

**AID FOR AIDS INTERNATIONAL, INC.
AND SUBSIDIARY**

**REPORT ON AUDIT OF
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED

DECEMBER 31, 2013

WITH SUMMARIZED COMPARATIVE INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2012

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
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RICH AND BANDER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PETER R. RICH, CPA

JONATHAN A. BANDER, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Aid for AIDS International, Inc. and Subsidiary
New York, NY

We have audited the accompanying consolidated financial statements of Aids for AIDS International, Inc. (a nonprofit organization) and Subsidiary which comprise the consolidated statement of financial position as of December 31, 2013, 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.

Management's Responsibility for the 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 consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aid for AIDS International, Inc. and Subsidiary as of December 31, 2013, 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 Aid for AIDS International, Inc. and Subsidiary's 2012 financial statements, and our report dated May 22, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rich and Bander, LLP

New York, NY
August 6, 2014

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013
WITH PRIOR YEAR SUMMARIZED INFORMATION FOR 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 35,433	\$ 55,087
Unconditional promises to give	29,345	17,570
Accounts receivable	8,160	11,240
Prepaid expenses	7,760	14,667
Total current assets	<u>80,698</u>	<u>98,564</u>
Property and equipment, net of accumulated depreciation	25,443	31,169
Other assets		
Security deposit	13,500	13,500
Art held for sale	108,125	107,950
Total other assets	<u>121,625</u>	<u>121,450</u>
TOTAL ASSETS	<u><u>\$ 227,766</u></u>	<u><u>\$ 251,183</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 294,868	\$ 269,145
Payroll tax liabilities	87,548	132,478
Line of credit	20,434	24,498
Capital lease liability, current portion	4,604	4,468
Deferred rent	7,447	7,586
Due to affiliate	-	13,000
Total current liabilities	<u>414,901</u>	<u>451,175</u>
Long-term liabilities		
Capital lease liability, noncurrent portion	10,124	14,649
Loan payable to director	71,500	71,500
Total long-term liabilities	<u>81,624</u>	<u>86,149</u>
Total liabilities	<u>496,525</u>	<u>537,324</u>
Commitments and contingencies	-	-
Net assets		
Unrestricted	(386,367)	(482,391)
Temporarily restricted	117,608	196,250
Total net assets	<u>(268,759)</u>	<u>(286,141)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 227,766</u></u>	<u><u>\$ 251,183</u></u>

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

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH PRIOR YEAR SUMMARIZED INFORMATION FOR 2012

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
Revenue and support				
Grants and contributions				
Donated medicines	\$ 6,625,365	\$ -	\$ 6,625,365	\$ 5,789,075
Board members	402,500	-	402,500	154,000
Foundations	246,892	117,608	364,500	433,500
Individuals	57,945	-	57,945	101,418
Corporate	37,348	-	37,348	80,189
In-kind contributions	24,647	-	24,647	105,691
	<u>7,394,697</u>	<u>117,608</u>	<u>7,512,305</u>	<u>6,663,873</u>
Special events				
Direct benefits to donors	108,533	-	108,533	128,010
<i>Less: Costs of direct benefits to donors</i>	(108,533)	-	(108,533)	(128,010)
Contributions:				
Excess ticket sales revenue	145,434	-	145,434	116,540
Board members	92,200	-	92,200	-
In-kind contributions	66,050	-	66,050	75,860
Individuals	37,350	-	37,350	49,100
Sponsorships	19,000	-	19,000	35,000
Corporate	11,100	-	11,100	16,000
Foundations	-	-	-	7,000
	<u>371,134</u>	<u>-</u>	<u>371,134</u>	<u>299,500</u>
Total grants and contributions	7,765,831	117,608	7,883,439	6,963,373
Program service revenue				
Contracted services income	49,959	-	49,959	48,961
Total program service revenue	49,959	-	49,959	48,961
Other income				
Miscellaneous income	25,934	-	25,934	26,993
Total other income	25,934	-	25,934	26,993
Net assets released from restrictions	196,250	(196,250)	-	-
	<u>8,037,974</u>	<u>(78,642)</u>	<u>7,959,332</u>	<u>7,039,327</u>
Expenses				
Program services	7,613,995	-	7,613,995	6,724,069
Supporting services				
Management and general	123,399	-	123,399	115,256
Fundraising	204,556	-	204,556	219,118
	<u>7,941,950</u>	<u>-</u>	<u>7,941,950</u>	<u>7,058,443</u>
Increase (decrease) in net assets	96,024	(78,642)	17,382	(19,116)
Net assets - beginning of year	(482,391)	196,250	(286,141)	(267,025)
Net assets - end of year	\$ (386,367)	\$ 117,608	\$ (268,759)	\$ (286,141)

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

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH PRIOR YEAR SUMMARIZED INFORMATION FOR 2012

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2013 Total</u>	<u>2012 Total</u>
Donated medicine distributed	\$ 6,625,365	\$ -	\$ -	\$ 6,625,365	\$ 5,789,075
Salaries	483,626	60,453	60,453	604,532	439,941
Consulting fees	111,491	13,936	13,936	139,363	200,371
Rent	71,409	8,926	8,926	89,261	92,338
Payroll taxes and related expenses	50,582	6,323	6,323	63,228	42,653
Employee benefits	49,146	6,143	6,143	61,432	44,359
Fundraising expenses	-	-	55,720	55,720	63,599
Financial management and accounting	44,160	5,520	5,520	55,200	55,200
Professional fees	31,490	3,936	3,936	39,362	119,352
Loss from write-off of art held for sale	-	-	27,350	27,350	42,200
Travel and entertainment	18,382	2,298	2,298	22,978	13,552
Shipping and mailing	15,886	1,986	1,986	19,858	17,419
Insurance	14,238	1,780	1,780	17,798	12,648
Payroll processing fees	12,419	1,552	1,552	15,523	16,498
Computer and internet	11,283	1,410	1,410	14,103	9,701
Telephone and telecommunications	9,562	2,551	638	12,751	12,911
Credit card processing fees	9,320	1,165	1,165	11,650	9,080
Stipends	10,047	-	-	10,047	2,682
Office expense	7,960	996	996	9,952	7,983
Depreciation	7,315	914	914	9,143	8,190
Interest expense	6,094	762	762	7,618	7,606
Utilities	5,891	736	736	7,363	7,590
Marketing and advertising	5,705	713	713	7,131	1,046
Meetings and conferences	3,477	434	434	4,345	12,860
Bank charges	2,375	297	297	2,969	1,916
Bad debt expense	2,230	-	-	2,230	4,000
Repairs and maintenance	1,766	221	221	2,208	2,343
Printing and reproduction	1,745	218	218	2,181	2,517
Dues and subscriptions	542	68	68	678	930
Late fees and penalties	272	34	34	340	372
Equipment rental	217	27	27	271	281
International director fees	-	-	-	-	16,500
Affiliate program expenses	-	-	-	-	730
	<u>\$ 7,613,995</u>	<u>\$ 123,399</u>	<u>\$ 204,556</u>	<u>\$ 7,941,950</u>	<u>\$ 7,058,443</u>

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH PRIOR YEAR SUMMARIZED INFORMATION FOR 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 17,382	\$ (19,116)
<i>Adjustments to reconcile change in net assets to net cash flows used in operating activities:</i>		
Loss from write-off of art held for sale	27,350	42,200
Depreciation	9,143	8,190
Bad debt expense	2,230	4,000
Due to affiliate balance written-off	(13,000)	-
Expenses paid by Executive Director on behalf of the Organization	-	5,821
(Increase) decrease in operating assets:		
Unconditional promises to give	(14,005)	29,031
Accounts receivable	3,080	8,078
Prepaid expenses	6,907	(9,356)
Art held for sale	(27,525)	(48,800)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	25,723	22,696
Payroll tax liabilities	(44,930)	(73,931)
Deferred rent	(139)	2,369
Total adjustments	<u>(25,166)</u>	<u>(9,702)</u>
Net cash used in operating activities	<u>(7,784)</u>	<u>(28,818)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>(3,418)</u>	<u>(5,553)</u>
Net cash used in investing activities	<u>(3,418)</u>	<u>(5,553)</u>
Cash flows from financing activities:		
Proceeds from loan payable to director	520	-
Repayment of loan payable to director	(520)	(5,821)
Principal repayments on capital lease liability	(4,388)	(4,335)
Principal repayments of line of credit	(4,064)	(3,765)
Net cash used in financing activities	<u>(8,452)</u>	<u>(13,921)</u>
Net decrease in cash and cash equivalents	(19,654)	(48,292)
Cash and cash equivalents, beginning of year	55,087	103,379
Cash and cash equivalents, end of year	<u>\$ 35,433</u>	<u>\$ 55,087</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 7,618</u>	<u>\$ 7,606</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Noncash investing and financing activities:		
Expenses paid by Executive Director on behalf of the Organization	<u>\$ -</u>	<u>\$ 5,821</u>

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

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1) NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Aid for AIDS International, Inc. was organized as a not-for-profit corporation on February 3, 1997 under the laws of the State of New York. The Organization's mission is to improve the quality of life of people living with HIV/AIDS ("PLWHA") in developing countries and who are immigrants to the United States of America. The Organization works to empower PLWHA, their caregivers and the community at large. The Organization's programs fall broadly into three areas as follows:

Primary Prevention: *Cuanto Sabes de Vih y Sida?* - This program trains educators as facilitators in the prevention of HIV and AIDS in Colombia, Panama, Dominican Republic and Venezuela. The broad goals of this program are:

- To train secondary school adolescents to become peer educators in HIV and AIDS primary prevention.
- To communicate the potential of adolescents as effective prevention resources to others working in the public health field, so that they may employ these peer educators in existing HIV/AIDS prevention programs that address risky adolescent behavior.
- To select secondary school students to receive training in the basic facts of HIV and AIDS, as well as basic HIV/AIDS prevention concepts, oratory techniques, NPL (neurolinguistic programming), mental maps and life skills. This training is essential in ensuring that these students will be able to function as peer educators.
- To provide ongoing support to these peer educators once they are out in their peer communities, offering vital information and encouraging activities that promote responsible sexual behavior and decrease the stigma and discrimination faced by PLWHA.

AIDS Treatment Access Program (ATAP) - This program is designed to provide free antiretroviral (ARV) therapy to PLWHA who lack access to health care and/or cannot afford the cost of treatment in developing countries around the world. ATAP provides PLWHA and their health care providers with training, HIV/AIDS treatment planning and medication resource management. And, lastly, the program assists governments in designing better service and delivery models to provide individuals living with HIV and AIDS in their countries with the medications they so desperately need.

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013**

1) NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Nature of the Organization (Cont'd)

Advocacy – The Organization’s commitment to addressing the connection between health and human rights is visible in its innovative advocacy program. Utilizing the internet, the program created *Observatorio Latino*, an online forum through which civil society can monitor the use of funds from the Global Fund to Fight HIV and AIDS, ensuring that these funds have the maximum positive impact. The Organization also created *Observatorio de Mujer*, a tool for community organizations and agencies that address women’s issues related to HIV/AIDS. *Observatorio de Mujer* provides investigators and activists with the most accurate statistics available, along with specific tools they can use to ensure that their concerns are taken into account in decisions affecting the lives of women living with HIV and AIDS in Latin America.

The Organization’s programs are supported primarily by foundation, corporate and individual donor contributions.

In order to conduct its program activities in various countries in Latin America, the Organization was involved in forming and collaborates with affiliated entities in the Dominican Republic, Mexico, Peru, Chile, Colombia, Ecuador, Guatemala, and Venezuela.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Aid for AIDS International, Inc. and its wholly-owned Panama subsidiary (collectively referred to as the “Organization”). Inter-organization balances and transactions have been eliminated.

Basis of Accounting

Revenue and expenses are recorded on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statements Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Cash and Cash Equivalents

The Organization considers all highly liquid investments, except those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013

1) NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Accounts Receivable

Contracted services income earned but not yet received that is expected to be collected within one year is recorded as accounts receivable at net realizable value. If amounts become uncollectible, they will be charged to operations when the determination is made.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. If amounts become uncollectible, they will be charged to operations when that determination is made.

Art Held for Sale

The Organization accepts contributions of artwork for auction at the annual gala for fundraising purposes. The contributed artwork is recorded at fair value on the date of receipt and is reflected as art held for sale in the consolidated statement of financial position. Artwork that is sold is recorded on a specific identification basis.

Property and Equipment

Property and equipment are recorded at cost, or fair value if donated. Depreciation for property and equipment is provided using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

	<u>Years</u>
Office equipment	5
Drop off boxes	10
Leasehold improvements	Lease term

Property acquired under capital lease is depreciated over the lease term. Amortization of equipment under capital lease is included in depreciation expense.

Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is reported. Expenditures for major renewals and improvements that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013

1) NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue Recognition

Foundation and other grant awards received for specific purposes are recognized as support to the extent of the related expenses incurred in compliance with the specific restrictions, if any. The unexpended funds are reported as temporarily restricted net assets.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. 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 (this is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the reporting period are recorded as unrestricted contributions.

Contributed artwork is recorded as contributions at fair market value on the date of receipt and recorded as art held for sale. Artwork is sold on a specific identification basis. Any difference between the item's initial fair value and the amount ultimately received is recognized as an increase or decrease to contributions. The majority of the artwork is sold at the Organization's annual gala benefit during the silent auction.

Ticket sales from the Organization's special events are allocated based on the fair value of the benefit provided to the donors and is reported on the consolidated statement of activities as direct benefits to donors. The difference between the amounts paid by the donors and the fair value of the benefit received by the donors is considered contribution revenue and is reported as excess ticket sales revenue.

Costs of Direct Benefits to Donors

The costs of the items and services furnished to donors as inducements to attend the Organization's special events are presented as a deduction from direct benefits to donors on the consolidated statement of activities.

HIV/AIDS Medication Donated and Distributed

Medication is donated to the Organization by U.S. doctors, U.S. citizens living with HIV/AIDS, or other AIDS charity organizations. The Organization recognizes in-kind contribution revenue and related expense using observable wholesale value at the time of distribution during the course of its program activities. Since the Organization does not hold medication for resale and it has no realizable economic value, medication inventory on hand is not reflected as an asset in the consolidated statement of financial position.

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013**

1) NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Contributed Services

Donated professional services are recorded as in-kind contributions at their fair value at date of performance and are offset by like amounts included in expenses and reflected on the consolidated statement of activities.

A number of volunteers have donated significant amounts of their time to the Organization in connection with its special events. Directors and officers have made a significant contribution of their time to develop the Organization and its programs. These donated services are not reflected in the consolidated financial statements since they do not meet the criteria for recognition as contributed services.

Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2013 was \$5,031.

Accounting for Leases

The Organization follows *FASB Technical Bulletin 85-3* to account for its operating lease with scheduled rent increases. Rent expense is recognized on a straight-line basis over the lease term.

Functional Allocation of Expenses

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

Comparative Data

The amounts shown for the year ended December 31, 2012 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2013 and present summarized totals only. Accordingly, the 2012 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013**

1) NATURE OF THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation. Currently, the Organization has no obligation for any unrelated business income tax.

The Organization's Forms 990, *Return of Organizations Exempt from Income Tax*, for the years ended December 31, 2012, 2011, and 2010 are subject to examination by the Internal Revenue Service ("IRS"), generally for three years after they were filed.

The Organization has evaluated its current tax positions and has concluded that as of December 31, 2013, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Organization to use estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through August 6, 2014 which is the date the consolidated financial statements were available to be issued.

2) FAIR VALUE MEASUREMENTS

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at December 31, 2013, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013

3) ACCOUNTS RECEIVABLE

Accounts receivable represents contracted services income earned but not collected as of the consolidated financial statement date. These amounts are generally collected within one year. The Organization believes its receivables to be fully collectible; accordingly, no allowance for doubtful accounts was recorded for the year ended December 31, 2013.

4) UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give represent pledges received by individuals at December 31, 2013, but not collected as of the consolidated financial statement date. These amounts are generally collected within one year. The Organization believes its receivables to be fully collectible; accordingly, no allowance for doubtful accounts was recorded for the year ended December 31, 2013. During the year ended December 31, 2013, unconditional promises to give amounting to \$2,230 were specifically identified as uncollectible and written off to bad debt expense.

5) PROPERTY AND EQUIPMENT

The following is a summary of property and equipment less accumulated depreciation as of December 31, 2013. Depreciation expense for the year then ended was \$9,143.

Office equipment	\$ 79,306
Drop off boxes	5,739
Leasehold improvements	<u>4,500</u>
	89,545
Less: accumulated depreciation	<u>64,102</u>
	<u>\$ 25,443</u>

Equipment under capital lease was recorded at the present value of the minimum lease payments. Accumulated depreciation above includes accumulated amortization on equipment under capital lease as of December 31, 2013 of \$10,726.

6) ART HELD FOR SALE

Art held for sale consists of artwork contributed to the Organization at the annual gala for fundraising purposes unsold at year-end. During the year ended December 31, 2013, artwork donated in prior years totaling \$27,350 was determined to no longer be auctionable. Accordingly, a loss from write-off of art held for sale has been recognized in the accompanying consolidated financial statements.

7) LINE OF CREDIT

As of December 31, 2013, the Organization is obligated for an outstanding balance of \$20,434 on a line of credit with its primary financial institution, which was suspended in 2008. The Organization pays interest on the outstanding balance at a rate of 5% per annum. Total interest paid for the year then ended was \$1,076.

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
 DECEMBER 31, 2013**

8) DEFERRED RENT

Under the terms of the Organization's office lease, rental payments are subject to a 3% annual escalation every first of December. For financial reporting purposes, the Organization recognizes \$7,717 per month based on the total rent increases effective during the lease term. As a result, the Organization has a deferred rent liability totaling \$7,447 at year-end.

9) RELATED PARTY LOANS

During the year ended December 31, 2013, management determined that the \$13,000 due to an affiliate was no longer outstanding. Accordingly, the amount was written off during the year and is included in miscellaneous income.

The Organization has an interest-bearing loan payable to the Organization's Executive Director, payable in full on July 12, 2017. Interest is charged at a rate of 8.31% per annum and is payable monthly. The outstanding balance as of December 31, 2013 is \$71,500. There are no specific terms for future minimum principal payments. Total interest paid for the year was \$5,942.

During the year ended December 31, 2013, the Organization also received an unsecured, non-interest bearing \$520 loan from its Executive Director which was repaid by year-end.

10) NET ASSETS RELEASED FROM RESTRICTIONS

The amounts released from restrictions during the year ended December 31, 2013 are for the following:

Satisfaction of purpose restrictions:	
Tomando Control!	\$ 100,000
<i>Cuanto Sabes de VIH y Sida?</i>	81,667
Case Management and Medical Adherence Counseling	<u>14,583</u>
Total	<u>\$ 196,250</u>

11) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2013 are available for the following:

<i>Cuanto Sabes de VIH y Sida?</i>	<u>\$ 117,608</u>
Total	<u>\$ 117,608</u>

AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013

12) IN-KIND CONTRIBUTIONS

During the year ended December 31, 2013, the Organization received the following in-kind contributions that have been reflected at fair value in the consolidated statement of activities:

Donated medicine	\$ 6,625,365
Donated artwork for special event	66,050
Donated legal services	<u>24,647</u>
Total	<u>\$ 6,716,062</u>

13) ALLOCATION OF JOINT COSTS

In 2013, the Organization conducted activities that included requests for contributions, as well as program and management and general components. Those activities primarily included the special event and other program activities. The costs of conducting those activities included a total of \$1,221,237 of joint costs, which are not specifically attributable to particular components of the activities.

These joint costs were allocated as follows:

Program services	\$ 976,352
Management and general	123,399
Fundraising	<u>121,486</u>
Total	<u>\$ 1,221,237</u>

14) COMPENSATED ABSENCES

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying consolidated financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

15) CONCENTRATIONS OF RISK

The Organization maintains its cash balances at a major financial institution. The cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As of December 31, 2013, there were no uninsured balances.

During 2013, the Organization received approximately 89% of its total foundation support from two grantors and 30% of its total grants and contributions from its special events.

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013**

16) COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization leases its office space under a non-cancelable operating lease which expires on November 30, 2015. The Organization also leases office equipment under a non-cancelable capital lease expiring on January 1, 2017. Rent expense for the year ended December 31, 2013 was \$89,261. The office equipment under capital lease amounts to \$14,728 at December 31, 2013.

Future minimum lease payments under the non-cancelable operating lease are as follows:

December 31,	
2014	\$ 88,722
2015	83,562
Thereafter	<u>-</u>
Total	<u>\$ 172,284</u>

Future minimum lease payments under the non-cancelable capital lease are as follows:

December 31,	
2014	4,980
2015	4,980
2016	4,980
Thereafter	<u>415</u>
Total minimum lease payments	15,355
Less: amount representing interest	<u>627</u>
Present value of minimum lease payments	<u>\$ 14,728</u>

Legal Matters

In 2010, the Organization vacated its previously subleased office space. The lease was scheduled to expire on September 29, 2017. Subsequently, the Organization received a demand letter from the sub-landlord seeking unpaid rent in the amount of \$171,402. There are currently no legal proceedings relating to this issue and the outcome is not yet known. The amount payable above is reflected in the accompanying consolidated statement of financial position.

**AID FOR AIDS INTERNATIONAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2013**

17) GOING CONCERN

The Organization continues to take steps to eliminate the negative balance in Net Assets. Revenue continues to improve due to an increase in development efforts which has led to an increase in special event revenues and board giving. Expenses are carefully monitored; the Organization continues to engage an outside consulting firm to improve internal controls, financial management and reporting to ensure that the Organization operates on at least a break-even basis. Financial results and cash flow are monitored monthly and adjustments are made to spending (if necessary) based on revenue projections.

The Organization is addressing the accounts payable and accrued expense liability: \$171,402 of the outstanding balance is a rent liability to a previous landlord. The Organization is disputing the amount owed and anticipates that the liability will be removed. The Organization has also developed a payment plan on eliminating the rest of the outstanding payables.

For the reasons stated above, management believes is it more than likely that the Organization will reflect a surplus in its operating results for 2014. The ability of the Organization to continue as a going concern is dependent on the success of the above efforts. The consolidated financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

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