

**HARLEM UNITED COMMUNITY AIDS  
CENTER, INC. AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2006**

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

CONTENTS  
June 30, 2006

---

<b>Independent Auditor's Report</b>	1
<b>Consolidated Financial Statements:</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 13
<b>Supplementary Information:</b>	
Independent Auditor's Report on Supplementary Information	14
Consolidated Statement of Activities by Program	15
<b>Internal Controls and Compliance Section:</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	17 - 18
Schedule of Findings and Questioned Costs	19
Status of Prior-Year's Findings	20
Independent Auditor's Report on Supplementary Information - Consolidated Schedule of Expenditures of Federal Awards	21
Consolidated Schedule of Expenditures of Federal Awards	22 - 23



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Harlem United Community AIDS Center, Inc.

We have audited the accompanying consolidated statement of financial position of Harlem United Community AIDS Center, Inc. and Affiliates (the "Companies") as of June 30, 2006, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior-year summarized comparative information has been derived from the Companies' 2005 consolidated financial statements and, in our report dated September 14, 2005 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harlem United Community AIDS Center, Inc. and Affiliates as of June 30, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 7, 2006, on our consideration of the Companies' internal control over financial reporting and on our tests of their 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

September 7, 2006

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,	2006	2005
<b>ASSETS (Note 7)</b>		
Current Assets:		
Cash	\$ 2,710,358	\$ 261,766
Grants and contracts receivable (Note 3)	1,753,315	1,998,754
Medicaid receivable	1,135,373	1,156,247
Investment (Note 4)	226,000	226,000
Subvention note receivable (Note 5)	200,000	200,000
Accounts receivable - rent	388,307	412,387
Prepaid expenses	188,839	226,735
<b>Total current assets</b>	<b>6,602,192</b>	<b>4,481,889</b>
Restricted Cash - debt service reserve (Note 8)	850,678	489,183
Property and Equipment, net (Note 6)	8,562,857	5,405,137
Security Deposits	737,152	350,287
<b>Total Assets</b>	<b>\$16,752,879</b>	<b>\$10,726,496</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 779,927	\$ 636,209
Accrued compensation	458,095	422,300
Line of credit (Note 7)		405,000
Current maturities of long-term debt (Note 8)	479,972	167,500
Refundable advances	73,464	93,030
<b>Total current liabilities</b>	<b>1,791,458</b>	<b>1,724,039</b>
Long-term Debt, less current maturities (Note 8)	9,923,858	4,524,842
<b>Total liabilities</b>	<b>11,715,316</b>	<b>6,248,881</b>
Commitments and Contingencies (Notes 7, 10 and 12 )		
Unrestricted Net Assets:		
From operations	5,350,703	4,934,092
Deficiency from start-up costs funded by bond proceeds (Note 11)	(846,890)	(866,894)
<b>Total unrestricted net assets</b>	<b>4,503,813</b>	<b>4,067,198</b>
Temporarily Restricted	533,750	410,417
<b>Total net assets</b>	<b>5,037,563</b>	<b>4,477,615</b>
<b>Total Liabilities and Net Assets</b>	<b>\$16,752,879</b>	<b>\$10,726,496</b>

See Notes to Consolidated Financial Statements

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30,	2006		2005	
	Unrestricted	Temporarily Restricted	Total	Total Summarized
Revenue:				
Government grants and contract services (Note 9)	\$ 8,917,982		\$ 8,917,982	\$ 9,209,176
Medicaid program services	5,436,864		5,436,864	5,364,301
Donations and contributions	887,063	\$ 672,500	1,559,563	953,157
Rental income	1,130,392		1,130,392	967,954
Other	115,139		115,139	107,285
Net assets released from restrictions	549,167	(549,167)		
<b>Total revenue</b>	<b>17,036,607</b>	<b>123,333</b>	<b>17,159,940</b>	<b>16,601,873</b>
Expenses:				
Program services	14,800,110		14,800,110	13,658,943
Management and general	2,056,603		2,056,603	1,922,004
Fund-raising	136,742		136,742	107,823
<b>Total expenses</b>	<b>16,993,455</b>		<b>16,993,455</b>	<b>15,688,770</b>
Operating income	43,152	123,333	166,485	913,103
Nonoperating revenue - contract services (Note 9)	393,463		393,463	148,340
Increase in net assets	436,615	123,333	559,948	1,061,443
Net assets at beginning of year, as restated	4,067,198	410,417	4,477,615	3,416,172
<b>Net assets at end of year</b>	<b>\$ 4,503,813</b>	<b>\$ 533,750</b>	<b>\$ 5,037,563</b>	<b>\$ 4,477,615</b>

See Notes to Consolidated Financial Statements

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30,	2006						2005	
	Program Services							
	Housing	Healthcare	Prevention	Total Programs	Management and General	Fund-raising	Total Expenses	Total Summarized
Salaries and wages	\$ 1,610,061	\$ 3,344,926	\$ 1,426,891	\$ 6,381,878	\$ 606,057	\$ 33,194	\$ 7,021,129	\$ 6,485,020
Fringe benefits	308,292	640,699	271,651	1,220,642	132,584	6,307	1,359,533	1,270,607
Professional fees and contractual services	83,501	212,767	136,764	433,032	125,336	91,240	649,608	638,114
Financial management expense					842,299		842,299	840,981
Client stipends/reimbursements	60	28,439	92,401	120,900	150		121,050	37,850
Supplies	71,450	440,595	155,532	667,577	36,932		704,509	808,438
Space costs	249,055	360,308	225,203	834,566	43,860		878,426	716,508
Residential expenses	2,772,336	38		2,772,374			2,772,374	2,411,043
Special event	14,585	45,363	4,848	64,796	16,802		81,598	65,899
Travel, conferences and meetings	46,712	227,976	94,547	369,235	18,314		387,549	553,046
Equipment	118,302	40,988	1,345	160,635	7,258		167,893	217,583
Repairs and maintenance	64,649	157,659	14,633	236,941	13,256		250,197	198,201
Moving and carting	36,238	20,505	1,904	58,647	2,626		61,273	52,648
Insurance	36,906	60,099	19,349	116,354	19,610		135,964	117,797
Telephone	81,821	94,821	20,617	197,259	26,303		223,562	215,054
Printing, postage and publications	39	10,472	6,203	16,714	12,928		29,642	80,373
Staff training and recruitment	12,451	9,365	1,369	23,185	3,723		26,908	53,252
Dues and subscriptions	1,158	23,715	681	25,554	21,530		47,084	42,303
Other	23,031	51,787	33,786	108,604	40,085	6,001	154,690	105,632
Provision for bad debt	100,800	173,014		273,814			273,814	180,223
Interest	(1,237)	260,185		258,948	31,719		290,667	207,005
Depreciation and amortization	44,656	383,093	30,706	458,455	55,231		513,686	391,193
<b>Total functional expenses</b>	<b>\$ 5,674,866</b>	<b>\$ 6,586,814</b>	<b>\$ 2,538,430</b>	<b>\$ 14,800,110</b>	<b>\$ 2,056,603</b>	<b>\$ 136,742</b>	<b>\$ 16,993,455</b>	<b>\$ 15,688,770</b>

See Notes to Consolidated Financial Statements

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	2006	2005
Cash flows from operating activities:		
Cash received from rental income	\$ 1,154,472	\$ 838,128
Cash received from grants and contract services	9,537,318	8,656,588
Cash received from Medicaid program services	5,183,924	4,697,460
Cash received from donations and contributions	1,559,563	953,157
Cash received from other revenue	115,139	107,285
Cash paid for operations	(16,084,744)	(14,786,800)
Cash paid for interest	(290,667)	(207,005)
<b>Net cash provided by operating activities</b>	<b>1,175,005</b>	<b>258,813</b>
Cash used in investing activity - purchases of property and equipment	(3,671,406)	(1,445,640)
Cash flows from financing activities:		
Principal payment of loans payable	(602,866)	(447,266)
Proceeds from loans payable	5,952,859	346,387
Repayments for lines of credit	(405,000)	
Proceeds from line of credit		405,000
<b>Net cash provided by financing activities</b>	<b>4,944,993</b>	<b>304,121</b>
Net increase (decrease) in cash	2,448,592	(882,706)
Cash at beginning of year	261,766	1,144,472
Cash at end of year	\$ 2,710,358	\$ 261,766

### Reconciliation of increase in net assets to net cash provided by operating activities:

Increase in net assets	\$ 559,948	\$ 1,061,443
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	273,814	180,223
Depreciation and amortization	513,686	391,193
Changes in operating assets and liabilities:		
Decrease (increase) in grants and contracts receivable	245,439	(754,937)
Increase in Medicaid receivable	(252,940)	(666,841)
Decrease (increase) in accounts receivable - rent	24,080	(129,826)
Decrease (increase) in prepaid expenses	37,896	(24,130)
Increase in security deposits	(386,865)	(273,395)
Increase in accounts payable and accrued expenses	143,718	308,676
Increase in accrued compensation	35,795	112,398
(Decrease) increase in refundable advances	(19,566)	54,009
<b>Total adjustments</b>	<b>615,057</b>	<b>(802,630)</b>
<b>Net cash provided by operating activities</b>	<b>\$ 1,175,005</b>	<b>\$ 258,813</b>

See Notes to Consolidated Financial Statements

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

---

- 1. ORGANIZATION:** Harlem United Community AIDS Center, Inc. (the "Company") was organized for the purpose of providing assistance and expertise to persons living with AIDS or HIV-related illnesses and to provide housing for homeless persons living with AIDS or HIV-related illnesses.

To assist in providing these services, the Company established two separately incorporated not-for-profit affiliates that are controlled by the board of directors of the Company: Upper Room AIDS Ministry and Health Services, Inc., an adult, day healthcare center (the "Center") and Harlem United Supportive Housing Development Fund Corporation (the "Corporation"). The Center is a freestanding diagnostic and treatment facility, licensed under Article 28 of the New York State health law, located in New York City. The facility will provide a broad range of health services to persons living with AIDS or HIV-related illnesses.

Harlem United HIV AIDS Prevention is an inactive company that owns a piece of donated property.

The Company and its affiliates are collectively referred to as the "Companies."

**2. SIGNIFICANT ACCOUNTING POLICIES:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company and its affiliates. All intercompany transactions and balances have been eliminated.

The Companies maintain their cash in bank deposit accounts which, at times, may exceed federally insured limits. The Companies have not experienced any losses in such accounts.

Property and equipment is stated at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets which range from 5 to 40 years. Amortization of leasehold improvements has been provided over the lesser of the estimated useful lives of the assets or the related lease term. The Companies depreciate their assets using the half-year convention in the first year the assets are placed in service.

Construction-in-progress is recorded at cost. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

---

Donations and contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Revenue from government grants and contract services designated for use in specific activities are recognized in the year when expenditures have been incurred in compliance with the grantor's restrictions. Cash received in excess of revenue recognized is recorded as refundable advances. At June 30, 2006, the Companies have received conditional contracts from governmental entities in the aggregate amount of \$2,941,855 that have not been recorded in these consolidated financial statements. These contracts require the Companies to provide certain services during specified years. If such services are not provided during the specified years, the governmental entities are not obligated to expend the funds allotted under the contracts.

Medicaid receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to the specific payors' ability to pay and current economic trends. The Company writes off Medicaid receivables against the allowance when a balance is determined to be uncollectible.

Medicaid program services revenue is reimbursed to the Companies at a fixed rate as determined by the cost. Reimbursement rates are subject to revisions under the provisions of regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

The Companies were incorporated as a not-for-profit corporation under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

The consolidated statements of operations and changes in net assets, and functional expenses include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Company's financial statements for the year ended June 30, 2005, from which the summarized information was derived. Some of the items have been reclassified to conform to the current year's presentation.

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

### 3. GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consist of the following:

June 30,	2006	2005
U.S. Department of Health and Human Services:		
Family Focused - HIV/AIDS Prevention	\$ 94,206	\$ 125,246
Community Based HIV Prevention Project for African Americans	47,338	137,410
Gay Men of Color for HIV Infection		
AIDS Education and Training Centers	36,394	42,602
Community Based Dental Partnership Program	107,823	110,664
Substance Abuse and Mental Health Services	6,702	54,041
Passed through New York State Office of Mental Health - Technical Assistance and Capacity Development	57,411	
U.S Department of Housing and Urban Development:		
Housing and Urban Development	270,882	149,196
Medical and Health Research Association of NYC:		
Multi-Module HIV Prevention Services Program	23,538	41,804
New York City Human Resource Administration:		
Scattersite Housing Project	414,253	529,093
New York City Department of Health:		
Preventive Case Management Initiative	48,420	18,934
New York State Department of Health		
AIDS Institute:		
Multiservice Agency Initiative	139,523	83,479
Health Research, Inc.:		
Where the Boys Are	63,467	30,208
AIDS Drugs Assistance Program	42,285	32,484
HIV Treatment Education - Immigrant Women Program	49,988	44,810
Postgraduate Center for Mental Health Services:		
Supportive Housing DASIS Eligible Women with Children	119,308	205,893
Center for Disease Control and Prevention:		
HIV Prevention Program	190,385	260,299
New York City Department of Health and Mental Hygiene		95,000
Other	41,392	37,591
	<u>\$1,753,315</u>	<u>\$1,998,754</u>

### 4. INVESTMENT:

Effective June 6, 2003, the Companies invested \$226,000 for a 23% interest in BTQ Financial, a management service organization that provides administrative support services to the Companies. This investment is valued using the equity method of accounting.

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2006

**5. SUBVENTION NOTE RECEIVABLE:** Effective November 1, 2002, the Companies loaned VidaCare \$200,000 as a noninterest-bearing subvention note receivable.

**6. PROPERTY AND EQUIPMENT, NET:** Property and equipment, net, at cost, consists of the following:

June 30,	2006	2005
Land	\$ 608,900	\$ 608,900
Building	3,084,387	2,924,569
Furniture and equipment	1,607,877	1,105,368
Leasehold improvements	3,502,000	2,072,986
Construction-in-progress	1,940,945	362,179
	10,744,109	7,074,002
Less accumulated depreciation and amortization	2,181,252	1,668,865
	\$8,562,857	\$5,405,137

**7. LINE OF CREDIT:** The Companies have a revolving line of credit in the amount of \$1,250,000. This agreement requires interest to be charged at the bank's prime rate plus 1%. The line of credit is secured by all of the Companies' assets and expires July 31, 2007. There was no outstanding balance as of June 30, 2006.

**8. LONG-TERM DEBT:** Long-term debt consists of the following:

Year ended June 30,	2006	2005
The Companies obtained a mortgage from the Dormitory Authority of the State of New York ("DASNY") in the amount of \$5,135,000. This was refinanced in the current fiscal year for \$4,010,000. Under the terms of the new agreement, the mortgage matures in July 1, 2022 with the principal amount of the mortgage payable in monthly installments. Interest rate for the period from July 1, 2005 through July 1, 2007 is at 2.5% and increases on a yearly basis thereafter. The mortgage is secured by the building and its improvements.	\$ 3,975,000	\$ 3,995,000

(continued)

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2006

June 30,	2006	2005
<p>The Companies obtained an unsecured promissory note from a financial institution. Under the terms of the agreement, principal payments are made in the amount of \$5,000 per month. The note terminates on October 1, 2006. This is a noninterest-bearing note.</p>	\$ 24,269	\$ 84,269
<p>The Companies obtained a noninterest-bearing note payable from DASNY. Under the terms of the agreement, principal payments are made in the amount of \$12,500 per quarter in 12 equal installments over a three-year period beginning September 16, 2006. The mortgage is secured by the building and its improvements.</p>	150,000	150,000
<p>The Companies obtained a noninterest-bearing notes payable from the New York State Homeless Housing Assistance Program. The purpose of this loan is to fund capital programs for the purpose of expanding and improving the supply of shelter and other housing arrangements for homeless persons.</p>	1,041,261	463,073
<p>The Companies obtained an unsecured loan held by Primary Care Development Corporation in the amount of \$3,600,000 with interest payable at 7.42% per annum. The note terminates on July 1, 2016.</p>	3,600,000	
<p>The Companies obtained an unsecured loan held by Primary Care Development Corporation in the amount of \$1,718,000 with interest payable at 6.47% per annum. The note terminates on August 1, 2015.</p>	1,613,300	
	\$10,403,830	\$ 4,692,342

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

The aggregate amount of principal payments of loans payable during the years following June 30, 2006 is:

Year ending June 30,	
2007	\$ 479,972
2008	475,786
2009	610,570
2010	687,548
2011	731,885
Thereafter	7,418,069
	<hr/>
	\$10,403,830

Restricted cash represents funds on deposit in the Debt Service Reserve Fund held by DASNY and Primary Care Development Corporation in accordance with the bond indenture and loan agreements.

### 9. GRANTS AND CONTRACT SERVICES REVENUE:

Grants and contract services consists of the following :

June 30,	2006	2005
U.S. Department of Health and Human Services:		
Family Focused - HIV/AIDS Prevention	\$ 599,709	\$ 759,377
Prevention Case Management for Positive Programs	126,746	332,110
AIDS Education and Training Centers	143,792	168,941
Community Based Dental Partnership Program	93,463*	148,340*
Technical Assistance and Capacity Development Program	130,899	
Ryan White III HIV Capacity Development	26,572	
U.S. Department of Housing and Urban Development:		
Housing and Urban Development	336,909	611,979
Supportive Housing	300,000*	
Medical and Health Research Association of NYC:		
HIV Program Service	444,664	566,907
Ryan White Enhancement - Pastoral Care	136,039	136,762
Harm Reduction, Recovery Readiness, and Relapse	245,083	218,179
Transitional Housing for Special Populations	1,130,430	1,109,196
Family Empowerment	241,814	275,511
New York City Human Resource Administration:		
Scattersite Housing Project	2,428,487	2,416,842
New York City Department of Health:		
Preventive Case Management Initiative	125,702	55,399

(continued)

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2006

June 30,	2006	2005
New York State Department of Health AIDS Institute:		
Multiservice Agency Initiative	\$ 272,740	\$ 241,495
Health Research, Inc.:		
Job Development Program	76,172	
Where the Boys Are	149,782	167,542
AIDS Drugs Assistance Program	161,914	157,152
HIV Treatment Education - Immigrant Women Program	150,303	151,289
Postgraduate Center for Mental Health Services:		
Supportive Housing DASIS Eligible Women with Children	1,238,725	1,039,449
Center for Disease Control and Prevention:		
HIV Prevention Program	738,668	706,046
NY City Department of Health and Mental Hygiene		95,000
Other	12,832	
	\$9,311,445	\$9,357,516

\* The Community Based Dental Partnership Program and Supportive Housing grant are for capital expenditures and are recorded as nonoperating revenue in the consolidated statement of activities.

- 10. PENSION PLAN:** The Companies have a defined contribution plan covering substantially all employees who meet certain eligibility requirements. All full-time employees who have been employed for more than a year are eligible to participate. Pension expense amounted to \$139,080 and \$124,008 for the years ended June 30, 2006 and 2005, respectively.
- 11. START-UP COSTS:** In order to ensure the successful start-up of the adult day healthcare programs, DASNY authorized the inclusion of start-up and initial occupancy expense funds in the mortgage financing, which is the standard procedure for the development of state-financed healthcare facilities. These costs were financed by the mortgage but, in accordance with the requirements of accounting principles generally accepted in the United States of America, were reflected as an operating expense when incurred.
- 12. COMMITMENTS AND CONTINGENCIES:** The Companies contracted with various funding agencies to perform certain services and to receive Medicaid revenue from the state and federal governments. Reimbursements received under these contracts and payments from Medicaid are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Companies could be held responsible for refunding the agencies for amounts in question.

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

The Companies occupy two offices under noncancelable leases with terms from three to five years. Rent expense for the years ended June 30, 2006 and 2005 amounted to \$653,443 and \$512,349, respectively. These space leases require future minimum payments as follows:

Year ending June 30,	
2007	\$ 882,297
2008	905,254
2009	928,800
2010	953,225
2011	974,732
Thereafter	6,703,476
	<hr/>
	\$11,347,784

The Companies entered into various noncancelable annual lease agreements for apartment space for their clients. The clients sublease the apartments from the Companies as a part of the rental assistance program. The leases are subsidized by various federal and state contracts. Aggregate housing assistance space rent for the years ended June 30, 2006 and 2005 amounted to \$2,697,157 and \$2,337,060, respectively. Sublease rental income received amounted to \$1,130,392 and \$967,954 for the years ended June 30, 2006 and 2005, respectively.

### 13. PRIOR-YEAR ADJUSTMENT:

During the year, it was determined that government and contract revenue was overstated in 2005 and loans payable were understated on the books of the Center. Therefore, the following accounts should be restated as of July 1, 2004, to cumulatively correct the accounting for prior periods:

	As Previously Stated	As Restated	Effect on Net Assets
Long-term debt, less current maturities	\$4,408,156	\$4,524,842	\$ (116,686)
Net assets, at beginning of year, as previously stated			3,532,858
Net assets, at beginning of year, as restated			\$3,416,172



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

---

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors  
Harlem United Community AIDS Center, Inc.

We have audited the consolidated financial statements of Harlem United Community AIDS Center, Inc. and Affiliates (the "Companies") as of and for the year ended June 30, 2006, and those statements, together with our opinion thereon, appear in the preceding section of this report. Our audit was conducted for the purpose of forming an opinion on those consolidated financial statements taken as a whole. The accompanying schedule of consolidated statement of activities by program is the responsibility of management and is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

September 7, 2006

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## SUPPLEMENTARY INFORMATION

### CONSOLIDATED STATEMENT OF ACTIVITIES BY PROGRAM

Year ended June 30, 2006

	General Program	Upper Room AIDS Ministry and Health Services, Inc.	Harlem United Supportive Housing Development Corp.	Total
Revenue:				
Government grants and contract services	\$ 8,847,579	\$ 70,403		\$ 8,917,982
Medicaid program services	1,296,981	4,139,883		5,436,864
Donations and contributions	1,126,713	432,850		1,559,563
Rental income	961,876	168,516		1,130,392
Other	121,815	(6,676)		115,139
<b>Total revenue</b>	<b>12,354,964</b>	<b>4,804,976</b>		<b>17,159,940</b>
Expenses:				
Program services	10,819,676	3,980,434		14,800,110
Management and general	1,473,839	578,592	\$ 4,172	2,056,603
Fund-raising	136,742			136,742
<b>Total expenses</b>	<b>12,430,257</b>	<b>4,559,026</b>	<b>4,172</b>	<b>16,993,455</b>
Operating income (loss)	(75,293)	245,950	(4,172)	166,485
Nonoperating revenue - contract services	93,463		300,000	393,463
<b>Increase in net assets</b>	<b>\$ 18,170</b>	<b>\$ 245,950</b>	<b>\$295,828</b>	<b>\$ 559,948</b>

**HARLEM UNITED COMMUNITY AIDS  
CENTER, INC. AND AFFILIATES**

**INTERNAL CONTROLS AND  
COMPLIANCE SECTION**

**JUNE 30, 2006**



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors  
Harlem United Community AIDS Center, Inc.

We have audited the consolidated financial statements of Harlem United Community AIDS Center, Inc. and Affiliates (the "Companies") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Companies' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Companies in a separate letter dated September 7, 2006.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

September 7, 2006



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors  
Harlem United Community AIDS Center, Inc.

Compliance - We have audited the compliance of Harlem United Community AIDS Center, Inc. and Affiliates (the "Companies") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Companies' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of their major federal programs is the responsibility of the Companies' management. Our responsibility is to express an opinion on the Companies' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and 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 the Companies' 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. Our audit does not provide a legal determination of the Companies' compliance with those requirements.

In our opinion, the Companies complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance - The management of the Companies is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Companies' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

September 7, 2006

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2006

### Section I - Summary of Auditor's Results

#### *Financial Statements*

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?

yes  no

#### *Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

yes  no

Identification of major programs:

#### CFDA Number(s)

93.914  
93.917  
93.940

#### Name of Federal Program or Cluster

U.S. Department of Health and Human Services:  
HIV Emergency Relief Project Grants  
HIV Care Formula Grants  
HIV Prevention Activities - Health Department Based

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

# **HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES**

## **STATUS OF PRIOR-YEAR'S FINDINGS**

**June 30, 2006**

---

There were no prior-year's findings.



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

---

## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION - CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors  
Harlem United Community AIDS Center, Inc.

We have audited the basic consolidated financial statements of Harlem United Community AIDS Center, Inc. and Affiliates for the year ended June 30, 2006, and have issued our report thereon dated September 7, 2006. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

September 7, 2006

# HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

## SUPPLEMENTARY INFORMATION

### CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Grantor's Number	Federal Expenditures <sup>(1)</sup>
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Knowledge Development and Application Program	93.230	N/A	\$ 429,195
HIV Prevention Activities/Non-Governmental Organizations Based	93.939	N/A	865,414
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	N/A	130,899
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	26,572
Substance Abuse and Mental Health Services: Projects of Regional and National Significance	93.243	N/A	170,514
Passed through New York City Human Resource Administration:			
HIV Emergency Relief Project Grants	93.914	Various	2,428,487
Passed through Medical and Health Research Association of New York City, Inc.:			
HIV Emergency Relief Project Grants	93.914	Various	1,956,216
HIV Prevention Activities - Health Department Based	93.940	02-MMS-516	241,814
Passed through Health Research, Inc.:			
HIV Prevention Activities - Health Department Based	93.940	001173-06/001555-06	300,085
HIV Care Formula Grants	93.917	011318-03/0011691-05	305,706
Passed through the School of Dental and Oral Surgery, Columbia University:			
Ryan White HIV/AIDS Dental Reimbursements/ Community Based Dental Partnership	93.924	5 H65HA00014-02	93,463
<b>Total U.S. Department of Health and Human Services</b>			<b>6,948,365</b>
U.S. Department of Housing and Urban Development:			
Direct:			
Supportive Housing Program	14.235	NY01B400-027	631,131
Passed through Postgraduate Center for Mental Health Services:			
Housing Opportunities for Persons with AIDS	14.241	2005-WMI-001 2005-WC-001	1,238,725
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,869,856</b>
<b>Total federal awards</b>			<b>\$8,818,221</b>

(continued)

**HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES**  
**SUPPLEMENTARY INFORMATION**  
**CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

---

**Year ended June 30, 2006**

---

**Note 1. *Basis of Presentation***

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

**Note 2. *Subrecipients***

Of the federal expenditures presented in this schedule, the Companies provided no federal awards to subrecipients as of June 30, 2006.