

Resource Center Dallas and Affiliate

**Consolidated Financial Statements with
Supplementary Schedule and Compliance Reports
September 30, 2015 and 2014**

Resource Center Dallas and Affiliate

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Independent Auditors' Report

Board of Directors
Resource Center Dallas and Affiliate

We have audited the accompanying consolidated financial statements of Resource Center Dallas and Affiliate (collectively, the Center) (nonprofit organizations), which comprise the consolidated statements of financial position as of September 30, 2015 and 2014, 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 U.S. generally accepted accounting principles; 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 audits. We conducted our audits in accordance with U.S. generally accepted auditing standards 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 the Resource Center Dallas Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit 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 consolidated financial position of Resource Center Dallas and Affiliate as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary Schedule

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose 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 U.S. generally accepted auditing standards. In our opinion, such 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 February 29, 2016, on our consideration of Resource Center Dallas' 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 Resource Center Dallas' internal control over financial reporting and compliance.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
March 23, 2016

Resource Center Dallas and Affiliate
Consolidated Statements of Financial Position
September 30, 2015 and 2014

| | 2015 | 2014 |
|--|----------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 177,046 | \$ 310,448 |
| Investments | 225,198 | 233,266 |
| Accounts receivable - grants | 531,155 | 353,708 |
| Accounts receivable - other | - | 43,189 |
| Inventory | 3,249 | 4,432 |
| Prepaid expenses | 959 | - |
| Assets restricted for capital campaign: | | |
| Cash | 3,637,707 | 1,520,363 |
| Unconditional promises to give, net | 675,679 | 1,559,988 |
| Deposits | 9,288 | 5,588 |
| Property and equipment, net | 4,075,113 | 3,268,885 |
| Endowment investments | 1,654,289 | 1,750,545 |
| Total assets | \$ 10,989,683 | \$ 9,050,412 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable | \$ 554,993 | \$ 330,466 |
| Accrued expenses | 112,504 | 102,844 |
| Line of credit | 177,000 | 470,000 |
| Long-term debt | 1,128,465 | 311,758 |
| Total liabilities | 1,972,962 | 1,215,068 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 3,421,430 | 2,904,448 |
| Designated by the Board for the Capital Campaign | 100,000 | 100,000 |
| Total unrestricted net assets | 3,521,430 | 3,004,448 |
| Temporarily restricted | 3,862,721 | 3,156,552 |
| Permanently restricted | 1,632,570 | 1,674,344 |
| Total net assets | 9,016,721 | 7,835,344 |
| Total liabilities and net assets | \$ 10,989,683 | \$ 9,050,412 |

See accompanying notes to consolidated financial statements.

Resource Center Dallas and Affiliate
Consolidated Statement of Activities
Year Ended September 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenue and support: | | | | |
| Contributions | \$ 1,499,659 | \$ 1,281,982 | \$ - | \$ 2,781,641 |
| Government grants | 3,503,800 | - | - | 3,503,800 |
| Fees for services | 182,631 | - | - | 182,631 |
| Event ticket sales | 85,536 | - | - | 85,536 |
| Investment income (loss) | (5,626) | 34,952 | (41,774) | (12,448) |
| Other | 95,736 | - | - | 95,736 |
| Net assets released from restrictions | 610,765 | (610,765) | - | - |
| Total revenue and support | 5,972,501 | 706,169 | (41,774) | 6,636,896 |
| Expenses: | | | | |
| Program: | | | | |
| Community center | 1,533,205 | - | - | 1,533,205 |
| Client services | 1,586,452 | - | - | 1,586,452 |
| Clinic services | 1,120,708 | - | - | 1,120,708 |
| Total program expense | 4,240,365 | - | - | 4,240,365 |
| Supporting services: | | | | |
| Administrative | 414,864 | - | - | 414,864 |
| Capital campaign | 213,588 | - | - | 213,588 |
| Fundraising | 586,702 | - | - | 586,702 |
| Total supporting services | 1,215,154 | - | - | 1,215,154 |
| Total expenses | 5,455,519 | - | - | 5,455,519 |
| Change in net assets | 516,982 | 706,169 | (41,774) | 1,181,377 |
| Net assets at beginning of year | 3,004,448 | 3,156,552 | 1,674,344 | 7,835,344 |
| Net assets at end of year | \$ 3,521,430 | \$ 3,862,721 | \$ 1,632,570 | \$ 9,016,721 |

See accompanying notes to consolidated financial statements.

Resource Center Dallas and Affiliate
Consolidated Statement of Activities
Year Ended September 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenue and support: | | | | |
| Contributions | \$ 1,403,537 | \$ 1,596,305 | \$ - | \$ 2,999,842 |
| Government grants | 3,115,714 | - | - | 3,115,714 |
| Fees for services | 148,352 | - | - | 148,352 |
| Event ticket sales | 87,214 | - | - | 87,214 |
| Investment income | 32,705 | 49,663 | 68,476 | 150,844 |
| Other | 98,901 | - | - | 98,901 |
| Net assets released from restrictions | 238,579 | (306,979) | 68,400 | - |
| Total revenue and support | 5,125,002 | 1,338,989 | 136,876 | 6,600,867 |
| Expenses: | | | | |
| Program: | | | | |
| Community center | 1,572,522 | - | - | 1,572,522 |
| Client services | 1,719,249 | - | - | 1,719,249 |
| Clinic services | 1,095,647 | - | - | 1,095,647 |
| Total program expense | 4,387,418 | - | - | 4,387,418 |
| Supporting services: | | | | |
| Administrative | 479,125 | - | - | 479,125 |
| Capital campaign | 167,600 | - | - | 167,600 |
| Fundraising | 527,934 | - | - | 527,934 |
| Total supporting services | 1,174,659 | - | - | 1,174,659 |
| Total expenses | 5,562,077 | - | - | 5,562,077 |
| Bad debt loss | - | 25,637 | - | 25,637 |
| Total expenses and loss | 5,562,077 | 25,637 | - | 5,587,714 |
| Change in net assets | (437,075) | 1,313,352 | 136,876 | 1,013,153 |
| Net assets at beginning of year | 3,441,523 | 1,843,200 | 1,537,468 | 6,822,191 |
| Net assets at end of year | \$ 3,004,448 | \$ 3,156,552 | \$ 1,674,344 | \$ 7,835,344 |

See accompanying notes to consolidated financial statements.

Resource Center Dallas and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2015

| | Community Center | Client Services | Clinic Services | Total Program | Administrative | Capital Campaign | Fundraising | Total |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|---------------------|
| Accounting/audit | \$ 5,513 | \$ 6,028 | \$ 3,846 | \$ 15,387 | \$ 1,674 | \$ 1,851 | \$ 588 | \$ 19,500 |
| Advertising/information services | 58,946 | - | - | 58,946 | 25 | 5,383 | 8,214 | 72,568 |
| Association dues | 250 | - | - | 250 | 5,600 | - | 1,495 | 7,345 |
| Auto repair/maintenance/gasoline | - | 1,074 | - | 1,074 | - | - | - | 1,074 |
| Bank service charges | - | - | - | - | 16,545 | 1,997 | 2,444 | 20,986 |
| Books | - | - | 60 | 60 | 610 | - | - | 670 |
| Building maintenance | 19,502 | 10,477 | 15,179 | 45,158 | - | - | 2,863 | 48,021 |
| Client payments | - | 610,983 | - | 610,983 | - | - | - | 610,983 |
| Condoms/lube/bleach kits | 1,661 | - | - | 1,661 | - | - | - | 1,661 |
| Contract labor | 91,955 | 21,123 | 24,073 | 137,151 | 93,265 | 85,071 | 40,584 | 356,071 |
| Copying/printing | 1,355 | 514 | 294 | 2,163 | 1,677 | 1,745 | 25,340 | 30,925 |
| Corporate insurance | 5,533 | 12,033 | 9,849 | 27,415 | 4,357 | 1,492 | 5,972 | 39,236 |
| Credit card service charges | 28 | 2 | 3,254 | 3,284 | - | 19,046 | 10,201 | 32,531 |
| Depreciation | 26,281 | 16,296 | 35,921 | 78,498 | - | - | - | 78,498 |
| Donor prospecting | - | - | - | - | 45 | 3,000 | 609 | 3,654 |
| Drugs | 1,314 | - | - | 1,314 | - | - | - | 1,314 |
| Employee insurance benefits | 72,904 | 67,152 | 66,533 | 206,589 | 24,667 | 1,519 | 28,468 | 261,243 |
| Employee recruiting | 563 | 1,381 | - | 1,944 | 891 | - | 1,060 | 3,895 |
| Employee training/conferences | 1,532 | 602 | 2,946 | 5,080 | 2,197 | - | 4,877 | 12,154 |
| Equipment rentals | 22,341 | 10,911 | 12,182 | 45,434 | 872 | 2,227 | 26,546 | 75,079 |
| Event entry purchase | 8,285 | - | - | 8,285 | 550 | - | 408 | 9,243 |
| Food | 46,905 | 316,724 | - | 363,629 | 2,364 | 453 | 5,665 | 372,111 |
| Gaming prize fee | 625 | - | - | 625 | - | - | 750 | 1,375 |
| Interest and penalties | - | - | - | - | 7,262 | 24,000 | - | 31,262 |
| Lab work | 1,742 | - | 92,499 | 94,241 | - | - | - | 94,241 |
| Linen services | 27 | 4,169 | - | 4,196 | - | - | 76 | 4,272 |
| Medical supplies | 58,185 | - | 40,367 | 98,552 | - | - | - | 98,552 |
| Participation incentives | 625 | - | - | 625 | - | - | - | 625 |
| Payroll taxes | 63,243 | 33,126 | 49,490 | 145,859 | 16,943 | 2,126 | 26,303 | 191,231 |
| Permits/licenses | 3,457 | 15,496 | 2,466 | 21,419 | 2,579 | 1,550 | 5,047 | 30,595 |
| Postage | 3,184 | 1,784 | 2,755 | 7,723 | 229 | 1,100 | 4,969 | 14,021 |
| Property taxes | 374 | 207 | 325 | 906 | - | 15,951 | - | 16,857 |
| Rent | 134,070 | 28,283 | 85,521 | 247,874 | 64 | - | 36,600 | 284,538 |
| Salaries | 766,832 | 389,996 | 623,435 | 1,780,263 | 221,640 | 44,515 | 325,762 | 2,372,180 |
| Subscriptions | 639 | - | - | 639 | 120 | - | 199 | 958 |
| Supplies | 77,386 | 9,466 | 14,910 | 101,762 | 4,574 | - | 7,740 | 114,076 |
| Travel/mileage | 12,272 | 3,327 | - | 15,599 | 2,603 | - | 328 | 18,530 |
| Utilities | 25,160 | 17,133 | 22,084 | 64,377 | 1,239 | 562 | 8,501 | 74,679 |
| Voice/data communications | 20,516 | 8,165 | 12,719 | 41,400 | 2,272 | - | 5,093 | 48,765 |
| | <u>\$ 1,533,205</u> | <u>\$ 1,586,452</u> | <u>\$ 1,120,708</u> | <u>\$ 4,240,365</u> | <u>\$ 414,864</u> | <u>\$ 213,588</u> | <u>\$ 586,702</u> | <u>\$ 5,455,519</u> |

See accompanying notes to consolidated financial statements.

Resource Center Dallas and Affiliate
Consolidated Statement of Functional Expenses
Year Ended September 30, 2014

| | Community Center | Client Services | Clinic Services | Total Program | Administrative | Capital Campaign | Fundraising | Total |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| Accounting/audit | \$ 6,567 | \$ 3,076 | \$ 4,875 | \$ 14,518 | \$ 2,139 | \$ - | \$ 2,343 | \$ 19,000 |
| Advertising/information services | 59,771 | - | - | 59,771 | 106 | 5,000 | 3,230 | 68,107 |
| Association dues | - | - | - | - | 4,750 | - | 1,220 | 5,970 |
| Auto repair/maintenance/gasoline | - | 1,171 | - | 1,171 | - | - | - | 1,171 |
| Bank service charges | - | - | - | - | 14,777 | 2,296 | 1,983 | 19,056 |
| Books | 8 | - | 58 | 66 | 50 | - | - | 116 |
| Building maintenance | 24,962 | 12,995 | 19,706 | 57,663 | 620 | - | 4,505 | 62,788 |
| Client payments | - | 781,350 | - | 781,350 | - | - | - | 781,350 |
| Condoms/lube/bleach kits | 2,433 | - | - | 2,433 | - | - | - | 2,433 |
| Contract labor | 37,043 | 18,353 | 24,084 | 79,480 | 105,675 | 95,700 | 37,738 | 318,593 |
| Copying/printing | 4,912 | 791 | 883 | 6,586 | 185 | 3,056 | 25,446 | 35,273 |
| Corporate insurance | 12,887 | 5,760 | 31,671 | 50,318 | - | 3,111 | 4,492 | 57,921 |
| Credit card service charges | 7,169 | - | 3,366 | 10,535 | - | 8,830 | 7,541 | 26,906 |
| Depreciation | 27,491 | 16,456 | 24,453 | 68,400 | - | - | 7,890 | 76,290 |
| Donor prospecting | 478 | - | - | 478 | 81 | 178 | 45 | 782 |
| Employee insurance benefits | 88,617 | 60,242 | 61,321 | 210,180 | 34,511 | - | 32,370 | 277,061 |
| Employee recruiting | 561 | 120 | - | 681 | 1 | - | 213 | 895 |
| Employee training/conferences | 1,450 | - | 1,235 | 2,685 | 75 | - | 3,536 | 6,296 |
| Equipment rentals | 26,762 | 9,765 | 12,819 | 49,346 | 229 | - | 19,373 | 68,948 |
| Event entry purchase | 2,365 | - | - | 2,365 | 1,295 | - | 620 | 4,280 |
| Food | 51,767 | 313,748 | - | 365,515 | 3,257 | 144 | 9,052 | 377,968 |
| Gaming prize fee | 2,188 | - | - | 2,188 | - | - | - | 2,188 |
| Interest and penalties | - | - | - | - | 4,678 | 16,051 | - | 20,729 |
| Lab work | 755 | - | 90,065 | 90,820 | - | - | - | 90,820 |
| Linen services | - | 4,684 | - | 4,684 | - | - | - | 4,684 |
| Medical supplies | 13,090 | - | 32,753 | 45,843 | - | - | - | 45,843 |
| Participation incentives | 935 | - | - | 935 | - | - | - | 935 |
| Payroll taxes | 63,552 | 32,438 | 47,979 | 143,969 | 23,188 | - | 23,319 | 190,476 |
| Permits/licenses | 4,336 | 9,334 | 1,322 | 14,992 | 1,171 | - | 5,007 | 21,170 |
| Postage | 2,618 | 1,228 | 1,956 | 5,802 | 71 | 53 | 5,384 | 11,310 |
| Property taxes | 21 | 11 | 17 | 49 | - | 31,873 | 8 | 31,930 |
| Rent | 161,818 | 26,402 | 72,739 | 260,959 | 224 | - | 15,210 | 276,393 |
| Salaries | 825,143 | 386,536 | 612,536 | 1,824,215 | 268,817 | - | 294,467 | 2,387,499 |
| Subscriptions | 501 | - | - | 501 | 269 | - | - | 770 |
| Supplies | 70,453 | 8,647 | 16,241 | 95,341 | 9,378 | 1,308 | 6,608 | 112,635 |
| Travel/mileage | 14,981 | 3,480 | - | 18,461 | 2,994 | - | 118 | 21,573 |
| Utilities | 32,755 | 14,420 | 22,354 | 69,529 | 236 | - | 10,038 | 79,803 |
| Vending machine | - | - | - | - | 96 | - | - | 96 |
| Voice/data communications | 24,133 | 8,242 | 13,214 | 45,589 | 252 | - | 6,178 | 52,019 |
| | <u>\$ 1,572,522</u> | <u>\$ 1,719,249</u> | <u>\$ 1,095,647</u> | <u>\$ 4,387,418</u> | <u>\$ 479,125</u> | <u>\$ 167,600</u> | <u>\$ 527,934</u> | <u>\$ 5,562,077</u> |

See accompanying notes to consolidated financial statements.

Resource Center Dallas and Affiliate
Consolidated Statements of Cash Flows
Year Ended September 30, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 1,181,377 | \$ 1,013,153 |
| Adjustments to reconcile increase in net assets to net cash used by operating activities: | | |
| Depreciation | 78,498 | 76,290 |
| Donation of property and equipment | - | (15,044) |
| Unrealized (gain) loss on investments | 69,303 | (126,870) |
| Change in allowance | (40,772) | 25,637 |
| Change in discount on unconditional promises to give | 2,743 | (7,038) |
| Contributions restricted for capital campaign | (1,281,981) | (1,642,390) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable - grants | (177,447) | 359,112 |
| Accounts receivable - other | 43,189 | (14,856) |
| Inventory | 1,183 | 37 |
| Prepaid expenses | (959) | 6,250 |
| Deposits | (3,700) | - |
| Accounts payable | (68,504) | (71,253) |
| Accrued expenses | 9,660 | (447) |
| Net cash used by operating activities | (187,410) | (397,419) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (591,695) | (174,834) |
| Purchases of assets restricted for capital campaign | (2,117,344) | (981,524) |
| Purchases of investments | (764,647) | (11,085) |
| Proceeds from sales of investments | 799,668 | - |
| Net cash used by investing activities | (2,674,018) | (1,167,443) |
| Cash flows from financing activities: | | |
| Collections of contributions restricted for capital campaign | 2,204,319 | 1,273,226 |
| Draws on construction note | 857,162 | - |
| Draws on line of credit | 812,000 | 670,000 |
| Payments on line of credit | (1,105,000) | (200,000) |
| Payments on long-term debt | (40,455) | (82,312) |
| Net cash provided by financing activities | 2,728,026 | 1,660,914 |
| Net increase (decrease) in cash and cash equivalents | (133,402) | 96,052 |
| Cash and cash equivalents at beginning of year | 310,448 | 214,396 |
| Cash and cash equivalents at end of year | \$ 177,046 | \$ 310,448 |
| Supplemental cash flow information - cash paid during the year for interest | \$ 31,262 | \$ 19,810 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Accrued purchases of construction in progress | \$ 293,031 | \$ - |
| Refinancing of long-term debt | \$ 271,303 | \$ - |

See accompanying notes to consolidated financial statements.

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

1. Organization

Resource Center Dallas (RCD) is a Texas nonprofit corporation founded in 1983 with a mission to create awareness, foster understanding and fulfill the needs of the gay and lesbian community through health, education and social programs that are available to all people. RCD is supported primarily by government and private grants and contributions from individuals and other organizations.

Resource Center Dallas Foundation (Foundation) is a Texas nonprofit corporation incorporated July 20, 2011. The purpose of the Foundation is to conduct and maintain a capital campaign for the construction and maintenance of a new facility to be built by RCD. The board of directors of RCD controls the board of directors of the Foundation. Resources for the Foundation's activities are primarily provided by contributions from individuals.

RCD and the Foundation are collectively referred to herein as the Center.

2. Summary of Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements include the accounts and transactions of RCD and the Foundation. All significant inter-organizational accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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

Temporarily restricted net assets - Net assets subject to donor stipulations that will be met by actions of the Center and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purpose.

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, investments, unconditional promises to give and accounts receivable. The Center places cash and cash equivalents, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. The Center has not experienced losses on such assets.

The Center's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of investments to the Center's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of the investments could occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes.

Unconditional promises to give are unsecured and are due from various donors. Accounts receivable are unsecured and are due from various grantor agencies under cost reimbursement grants. The Center continually evaluates the collectability of unconditional promises to give and accounts receivable and maintains allowances as necessary.

The Center received approximately 55% and 49% of its total support for the years ended September 30, 2015 and 2014, respectively, from U.S. Department of Health and Human Services grants passed through to the Center from the Texas Department of State Health Services or Dallas County Health and Human Services.

At September 30, 2015, balances due from three donors totaled 34% of total pledges receivable. At September 30, 2014, balances due from three donors totaled 56% of total pledges receivable.

Cash and Cash Equivalents

The Center considers highly liquid investments available for current use with original maturities of three months or less to be cash equivalents. The Center classifies cash and money market accounts held by external investment managers as investments as these funds are not readily available for operations.

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

Investments

Investment income and capital appreciation/depreciation earned on investments is reported in unrestricted net assets unless otherwise restricted by the donor or applicable law. All investments are carried at fair value with the related gains and losses included in the consolidated statements of activities.

Unconditional Promises to Give and Accounts Receivable

Unconditional promises to give are recorded at the estimated fair value when made and accounts receivable are recorded based on the reimbursable amount incurred or at the invoiced amount. The collectability of the Center's receivables is reviewed on an ongoing basis, using an assessment of the current status of individual accounts and current economic conditions.

Property and Equipment

Property and equipment are stated at cost or, if acquired by gift, at the fair market value at the date of gift. The Center capitalizes expenditures for property and equipment with useful lives in excess of one year. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from five to forty years.

Revenue Recognition

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. Contributions are recognized as temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Contributions of materials are recorded at their estimated fair value.

Government grants are recognized as contract terms are fulfilled. Cost reimbursement grants are recognized as support when the allowable costs are incurred. Fees for contract services are recognized as revenue when the contracted services are performed

The Center's costs incurred under its government grants are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the financial position or changes in net assets of the Center.

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

The Center receives a substantial amount of services donated by individuals interested in the Center's programs. Volunteers have contributed their time to the Center in the areas of the Food Pantry, Nelson-Tebedo Clinic, telephone hot-line, office, clerical support and fundraising.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. It is estimated that volunteers have contributed 50,606 and 56,308 hours of time for the years ended September 30, 2015 and 2014, respectively. No donated services were utilized that met the criteria to be recorded as revenue in the Center's consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

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

Income Taxes

RCD and the Foundation are nonprofit publicly supported organizations, as defined in Section 501(c)(3) of the Internal Revenue Service Code (IRC) that are exempt from federal income taxes under Section 501(a) of the IRC. The Center did not conduct any unrelated business activities that would be subject to federal income taxes and had no uncertain tax positions. Therefore, no tax provision or liability has been reported in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Center's tax returns and recognition of a tax liability (or asset) if the Center has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the Center, and has concluded that as of September 30, 2015 or 2014, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Each entity's Federal Return of Organizations Exempt from Income Tax is subject to examination by the IRS for three years from the date of filing.

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

3. Fair Value of Financial Instruments

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices available in active markets;
- Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable
- Level 3 - Inputs to the valuation methodology are unobservable inputs in which little or no market data exists, therefore requiring an entity to make its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies for assets and liabilities measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Money market funds and cash equivalents: Valued using \$1 for the net asset value (NAV).

Common stock, corporate bonds and government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the NAV of shares held by the Center at year end. The NAV is a quoted price in an active market.

The investments held by the Resource Center Dallas and Affiliate are measured using Level 1 inputs.

Resource Center Dallas and Affiliate
Notes to Consolidated Financial Statements

The following table presents the financial instruments carried at fair value as of September 30:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Money market funds and cash equivalents | \$ 100,450 | \$ 344,460 |
| Government securities | - | 74,111 |
| Corporate bonds | - | 61,004 |
| Common stock: | | |
| Basic industry | 183,314 | 53,418 |
| Capital goods | 56,596 | - |
| Consumer goods | 132,824 | 38,836 |
| Financial | 124,504 | 104,580 |
| Food and beverages | 138,172 | 19,961 |
| Healthcare | 129,684 | 96,355 |
| Media and communications | 26,531 | 24,943 |
| Technology | 245,761 | 105,965 |
| Utilities | 214,903 | - |
| Energy | - | 27,258 |
| Retail services | - | 34,079 |
| Transportation | - | 20,262 |
| Other | 1,814 | 78,987 |
| Mutual funds: | | |
| Growth and income | 169,595 | 159,662 |
| International | - | 17,819 |
| Income funds | - | 44,778 |
| Growth funds | - | 217,551 |
| Bond | 143,573 | - |
| Index funds | 211,766 | 459,782 |
| | <u>\$ 1,879,487</u> | <u>\$ 1,983,811</u> |

Resource Center Dallas and Affiliate
Notes to Consolidated Financial Statements

Investment income (loss) consists of the following for the year ended September 30, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--------------------------------|-------------------|---------------------------|---------------------------|--------------------|
| Interest and dividend income | \$ 4,181 | \$ 52,674 | \$ - | \$ 56,855 |
| Unrealized loss on investments | (9,807) | (17,722) | (41,774) | (69,303) |
| | <u>\$ (5,626)</u> | <u>\$ 34,952</u> | <u>\$ (41,774)</u> | <u>\$ (12,448)</u> |

Investment income consists of the following for the year ended September 30, 2014:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--------------------------------|------------------|---------------------------|---------------------------|-------------------|
| Interest and dividend income | \$ 4,157 | \$ 40,414 | \$ - | \$ 44,571 |
| Unrealized gain on investments | 28,548 | 9,249 | 68,476 | 106,273 |
| | <u>\$ 32,705</u> | <u>\$ 49,663</u> | <u>\$ 68,476</u> | <u>\$ 150,844</u> |

4. Unconditional Promises to Give

Unconditional promises to give at September 30, 2015 and 2014 were as follows:

| | 2015 | 2014 |
|-------------------------------------|-------------------|---------------------|
| Amounts due in: | | |
| Less than one year | \$ 447,507 | \$ 1,274,725 |
| One to five years | 272,513 | 367,633 |
| Subtotal | 720,020 | 1,642,358 |
| Less allowance for doubtful pledges | (25,637) | (66,409) |
| Less discount to present value | (18,704) | (15,961) |
| Unconditional promises to give, net | <u>\$ 675,679</u> | <u>\$ 1,559,988</u> |

Unconditional promises to give beyond September 30, 2015 are valued using a discount rate of 2.0%.

Resource Center Dallas and Affiliate
Notes to Consolidated Financial Statements

5. Property and Equipment

Property and equipment consists of the following at September 30:

| | 2015 | 2014 |
|-------------------------------|--------------|--------------|
| Land | \$ 2,399,391 | \$ 2,399,391 |
| Building and improvements | 1,423,959 | 1,637,902 |
| Furniture and equipment | 725,593 | 638,977 |
| Vehicles | 20,711 | 20,711 |
| Construction in progress | 1,012,053 | - |
| | 5,581,707 | 4,696,981 |
| Less accumulated depreciation | (1,506,594) | (1,428,096) |
| Property and equipment, net | \$ 4,075,113 | \$ 3,268,885 |

6. Line of Credit

The Center has a line of credit with a bank allowing the Center to borrow up to \$500,000. The line of credit bears interest at the LIBOR daily floating rate (2.5% at September 30, 2015) and matures on March 31, 2016. The line of credit is secured by equipment, inventory and receivables. The balance outstanding on the line at September 30, 2015 and 2014 totaled \$177,000 and \$470,000, respectively.

7. Long-Term Debt

In May 2015, the Center entered into a credit facility agreement with a bank for up to \$4,000,000 to finance the construction of a new building, renovate the Reagan Street property and refinance existing debt on the property. The agreement requires monthly payments of interest only through the construction completion date expected to be May 18, 2016, at which time the outstanding balance will be due on demand or if no demand is made then in monthly principal and interest payments through May 2036. The construction loan bears interest at 4.25% and is secured by a deed of trust. The balance outstanding on the construction loan at September 30, 2015 totaled \$1,128,465. The Center made additional drawdowns on the construction loan in the amount of \$1,387,256 subsequent to year-end.

The Center had a note payable to a bank for the purchase of land. The note is payable in monthly installments of \$6,983 including interest at 4.5%. The loan matures on October 31, 2018 and is secured by a deed of trust. In May 2015, the Center paid off the remaining balance of the note totaling \$271,303 through the credit facility agreement. The balance outstanding on the note at September 30, 2014 totaled \$311,758.

Resource Center Dallas and Affiliate
Notes to Consolidated Financial Statements

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for the following purposes at September 30:

| | 2015 | 2014 |
|--------------------|---------------------|---------------------|
| Capital campaign | \$ 3,840,997 | \$ 3,080,351 |
| Endowment earnings | 21,724 | 76,201 |
| | <u>\$ 3,862,721</u> | <u>\$ 3,156,552</u> |

9. Permanently Restricted Net Assets

At September 30, 2015 and 2014, permanently restricted net assets consist of endowment funds to be held indefinitely, the income from which is expendable to support program services.

10. Leases

The Center leases facilities and equipment to conduct its programs under non-cancelable operating lease agreements expiring through 2018. The following is a schedule of future minimum lease payments under these lease agreements for the years ending September 30:

| | |
|------|-----------|
| 2016 | \$ 80,736 |
| 2017 | 23,665 |
| 2018 | 2,768 |

Rent expense related to facilities and equipment under non-cancelable operating lease agreements was approximately \$260,000 and \$267,000 for the years ended September 30, 2015 and 2014, respectively.

11. In-kind Contributions

The Center receives various in-kind donations of supplies, food, rent and advertising that are provided to clients in its programs or used in operations. The estimated fair market value of these items are reflected in the accompanying consolidated statements of activities as contributions and expense in the amounts of \$183,161 and \$233,400 for the years ended September 30, 2015 and 2014, respectively.

12. Construction Commitments

The Center signed contracts totaling \$3,445,357 for the construction of a new building of which approximately \$1,150,193 has been paid through the credit facility agreement or is included in accounts payable at September 30, 2015.

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

13. Retirement Plan

The Center adopted a tax-deferred plan under Section 403(b) of the IRC effective September 1, 1994. The plan provides that employees who work at least 30 hours per week for 90 days after hire are eligible to participate. Contributions to the plan are funded entirely by participants.

14. Endowment Funds

The Center's endowment consists of two donor-restricted funds established for program purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors, are classified and reported based on the existence or absence of donor-imposed restrictions.

On April 15, 1996, the Center established The John Thomas Permanent Endowment Fund for the Foundation of Human Understanding (Fund). Distributions from the Fund generally shall not exceed annual earnings; however, the finance committee may make distributions in excess of annual earnings, but only upon the approval of the board of directors. The balance in the Fund as of September 30, 2015 and 2014 is \$182,468.

On April 23, 2006, the Center received an endowment to establish the Clair and Bill MODEL Program Services Endowment Fund (MODEL Fund). The investment income may be used to pay for the Center's program services. The balance in the MODEL Fund as of September 30, 2015 and 2014 is \$1,450,102 and \$1,491,876, respectively.

Interpretation of Relevant Law

The board of directors of the Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Resource Center Dallas and Affiliate

Notes to Consolidated Financial Statements

1. The duration of preservation of the fund
2. The purposes of the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Center
7. The Center's investment policies

Endowment Investment and Spending Policies

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the principal of the endowment assets. The Center has a spending policy of appropriating for distribution each year an amount deemed prudent to carry out the charitable

purposes of the Center. Distributions consist of net investment income and may, under certain conditions, include a portion of the cumulative realized and unrealized gains.

To achieve that objective, the Center has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which may include money market fund shares, commercial paper, certificates of deposit, fixed income securities, equity-based securities and mutual funds. The Center expects its endowment funds, over time, to yield annual results of 4% plus inflation. Actual results in any given year may vary from this amount.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as decreases in unrestricted net assets. There were no deficiencies in donor-restricted endowment funds as of September 30, 2015 and 2014.

Resource Center Dallas and Affiliate
Notes to Consolidated Financial Statements

Changes in the endowment funds by net asset classification for the years ended September 30, 2015 and 2014 are as follows:

| | 2015 | | |
|--|---------------------------|---------------------------|---------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 76,201 | \$ 1,674,344 | \$ 1,750,545 |
| Dividend and interest income | 52,674 | - | 52,674 |
| Net realized and unrealized gain (loss) | (17,722) | (41,774) | (59,496) |
| Appropriation of assets for expenditure | (89,429) | - | (89,429) |
| Endowment net assets, end of year | \$ 21,724 | \$ 1,632,570 | \$ 1,654,294 |
| | 2014 | | |
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 94,938 | \$ 1,537,468 | \$ 1,632,406 |
| Reclassification of restrictions | (68,400) | 68,400 | - |
| Dividend and interest income | 40,414 | - | 40,414 |
| Net realized and unrealized gain | 9,249 | 68,476 | 77,725 |
| Appropriation of assets for expenditure | - | - | - |
| Endowment net assets, end of year | \$ 76,201 | \$ 1,674,344 | \$ 1,750,545 |

15. Subsequent Events

Management has evaluated subsequent through March 23, 2016, the date which the consolidated financial statements were available to be issued, and concluded that no additional adjustments or disclosures are required.

Resource Center Dallas
Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2015

| Federal or State Grantor/Pass-through Grantor/Program Title | CFDA # | Expenditures |
|---|--------|---------------------|
| U.S. Department of Health and Human Services: | | |
| Texas Department of State Health Services via Dallas County Health and Human Services: | | |
| HIV Emergency Relief Projects Grant, Ryan White Title I and Part A Formula Funding | 93.914 | \$ 1,996,977 |
| HIV Care Formula Grants, Ryan White Title II and Part B Formula Funding | 93.917 | 333,053 |
| Texas Department of State Health Services: | | |
| HIV Prevention Activities Health Department Based, HERR/PCPE and HIV Planning Prevention | 93.940 | 1,023,331 |
| Federal Emergency Management Agency- Community Council of Greater Dallas- Emergency Food and Shelter National Board Program | | |
| | 97.024 | <u>21,303</u> |
| Total expenditures of federal awards | | <u>3,374,664</u> |
| Texas Department of State Health Services via Dallas County Health and Human Services- | | |
| HIV Health and Social Services Grant | N/A | <u>129,136</u> |
| Total expenditures of state awards | | <u>129,136</u> |
| Total expenditures of federal and state awards | | <u>\$ 3,503,800</u> |

Resource Center Dallas
Notes to Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards is prepared on the accrual basis of accounting and includes the federal and state grant activity of Resource Center Dallas. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the consolidated financial statements.

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Resource Center Dallas

We have audited the consolidated financial statements of Resource Center Dallas and Affiliate, which comprise the consolidated statement of financial position as of September 30, 2015, 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 February 29, 2016. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Resource Center Dallas Foundation were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Resource Center Dallas Foundation.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Resource Center Dallas' 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 Resource Center Dallas' internal control. Accordingly, we do not express an opinion on the effectiveness of Resource Center Dallas' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Resource Center Dallas' 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 the 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 Resource Center Dallas' 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.

Sutton Grost Cary

A Limited Liability Partnership
Certified Public Accountants

Arlington, Texas
March 23, 2016

Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Resource Center Dallas

Report on Compliance for Each Major Federal Program

We have audited Resource Center Dallas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Resource Center Dallas' major federal program for the year ended September 30, 2015. Resource Center Dallas' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Resource Center Dallas' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Resource Center Dallas' 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 its major federal program. However, our audit does not provide a legal determination of Resource Center Dallas' compliance.

Opinion on Major Federal Program

In our opinion, Resource Center Dallas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of Resource Center Dallas 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 Resource Center Dallas' internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Resource Center Dallas' 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sutton Frost Cary

A Limited Liability Partnership
Certified Public Accountants

Arlington, Texas
March 23, 2016

Resource Center Dallas
Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes 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 Section 510(a) of OMB Circular A-133? yes no

Identification of major federal programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|-------------------------------------|
| 93.914 | HIV Emergency Relief Projects Grant |
| 93.917 | HIV Care Formula Grants |

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

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**Resource Center Dallas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2015**

None