

SOUTHWEST CENTER FOR HIV/AIDS, INC.

**Financial Statements,
Independent Auditors' Reports,
Supplementary Information
and
Single Audit Reports**

**Year Ended December 31, 2017
(with comparative totals for 2016)**

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Independent Auditors' Report

The Board of Directors of
Southwest Center for HIV/AIDS, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Center for HIV/AIDS, Inc. (the Organization, a nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

August 28, 2018

Southwest Center for HIV/AIDS, Inc.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

(with comparative financial information as of December 31, 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 515,500	\$ 917,740
Grants and other receivables	201,274	133,521
Pledges receivable, net, current portion	75,915	58,450
Tenant improvements receivable, current portion	148,178	213,227
Inventory	16,015	14,436
Prepaid expenses and other current assets	<u>27,188</u>	<u>12,264</u>
Total current assets	984,070	1,349,638
Pledges receivable, net, less current portion	-	40,099
Tenant improvements receivable, less current portion	-	148,178
Property and equipment, net	<u>4,681,090</u>	<u>4,950,443</u>
Total assets	<u>\$ 5,665,160</u>	<u>\$ 6,488,358</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 87,354	\$ 31,522
Accrued expenses	69,025	65,745
Other current liabilities	<u>47,406</u>	<u>-</u>
Total current liabilities	203,785	97,267
Tenant security deposits	<u>7,265</u>	<u>-</u>
Total liabilities	211,050	97,267
Net assets:		
Unrestricted	5,321,058	5,996,569
Temporarily restricted	<u>133,052</u>	<u>394,522</u>
Total net assets	<u>5,454,110</u>	<u>6,391,091</u>
Total liabilities and net assets	<u>\$ 5,665,160</u>	<u>\$ 6,488,358</u>

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

Southwest Center for HIV/AIDS, Inc.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

(with comparative financial information for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
Support and revenue:				
Contributions:				
Individuals	\$ 215,606		\$ 215,606	\$ 119,515
Corporations	52,541	\$ 50,000	102,541	275,330
Foundations	8,166	62,000	70,166	703,637
In-kind	136	-	136	3,570
United Way	-	-	-	26,845
Total contributions	<u>276,449</u>	<u>112,000</u>	<u>388,449</u>	<u>1,128,897</u>
Special event revenue:				
Individuals	51,763	-	51,763	97,139
Corporations	127,551	-	127,551	190,213
Foundations	1,000	-	1,000	199
In-kind	-	-	-	150,859
Total special event revenue	<u>180,314</u>	<u>-</u>	<u>180,314</u>	<u>438,410</u>
Less cost of direct donor benefits	<u>(96,855)</u>	<u>-</u>	<u>(96,855)</u>	<u>(307,817)</u>
Total special event revenue, net	<u>83,459</u>	<u>-</u>	<u>83,459</u>	<u>130,593</u>
Government contracts and grants	1,366,753	-	1,366,753	1,079,130
Vitamin and Herb Shop sales	21,233	-	21,233	29,081
Tenant use fees	378,433	-	378,433	279,715
Program fees	166,303	-	166,303	232,670
Other	45,952	-	45,952	31,289
Net assets released from restrictions	<u>373,470</u>	<u>(373,470)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,712,052</u>	<u>(261,470)</u>	<u>2,450,582</u>	<u>2,911,375</u>
Expenses:				
Program services:				
Nutrition and wellness	936,129	-	936,129	1,245,006
Education, prevention and outreach	812,152	-	812,152	427,133
Behavioral health	374,376	-	374,376	572,509
Clinical trials	-	-	-	45,736
Community service	<u>326,795</u>	<u>-</u>	<u>326,795</u>	<u>413,793</u>
Total program services	<u>2,449,452</u>	<u>-</u>	<u>2,449,452</u>	<u>2,704,177</u>
Supporting services:				
Management and general	903,922	-	903,922	993,077
Fundraising	<u>34,189</u>	<u>-</u>	<u>34,189</u>	<u>159,095</u>
Total supporting services	<u>938,111</u>	<u>-</u>	<u>938,111</u>	<u>1,152,172</u>
Total expenses	<u>3,387,563</u>	<u>-</u>	<u>3,387,563</u>	<u>3,856,349</u>
Change in net assets	(675,511)	(261,470)	(936,981)	(944,974)
Net assets, beginning of the year	<u>5,996,569</u>	<u>394,522</u>	<u>6,391,091</u>	<u>7,336,065</u>
Net assets, end of the year	<u>\$ 5,321,058</u>	<u>\$ 133,052</u>	<u>\$ 5,454,110</u>	<u>\$ 6,391,091</u>

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

Southwest Center for HIV/AIDS, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

(with comparative financial information for the year ended December 31, 2016)

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTALS		
	Nutrition and Wellness	Education, Prevention and Outreach	Behavioral Health	Community Service	Total	Management and General	Fundraising	Total	2017	2016
Expenses:										
Salaries and wages	\$ 427,650	\$ 535,291	\$ 265,497	\$ 42,118	\$ 1,270,556	\$ 247,379	\$ 5,826	\$ 253,205	\$ 1,523,761	\$ 1,820,368
Employee related expenses	71,546	89,554	44,418	7,046	212,564	41,387	975	42,362	254,926	295,161
Outsourced services	1,239	33	8,707	20,465	30,444	219,642	-	219,642	250,086	423,294
Materials and supplies	26,512	76,446	10,084	20,521	133,563	53,386	3,878	57,264	190,827	277,142
Occupancy and rent	26,403	26,280	26,280	43,055	122,018	149,438	3,007	152,445	274,463	209,259
Program and nutritional expenses	-	-	-	-	-	-	-	-	-	11,880
Food supplements and vitamins	337,483	-	-	-	337,483	-	-	-	337,483	206,200
Mileage, travel and training	33,937	13,588	740	277	48,542	17,355	-	17,355	65,897	9,080
Other operating expenses	6,713	20,700	1,622	9,036	38,071	139,238	2,824	142,062	180,133	278,428
Depreciation and amortization	4,646	50,260	17,028	184,277	256,211	36,097	17,679	53,776	309,987	325,537
Total expenses	<u>\$ 936,129</u>	<u>\$ 812,152</u>	<u>\$ 374,376</u>	<u>\$ 326,795</u>	<u>\$ 2,449,452</u>	<u>\$ 903,922</u>	<u>\$ 34,189</u>	<u>\$ 938,111</u>	<u>\$ 3,387,563</u>	<u>\$ 3,856,349</u>

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

Southwest Center for HIV/AIDS, Inc.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

(with comparative financial information for the year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (936,981)	\$ (944,974)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	309,988	325,537
Debt forgiveness	-	(27,204)
Loss on disposal of assets	-	12,997
Changes in assets and liabilities:		
Grants and other receivables	(67,753)	(1,936)
Pledges receivable	22,634	372,380
Tenant improvements receivable	213,227	210,201
Inventory	(1,579)	27,357
Prepaid expenses and other current assets	(14,924)	(463)
Accounts payable	55,832	(84,651)
Accrued expenses	3,280	(40,167)
Other current liabilities	47,406	-
Security deposits	<u>7,265</u>	<u>-</u>
Net cash used by operating activities	(361,605)	(150,923)
Cash flows from investing activities:		
Purchases of property and equipment	<u>(40,635)</u>	<u>(12,274)</u>
Net cash used by investing activities	(40,635)	(12,274)
Cash flows from financing activities:		
Payments on capital lease obligations	-	(19,670)
Principal payment on note payable	<u>-</u>	<u>(47,796)</u>
Net cash used by financing activities	<u>-</u>	<u>(67,466)</u>
Net change in cash	(402,240)	(230,663)
Cash, beginning of the year	<u>917,740</u>	<u>1,148,403</u>
Cash, end of the year	<u>\$ 515,500</u>	<u>\$ 917,740</u>
Supplemental disclosures:		
Cash paid during the period for interest	\$ 606	\$ 1,617
Noncash transaction:		
Capital lease agreement cancellation	\$ -	\$ 30,498

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

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES

Organization Operations: Southwest Center for HIV/AIDS, Inc. (the "Organization"), was established to provide its clients with the knowledge, resources, and care necessary to live long and well with HIV. As a coalition created by and for people living with HIV, the Organization provides increased access to timely cutting edge medical support services, alternative therapies, peer-based education, emotional support, advocacy and social services. The Organization was founded as the primary provider of early intervention services and serves as the first point of contact for the newly diagnosed or those further along on the disease spectrum who have delayed in accessing services.

The Organization provides services to individuals eligible under government programs or under drug therapy testing programs offered through arrangements with pharmaceutical manufacturers. In addition, services are offered to the community through education and prevention programs funded by foundations and other organizations. Other funding for the Organization's operations is provided by individuals and corporations at special events and in response to fundraising campaigns.

In June 2011 the City of Phoenix (the City) purchased a 54,000 square foot facility with a portion of a 2006 voter-approved, \$3.6 million bond which set aside funds to help nonprofit organizations provide services not offered by the City. In 2012, the City and the Organization entered into an operating agreement expiring in 2038 that requires the Organization to occupy and use the premises as a community health education center to provide prevention, treatment, social services, wellness promotion, research services and other health related services to the City's population affected by, or at risk of HIV/AIDS. The Organization may enter into sub-operating agreements with other organizations to occupy the facility if those organizations provide similar or ancillary services to the Organization.

During 2012 and 2013 the Organization developed the site into a new community health and education center. This community-based, collaborative health center is a one-stop resource for chronic disease prevention, education, mental health, nutrition, health services and wellness, helping those who are at risk for, and impacted by HIV/AIDS. The facility was completed in the fall of 2013 and is home to several partner organizations and companies. These partner organizations occupy space within the facility in accordance with sub-operating agreements with the Organization. See Note 11.

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

A summary of the significant accounting policies follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Organization 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, described as follows:

Unrestricted Net Assets: Unrestricted net assets include all contributions received without donor-imposed stipulations.

Temporarily Restricted Net Assets: Temporarily restricted net assets include contributions that have donor-imposed time or purpose restrictions that limit the use of the donated assets. When the restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets.

Permanently Restricted Net Assets: Permanently restricted net assets are those which are subject to non-expiring donor restrictions, such as endowments. The Organization did not have any permanently restricted net assets at December 31, 2017 or 2016.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants and Other Receivables: The Organization bills Maricopa County, Arizona and other governmental agencies for its performance under various contracts. All billings unpaid as of year-end are recorded as grants receivable.

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Grants and other receivables are stated at the amount management expects to collect under the terms of the grant and contract agreements. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance, if needed, based on its assessment of the current status of individual contracts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and other receivables. At December 31, 2017 and 2016, grants and other receivables are considered by management to be fully collectible, and accordingly, no allowance for uncollectible accounts has been established.

Pledges Receivable: Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in greater than one year are initially recorded at their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discount is included in support from contributions.

Tenant Improvements Receivable: In accordance with the Organization's sub-operating agreements with tenants, certain partner organizations and companies occupy space within the community health education center. In 2013, the Organization was required to fund a total of \$1,458,844 of tenant improvements. In accordance with the agreements, a total of \$1,310,666 and \$1,097,439 had been reimbursed by the partner organizations as of December 31, 2017 and 2016, respectively. The remaining tenant receivable balance of \$148,178 will be paid to the Organization through collections of tenant use fees. See Note 11.

Inventory: Inventory consists of vitamin and herb inventory maintained as part of the Organization's obligation for services provided under government contracts. These inventories are stated at the lower of cost, determined using the FIFO (first-in, first-out) method, or market. Revenue from the sale of vitamin and herb inventory is recognized when the products are delivered to the customer, which is typically at the point of sale.

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Property and Equipment: Property and equipment is valued at cost. Donated property and equipment is recorded at the estimated fair value at the date of donation. Generally, property and equipment in excess of \$500 is capitalized. Maintenance and repairs are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. For purposes of computing depreciation, the general range of estimated useful lives is as follows:

Furniture, equipment and software	3-7 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of the applicable lease

Contributions: The Organization accounts for contributions in accordance with FASB ASC topic of *Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a 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 statement of activities as net assets released from restrictions.

Special Event Revenue: The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. The cost of meals and entertainment provided at special events is measured at the actual cost to the Organization, or estimated fair value if donated. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the accompanying statement of activities.

In-kind contributions: Donated materials and services are reflected in the accompanying financial statements at their estimated fair value at the date of donation. Donated services are recognized as contributions in accordance with FASB ASC topic of *Not-for-Profit Entities*, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. In addition, the Organization utilizes and depends on the services of a substantial number of volunteers to perform a variety of tasks that assist the Organization with specific programs, administrative functions, and fundraising activities. The value of this contributed time is not reflected in these financial statements since the services did not require specialized skills and it was not susceptible to objective measurement or valuation.

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Revenue Recognition: The Organization recognizes amounts received from grants and contracts as earned when services are rendered under unit of service and/or cost reimbursement contracts. Funding sources may, at their discretion, request reimbursement for funding as a result of noncompliance by the Organization with the terms of the grant or contract. Fees received prior to the performance of services are deferred until the period in which the services are actually performed.

Program Fees: Program fees include fees and copays earned from providing services to clients. The Organization utilizes a third party to collect program fees, which are reimbursed on a contractual basis from various third party payers.

Functional Allocation of Expenses: The cost of providing the Organization's various programs and other activities is presented on a functional basis in the accompanying statements of activities and functional expenses. Certain costs have been allocated among the programs and supporting services benefited based on an analysis of time and expenses.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Concentration of Credit Risk: The Organization maintains its cash with various financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash may be in excess of FDIC insurance limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risks related to cash.

Reclassifications: Certain reclassifications were made to the 2016 financial statements in order to conform to the 2017 presentation.

Prior Year Summarized Information: The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 1 - BACKGROUND AND SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Subsequent Events: Subsequent events have been evaluated through August 28, 2018, the date the Organization's financial statements were available to be issued. Management has concluded that no events have occurred since the year ended December 31, 2017 that would require an adjustment to, or disclosure in, the financial statements.

NOTE 2 - GRANTS AND OTHER RECEIVABLES

The following is a summary of grants and other receivables at December 31:

	2017	2016
Grants from federal, state, and county agencies	\$ 177,380	\$ 120,823
Other receivables	23,894	12,698
Total grants and other receivables	<u>\$ 201,274</u>	<u>\$ 133,521</u>

NOTE 3 - PLEDGES RECEIVABLE, NET

The estimated cash flows for pledges receivable that are due in more than one year are discounted over the collection period using a discount rate as determined by management. The following is a summary of pledges receivable at December 31:

	2017	2016
Receivables due in less than one year	\$ 100,915	\$ 68,450
Receivables due in two to five years	-	45,916
Total pledges receivable	100,915	114,366
Discount to present value (2.17%)		(5,817)
Allowance for doubtful accounts - pledges receivable	(25,000)	(10,000)
Pledges receivable, net	<u>\$ 75,915</u>	<u>\$ 98,549</u>

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 4 - PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment at December 31:

	<u>2017</u>	<u>2016</u>
Furniture, equipment and software	\$ 681,584	\$ 660,226
Leasehold improvements	<u>5,398,755</u>	<u>5,379,242</u>
	6,080,339	6,039,468
Less accumulated depreciation and amortization	<u>(1,399,249)</u>	<u>(1,089,025)</u>
Property and equipment, net	<u>\$ 4,681,090</u>	<u>\$ 4,950,443</u>

NOTE 5 - LINE-OF-CREDIT

The Organization has a \$100,000 line-of-credit with a financial institution, which bears interest at 7.75%. There was no outstanding balance as of December 31, 2017 and 2016.

NOTE 6 - OPERATING LEASE OBLIGATIONS

The Organization has non-cancelable rental agreements for copiers, electronic medical records and financial database software, and related user licenses under the provisions of operating lease agreements expiring through July 2022. Rental expenses totaled \$57,420 and \$39,985 for the years ended December 31, 2017 and 2016, respectively, and are included in other operating expenses on the statement of functional expenses. The future minimum lease payments under the agreements are as follows:

Year ending December 31:

2018	\$ 59,444
2019	47,907
2020	21,363
2021	21,363
2022	<u>13,352</u>
Total minimum lease payments	<u>\$ 163,429</u>

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 7 -TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Pledges receivable, net	\$ 75,915	\$ 98,549
Nutrition and meals	11,978	4,000
ChildWatch program	-	15,337
Camp Incredible	6,000	2,286
Support groups	5,159	73,201
Capital improvements	-	727
Wellness program	-	167,791
Testing for HIV/AIDS and other diseases	24,000	20,598
Youth and families programs	<u>10,000</u>	<u>12,033</u>
Total temporarily restricted net assets	<u>\$ 133,052</u>	<u>\$ 394,522</u>

NOTE 8 -RELEASED FROM RESTRICTIONS

Net assets were released as follows from time and/or purpose restrictions for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Pledges receivable, net	\$ 22,634	\$ 131,191
Nutrition and meals	27,022	124,333
ChildWatch program	15,337	25,663
Camp Incredible	23,286	32,714
Support groups	68,042	58,373
Capital improvements	727	-
Wellness	171,791	554,624
Testing for HIV/AIDS and other diseases	32,598	265,733
Youth and families programs	12,033	45,967
Other	<u>-</u>	<u>17,240</u>
Total temporarily restricted net assets released from restrictions	<u>\$ 373,470</u>	<u>\$ 1,255,838</u>

Southwest Center for HIV/AIDS, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with comparative financial information as of and for the year ended December 31, 2016)

NOTE 9 - REVENUE CONCENTRATIONS

One family foundation contributed 22% of the Organization's total revenue and support during the year ended December 31, 2016.

NOTE 10 - OPERATING AGREEMENT

The Organization occupies a building owned by the City of Phoenix under the terms of an operating agreement expiring in 2038. Under the terms of the agreement, the Organization is required to pay certain occupancy and maintenance costs of at least \$144,200 per year. The Organization was in compliance with this requirement for the years ended December 31, 2017 and 2016.

NOTE 11 - TENANT USE FEES

The Organization maintains various non-cancelable sub-operating agreements expiring through August 2024, with unaffiliated organizations for part of the community health education center. Minimum future tenant use fees under the sub-operating agreements are as follows:

Year ending December 31:

2018	\$ 304,907
2019	153,758
2020	153,758
2021	153,758
2022	113,983
Thereafter	<u>131,323</u>
Total minimum lease payments	<u>\$ 1,011,487</u>

The Organization earned tenant use fees of \$378,433 and \$279,715, under these agreements during the years ended December 31, 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION

Southwest Center for HIV/AIDS, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Health and Human Services:				
Passed through Maricopa County Ryan White Program:				
HIV Emergency Relief Project Grants - Title 1; Behavioral Health	93.914	2016MHSWC, 2017MHSWC	\$ 7,832	
HIV Emergency Relief Project Grants - Title 1; Early Intervention Service	93.914	2016EISSWC, 2017EISSWC	57,605	
HIV Emergency Relief Project Grants - Title 1; Nutrition	93.914	2016NSSWC, 2017NSSWC	504,415	
HIV Emergency Relief Project Grants - Title 1; Case Management	93.914	2016MCMSWC, 2017MCMSWC	167,213	
HIV Emergency Relief Project Grants - Title 1; Food Vouchers/Meals	93.914	2016FBSWC, 201FBSWC	<u>139,570</u>	
Total CFDA 93.914			876,635	
Passed through Maricopa Integrated Health System:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	90-16-183-1	60,000	
Passed through Arizona Department of Health Services:				
HIV Prevention Activities_Health Department Based	93.940	252026/152034	259,534	
Passed through Centers for Disease Control and Prevention:				
HIV Prevention Activities_Non-Governmental Organization Based	93.939	9-17NU65PS923664	<u>170,584</u>	<u>\$ 82,449</u>
Total U.S. Department of Health and Human Services			<u>1,366,753</u>	<u>82,449</u>
Total expenditures of federal awards			<u>\$ 1,366,753</u>	<u>\$ 82,449</u>

See accompanying notes to this schedule.

Southwest Center for HIV/AIDS, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southwest Center for HIV/AIDS, Inc. (the Organization), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantors, or the 2017 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - INDIRECT COST RATE

The Organization has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance for CFDA # 93.939. HIV Prevention Activities_ Non-Governmental Based.

NOTE 4 - SUBRECIPIENTS

The Organization passed through \$48,425 and \$34,024 in federal funding from CFDA# 93.939, HIV Prevention Activities_ Non-Governmental Based, to Southern Arizona AIDS Foundation, and One-N-Ten, respectively, during the year ended December 31, 2017.

SINGLE AUDIT REPORTS



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*

The Board of Directors of
Southwest Center for HIV/AIDS, Inc.
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southwest Center for HIV/AIDS, Inc. (the Organization, a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 28, 2018.

Internal Control Over Financial Reporting

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

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 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

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

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.

Fester & Chapman, PLLC

August 28, 2018



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

The Board of Directors of
Southwest Center for HIV/AIDS, Inc.
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited Southwest Center for HIV/AIDS, Inc. (the Organization)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2017. The Organization's major federal program is 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 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, the Organization complied, in all material respects, with the the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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 that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Purpose of the Report

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.

Fester & Chapman, PLLC

August 28, 2018

Southwest Center for HIV/AIDS, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	<u>Unmodified</u>	
	<u>Yes</u>	<u>No</u>
Internal control over financial reporting:		
Material weaknesses identified?	_____	<u>X</u>
Significant deficiencies identified?	_____	<u>X</u>
		(none reported)
Noncompliance material to the financial statements noted?	_____	<u>X</u>

Federal Awards:

Internal control over major programs:		
Material weakness identified?	_____	<u>X</u>
Significant deficiencies identified?	_____	<u>X</u>
		(none reported)

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	<u>X</u>
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Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.914	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?	_____	<u>X</u>
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Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR 200.511(b)?	<u>X</u>	_____
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Southwest Center for HIV/AIDS, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS' AUDIT

None noted.



**Southwest Center
for HIV/AIDS**

Prevention • Wellness • Research

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2017

Status of Financial Statement Findings

Finding No.: 2016-001 – Significant Deficiency in Internal Controls over Payroll

Status: Fully corrected

Status of Federal Award Findings and Questioned Costs

Federal Program: U.S. Department of Health and Human Services, passed through Maricopa County Ryan White Program

CFDA No.: 93.914 HIV Emergency Relief Project Grants - (1) Behavioral Health; (2) Early Intervention Service; (3) Nutrition; (4) Case Management; (5) Food Vouchers/Meals

Grant No.: (1) 2015MHSWC, 2016MHSWC; (2) 2015EISSWC, 2016EISSWC; (3) 2015NSSWC, 2016NSSWC; (4) 2015MCMSWC, 2016MCMSWC; (5) 2015FBSWC, 2016FBSWC

Finding No.: 2016-101 – Significant Deficiency in Internal Controls over Payroll

Status: Fully corrected