Harlem United Community AIDS Center, Inc.
and Affiliates

Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

June 30, 2014

Harlem United Community AIDS Center, Inc. and Affiliates

Index

Independent Auditor's Report

To the Board of Directors
Harlem United Community AIDS Center, Inc.

We have audited the accompanying consolidated financial statements of Harlem United Community AIDS Center, Inc. and Affiliates (the "Company"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Harlem United Community AIDS Center, Inc. and Affiliates' consolidated financial statements include the operations of North General AIDS Housing Development Fund Corporation, which received Federal funds and were not audited in accordance with *Government Auditing Standards*.

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 the Company as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the accompanying statements on pages 24 and 25 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets and equity of the individual organizations, 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 April 14, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

CohnReznick LLP

New York, New York
April 14, 2015

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidated Statement of Financial Position
June 30, 2014

Assets	
Current assets:	
Cash and cash equivalents	$ 1,797,790
Grants and contracts receivable	7,006,622
Patient services receivable, net	2,349,383
Subvention note receivable	180,672
Rental income receivable	35,660
Prepaid expenses and other assets	125,463
Total current assets	11,495,590
Restricted cash - debt service	1,119,932
Long-term loans receivable	6,952,447
Property and equipment, net	23,849,051
Deferred financing costs, net	240,869
Security deposits	690,214
Total noncurrent assets	32,852,513
Total	$ 44,348,103
Liabilities and Unrestricted Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 4,230,852
Accrued compensation	810,538
Line of credit	3,500,000
Current maturities of long-term debt	1,102,026
Refundable advances	801,071
Total current liabilities	10,444,487
Long-term debt, less current liabilities	16,744,588
Deferred rent	86,636
Conditional grants	10,519,095
Total liabilities	37,794,806
Commitments and contingencies	
Net assets:	
Unrestricted	
Controlling interest	6,163,271
Noncontrolling limited partners' interests in consolidated affiliates	(1,640)
	6,161,631
Temporarily restricted net assets	391,666
Total net assets	6,553,297
Total	$ 44,348,103

See Notes to Consolidated Financial Statements.

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Patient services revenue (net of contractual allowances and discounts)	$ 13,430,590		$ 13,430,590
Provision for bad debts	(1,752,888)		(1,752,888)
Net patient services revenue less provision for bad debts	11,677,702		11,677,702
Grants and contract services	23,163,829		23,163,829
Donations and contributions	1,027,989	$ 450,000	1,477,989
Rental income	3,081,718		3,081,718
Other	516,958		516,958
Net assets released from restrictions	668,353	(668,353)	-
Total revenue	40,136,549	(218,353)	39,918,196
Expenses:			
Salaries and related benefits	20,839,630		20,839,630
Other than personnel services	19,267,614		19,267,614
Interest	741,093		741,093
Total expenses	40,848,337	-	40,848,337
Operating income prior to depreciation and amortization and nonoperating revenue	(711,788)	(218,353)	(930,141)
Depreciation and amortization	1,037,774		1,037,774
Change in consolidated net assets	(1,749,562)	(218,353)	(1,967,915)
Decrease in consolidated net assets attributable to noncontrolling interest	235,797		235,797
Change in consolidated net assets attributable to Harlem United Community AIDS Center, Inc. and Affiliates	$ (1,513,765)	$ (218,353)	$ (1,732,118)

See Notes to Consolidated Financial Statements.

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidated Statement of Changes in Net Assets
Year Ended June 30, 2014

	Unrestricted			Temporarily Restricted Net Assets	Net Assets
	Controlling	Noncontrolling	Total	Controlling	Total
Beginning balance, July 1, 2013	$ 7,677,036	$ 234,157	$ 7,911,193	$ 610,019	$ 8,521,212
Change in consolidated net assets attributable to Harlem United Community AIDS Center, Inc. and Affiliates	(1,513,765)		(1,513,765)	(218,353)	(1,732,118)
Change in consolidated net assets attributable to noncontrolling interest		(235,797)	(235,797)		(235,797)
Ending balance, June 30, 2014	$ 6,163,271	$ (1,640)	$ 6,161,631	$ 391,666	$ 6,553,297

See Notes to Consolidated Financial Statements.

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services			Total		
	Housing	Healthcare	Prevention	Program Services	Management and General	Total
Salaries and wages	$ 4,311,990	$ 6,172,224	$ 2,936,897	$ 13,421,111	$ 3,632,968	$ 17,054,079
Fringe benefits	869,859	1,094,422	490,718	2,454,999	1,330,552	3,785,551
Professional fees and contractual services	795,001	666,110	539,996	2,001,107	888,509	2,889,616
Supplies	189,847	832,095	169,525	1,191,467	337,932	1,529,399
Space costs	8,041,884	470,942	488,961	9,001,787	364,829	9,366,616
Client stipends and reimbursements	26,021	47,626	345,918	419,565	22,868	442,433
Insurance	126,257	113,262	55,411	294,930	100,583	395,513
Repairs and maintenance	872,793	442,806	81,374	1,396,973	59,128	1,456,101
Program events	914	632	19,543	21,089	50,972	72,061
Staff training and recruitment	10,443	54,724	9,597	74,764	151,248	226,012
Moving and carting	24,911	18,511	21,221	64,643	32,869	97,512
Telephone and communications	187,221	115,519	72,034	374,774	81,218	455,992
Travel, conferences and meetings	129,647	463,732	231,798	825,177	105,961	931,138
Printing, publications and postage	18,938	46,619	50,081	115,638	232,110	347,748
Dues and subscriptions	16,226	24,723	322	41,271	76,494	117,765
Equipment	50,667	44,632	38,561	133,860	39,581	173,441
Interest	-	269,623	-	269,623	471,470	741,093
Other	439,209	76,632	648,651	1,164,492	(398,225)	766,267
Totals	16,111,828	10,954,834	6,200,608	33,267,270	7,581,067	40,848,337
Depreciation and amortization	302,263	462,658	-	764,921	272,853	1,037,774
Total functional expenses	$ 16,414,091	$ 11,417,492	$ 6,200,608	$ 34,032,191	$ 7,853,920	$ 41,886,111

See Notes to Consolidated Financial Statements.

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from government grants and contract services	$ 21,177,704
Cash received from patient services	13,430,498
Cash received from donations and contributions	1,477,989
Cash received from rental income	3,140,769
Cash received from other	839,747
Cash paid to employees	(21,079,622)
Cash paid to vendors	(18,361,760)
Cash paid for interest	(700,490)
Net cash used in operating activities	(75,165)
Cash flows from investing activities:	
Proceed from sale of investments	388,106
Increase in subvention note receivable	(750)
Cash paid for purchase of property and equipment	(4,347,619)
Net cash used in investing activities	(3,960,263)
Cash flows from financing activities:	
Increase in restricted cash - debt service	(224,474)
Principal payments of long-term debt	(2,524,162)
Cash received on line of credit	500,000
Net cash used in financing activities	(2,248,636)
Net decrease in cash and cash equivalents	(6,284,064)
Cash and cash equivalents, beginning of year	8,081,854
Cash and cash equivalents, end of year	$ 1,797,790
Reconciliation of change in consolidated net assets to net cash used in operating activities:	
Change in consolidated net assets	$ (1,967,915)
Adjustments to reconcile change in consolidated net assets to net cash used in operating activities:	
Provision for bad debts	1,752,888
Depreciation and amortization	1,037,774
Amortization of deferred financing costs	40,603
Changes in operating assets and liabilities:	
Grants and contracts receivable	(1,986,125)
Patient services receivable	520,635
Rental income receivable	59,051
Prepaid expenses and other assets	41,076
Security deposits	281,713
Accounts payable and accrued expenses	593,565
Accrued compensation	(239,992)
Refundable advances	225,653
Due to third-party payors	(520,727)
Deferred rent	86,636
Net cash used in operating activities	$ (75,165)
Supplemental disclosure of noncash investing activity:	
Capital acquisitions included in accounts payable and accrued expenses	$ 599,985

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Nature of activities

Harlem United Community AIDS Center, Inc., (the "Center") was founded in 1988 as a non-profit organization to provide assistance and housing to persons living with HIV/AIDS ("PLWHA"). Since then, the Center has expanded its brand of service and now operates as a fully-integrated patient-centered medical home for underserved communities, including but not limited to PLWHA, the homeless, communities of color and the LGBT community, among others. The Center's mission is to provide full access to integrated health care and social services for clients experiencing multiple and complex issues (i.e., mental illness, chronic substance use, homelessness, HIV/AIDS, extreme poverty and social stigma related to sexuality and gender identity). Today, the Center provides the following services using an integrated and non-judgmental approach: primary care, mental health care and dental services, supportive housing, Adult Day Health Care, HIV/Hepatitis C/Sexually Transmitted Infection testing and prevention services; health home care management and patient navigation services; integrated harm reduction; and food and nutrition services, among other services.

To facilitate in providing these services, the Center established two separately incorporated not-for-profit affiliates that are controlled by the Board of Directors of the Center. Upper Room AIDS Ministry, Inc., Adult Day Health Center, Inc., an adult, day healthcare center ("URAM") and Harlem United Supportive Housing Development Fund Corporation (the "Corporation" or "HUSHDFC"). URAM operates freestanding diagnostic and treatment facilities as a Federally Qualified Health Center ("FQHC") and is licensed under Article 28 of the New York State health law, and the facilities are located in New York City. URAM provides a broad range of health services to persons living with AIDS or HIV-related illnesses.

The Corporation is the sole shareholder of H.U.124th Street Supportive Housing, Inc. ("HUSH, Inc."), a for-profit corporation, which is the general partner with 0.1% ownership in HUSH 124th Street ("HUSH"). HUSH, a for-profit partnership, is the limited beneficial owner of the Congregate Housing Project on West 124th Street. It is the finance vehicle and will hold tax credits related to the project. All activities of HUSH have been consolidated under the Corporation, the general partner.

Effective July 1, 2007, The Foundation for Research on Sexually Transmitted Diseases, Inc. ("FROST'D") and the Center, both not-for-profit companies, forged a strategic alliance, whereas, the Center is the sole member of FROST'D. The Center will preserve FROST'D's corporate and public identity with the official name "FROST'D at Harlem United" at least for the foreseeable future. FROST'D was incorporated under New York State law during April 1986 and was created for the purpose of reaching out to underserved populations at high risk of acquiring HIV or other sexually transmitted and blood borne diseases to lower the incidence of such infections in these populations, and to provide assistance to those already infected.

The Center became the sole member of North General AIDS Housing Development Fund Corporation ("NGHDFC"), a not-for-profit corporation, as of July 1, 2011. NGHDFC provides housing and supportive services for low income or homeless individuals diagnosed with AIDS. The Center acquired NGHDFC by assuming its outstanding liabilities.

The Center, together with URAM, became the members of Harlem United HCH, LLC ("HUHCH"), a New York State limited liability company formed on May 8, 2012 to facilitate the transactions related to the New Market Tax Credits for the construction of a new healthcare center in New York City.

Basis of presentation
The consolidated financial statements include the accounts of the Center, URAM, HUSHDFC, HUSH, Inc., FROST'D, NGHDFC and HUHCH. The Center and its affiliates are collectively referred to as the "Companies." All significant intercompany accounts and transactions are eliminated in consolidation. The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Classification of net assets
The accompanying consolidated financial statements present its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted net assets are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets are those whose use by the Companies is subject to either explicit donor-imposed stipulations or by the operation of law that can be fulfilled by actions of the Companies or that expire with the passage of time. When restrictions expire, that is, when the time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions. Temporarily restricted net assets amounted to $391,666 as of June 30, 2014.

Permanently restricted net assets are subject to explicit donor-imposed stipulations that they be maintained permanently by the Companies and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor imposed stipulations or by operation of law. At June 30, 2014, there were no permanently restricted net assets.

Performance indicator
The consolidated statement of activities and changes in net assets includes change in consolidated net assets as the performance indicator.

Cash and cash equivalents
The Companies maintain their cash in bank deposit accounts, which, at times, may exceed Federally insured limits. At times during the year, the Companies' bank balances may exceed the limits of the Federal Deposit Insurance Corporation's insurance coverage. At June 30, 2014, the Companies' uninsured cash balances totaled approximately $2 million. The Companies monitor their financial institutions and concentration of credit risk on a regular basis and do not anticipate nonperformance by the financial institutions. All highly liquid investments available for operations with original maturities of three months or less when purchased are considered to be cash equivalents.

Restricted cash - debt service
The Companies have restricted cash whose use has been limited by the lending institution in connection with long-term debt entered into in 2006 and prior years.

Grants and contracts receivable
Grants and contracts receivable consist of reimbursements due to the Companies under the grant and contract agreements for costs which were incurred prior to year-end for which payment has not been received. Grants receivable credit risk is limited due to the nature of the grants. The Companies regularly monitor their grants and contracts receivable by investigating delayed payments and differences when payments do not conform to the amount billed. Management determines the allowance for doubtful accounts by reviewing and identifying items that are uncollectible.

Patient services receivable
The collection of receivables from third-party payors and patients is the Companies' primary source of cash for operations and is critical to their operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Companies' charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Companies do not charge interest on past due accounts. Patient receivables are written off against the allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of provision for bad debts when received.

Property and equipment
Purchased property and equipment is carried at cost less accumulated depreciation and amortization. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets which range from 5 to 40 years.

Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Companies depreciate their assets using the half-year convention in the first year the assets are placed in services. The Companies capitalize all purchases of property and equipment in excess of $1,000.

According to Federal regulations, any equipment items obtained through Federal funds are subject to a lien by the Federal government. As long as the Companies maintain their tax exempt status, or as long as the equipment is used for its intended purpose, the Companies are not required to reimburse the Federal government in an amount equal to the fair value of the equipment.

Construction-in-progress is recorded at cost. The Companies capitalize construction, insurance, interest and other costs during the period of construction. Depreciation is recorded when construction is substantially complete and the assets are placed in service. For the year ended June 30, 2014, the Companies capitalized interest amounted to approximately $300,000.

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of activities and changes in net assets.

Fair value of financial instruments

The Companies material financial instruments at June 30, 2014, for which disclosure of estimated fair value is required by certain accounting standards, consisted of cash and cash equivalents, patient services receivable, grants and contracts receivable, accounts payable and accrued expenses, accrued compensation and notes payable. The fair values of cash and cash equivalents, patient services receivable, grants and contracts receivable, accounts payable and accrued expenses and accrued compensation are equal to their carrying value because of their liquidity and short-term maturity. Management believes that the fair values of notes and bonds payable do not differ materially from their aggregate carrying values in that substantially all the obligations bear interest rates that are based on market rates or interest rates that are periodically adjustable to rates that are based on market rates.

Conditional grants

Conditional grants, which depend on the occurrence of a specified future and uncertain event to bind the funder, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional grant becomes unconditional. Conditional grants where the conditions have not been substantially met are included in liabilities on the consolidated statement of financial position (see Note 10).

Revenue recognition

Patient services revenue

The Companies have agreements with third-party payors that provide for payments to the Companies at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued based on a rate appeal filed by the Companies and are being recouped from the Companies' future collections from Medicaid.

The Companies provide care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding fee scale deducted to arrive at net self-pay revenue.

Donations and contributions

Contributions, including unconditional promises to give cash and other assets, are reported at fair value on the date received. 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. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Donated services are recognized at fair value if they create or enhance a nonfinancial asset or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

Government grants and contract services revenue

Revenue from government grants and contract services designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At June 30, 2014, the Companies have received grants and contracts in the amount of approximately $7.4 million that have not been recorded in the accompanying consolidated financial statements because they have not yet been earned. These grants and contracts require the Companies to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allocated under the grants and contracts.

Charity care and community benefit

The Companies are open to all patients, regardless of their ability to pay. In the ordinary course of business, the Companies render services to patients who are financially unable to pay for healthcare. The Companies provide care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Companies maintain records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Companies recognize revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Companies' uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Companies record a significant provision for bad debts related to uninsured patients in the period the services are provided.

Community benefit represents the cost of services for Medicaid, Medicare, and other public patients that the Companies are not reimbursed for.

Based on the cost of patient services, charity care and community benefit amounted to approximately $140,000 and $1,100,000, respectively, for the year ended June 30, 2014.

Interest earned on Federal funds

Interest earned on Federal funds is recorded as a payable to the United States Public Health Service (the "PHS") in compliance with the regulations of the United States Office of Management and Budget.

Functional expenses

Expenses are charged to program services and management and general based on a combination of specific identification and allocation by management.

Tax status

The Center, URAM, HUSHDFC, FROST'D and NGHDFC were incorporated as not-for-profit entities under the laws of the State of New York and are exempt from income taxes under the provisions of the Internal Revenue Code Section 501(c)(3). In addition, the Companies are not classified as private foundations.

HUSH and HUHCH are not subject to Federal income taxes because their income and losses are includable in the tax returns of their partners or members. HUSH and HUHCH may be required to file returns and pay tax in various state and local jurisdictions as a result of their operations or the residency of their partners or members.

Management has evaluated the Companies' tax positions and concluded that the Companies have taken no uncertain tax positions that require adjustments to the consolidated financial statements. Generally, the Companies are no longer subject to income tax examinations by Federal, state and local tax authorities for years before 2011.

Subsequent events

The Companies have evaluated events and transactions for potential recognition or disclosure through April 14, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2 - Grants and contracts receivable

Grants and contracts receivable consist of the following as of June 30, 2014:

U.S. Department of Health and Human Services:	
Health Resources Services Administration -	
Health Center Programs	$ 147,216
Centers for Disease Control and Prevention	7,462
Substance Abuse and Mental Health Services Administration	521,053
U.S. Department of Housing and Urban Development	1,513,858
New York State Department of Health AIDS Institute	739,370
New York City Department of Health and Mental Hygiene	456,901
New York City Human Resources Administration	2,433,602
Public Health Solutions	607,512
Health Research Institute	235,834
Robin Hood Foundation	205,932
Other	137,882
Total	$ 7,006,622

Note 3 - Patient services receivable, net

Patient services receivable, net, consist of the following at June 30, 2014:

Medicaid (including costs settlements and wraparound for managed care)	$ 3,608,055
Medicare	80,060
Self-pay	779,752
	4,467,867
Less allowance for doubtful accounts	2,118,484
	$ 2,349,383

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Companies analyze their past history and identify trends for each of their major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Companies analyze contractually due amounts and provide an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

The Companies' allowance for doubtful accounts was 47% of patient services receivable at June 30, 2014.

Note 4 - New Market Tax Credit financing

In 2012, URAM began a capital construction project to build a health center facility in New York City. URAM obtained financing for the capital project through borrowings from PCDC Empire State Health Opportunities Fund II, LLC (the "Project Lender" or "PESHO Fund") totaling $8,970,000. The financing arrangements between URAM and the Project Lender qualified as a "qualified low-income community investment" and generate to the Project Lender certain tax credits called New Market Tax Credits ("NMTCs") under Section 45D of the Internal Revenue Code of 1986, as amended.

In order to facilitate this financing transaction, HUHCH acts as the financing facilitator. HUHCH also obtained outside financing from JP Morgan Chase Bank N.A. ("JPMC") and Primary Care Development Corporation ("PCDC") in the amount of $2,460,000 and $3,700,000, respectively. HUHCH also entered into an Account Pledge and Control Agreement with JPMC and PCDC, to collaterally assign its interest in the Pledge Agreement (see Note 5), as security for the payment and performance of its obligations.

Upon completion of the contributions and loans above, HUHCH made a loan to Harlem United Investment Fund, LLC (the "Fund") amounting to $6,952,447. The Fund obtained capital from an investor in the amount of $2,963,653. The Fund then invested the proceeds of the loan from HUHCH and the capital from the investor to the Project Lender in order for it to make the loan to URAM for the construction of the health center facility.

The Center, together with URAM, has agreed that in the event any specified NMTC recapture event shall occur, the Center shall be obligated to pay the NMTC recapture amount to the Project Lender. The maximum aggregate amount due under the clauses in the agreement governing these possible recaptures is $3,802,120. As of June 30, 2014, no recapture event has occurred.

This structure will stay in effect for a period of seven years, until August 30, 2019, when the NMTC period expires. Built within the agreements are put and call options for the Center to acquire 100% of the Fund.

Note 5 - Loan receivable

On August 30, 2012, HUHCH made a leveraged loan of $6,952,447 to Chase NMTC Harlem United Investment Fund, LLC (the "Borrower") as part of executing certain financing arrangements to fund a capital construction project. The leverage loan is comprised of three tiers as follows:

Leverage loan A in the amount of $2,460,000 with interest at 7.3317% per annum. The note is due in interest only payments until August 30, 2019, at which time the principal is due.	$ 2,460,000

Leverage loan B in the amount of $2,200,000 with interest at 6.01% per annum. The note is due in interest only payments until August 30, 2019, at which time the principal is due.	2,200,000
Leverage loan C in the amount of $2,292,447 with interest at 0.1091% per annum. The note is due in interest only payments until August 30, 2042, at which time the principal is due.	2,292,447
	$ 6,952,447

As part of the leverage loan agreement, the Borrower executed a Pledge Agreement to pledge as security for the loan its 99.99% interest in PESHO Fund.

Management has evaluated the loan receivable and determined that the entire balance is collectible and that no allowance is necessary as of June 30, 2014.

Note 6 - Property and equipment, net

Property and equipment, net, consists of the following at June 30, 2014:

Land	$ 2,014,741
Building and building improvements	14,634,571
Furniture and equipment	4,989,963
Leasehold improvements	5,255,942
	26,895,217
Less accumulated depreciation	(10,939,435)
	15,955,782
Construction in progress	7,893,269
	$ 23,849,051

Depreciation and amortization expense was $1,037,774 for the year ended June 30, 2014.

Some funders reserve the right to transfer all property and equipment purchased with grant funds back or to third parties, in the event the grants are terminated.

The Companies entered into a construction contract for the 133rd Street property that was started in 2013.

Note 7 - Line of credit

The Companies have a revolving line of credit in the amount of $3,500,000. This agreement requires interest to be charged at the bank's prime rate plus half a percentage point (3.625% at June 30, 2014). The line of credit is secured by a secondary interest in all of the Companies' assets and expires on April 30, 2015. The outstanding line of credit balance was $3,500,000 at June 30, 2014. The line of credit requires the Companies to meet certain financial and nonfinancial covenants.

Note 8 - Long-term debt

Long-term debt consists of the following at June 30, 2014:

Mortgage payable to Dormitory Authority of the State of New York ("DASNY") in the amount of $5,135,000, with interest ranging from 3.25% to 5% over the terms of the mortgage. The mortgage matures on July 1, 2022 with the principal amount of the mortgage payable in monthly installments. The mortgage is secured by the building at 123-125 West 125th Street and its improvements.	$ 2,615,000
Note payable amounting to $183,500 from the U.S. Small Business Administration with interest at 4% per annum. The loan is payable in monthly installments of $1,858, with the residential facility located at 536 West 187th Street, New York, New York as collateral. The payments commenced on March 21, 2005, with the final payment on January 21, 2015.	12,882
Unsecured note payable to PCDC in the amount of $3,600,000, with interest payable at 7.415% per annum. The note matures on July 1, 2016.	984,273
Note payable to PCDC in the amount of $1,718,000, with interest payable at 6.47% per annum. The note matures on July 1, 2015. The note is secured by leasehold improvements.	240,225
Note payable to PCDC in the amount of $500,000, with interest payable at 5.25% per annum until December 31, 2012. On January 1, 2013, and the first day of January of each year thereafter until the maturity date, the interest rate shall be adjusted to the lower of (a) prime rate as published by The Wall Street Journal plus 200 basis points per annum, (b) 8%, or (c) interest rate in effect for the immediately preceding year plus 100 basis points. The note matures on October 31, 2017. The note is secured by the Companies' assets.	364,234
Note payable to JPMorgan Chase in the amount of $2,460,000, with interest payable at 5.01% per annum. The note matures on August 30, 2019. The note is secured by the assets of the Companies.	2,460,000
Note payable to PCDC in the amount of $2,200,000, with interest payable at 6.01% per annum. The note matures on August 30, 2019. The note is secured by the assets of the Companies.	2,200,000
Note payable to PESHO Fund in the amount of $434,733, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2019, at which time the principal is due. The note is secured by the assets of the Companies.	434,733

Note payable to PESHO Fund in the amount of $388,786, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2019, at which time the principal is due. The note is secured by the assets of the Companies.	388,786
Note payable to PESHO Fund in the amount of $405,123, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2042, at which time the principal is due. The note is secured by the assets of the Companies.	405,123
Note payable to PESHO Fund in the amount of $356,543, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2042, at which time the principal is due. The note is secured by the assets of the Companies.	356,543
Note payable to PESHO Fund in the amount of $2,025,267, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2019, at which time the principal is due. The note is secured by the assets of the Companies.	2,025,267
Note payable to PESHO Fund in the amount of $1,811,214, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2019, at which time the principal is due. The note is secured by the assets of the Companies.	1,811,214
Note payable to PESHO Fund in the amount of $1,887,324, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2042, at which time the principal is due. The note is secured by the assets of the Companies.	1,887,324
Note payable to PESHO Fund in the amount of $1,661,011, with interest payable at 3.513% per annum. The note is due in interest only payments until August 30, 2042, at which time the principal is due. The note is secured by the assets of the Companies.	1,661,010
	17,846,614
Less current maturities	(1,102,026)
Long-term portion	$16,744,588

Principal payment requirements on the above notes in each of the 5 years subsequent to June 30, 2014 and thereafter are as follows:

2015	$ 1,102,026
2016	955,148
2017	512,950
2018	404,090
2019	354,800
Thereafter	14,517,600
Total	$17,846,614

The long-term debts require the Companies to meet certain financial and nonfinancial covenants.

Note 9 - Conditional grants

Conditional grants consist of the following at June 30, 2014:

The Companies obtained a conditional grant in the form of a non-interest bearing promissory note pursuant to a construction loan agreement with the New York State Homeless Housing Assistance Program (the "HHAP"), which is secured by the building. The purpose of this grant is to fund the purchase of the facility and operate it as a homeless project. If the Companies comply with all the terms stated in the agreement through May 1, 2025, the grant will not have to be repaid.	$ 350,000
The Companies obtained a conditional grant in the form of a non-interest bearing promissory note pursuant to a construction loan agreement with the HHAP. The purpose of this grant is to fund capital programs for the purpose of expanding and improving the supply of shelter and other housing arrangements for homeless persons. The note for the construction costs with a limit of $6,300,387 is secured by the building. If the Companies comply with all the terms stated in the agreement through April 9, 2038, the grant will not have to be repaid. However, if the Companies default on the agreement, the balance of the unpaid grants plus interest at a rate of 1% may become immediately due and payable.	6,093,541
The Companies obtained a conditional grant in the form of a non-interest bearing promissory note pursuant to a construction loan agreement from Affordable Housing Program ("AHP"). The purpose of this note is to fund capital programs for the purpose of expanding and improving the supply of shelter and other housing arrangements for homeless persons. The note for the construction costs has a limit of $400,000 and is secured by the building. If the Companies comply with all of the terms stated in the agreement through August 2025, the note will not have to be repaid.	400,000
The Companies obtained a conditional grant in the form of a promissory note pursuant to a construction loan agreement from the U.S. Department of Housing and Urban Development. The purpose of this note is to fund capital programs for the purpose of expanding and improving the supply of shelter and other housing arrangements for homeless persons. The note for the constructions costs has a limit of $400,000 and is secured by the building. If the Companies comply with all of the terms stated in the agreement through June 2035, the note will not have to be repaid.	400,000

The Companies obtained a conditional grant in the form of a promissory note at a rate of 5.75% pursuant to a construction loan agreement from the U.S. Department of Housing and Urban Development. The purpose of this note is to fund low-income housing for individuals and families with AIDS. The note for the construction costs has a limit of $2,639,700 and is secured by the building. If the Companies comply with all of the terms stated in the agreement through November 2040, the note will not have to be repaid.	2,576,700
NGHDFC obtained a conditional grant in the form of a secondary promissory note with a maturity date of April 4, 2042 at a rate of 1.0% pursuant to a construction loan agreement from the Department of Housing Preservation and Development ("HPD") of the City of New York. The note for the construction costs has a limit of $698,854 and is secured by the building. If on the anniversary date following the thirty-fifth anniversary, the premises shall be owned by a not-for-profit corporation acceptable to HPD and there shall be no other default under the loan documents, the principal balance and accrued but unpaid interest will be forgiven over a five-year period.	698,854
	$10,519,095

Note 10 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2014:

Adult Day Health Center	$ 375,000
Others	16,666
Total	$ 391,666

Net assets released from restrictions by satisfying restricted purposes are as follows for the year ended June 30, 2014:

Adult Day Health Center	$ 605,436
Capital projects	62,917
Total	$ 668,353

Note 11 - Grants and contracts services revenue

Grants and contracts services revenue consists of the following for the year ended June 30, 2014:

U.S. Department of Health and Human Services:	
Health Resources Services Administration -	
Health Center Programs	$ 1,581,463
Centers for Disease Control and Prevention	1,348,677
Substance Abuse and Mental Health Services Administration	875,762
U.S. Department of Housing and Urban Development	3,820,908
New York State Department of Health AIDS Institute	2,275,379
New York City Department of Health and Mental Hygiene	2,393,527
New York City Human Resources Administration	6,206,658
Health Research, Inc.	483,257
Public Health Solutions	3,149,069
Other	1,029,129
Total	$23,163,829

Note 12 - Patient services revenue, net

For the year ended June 30, 2014, patient services revenue, net, consists of the following:

Medicaid	$12,757,652
Medicare	290,308
Self-pay	382,630
Total	$13,430,590

Medicaid and Medicare revenue is reimbursed to the Companies at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 13 - Pension plans

The Companies have two contributory defined contribution plans 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 for the year ended June 30, 2014 was $396,510.

Note 14 - Leases

The Companies entered into various non-cancelable 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 year ended June 30, 2014 amounted to approximately $6.8 million. Sublease rental income received from clients amounted to approximately $3.1 million for the year ended June 30, 2014.

The Companies occupy 11 offices (9 program and 2 administrative) under non-cancelable leases with terms from 2 to 9 years. The Companies also have existing equipment leases with terms from 2 to 5 years. Rent expense for the year ended June 30, 2014 amounted to approximately $2.0 million. These leases require future minimum payments as follows:

	Office Space	Equipment	Total
2015	$ 1,570,267	$ 104,351	$ 1,674,618
2016	1,598,950	66,710	1,665,660
2017	1,633,762	4,626	1,638,388
2018	1,582,621	2,376	1,584,997
2019	1,487,282	1,584	1,488,866
Thereafter	1,009,977	-	1,009,977
Totals	$ 8,882,859	$ 179,647	$ 9,062,506

Note 15 - Commitments and contingencies

Healthcare industry

The Companies have contracted with various funding agencies to perform certain healthcare services, and receive Medicaid and Medicare revenue from Federal, state and local governments. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by Federal, state and local governments and other agencies. Upon audit, if discrepancies are discovered, the Companies could be held responsible for refunding the amounts in question.

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Companies believe that they are in material compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Companies could be held responsible for refunding the amounts in question.

During the ordinary course of operations, the Companies are defendants in various lawsuits related to normal business matters. Management, based upon the opinion of legal counsel, believes that the resolution of these matters will not materially affect the consolidated financial statements.

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidating Statement of Financial Position
June 30, 2014

Assets	Harlem United Community AIDS Center, Inc	Upper Room AIDS Ministry, Inc. Adult Day Health Center, Inc.	Harlem United Supportive Housing Development Fund Corporation	The Foundation for Research on Sexually Transmitted Diseases, Inc.	North General AIDS Housing Develoment Fund Corporation	Harlem United HCH, LLC	Consolidated
Current assets:							
Cash and cash equivalents	$ (179,720)	$ 1,622,106	$ 88,296	$ 5,713	$ 7,783	$ 253,612	$ 1,797,790
Grants and contracts receivable	5,592,794	235,157	-	796,670	382,001	-	7,006,622
Patient services receivable, net	293,780	2,055,603	-	-	-	-	2,349,383
Subvention note receivable	180,672	-	-	-	-	-	180,672
Rental income receivable	-	-	-	-	35,660	-	35,660
Prepaid expenses and other assets	58,075	3,590	49,398	14,400	-	-	125,463
Total current assets	5,945,601	3,916,456	137,694	816,783	425,444	253,612	11,495,590
Restricted cash - debt service	-	955,808	-	-	164,124	-	1,119,932
Long-term loan receivable	-	-	-	-	-	6,952,447	6,952,447
Property and equipment, net	176,224	12,685,376	7,176,547	427,098	3,383,806	-	23,849,051
Deferred financing costs, net	-	240,869	-	-	-	-	240,869
Security deposits	635,865	-	19,800	34,549	-	-	690,214
Total noncurrent assets	812,089	13,882,053	7,196,347	461,647	3,547,930	6,952,447	32,852,513
Totals	$ 6,757,690	$ 17,798,509	$ 7,334,041	$ 1,278,430	$ 3,973,374	$ 7,206,059	$ 44,348,103
Liabilities and Unrestricted Net Assets							
Current liabilities:							
Accounts payable and accrued expenses	$ 3,710,868	$ 102,869	$ 60,800	$ 74,150	$ 282,165	$ -	$ 4,230,852
Accrued compensation	590,646	192,505	-	27,387	-	-	810,538
Line of credit	3,500,000	-	-	-	-	-	3,500,000
Current maturities of long-term debt	-	1,043,544	-	12,882	-	45,600	1,102,026
Refundable advances	801,134	27,552	-	(27,615)	-	-	801,071
Intercompany	(4,939,431)	3,341,833	208,409	(522,475)	229,163	1,682,501	-
Total current liabilities	3,663,217	4,708,303	269,209	(435,671)	511,328	1,728,101	10,444,487
Long-term debt, less current liabilities	-	12,130,188	-	-	-	4,614,400	16,744,588
Deferred rent	86,636	-	-	-	-	-	86,636
Conditional grants	-	-	6,893,541	350,000	3,275,554	-	10,519,095
Total liabilities	3,749,853	16,838,491	7,162,750	(85,671)	3,786,882	6,342,501	37,794,806
Net assets:							
Unrestricted:							
Controlling interest	2,616,171	960,018	172,931	1,364,101	186,492	863,558	6,163,271
Noncontrolling limited partners' interests in consolidated affiliates	-	-	(1,640)	-	-	-	(1,640)
	2,616,171	960,018	171,291	1,364,101	186,492	863,558	6,161,631
Temporarily restricted net assets	391,666	-	-	-	-	-	391,666
Total net assets	3,007,837	960,018	171,291	1,364,101	186,492	863,558	6,553,297
Totals	$ 6,757,690	$ 17,798,509	$ 7,334,041	$ 1,278,430	$ 3,973,374	$ 7,206,059	$ 44,348,103

See Notes to Consolidated Financial Statements.

Harlem United Community AIDS Center, Inc. and Affiliates

Consolidating Statements of Activities and Changes in Net Assets
Year Ended June 30, 2014

	Harlem United Community AIDS Center, Inc.			Upper Room AIDS Ministry, Inc. Adult Day Health Center, Inc.	Harlem United Supportive Housing Development Fund Corporation	The Foundation for Research on Sexually Transmitted Diseases, Inc.	North General AIDS Housing Develoment Fund Corporation	Harlem United HCH, LLC	Consolidated
	Unrestricted	Temporarily Restricted	Total						
Revenue:									
Patient services revenue	$ 2,992,514	$ -	$ 2,992,514	$ 10,438,076	$ -	$ -	$ -	$ -	$ 13,430,590
Provision for bad debts	(233,377)	-	(233,377)	(1,518,197)	-	-	(1,314)	-	(1,752,888)
	2,759,137	-	2,759,137	8,919,879	-	-	(1,314)	-	11,677,702
Grants and contract services	16,880,463	-	16,880,463	2,011,163	-	3,289,847	982,356	-	23,163,829
Donations and contributions	171,556	450,000	621,556	1,233	-	-	-	855,200	1,477,989
Rental income	2,395,465	-	2,395,465	30,213	268,428	272,751	114,861	-	3,081,718
Other	83,797	-	83,797	117,485	148	137	307	315,084	516,958
Net assets released from restrictions	668,353	(668,353)	-	-	-	-	-	-	-
Total revenue	22,958,771	(218,353)	22,740,418	11,079,973	268,576	3,562,735	1,096,210	1,170,284	39,918,196
Expenses:									
Salaries and related benefits	12,233,621	-	12,233,621	6,308,630	111,910	1,777,902	407,567	-	20,839,630
Other than personnel services	14,304,631	-	14,304,631	2,781,224	175,888	1,557,043	448,828	-	19,267,614
Interest	163,205	-	163,205	269,623	-	978	-	307,287	741,093
Total expenses	26,701,457	-	26,701,457	9,359,477	287,798	3,335,923	856,395	307,287	40,848,337
Operating income (loss) prior to depreciation and amortization and nonoperating revenue	(3,742,686)	(218,353)	(3,961,039)	1,720,496	(19,222)	226,812	239,815	862,997	(930,141)
Depreciation and amortization	208,897	-	208,897	462,658	216,599	63,956	85,664	-	1,037,774
Change in consolidated net assets	(3,951,583)	(218,353)	(4,169,936)	1,257,838	(235,821)	162,856	154,151	862,997	(1,967,915)
Decrease in consolidated net assets attributable to noncontrolling interest	-	-	-	-	235,797	-	-	-	235,797
Change in consolidated net assets attributable to Harlem United Community AIDS Center, Inc. and Affiliates	$ (3,951,583)	$ (218,353)	$ (4,169,936)	$ 1,257,838	$ (24)	$ 162,856	$ 154,151	$ 862,997	$ (1,732,118)
Net assets:									
Beginning of year	$ 6,567,754	$ 610,019	$ 7,177,773	$ (297,820)	$ 407,112	$ 1,201,245	$ 32,341	$ 561	$ 8,521,212
Change in consolidated net assets attributable to Harlem United Community AIDS Center, Inc. and Affiliates	(3,951,583)	(218,353)	(4,169,936)	1,257,838	(24)	162,856	154,151	862,997	(1,732,118)
Noncontrolling interest in subsidiary held by H.U. 124th Street Supportive Housing, Inc.	-	-	-	-	(235,797)	-	-	-	(235,797)
Ending net assets	$ 2,616,171	$ 391,666	$ 3,007,837	$ 960,018	$ 171,291	$ 1,364,101	$ 186,492	$ 863,558	$ 6,553,297

See Notes to Consolidated Financial Statements.