



# Aids Resource Center Ohio Case Study

A Limited Liability Company

## The Problem



### AIDS RESOURCE CENTER OHIO

Vision. Voice. Victory.

In 1984, Ohio and the nation were under attack by a new “cancer” that was causing severe illness and even death. Under the belief that this “cancer” was affecting only the gay community, the disease was originally called Gay-Related Immune Disease or “GRID”, and then later Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS). Today, HIV is

still a global pandemic. <sup>[1]</sup> As of 2012, approximately 35.3 million people have HIV worldwide with the number of new infections that year being about 2.3 million. <sup>[2]</sup>

HIV is the one of the most difficult chronic illnesses to manage in the United States. Of the 1.1 million Americans living with HIV, only a third are on drugs to manage the virus and only a quarter are “virally suppressed” or have the virus under control. <sup>[3]</sup> Columbus is now #21 among all U.S. cities for new HIV diagnoses. In 2009 (the most recent data available), there were 393 new infections—or about one every 22 hours. More than 4,212 HIV-positive individuals are living in Columbus.

Additionally, one-in-five HIV-positive individuals have not yet been diagnosed. If an individual is diagnosed soon after infection, the risk of HIV transmission is reduced by 96%. <sup>[4]</sup> With early diagnoses and treatment, a person with HIV is less likely to transmit the virus and might even expect to live about as long as an uninfected individual. However, most people living with HIV in America today are not getting the care they need.

## About ARC Ohio

In response to the new epidemic sweeping the country, grassroots campaigns sprung up throughout the nation, and Ohio was no exception. The Columbus and Dayton Area AIDS Task Forces, AIDS Foundation Dayton, No One’s Victory Alone, Violet’s Cupboard, David’s House Compassion and others provided various forms of support in the fight against HIV. Project OpenHand—Columbus, for example, is dedicated to meeting the nutritional needs of people with HIV and AIDS. However, there was not a one-stop shop where people could go for affordable AIDS testing, primary care, pharmaceuticals, and other comprehensive resources.

In more recent years, these groups joined forces in order to better meet the collective needs of their communities under the name AIDS Resource Center Ohio (ARC Ohio). Now providing services in Akron, Athens, Cleveland, Columbus, Cincinnati, Dayton, Lima, Mansfield, Newark, Jackson and Toledo, ARC Ohio is the largest AIDS service organization in the state of Ohio.

In 2011, Columbus AIDS Taskforce (CATF), Columbus’s HIV and AIDS resource provider, while excellent at providing services, was having financial issues. <sup>[5]</sup> CATF merged with ARC Ohio to become a stronger programmatic and financially stable organization. In order to increase revenue for under-funded HIV programs, ARC Ohio launched two new social enterprises in October 2012. ARC Ohio opened both a medical center for patients living with HIV and a related pharmacy, both of which were formed as nonprofit subsidiaries of ARC Ohio. At opening, they exclusively served patients with HIV/AIDS and followed the mission of the parent corporation, thus making them charitable by nature and qualifying them for tax exemption. By structuring the medical center and pharmacy as two separate subsid-

aries from ARC Ohio, all three were protected from the liabilities of the other ventures' activities.

ARC Ohio uses a holistic approach to address the physical, emotional and social needs of those living with HIV and AIDS in a way that results in hope, healing and empowerment. "The ARC Ohio Medical Center and Pharmacy significantly increases our ability to test and treat HIV and AIDS. Through the Clinic we can provide a level of care to our clients that can't be found anywhere else in Ohio and can control the disease before it controls the individual's life," said Bill Hardy, president and chief executive officer of ARC Ohio.<sup>[4]</sup>

"By testing and treating clients early-on, we will significantly decrease the rates of transmission in the Columbus area. The holistic approach to care we're providing is significant because we can meet the physical, emotional and social needs of the client; they will get the right treatment, and we'll be able to make sure they stay on their personal drug regimen that's keeping them healthy," said Joel Diaz, chief development officer of ARC Ohio.<sup>[4]</sup> Patients without health coverage can access high quality primary HIV medical care on a sliding fee scale.

## Legal Structure

After the success of their services, ARC Ohio considered expanding the pharmacy to serve the general public. Once unrelated business income reached a certain threshold, the pharmacy would change its legal structure and become a for-profit entity. By becoming a for-profit, the pharmacy would benefit from access to more highly qualified medical professionals, would be able to reach more people, and would be less reliant on declining federal Ryan White grants. Currently, any profits made by serving the HIV community are allowable as long as the profit is used to further the mission of the organization. Those profits are used to support ongoing programmatic needs and the growth of ARC Ohio.

When the amount of unrelated business income crosses that threshold by serving the general public, the IRS could question whether the pharmacy is still charitable by nature. Income from its public customers does not qualify for tax exemption. If the level of taxable profits grew to a substantial level, the IRS could revoke ARC Ohio's tax status and could even levy a penalty tax on the organization, depending on the circumstances. This strategy would therefore require the pharmacy to adopt a new for-profit legal structure.

Still, other concerns remained. With increased service volumes, ARC Ohio is committed to maintaining a high level of customer service and continuous quality improvement measures to ensure adherence counseling for patients is always available to ensure the best possible health outcome. As the general population pharmacy patients grow, the workload grows for the non-HIV patients. ARC Ohio has to be able to respond to that demand. Additionally, longtime staff members, who had not previously thought in terms of profit, might have difficulty seeing profit as a healthy way to grow the services and outreach of the agency. Many staff members continued to vie for the organization to offer some services for free instead of via a sliding fee system.

After careful consideration, ARC Ohio decided to convert the pharmacy into a for-profit single-member LLC subsidiary taxed as a corporation once the threshold is met for unrelated business income. Registering it as a for-profit subsidiary will protect the tax-exempt status of ARC Ohio and preserve its ability to accept grants and donations. Opening its pharmacy to the public will increase the customer base and allow the organization to generate significantly more income, ultimately increasing its ability to serve its constituency and sustain its critical but underfunded programs. By identifying cultural and quality concerns ahead of time, the organization was able to plan ways to mitigate those concerns from becoming a reality.

## Today

The pharmacy opened to the public in early 2013. The income generated from non-patients is tracked appropriately and to date, the unrelated income is very small. As the general population patients increase, ARC Ohio is monitoring the revenue to ensure compliance with their nonprofit status.

[1] UNAIDS 2011 pg. 1-10, [www.unaids.org](http://www.unaids.org); [2] <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2276790/>

[3] <http://www.unaids.org/en/resources/presscentre/pressreleaseandstatementarchive/2013/september/20130923prunga/>

[4] <http://www.arcoho.org/about-us/history>; [5] Announcing the ARC Ohio Medical Center & Pharmacy