,997	26,738	314,334	847,038	64,130	18,560	929,728
Professional fees	110,845	86,005	72,044	548,963	817,857	429,896	44,153	1,291,906
Advertising and media	770	20,596	4,822	75,464	101,652	43,327	26,397	171,376
Community forums	70,677	7,530	-	692	78,899	54,508	344	133,751
Travel	184,377	37,736	657	33,475	256,245	32,147	17,630	306,022
Supplies	82,177	140,407	6,076	48,193	276,853	69,881	55,298	402,032
Equipment lease	34,631	8,629	1,487	888	45,635	9,849	1,932	57,416
Depreciation	-	-	-	137,612	137,612	65,752	-	203,364
Postage	10,312	9,545	585	111,465	131,907	13,641	5,182	150,730
Staff development	14,580	34,252	10,999	32,981	92,812	47,638	13,092	153,542
Copying/printing	4,358	9,732	1,398	11,625	27,113	64,428	31,449	122,990
Miscellaneous	4,770	-	960	14,479	20,209	-	702	20,911
Interest	-	-	-	37,332	37,332	-	-	37,332
Bad debt	-	-	-	22,590	22,590	-	-	22,590
Donated goods & services	-	-	-	-	-	164,617	-	164,617
Donated facilities	-	-	-	-	-	65,979	-	65,979
	<b>\$ 6,252,657</b>	<b>1,785,229</b>	<b>517,380</b>	<b>35,185,866</b>	<b>43,741,132</b>	<b>3,624,233</b>	<b>847,386</b>	<b>48,212,751</b>

See accompanying notes to the consolidated financial statements.



Equitas Health, Inc. and Subsidiaries  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2015

	Program Services				Support Services			
	Client Services	Public Education and Information	Public Policy	Medical Center and Pharmacy	Program Services Total	Management and General	Fundraising	Total
Salaries	\$ 3,444,321	654,904	46,971	2,508,585	6,654,781	727,049	423,809	7,805,639
Employee benefits	707,996	106,194	3,096	387,518	1,204,804	92,388	51,477	1,348,669
Payroll taxes	280,268	41,889	3,184	204,840	530,181	81,872	35,145	647,198
Contract services	-	-	-	210,881	210,881	-	-	210,881
Direct assistance	1,097,615	219	-	-	1,097,834	-	-	1,097,834
Medical expenses	-	-	-	333,341	333,341	-	-	333,341
Pharmaceuticals	-	-	-	19,244,660	19,244,660	-	-	19,244,660
Facility costs	367,371	59,115	2,182	311,844	740,512	31,624	34,653	806,789
Professional fees	135,306	18,194	62,654	754,744	970,898	97,411	77,447	1,145,756
Advertising and media	9,721	22,074	-	83,424	115,219	791	43,439	159,449
Community forums	92,789	4,951	-	-	97,740	2,783	15,450	115,973
Travel	150,012	14,708	1,183	48,558	214,461	11,186	13,227	238,874
Supplies	94,484	88,674	226	41,905	225,289	25,492	33,057	283,838
Equipment lease	35,738	5,385	142	-	41,265	5,391	3,654	50,310
Depreciation	-	-	-	125,013	125,013	47,028	-	172,041
Postage	9,151	746	71	86,707	96,675	4,479	23,238	124,392
Staff development	11,276	18,660	6,970	16,502	53,408	23,423	15,765	92,596
Copying and printing	4,329	4,276	-	19,681	28,286	6,838	23,865	58,989
Miscellaneous	4,033	3,186	-	3,537	10,756	15,373	3,255	29,384
Interest	-	-	-	52,951	52,951	-	-	52,951
Loss on disposals	-	-	-	-	-	6,097	-	6,097
Bad debt (recovery)	-	-	-	(29,583)	(29,583)	-	-	(29,583)
Donated goods & services	-	-	-	-	-	-	72,713	72,713
Donated facilities	-	-	-	-	-	42,508	-	42,508
	<u>\$ 6,444,410</u>	<u>1,043,175</u>	<u>126,679</u>	<u>24,405,108</u>	<u>32,019,372</u>	<u>1,221,733</u>	<u>870,194</u>	<u>34,111,299</u>

See accompanying notes to the consolidated financial statements.

Equitas Health, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 4,076,853	2,581,647
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	203,364	172,041
Loss on disposal of property and equipment	-	6,097
Bad debt (recovery) expense	22,590	(29,583)
Net realized and unrealized (gain) loss on investments and funds held by others	1,828	(1,740)
Effects of changes in operating assets and liabilities:		
Accounts receivable, net	(1,256,222)	(782,025)
Grants receivable	237,172	(64,382)
Contributions receivable	(162,671)	(241,159)
Inventories	220,592	(429,614)
Prepaid expenses	(31,516)	(115,078)
Accounts payable	333,825	308,463
Accrued expenses	1,210,698	194,903
Unearned revenue	65,179	33,564
Net cash provided by operating activities	4,921,692	1,633,134
Cash flows from investing activities-		
Purchase of property and equipment	(371,156)	(121,407)
Cash flows from financing activities:		
Net payments on lines of credit	(14,406)	(341,960)
Payment on long-term debt	(85,367)	(77,731)
Net used by financing activities	(99,773)	(419,691)
Change in cash	4,450,763	1,092,036
Cash - beginning of year	1,559,241	467,205
Cash - end of year	\$ 6,010,004	1,559,241
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 37,332	52,951
In-kind donations received and expensed in the same year	\$ 230,596	114,449
Change in discount for future pledges	\$ (1,413)	20,220

See accompanying notes to the consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Equitas Health, Inc. and Subsidiaries are set forth to facilitate the understanding of data presented in the consolidated financial statements:

### **Nature of activities**

Equitas Health, Inc. and Subsidiaries (the Organization) is a not-for-profit, community-based, health-related organization. Prior to April 2016, the Organization was doing business as AIDS Resource Center Ohio, Inc. and Subsidiaries. The Organization also changed their mission at this time. Prior to the change, the Organization's mission was to provide a comprehensive and coordinated response to HIV, from prevention to diagnosis and treatment. The Organization's current mission is to be the gateway to good health for those at risk of or effected by HIV/AIDS, for the lesbian, gay, bisexual, transgender, and queer/questioning (LGBTQ) community, and for those seeking a welcoming healthcare home.

The Organization's expanded mission has made it one of the nation's largest HIV/AIDS, LGBTQ healthcare organizations. With 13 offices in 10 cities, it serves more than 67,000 individuals in Ohio each year through its diverse healthcare and social service delivery system focused around: primary and specialized medical care, mental/behavioral health, housing assistance and supportive services, HIV/STI testing and prevention (including PrEP), advocacy, Ohio AIDS Coalition, Camp Sunrise, and other community health initiatives. Treatment and supportive services are provided to 5,000 HIV-positive Ohioans annually.

The Equitas Health Pharmacy operates as a social enterprise for Equitas Health and is one of the pillars of the healthcare organization's patient-centered care model. The full-service retail pharmacy provides medications to HIV-positive and other Equitas Health patients, and is also open to the public. One hundred percent (100%) of pharmacy profits are reinvested back into the Organization's programs and services, providing an earned income revenue line for the Organization while providing a critical service for the community.

The Organization's primary funding sources include reimbursements for care, pharmacy earned income; government grants; and charitable donations from corporations, foundations and individuals.

### **Principles of consolidation**

The consolidated financial statements include the accounts of Equitas Health, Inc., AIDS Resource Center Ohio Medical Center, LLC (dba Equitas Health), and AMC Ohio Pharmacy, LLC (dba Equitas Health Pharmacy) (collectively, the Organization). 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 Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

### **Basis of presentation**

The Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets at June 30, 2016 or 2015.

### **Cash**

For purposes of the consolidated statements of cash flows, cash is defined as demand deposits including checking and savings accounts, as well as, certificates of deposit.

### **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 statements of financial position. Unrealized gains and losses are included in the consolidated statements 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, which approximates fair value.

### **Accounts receivable**

Accounts receivable represent amounts due from individuals and insurance companies for medical services and pharmaceuticals provided. The receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to valuation allowance based on assessment of individual accounts. Balances that remain outstanding after management has used reasonable efforts are written off.

### **Contributions and grants receivable**

Unconditional grants and contributions receivable are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional grants and contributions receivable are recognized when the conditions on which they depend are substantially met. Allowances are provided for amounts estimated to be uncollectible, based on management's analysis of specific outstanding pledges at June 30, 2016 and 2015; no allowance for doubtful accounts was deemed necessary.

### **Inventory**

Inventory is stated at the lower of cost or market using the first-in, first-out method and consists of pharmaceuticals held for sale in the pharmacy.

### **Property and equipment**

Property and equipment are recorded at cost, or fair value, if donated. Depreciation on property and equipment is provided using the straight-line method over the estimated useful life, which is three to seven years for computers and equipment, seven years for furniture and fixtures and the lesser of the life of the lease or thirty-nine years for leasehold improvements. Additions and betterments in excess of \$500 are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

### **Restricted and unrestricted revenue and support**

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished) in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as release of restricted contributions.

**Donated goods, services, and facilities**

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 Organization. Donated materials are recorded at their fair value at the date of donation.

For a number of years, the Organization 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 \$65,979 and \$42,508 for the years ended June 30, 2016 and 2015, respectively.

**Expense allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Advertising expense**

The Organization uses advertising to promote its programs. The production costs of advertising are expensed as incurred.

**Income taxes**

Equitas Health, Inc. and Subsidiaries, AIDS Resource Center Ohio Medical Center, LLC (dba Equitas Health), and AMC Ohio Pharmacy (dba Equitas Health Pharmacy), LLC are each exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, donations to the Organization qualify for the charitable contribution deduction under Section 170(b)(1)(A) and the Organization has been classified as an organization that is not a private foundation under Section 509(a)(2).

**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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent events**

The Organization evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through December 14, 2016, the date on which the consolidated financial statements were available to be issued.

## 2. CONTRIBUTIONS RECEIVABLE:

Unconditional contributions receivable at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 807,644	531,188
Receivable in one to five years	<u>132,996</u>	<u>248,194</u>
Total unconditional contributions	940,640	779,382
Less -		
Discounts to net present value	<u>18,807</u>	<u>20,220</u>
Net present value of contributions receivable	921,833	759,162
Less current portion	<u>802,161</u>	<u>531,188</u>
	<u>\$ 119,672</u>	<u>227,974</u>

Discount rates were 5.00% and 3.25% at June 30, 2016 and 2015, respectively.

## 3. FAIR VALUE MEASUREMENTS:

The Organization 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 – inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access;
- Level 2 – inputs, other than quoted prices in active markets, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – unobservable inputs for the asset or liability which rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

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, 2016. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2016 and 2015.

Beneficial interest in assets held by others – The valuation is determined by underlying interest in funds held by various foundations, which are primarily invested in marketable securities with 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. Values are determined by the custodian of the trust based on the fair value of the underlying securities in the trust which represents the net asset value of the shares held by the trust at year-end.

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by others	\$ 112,594	-	112,594	-
Investments:				
Money market funds	55	55	-	-
Real estate investment trust	<u>910</u>	<u>-</u>	<u>-</u>	<u>910</u>
	<u>\$ 113,559</u>	<u>55</u>	<u>112,594</u>	<u>910</u>

The changes in level 3 assets measured at fair value on a recurring basis at June 30, 2016 are summarized as follows:

	<u>Real Estate Investment Trust</u>
Balance - beginning of year	\$ 1,551
Realized & unrealized gain	(319)
Purchases	2,534
Sales of investments	<u>(2,856)</u>
Balance - end of year	<u>\$ 910</u>

Fair values of assets measured on a recurring basis at June 30, 2015 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial interest in assets held by others	\$ 113,535	-	113,535	-
Investments:				
Money market funds	301	301	-	-
Real estate investment trust	<u>1,551</u>	<u>-</u>	<u>-</u>	<u>1,551</u>
	<u>\$ 115,387</u>	<u>301</u>	<u>113,535</u>	<u>1,551</u>

The changes in level 3 assets measured at fair value on a recurring basis at June 30, 2015 are summarized as follows:

	<u>Real Estate Investment Trust</u>
Balance - beginning of year	\$ 2,044
Unrealized gains held at year end	<u>(493)</u>
Balance - end of year	<u>\$ 1,551</u>

#### 4. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets at June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Camp Sunrise	\$ -	15,787
Contributions receivable - other	119,672	227,974
Contributions receivable - rent	<u>112,865</u>	<u>55,718</u>
	<u>\$ 232,537</u>	<u>299,479</u>

#### 5. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS:

The Columbus Foundation administers a fund for which the Organization is the beneficiary. All income from this fund is to be reinvested into the fund principal. The Organization may direct the Columbus Foundation as to the distribution of the funds. The fair value of the funds at June 30, 2016 and 2015 was \$99,158 and \$99,343, respectively. No income was distributed to the Organization in 2016 or 2015. The change in fair value is primarily attributable to investment income net of investment fees and unrealized gains and losses.



The Dayton Foundation administers a fund for which the Organization is the beneficiary. All income from this fund is to be reinvested into the fund principal. The Organization may direct the Dayton Foundation as to the distribution of the funds. The fair value of the funds at June 30, 2016 and 2015 was \$13,436 and \$14,192, respectively. No income was distributed to the Organization in 2016 or 2015. The change in fair value is primarily attributable to investment income net of investment fees and unrealized gains and losses.

#### **6. OPERATING LEASES:**

The Organization leases buildings and equipment under non-cancelable operating lease agreements. Certain leases include escalation clauses and renewal and purchase provisions at the option of the Organization. These leases expire at various dates through 2022. The Organization has additional leases on a month-to-month basis. Total rent expense was approximately \$779,000 and \$677,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease obligations subsequent to the year ended June 30, 2016 are as follows:

<u>Year ending June 30</u>	
2017	\$ 796,579
2018	706,454
2019	663,299
2020	643,524
2021	445,878
2022	<u>22,948</u>
	<u>\$ 3,278,682</u>

#### **7. LINE OF CREDIT:**

At the start of the fiscal year ending June 30, 2015, the Organization had two separate line of credit agreements. On April 9, 2015, both line of credit agreements were amended and consolidated into a single line of credit. The maximum borrowing amount under this line of credit is \$1,500,000, maturing on April 9, 2017. Interest for this line of credit is payable monthly at the prime rate plus 2% (5.50% and 5.25% at June 30, 2016 and 2015, respectively). A \$200,000 certificate of deposit is used as collateral for the line of credit and the notes payable discussed in Note 8 below. The balance outstanding as of June 30, 2016 and 2015 was \$18,295 and \$32,701, respectively.

**8. LONG-TERM DEBT:**

Long-term debt at June 30, 2016 and 2015 consists of the following:

	2016	2015
Note payable to a bank in monthly installments of \$5,671 including interest at a rate of 4.25%, with a balloon payment of approximately \$554,000 due September 2017. The note is secured by all assets of the Organization.	\$ 605,978	649,242
Note payable to a bank in monthly installments of \$4,147 including interest at a rate of 4.25%. Final payment is due January 2021. The note is secured by all assets of the Organization.	204,779	246,882
	810,757	896,124
Less current portion	84,760	81,139
	\$ 725,997	814,985

Maturities of long-term debt for each of the five years succeeding June 30, 2016 and thereafter are as follows:

Year ending June 30

2017	\$	84,760
2018		606,562
2019		45,470
2020		47,439
2021		26,526
	\$	810,757

**9. RETIREMENT PLAN:**

The Organization has elected a safe harbor 401(k) plan under the Internal Revenue Code (IRC) and contributed safe harbor matching contributions in the amount of 100% of the first 3% of compensation deferred and 50% of the next 2% of compensation deferred. The Organization is not required to, but may make additional profit-sharing contributions under the terms of the plan. The Organization contributed \$161,488 and \$78,398 to the plan during the years ended June 30, 2016 and 2015, respectively.

**10. CONTINGENCIES:**

The Organization 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. Management believes such reimbursements, if any, would not be material to the consolidated financial statements.

**11. CONCENTRATION OF CREDIT RISK:**

The Organization maintains its cash balances in two financial institutions located in Ohio. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of June 30, 2016 and 2015, the Organization had uninsured cash balances of \$5,684,794 and \$941,070, respectively.

Equitas Health, Inc. and Subsidiaries  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

Federal Grantor Program Title <u>Pass Through</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
<u>Supportive Housing Program</u>			
Passed through from the YWCA:			
SHP	14.235	N/A	\$ <u>25,567</u>
 <u>Housing Opportunities for Persons with AIDS Grants:</u>			
Passed through from State of Ohio Department of Development:			
Ohio Development Services Agency - HOPWA Grant	14.241	N/A	931,377
Passed through from City of Columbus:			
Columbus Public Health HOPWA Grant	14.241	N/A	<u>668,959</u>
Total Housing Opportunities for Persons with AIDS Grants Program			<u>1,600,336</u>
Total U.S. Department of Housing and Urban Development			<u>1,625,903</u>
 U.S. Department of Health and Human Services:			
<u>HIV Emergency Relief Project Grants (Ryan White Part A):</u>			
Passed through from City of Columbus:			
Behavioral health services	93.914	N/A	215,182
Medical services	93.914	N/A	<u>935,503</u>
Total HIV Emergency Relief Project Grants			<u>1,150,685</u>
 <u>HIV Care Formula Grants (Ryan White Part B)</u>			
Passed through from Ohio Department of Health:			
Ryan White Federal HIV Program	93.917	05760012RW0414	<u>4,336,344</u>
 <u>Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White Part C):</u>			
Early Intervention Services	93.918	N/A	506,250
Capacity	93.918	N/A	<u>53,960</u>
Total Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			<u>560,210</u>

Equitas Health, Inc. and Subsidiaries  
Schedule of Expenditures of Federal Awards (continued)  
Year Ended June 30, 2016

Federal Grantor Program Title <u>Pass Through</u>	Federal CFDA <u>Number</u>	Pass-Through Entity <u>Number</u>	Federal <u>Expenditures</u>
U.S. Department of Health and Human Services - continued:			
<u>HIV Prevention Activities - Non-Governmental Organization Based</u>			
Passed through from Centers for Disease Control and Prevention			
HIV Prevention for YMSM of Color	93.939	N/A	\$ 376,438
High Impact Prevention	93.939	N/A	<u>285,227</u>
Total HIV Prevention Activities - Non-Governmental Organization Based			<u>661,665</u>
<u>HIV Prevention Activities - Health Department Based</u>			
Passed through from City of Canton:			
Gay/Bisexual Men Program	93.940	N/A	5,058
Passed through from City of Columbus:			
Gay/Bisexual Men Program	93.940	N/A	231,332
Passed through from Ohio Department of Health:			
Statewide Initiatives	93.940	N/A	128,599
Passed through from Public Health			
Dayton/Montgomery County:			
Gay/Bisexual Men & MSMS of Color	93.940	N/A	100,945
Passed through from Toledo Lucas County			
Health Department:			
Gay/Bisexual Men of Color Program	93.940	N/A	34,845
Passed through from Summit County Health Department:			
MSM and AA MSM	93.940	N/A	<u>4,940</u>
Total HIV Prevention Activities - Health Department Based			<u>505,719</u>
Total U.S. Department of Health and Human Services			<u>7,214,623</u>
U.S. Department of Homeland Security:			
<u>Emergency Food and Shelter National Board Program</u>			
Passed through from United Way of Greater Dayton Area FEMA:			
Federal Emergency Management Food and Shelter Program	97.024	N/A	18,279
Passed through from United Way of Greater Toledo FEMA:			
Federal Emergency Management Food and Shelter Program	97.024	N/A	<u>3,000</u>
Total Emergency Food and Shelter National Board Program			<u>21,279</u>
Total Federal Awards			\$ <u>8,861,805</u>

**1. BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activities of Equitas Health, Inc. and Subsidiaries. The information in this schedule is presented in accordance with the requirements of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

**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 the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. The Organization did not elect to use the 10% de minimis cost rate.

**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 Board of Trustees of  
Equitas Health, Inc. and Subsidiaries

We have audited, 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, the consolidated financial statements of Equitas Health, Inc. and Subsidiaries (the Organization, a not-for-profit organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 14, 2016.

**Internal Control over Financial Reporting**

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

*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 Organization's consolidated 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.

4449 easton way, 4<sup>th</sup> floor  
columbus, oh 43219

www.cshco.com  
p. 614.885.2208  
f. 614.885.8159

## **Compliance and Other Matters**

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

*Clark, Schaefer, Hackett & Co.*

Columbus, Ohio  
December 14, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of  
Equitas Health, Inc. and Subsidiaries

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

We have audited Equitas Health, Inc. and Subsidiaries' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, Equitas Health, Inc. and Subsidiaries 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 June 30, 2016.

4449 easton way, 4<sup>th</sup> floor  
columbus, oh 43219

www.cshco.com  
p. 614.885.2208  
f. 614.885.8159

## Report on Internal Control over Compliance

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

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

*Clark, Schaefer, Hackett & Co.*

Columbus, Ohio  
December 14, 2016

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued :	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with the Uniform Guidance?	none
Identification of major programs:	
<i>CFDA 14.241 – Housing Opportunities for Persons with AIDS</i>	
<i>CFDA 93.917 – HIV Care Formula Grants</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	no

**Section II - Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None